

## Highlights

### XCHANGING PLC RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

#### Highlights of the Period

	<b>6 months ended 30 June 2007</b>	<b>6 months ended 30 June 2006</b>	<b>Increase</b>
Revenue	£222.4m	£187.9m	18%
Group adjusted operating profit <sup>1</sup>	£13.9m	£11.7m	19%
Xchanging's share of adjusted operating profit (XEBIT) <sup>1</sup>	£10.6m	£8.5m	25%
Xchanging's share of adjusted profit after tax (XPAT) <sup>2</sup>	£8.4m	£7.0m	20%
Pro forma EPS – Diluted <sup>3</sup>	4.45p	3.72p	20%

#### Key points:

- Continuing track record of strong growth (revenues up 18% over H1 2006, which is virtually all organic)
- Adjusted operating profit<sup>1</sup> attributable to Xchanging increased 25% to £10.6m (H1 2006: £8.5m)
- Adjusted operating profit<sup>1</sup> margin attributable to Xchanging increased to 4.8% (H1 2006: 4.5%)
- Strong operating cash flow with net cash flow from operations increasing by 27% in the period to £22.9m (H1 2006: £18.1m)
- Completed successful IPO raising £75m of primary equity capital
- Bought out minority stakes in HR and procurement businesses for £57m

<sup>1</sup> Statutory operating profit (post exceptional IPO items) was £7.6m. Adjusted operating profit excludes exceptional IPO items and certain non cash items, which comprise amortisation of intangible assets previously unrecognised by acquired entities and share based payment charges of £0.2m (H1 2006: £0.2m).

<sup>2</sup> Statutory profit for the period was £4.3m (post exceptional IPO items). Add backs to profit for the period comprise exceptional IPO items, amortisation of intangible assets previously unrecognised by acquired entities, share based payment charges, imputed interest on the historic funding structure of the group which fell away on admission, imputed interest on put options, imputed interest on employee loans and the related tax thereon.

<sup>3</sup> Pro forma EPS is based on Xchanging's share of adjusted profit after tax. 2006 EPS shown utilises the weighted average number of shares in the period to 30 June 2007 in order to aid comparison.

## Highlights

David Andrews, CEO of Xchanging, commented: "We are pleased with the maiden set of interim results we report today. Over the past six months Xchanging has continued to demonstrate strong growth by winning contracts with new customers and successfully expanding our existing relationships. Our focus on standardisation is resulting in superior quality of service delivery and productivity improvement.

"Looking ahead, the business process outsourcing market remains active and our existing businesses are well placed to deliver organic growth. In addition, we are well positioned to add major new business through our unique partnering approach. We will continue to seek infill acquisition opportunities to complement and strengthen our proposition and we remain confident in the outlook for the full financial year."

### 31 July 2007

#### Enquiries:

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A presentation for investors and analysts will be held at Xchanging's offices at 34 Leadenhall Street, London, EC3A 1AX at 10.45am on 31 July 2007.

### **About Xchanging**

Xchanging is a fast-growing international, pure play business process outsourcing company providing complex industry specific processing to the banking and insurance industries such as securities processing, commercial insurance premiums and claims processing. We also provide procurement, finance and accounting, and human resources services to customers across industries. **[www.xchanging.com](http://www.xchanging.com)**

## Interim Results

### Xchanging plc

#### Interim Results for the 6 months to 30 June 2007

It has been an exciting first half of the year for the Group, with the successful listing of Xchanging plc on the London Stock Exchange on 30 April. Our business continues to grow rapidly and the business process outsourcing (BPO) market remains buoyant with a healthy pipeline of opportunities. The Group raised £75m gross proceeds from the initial public offering (IPO) to fund the continued fast growth of the business and to enhance our ability to improve operational performance thereby maximising shareholder value.

Revenue for the six months ended 30 June 2007 was £222.4 million, an increase of 18% (H1 2006: £187.9 million). This was predominantly organic growth arising from all five of Xchanging's service offerings (acquisitions accounting for less than 1%). Major contracts won in the second half of 2006 (e.g. Aon and National Australia Bank) have made a significant contribution to this increase.

Adjusted operating profit attributable to Xchanging shareholders (XEBIT) grew 25% to £10.6m (H1 2006: £8.5m). XEBIT margins increased by 30 basis points from 4.5% to 4.8%, helped by the buy out of the minorities of the BAE Systems' partnerships. Adjusted profit after tax attributable to Xchanging shareholders (XPAT) grew by 20%. Pro forma earnings per share grew in line with XPAT to 4.4p from 3.7p.

#### **The market opportunity**

The BPO market offers strong growth prospects. The Western European market, according to IDC<sup>4</sup>, is set to grow by c.15% annually over the next 3 to 5 years. Xchanging is represented in those areas of BPO with high growth. Furthermore, IDC sees procurement as an exciting new BPO area with the highest growth at c.24%, followed by complex industry processes. According to Ovum<sup>5</sup>, in 2006, only 5% of the addressable cost base was outsourced in the UK. Continental Europe is a less developed BPO market than the UK and the potential cost base for outsourcing is significantly larger.

For Xchanging, as an international pure play BPO company, the UK and Continental Europe will continue to be a major strategic focus where we are already a recognised leader. The recent report on procurement outsourcing by market commentator Everest<sup>6</sup> cites

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<sup>4</sup> IDC – Western European BPO Services Market Forecast, 2005 – 2010, Doc #BP01N

<sup>5</sup> Ovum (2006)

<sup>6</sup> Research Institute (2007) – "Procurement Outsourcing 2007: A Market on the Rebound"

## Interim Results

Xchanging as the largest European procurement BPO supplier with a 30% market share (9% globally).

The global BPO market is also set to grow strongly – 13.8% CAGR over the five years from 2005, reaching \$92billion by 2010<sup>7</sup>, excluding industry-specific processing. Xchanging already serves “blue chip” customers in 34 countries, the latest being China.

Xchanging, which has over 3,900 people in 7 countries providing a broad scope of BPO offerings, is already a recognised leader in the BPO market and is well positioned to capture future growth.

### **Executing on our strategy to build shareholder value**

Xchanging is well placed to exploit this significant market opportunity over the next 3 to 5 years not only in our historical base of Europe but also in other regions where we are seeing opportunities. Our strategy is threefold:

- **Expanding our existing platforms** in Commercial Insurance, Financial Markets, HR, Procurement, Accounting and Hosting;
- **Developing new platforms** in new processes, new geographies or new industry sectors; and
- **Becoming the low cost producer** in each major area of service through standardisation, scale and our balanced onshore/offshore approach

### **Expanding our existing platforms**

We continue to expand the business through our full suite of BPO offerings covering Partnering, Outsourcing, Products, Straight Through Processing, and Business Support. This is our “1+4 Go to Market Strategy”, where Partnering gives scale with the other 4 offerings delivering growth at least in line with industry forecasts. For each offering there has been significant activity and there is a good pipeline for the second half of 2007 and encouraging strength for 2008 and beyond.

### **Partnering**

We have successfully implemented our Commercial Insurance partnership with Aon for broking services which we won in September 2006. Already we have added third party

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<sup>7</sup> Source: IDC – Doc #2014178, Doc #BP01N, and Doc #AP224107N

## **Interim Results**

business to this partnership and are actively building the international integrated broking utility.

We have bought out the BAE Systems' minority shares of our Xchanging HR Services and Xchanging Procurement Services Enterprise Partnerships in the first half of 2007 for a total of £57 million. This acquisition was effective from 1 January 2007. As a result of this buy out, we are actively seeking new partnerships in these two markets as well as our other existing markets and the pipeline is continuing to build.

### ***Outsourcing***

We have secured a number of new international customers for processing and settlement services to extend our reach in Commercial Insurance. Associated with the buy-out of the BAE Systems' minority interests, we have agreed HR and procurement service contract extensions to 2013. HR wins are particularly encouraging. At SELEX Sensors and Airborne Systems, (acquired by Finmeccanica from BAE Systems) we signed a five-year £8.5m contract for the provision of HR services. We have also signed a number of HR and payroll deals with NHS Trusts, including the North Devon NHS Trust, to provide payroll services to over 9,000 NHS employees for the next 5 years. A further 5,900 NHS employees were added in a new contract signed in July 2007. This builds on the Xchanging partnering relationship with University Hospital Birmingham and brings the total number of NHS employees to whom Xchanging provides payroll services to over 130,000.

### ***Products***

We completed delivery of a full insurance processing solution to Lloyd's Reinsurance (China) Company Limited. We have also implemented our first U.S. sale of Brokasure (our wholesale broking product) to a significant U.S. re-insurance intermediary and our first sale of G4RI (Genius for re-insurance) for a Bermudian re-insurer. The Enterprise Partnership with Aon has been successful in providing services to third party customers with additions in the first half of the year. In Financial Markets, our Central Pricing Service product continues to open up new client relationships with four new deals signed in the six months to 30 June 2007.

### ***Straight Through Processing (STP)***

Significant progress has been achieved in automating the interfaces with our Insurance customers. To this end we have signed an MOU with R3K (the paperless trading service for insurance and re-insurance) to co-operate in the development of a highly automated platform for policy, premium and claims processing, and custody services for international markets including Bermuda. We also confirmed plans to launch an ACORD messaging hub

## Interim Results

to all brokers and insurers in the London Market. This hub will support message traffic for placement, endorsements, accounting & settlement and electronic claims, whether in a peer-to-peer or bureau-based trading model.

Financial Markets shows consistent organic growth from our existing client base, deepening our relationships with these major German financial institutions. Organic booked STP revenues are growing in line with the sector performance targets.

Business Lines signed STP contracts in the first half of the year with one of its key customers generating a total contract value in excess of £1m. These contracts extend the scope and scale of the existing relationship.

### ***Business Support***

Business Support continues to enable Xchanging to open up new sectors in existing and new territories as well as new offerings in existing businesses. In the first half of 2007, we have signed deals in the UK and Germany for six sigma advisory services in the healthcare and telecom sectors. New sales in Xchanging's immigration advisory business, Ferguson Snell, are driven by continuing immigration from India to the UK. Xchanging's largest immigration services client is now Tech Mahindra, the global leader in providing end-to-end IT services and solutions to the telecom industry, which became a customer at the end of 2006.

### **Developing new platforms**

We use our unique Partnering offering for developing new areas of business processing, as well as infill acquisitions to add skills and new market channels. Historically, we have added a major new partnership every 18 to 24 months; our most recent partnership with Aon started in September 2006. Our aim is to reduce this interval, whilst at the same time protecting our reputation for high quality implementation.

As well as the opportunity pipeline in the UK and Germany, we are beginning to build a pipeline in France and Italy where we now believe there is an appetite for our unique open book gainshare partnering approach.

We are also continuing to assess infill acquisition opportunities. We expect results in this area of our strategy to be medium-term in nature.

## Interim Results

### **Becoming the low cost producer – the Xchanging way**

Underpinning our strategy as a fast-growing international pure play business processor is the achievement of higher quality services, productivity improvements and economies of scale. At the heart are standardisation and a balanced onshore/offshore model together with rigorous performance management.

During the first half of the year, we have made excellent progress in each of our major platforms and overall performance is rising in line with expectations. First, implementation of our Enterprise Partnership with Aon, Xchanging Broking Services, has seen the completion of the re-alignment phase including agreement of the service and production definitions and the rebased costs. Streamlining has started and so far the Glasgow and Redhill sites have been aggregated with other locations, whilst 76 roles have been successfully transferred to India.

Secondly, the procurement and procure-to-pay contract with National Australia Group Europe is now trading in eight key categories of spend. The business also achieved SOX accreditation for its procure-to-pay service to National Australia Group Europe in June 2007. Xchanging is now processing 100% of National Australia Group Europe's external spend which has helped to ensure compliance of procurement from preferred suppliers.

Thirdly, regarding our balanced onshore/offshore approach, Xchanging has continued to invest in its offshore operations in India, with the phased transition of Financial Markets and Insurance processing activity continuing through the first half of the year. At 30 June, the Group's India operations employed 495 staff (13% of the Group's employees) providing business processing and application development services across the Group. We still aim to increase our offshore employees to 30% of the Group total over the next few years. We are also exploring near-shoring opportunities for our European processing businesses where this is more appropriate for regulatory or cultural reasons.

### **People make it happen**

Xchanging wants to unleash the entrepreneurial spirit in everyone. Our staff share participation programme, whereby all staff received a gift of 200 shares from the CEO David Andrews, has been a great success. We will continue to create programmes to stimulate the entrepreneurial spirit in all we do. We want all of our sales forces and production staff alike to feel real motivation to build the business, to enhance their careers and, as a result, to build shareholder value for everyone.

## Interim Results

### Shareholder value - key performance indicators (KPIs)

The Group's KPIs are detailed below<sup>8</sup>

	6 months ended 30 June 2007 £m	6 months ended 30 June 2006 £m	Growth %
Adjusted EBIT	13.9	11.7	19%
XEBIT	10.6	8.5	25%
XPAT	8.4	7.0	20%
Adjusted EBIT%	6.3%	6.2%	
XEBIT %	4.8%	4.5%	
XPAT %	3.8%	3.7%	

XEBIT has grown faster than both sales and adjusted operating profit with growth of 25% to £10.6m (H1 2006: £8.5m). This increased share of profits is principally due to the buy out of the minorities of the BAE Systems partnerships.

XPAT also outperformed adjusted operating profit and sales with growth of 20%. The growth is somewhat lower than XEBIT due to the interest charges on the deferred consideration for the acquisition of the minorities in Xchanging Procurement Services, which was settled on 11 May 2007.

<sup>8</sup> The Group measures and tracks profit directly attributable to equity shareholders (net of Enterprise Partnership minority interests) as the comparable and consistent measure of profit performance for the Group's shareholders. The Group uses two such measures to monitor the performance of profit attributable to equity shareholders of the Group:

- Adjusted operating profit attributable to equity holders of the Group (XEBIT).
- Adjusted profit attributable to equity holders of the Group (XPAT).



## Interim Results

The tables below detail the adjustments to operating profit to determine XEBIT and XPAT:

<b>XEBIT</b>	<b>6 months ended 30 June 2007 £m</b>	<b>6 months ended 30 June 2006 £m</b>
<b>XEBIT</b>	<b>10.6</b>	<b>8.5</b>
Adjusted profit after taxation attributable to minority interests	3.3	3.2
<b>Adjusted operating profit</b>	<b>13.9</b>	<b>11.7</b>
Less:		
IPO exceptional items	(5.9)	(1.9)
Share based payment charges	(0.2)	(0.2)
Other add backs	(0.2)	(0.4)
<b>Statutory operating profit</b>	<b>7.6</b>	<b>9.2</b>

<b>XPAT</b>	<b>6 months ended 30 June 2007 £m</b>	<b>6 months ended 30 June 2006 £m</b>
<b>XPAT</b>	<b>8.4</b>	<b>7.0</b>
Adjusted profit after taxation attributable to minority interests	2.3	2.4
<b>Adjusted operating profit</b>	<b>10.7</b>	<b>9.4</b>
Less:		
IPO exceptional items	(6.3)	(1.9)
Share based payment charges	(0.2)	(0.2)
Other add backs	(0.7)	(1.0)
Tax effect of above	0.8	0.4
<b>Statutory profit for the period</b>	<b>4.3</b>	<b>6.7</b>

### Earnings per share – pro forma analysis

When considering earnings per share, the Group considers it appropriate to use XPAT, as described above, as it represents the underlying performance of the business. In addition, as the Group's first half results were impacted by the change in capital structure resulting from the IPO, a pro forma number of shares should be used for comparative purposes.

Consequently, a pro forma analysis is set out below to show how the Group's earnings per share would have been calculated had the Group's current capital structure been in place from the start of both accounting periods.

## Interim Results

Pro forma basic / diluted earnings per share	6 months ended 30 June 2007 £m	6 months ended 30 June 2006 £m
XPAT	8.4	7.0
Pro forma number of shares in issue*	178.0	178.0
Pro forma basic earnings per share (pence)	4.70	3.93
XPAT	8.4	7.0
Pro forma diluted number of shares*	188.3	188.3
Pro forma diluted earnings per share (pence)	4.45	3.72

\* Weighted average number of shares

Management believes that the pro forma earnings per share above provides the best picture of the underlying performance of the business for the period.

### IPO exceptional costs

The Group incurred significant exceptional costs during the first half of the year related to the IPO in April. These costs totalled £6.3m, of which the majority related to advisors fees and costs associated with share gifts from the CEO's own share allocation. Details of these IPO exceptional costs are given in note 4.

### Finance costs

Net finance income (pre exceptional items) decreased to £0.02m from £0.3m. Finance costs incurred on the deferred consideration for acquisitions and imputed interest charges on put options offset additional finance income earned on the primary funding received from the IPO. The consideration of £47.0m for the acquisition of the minorities of one of the BAE Systems partnerships, which had been deferred, was paid on 11 May 2007.

### Taxation

The effective tax rate excluding exceptional items and add backs is comparable for the two periods at 25% in the first half of 2007 (H1 2006: 26%).

The Group's statutory effective tax rate was up for the period at 39% (H1 2006: 30%) due to the IPO exceptional costs, some of which will be deemed disallowable for tax purposes.

## Interim Results

### Balance sheet

The balance sheet has strengthened significantly between reporting periods, primarily as a result of the IPO in the second quarter. In addition, the net deficit in relation to defined benefit pension and retirement schemes has reduced to £10.0m (£20.0m H1 2006) before deferred tax.

### Cash flow

The business continued to be strongly cash generative, pre exceptional items, with reported net cash flow from operations increasing by 26.8% to £22.9m (H1 2006: £18.1m).

	<b>6 months ended 30 June 2007 £m</b>	<b>6 months ended 30 June 2006 £m</b>
<b>Cash conversion</b>		
Cash flows from operating activities	22.9	18.1
Adjusted operating profit	13.9	11.7
Cash conversion	165%	155%

Cash performance is measured using a cash conversion ratio, calculated as cash generated from operations divided by the Group's adjusted operating profit. Cash conversion was also strong improving by 10 percentage points to 165% (H1 2006: 155%). Cash conversion in the first half of the year is influenced by prepayment of annual service charges in the form of subscriptions in some of the operating businesses, primarily in the Insurance sector.

Cash held by the Group at the period end was £88.0m (H1 2006: £63.0m). Net cash at the period end was £57.1m (H1 2006: £27.3m). This figure excludes non-distributable cash balances held by the Enterprise Partnerships. There were significant movements in cash between the periods, most notably receipt of the primary funding of £75m from the IPO and payment of £57m for the acquisition of minority interests in partnerships with BAE Systems. The Group maintains a £35m debt facility.

### Capital expenditure

We aim to keep capital expenditure (which includes intangible assets) around 4% of revenue. During the period, we met this objective with capital expenditure at 2.9% of revenue (H1 2006: 4.6%).

## Interim Results

### **Dividend**

As set out at the time of the IPO, we intend to adopt a dividend policy which reflects the growth prospects and cash flow generation of the Group whilst maintaining an appropriate level of dividend cover. This will be reviewed in light of the full year results.

### **Excellent future prospects for Xchanging**

We are positive about the growth prospects for the business. Xchanging has established a strong reputation in the fast-growing global BPO market.

We have continued to display strong organic growth through our Outsourcing, Products, Straight Through Processing and Business Support market offerings. Our Partnering offering is seen as distinctive for handling large and complex business processing and we expect to continue to win major partnering arrangements, albeit timing can not be predicted.

Our balanced onshore/offshore model is driving productivity improvement. We are confident that we can extend the model to include near-shoring as a way of embracing Continental European cultural, regulatory and non-English speaking requirements.

The business process outsourcing market remains active and our existing businesses are well placed to deliver organic growth. We will continue to seek infill acquisition opportunities to complement and strengthen our proposition and we remain confident in the outlook for the full financial year.

**XCHANGING PLC****Consolidated income statement  
for the 6 months ended 30 June 2007**

		Unaudited	
		6 months ended 30 June 2007 £'000	6 months ended 30 June 2006 £'000
	Notes		
<b>Revenue</b>	3	<b>222,437</b>	187,945
Cost of sales		<b>(201,006)</b>	(169,879)
<b>Gross profit</b>		<b>21,431</b>	18,066
Administrative expenses - before exceptional items		<b>(7,987)</b>	(6,943)
Administrative expenses - exceptional items	4	<b>(5,891)</b>	(1,943)
Administrative expenses		<b>(13,878)</b>	(8,886)
<b>Operating profit</b>	3	<b>7,553</b>	9,180
Finance costs - before exceptional items	5	<b>(5,670)</b>	(4,192)
Finance costs - exceptional items	4	<b>(439)</b>	-
Finance costs		<b>(6,109)</b>	(4,192)
Finance income	5	<b>5,692</b>	4,524
<b>Profit before taxation</b>		<b>7,136</b>	9,512
Taxation		<b>(2,809)</b>	(2,846)
<b>Profit for the period</b>	3	<b>4,327</b>	6,666
<b>Attributable to:</b>			
- Equity holders of the Company		<b>1,976</b>	4,275
- Minority interests		<b>2,351</b>	2,391
		<b>4,327</b>	6,666
<b>Earnings per share (expressed in pence per share)</b>			
- Basic	6	<b>1.11</b>	2.77
- Diluted	6	<b>1.05</b>	2.63

**XCHANGING PLC****Consolidated statement of recognised income and expense  
for the 6 months ended 30 June 2007**

		Unaudited	
		6 months ended 30 June 2007 £'000	6 months ended 30 June 2006 £'000
	Notes		
Actuarial gains arising from defined benefit pension schemes	9	12,072	8,478
Movement on deferred tax relating to pension assets	9	(3,735)	(2,478)
Revaluation of available-for-sale financial assets	9	874	(2,079)
Deferred tax on revaluation of available-for-sale financial assets	9	238	378
Deferred and current income tax on share options	9	5,470	-
Exchange differences	9	114	(110)
<b>Net gains recognised directly in equity</b>		<b>15,033</b>	<b>4,189</b>
Profit for the period	3	4,327	6,666
<b>Total recognised income for the period</b>		<b>19,360</b>	<b>10,855</b>
<b>Attributable to:</b>			
- Equity holders of the Company		15,703	8,026
- Minority interests		3,657	2,829
		<b>19,360</b>	<b>10,855</b>

**XCHANGING PLC**  
**Consolidated balance sheet**  
**as at 30 June 2007**

		Unaudited	
	Notes	30 June 2007 £'000	30 June 2006 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	7	84,615	28,966
Intangible assets		28,693	28,828
Property, plant and equipment		14,619	14,835
Available-for-sale financial assets		21,297	20,228
Trade and other receivables		11,220	5,465
Retirement benefit assets		2,075	-
Deferred income tax assets		15,586	12,974
<b>Total non-current assets</b>		<b>178,105</b>	<b>111,296</b>
<b>Current assets</b>			
Trade and other receivables		76,661	75,997
Cash and cash equivalents		88,037	63,017
<b>Total current assets</b>		<b>164,698</b>	<b>139,014</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		(92,313)	(91,487)
Derivative financial instruments		(20)	-
Current income tax liabilities		(3,646)	(6,593)
Borrowings	8	(3,192)	(5,921)
Provisions		(4,275)	(12,738)
<b>Net current assets</b>		<b>61,252</b>	<b>22,275</b>
<b>Total assets less current liabilities</b>		<b>239,357</b>	<b>133,571</b>
<b>Non-current liabilities</b>			
Trade and other payables		(9,434)	(7,709)
Financial liabilities			
- Borrowings	8	(788)	(12,715)
- Other liabilities		(7,407)	-
Deferred income tax liabilities		(2,520)	(1,214)
Retirement benefit obligations		(12,048)	(20,025)
Provisions		(7,865)	(8,936)
<b>Net assets</b>		<b>199,295</b>	<b>82,972</b>
<b>Shareholders' equity</b>			
Ordinary shares		10,576	220
Share premium		72,651	82,697
Merger reserve		409,672	-
Reverse acquisition reserve		(312,345)	-
Other reserves		9,259	1,422
Retained earnings		(963)	(11,200)
<b>Total shareholders' equity</b>		<b>188,850</b>	<b>73,139</b>
Minority interest in equity		10,445	9,833
<b>Total equity</b>	9	<b>199,295</b>	<b>82,972</b>

**XCHANGING PLC****Consolidated cash flow statement  
for the 6 months ended 30 June 2007**

	Unaudited	
	<b>6 months ended 30 June 2007 £'000</b>	6 months ended 30 June 2006 £'000
<b>Cash flows from operating activities</b>		
Cash generated from operations	<b>22,923</b>	18,084
Income tax paid	<b>(4,613)</b>	(4,561)
<b>Net cash from operating activities</b>	<b>18,310</b>	13,523
<b>Cash flows from investing activities</b>		
Acquisition expenses	<b>(553)</b>	(115)
Acquisition cost of minority interests in subsidiaries	<b>(56,934)</b>	-
Acquisition cost of subsidiaries	<b>(508)</b>	(3,275)
Cash and cash equivalents acquired with subsidiaries	-	402
Purchase of property, plant and equipment	<b>(2,431)</b>	(5,401)
Purchase of intangible assets	<b>(3,943)</b>	(3,165)
Pre-contract expenditure	<b>(78)</b>	(1,697)
Proceeds from sale of property, plant and equipment	<b>16</b>	108
Interest received	<b>1,973</b>	1,341
<b>Net cash used in investing activities</b>	<b>(62,458)</b>	(11,802)
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	<b>81,998</b>	1,393
Transaction costs of shares issued	<b>(4,279)</b>	-
Interest paid	<b>(1,147)</b>	(28)
Dividends paid to minority interests	<b>(3,072)</b>	(10,222)
<b>Net cash from/(used in) financing activities</b>	<b>73,500</b>	(8,857)
Effects of exchange rate changes	<b>1</b>	(175)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>29,353</b>	(7,311)
Cash and cash equivalents at 1 January	<b>58,684</b>	70,328
<b>Cash and cash equivalents at 30 June</b>	<b>88,037</b>	63,017



## **XCHANGING PLC**

### **Notes to the consolidated financial information for the 6 months ended 30 June 2007**

#### **1 Basis of preparation**

##### **(i) Development of the Group**

Xchanging plc (the "Company") was incorporated as Tabbyview plc on 16 May 2006 and changed its name to Xchanging plc on 27 June 2006. It did not operate from the period of incorporation to 30 April 2007.

With effect from 30 April 2007, the Company became the legal parent company of Xchanging B.V. and its subsidiary undertakings. This business combination, effected through an exchange of equity interests, has been accounted for as a reverse acquisition in accordance with IFRS 3 'Business combinations'. The key features of this basis of consolidation are:

- The consolidated income statement includes the results of Xchanging B.V. and its subsidiaries for the 6 months ended 30 June 2007, with the results of Xchanging plc from 30 April 2007 (the acquisition date).
- The comparative figures in the income statement are the results of Xchanging B.V. and its subsidiaries for the 6 months ended 30 June 2006.

The consolidated retained earnings reserves of the Group include the pre Xchanging plc acquisition retained earnings of Xchanging B.V. and its subsidiaries.

##### **(ii) Accounting policies**

These unaudited interim financial statements have been prepared in accordance with the Listing Rules of the Financial Services Authority. In preparing these interim financial statements the same accounting policies, methods of computation and presentation have been applied as those set out in the Xchanging B.V. annual report for the year ended 31 December 2006. The accounting policies are drawn up in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as endorsed by the European Union .

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006, except for the adoption of the following standards mandatory for annual periods beginning on or after 1 January 2007:

- IFRS 7, Financial instruments: Disclosure;
- IFRIC 7, Applying the restatement approach under IAS 29;
- IFRIC 8, Scope of IFRS 2;
- IFRIC 9, Reassessment of embedded derivatives; and
- IFRIC 10, Interims and impairment.

The adoption of these standards did not affect the Group results of operations or financial position.

#### **2 Financial information**

The financial information included in this statement does not constitute full financial statements within the meaning of section 240 of the Companies Act 1985. The full financial statements for the Group for the year ended 31 December 2006 have been delivered to the Dutch Chamber of Commerce, as the parent company of the Group for that period was registered in the Netherlands. The independent auditors' report on those financial statements was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

# XCHANGING PLC

## Notes to the consolidated financial information for the 6 months ended 30 June 2007

### 3 Segmental reporting

The Group has three reportable business sectors for financial reporting purposes: Insurance, Financial Markets and Business Lines. In both of the Insurance and Financial Markets sectors the Group provides industry specific BPO services and software to customers. Business Lines is a cross-industry sector in which the Group provides procurement, human resources, finance and accounting and IT hosting services. These three operating sectors are supported by the Group's offshore business processing services facility ("BPS") and "Corporate", which provides the infrastructure, resources and investment to sustain and grow the business, including sales and commercial, performance management, implementation and business management functions.

	Business Lines £'000	Insurance £'000	Financial Markets £'000	BPS and Corporate £'000	Total £'000
<b>For the six months ended 30 June 2007</b>					
<b>Revenue</b>	<b>103,545</b>	<b>82,738</b>	<b>45,833</b>	<b>-</b>	<b>232,116</b>
- From external customers	96,523	80,151	45,763	-	222,437
- Inter segment	7,022	2,587	70	-	9,679
<b>Adjusted operating profit</b>	<b>7,249</b>	<b>10,978</b>	<b>5,511</b>	<b>(9,815)</b>	<b>13,923</b>
<i>Adjusted operating profit percentage</i>	<i>7.0%</i>	<i>13.3%</i>	<i>12.0%</i>		<i>6.3%</i>
Exceptional items	(120)	(66)	(23)	(5,682)	(5,891)
<i>Adjustment of certain non cash items:</i>					
- Share based payments	(59)	(58)	(18)	(124)	(259)
- IFRS 3 intangible depreciation	(157)	(63)	-	-	(220)
<b>Operating profit</b>	<b>6,913</b>	<b>10,791</b>	<b>5,470</b>	<b>(15,621)</b>	<b>7,553</b>
<i>Allocation of central costs:</i>					
- Investment in enterprise partnerships	-	(748)	-	748	-
- Depreciation and amortisation	(185)	(127)	(351)	663	-
- Other	(521)	(632)	(613)	1,766	-
<b>Segment result</b>	<b>6,207</b>	<b>9,284</b>	<b>4,506</b>	<b>(12,444)</b>	<b>7,553</b>
Finance costs					(6,109)
Finance income					5,692
Taxation					(2,809)
<b>Profit for the period</b>					<b>4,327</b>

	Business Lines £'000	Insurance £'000	Financial Markets £'000	BPS and Corporate £'000	Total £'000
<b>For the six months ended 30 June 2006</b>					
<b>Revenue</b>	<b>79,807</b>	<b>62,905</b>	<b>49,426</b>	<b>-</b>	<b>192,138</b>
- From external customers	77,300	61,351	49,294	-	187,945
- Inter segment	2,507	1,554	132	-	4,193
<b>Adjusted operating profit</b>	<b>4,963</b>	<b>10,756</b>	<b>4,825</b>	<b>(8,845)</b>	<b>11,699</b>
<i>Adjusted operating profit percentage</i>	<i>6.2%</i>	<i>17.1%</i>	<i>9.8%</i>		<i>6.2%</i>
Exceptional items	-	-	-	(1,943)	(1,943)
<i>Adjustment of certain non cash items:</i>					
- Share based payments	(25)	(18)	(8)	(170)	(221)
- IFRS 3 intangible depreciation	(159)	(196)	-	-	(355)
<b>Operating profit</b>	<b>4,779</b>	<b>10,542</b>	<b>4,817</b>	<b>(10,958)</b>	<b>9,180</b>
<i>Allocation of central costs:</i>					
- Investment in enterprise partnerships	-	-	-	-	-
- Depreciation and amortisation	(188)	(24)	(311)	523	-
- Other	(168)	(622)	(99)	889	-
<b>Segment result</b>	<b>4,423</b>	<b>9,896</b>	<b>4,407</b>	<b>(9,546)</b>	<b>9,180</b>
Finance costs					(4,192)
Finance income					4,524
Taxation					(2,846)
<b>Profit for the period</b>					<b>6,666</b>

## XCHANGING PLC

### Notes to the consolidated financial information for the 6 months ended 30 June 2007

#### 4 Exceptional costs

	6 months ended 30 June 2007 £'000	6 months ended 30 June 2006 £'000
<b>Exceptional costs included in administrative expenses consist of:</b>		
IPO costs	3,679	1,943
IFRS 2 charge related to the share gift to employees by the CEO	2,212	-
<b>Total exceptional costs included in administrative expenses</b>	<b>5,891</b>	<b>1,943</b>
<b>Exceptional costs included in finance costs consist of:</b>		
IPO costs	439	-

The IPO costs relate to specific expenses incurred in listing the Group on the London Stock Exchange. The charge within administrative expenses consists mainly of legal and professional advisers fees of £3,053,000. It also includes elements of staff bonuses granted to certain employees in recognition of their contribution to the IPO process and IFRS 2 charges on early option exercises as a direct result of the IPO.

Upon the successful listing of Xchanging on the London Stock Exchange, the CEO, David Andrews, gave every qualifying Xchanging employee 200 of his own personal Xchanging shares. This gift falls within the scope of IFRS 2 and consequently the Group incurs an accounting charge equivalent to the value of the shares at the date of the gift.

The finance cost element relates to adjustments that were made to existing onerous lease provisions due to the change in the discount rate used to calculate the present value of these provisions. This change in discount rate is a direct result of the IPO.

**XCHANGING PLC****Notes to the consolidated financial information  
for the 6 months ended 30 June 2007****5 Finance costs and income**

	<b>6 months ended 30 June 2007 £'000</b>	<b>6 months ended 30 June 2006 £'000</b>
<b>Finance costs</b>		
Imputed interest payable on convertible loan notes	<b>(291)</b>	(619)
Actual interest payable on convertible loan notes	-	(56)
Interest payable on bank loans and overdrafts	<b>(103)</b>	(5)
Interest cost on defined benefit pension schemes	<b>(3,486)</b>	(3,353)
Financing costs on deferred consideration for acquisitions	<b>(1,197)</b>	(136)
Imputed interest on put option to acquire minority interest	<b>(267)</b>	-
Foreign exchange loss on financial liabilities	<b>(119)</b>	-
Other interest payable	<b>(207)</b>	(23)
<b>Total finance costs</b>	<b>(5,670)</b>	(4,192)
<b>Finance income</b>		
Bank interest	<b>1,743</b>	1,214
Expected return on plan assets within defined benefit pension schemes	<b>3,565</b>	3,183
Dividends received on available-for-sale assets	<b>177</b>	108
Imputed interest on employee loans through the share purchase plan	<b>150</b>	-
Other interest	<b>57</b>	19
<b>Total finance income</b>	<b>5,692</b>	4,524
<b>Net finance income pre exceptional items</b>	<b>22</b>	332
Finance costs - exceptional items (note 4)	<b>(439)</b>	-
<b>Net finance (costs)/income</b>	<b>(417)</b>	332

# XCHANGING PLC

## Notes to the consolidated financial information for the 6 months ended 30 June 2007

### 6 Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares of Xchanging plc.

Diluted earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the sum of the weighted average number of ordinary Xchanging plc shares and the weighted average number of dilutive potential ordinary Xchanging plc shares outstanding.

	Earnings £'000	Weighted average number of shares thousands	Per share amount pence
Basic earnings per share:			
- 30 June 2007	1,976	178,016	1.11
- 30 June 2006	4,275	154,157	2.77
Diluted earnings per share:			
- 30 June 2007	1,976	188,282	1.05
- 30 June 2006	4,275	162,635	2.63

The following reflects the share data used in the basic and dilutive earnings per share calculations:

#### Weighted average number of shares:

	6 months ended 30 June 2007 thousands	6 months ended 30 June 2006 thousands
Weighted average number of ordinary Xchanging plc shares for basic and adjusted earnings per share	178,016	154,157
Dilutive potential ordinary shares:		
- Unexercised warrants	1,502	1,471
- Employee share options	8,764	7,007
Weighted average number of ordinary Xchanging plc shares for dilutive earnings per share	188,282	162,635

#### Adjusted basic and diluted earnings per share

In addition to the above, an adjusted earnings per share value is disclosed to provide a better understanding of the underlying trading results of the Group, which is in line with the KPIs as used to measure the Group's performance:

	Earnings £'000	Weighted average number of shares thousands	Per share amount pence
Adjusted basic earnings per share:			
- 30 June 2007	8,374	178,016	4.70
- 30 June 2006	7,002	154,157	4.54
Adjusted diluted earnings per share:			
- 30 June 2007	8,374	188,282	4.45
- 30 June 2006	7,002	162,635	4.31

The adjusted earnings per share figures are calculated based on the Xchanging adjusted profit after tax (XPAT), divided by the above basic and diluted weighted average number of shares.

The XPAT is calculated as follows:

	6 months ended 30 June 2007 £'000	6 months ended 30 June 2006 £'000
Net profit attributable to Xchanging plc equity holders for basic earnings per share	1,976	4,275
Exceptional items (net of tax)	5,777	1,825
Employee share options (net of tax)	181	221
IFRS 3 intangible asset depreciation (net of tax)	154	248
Imputed interest on historical debt (net of tax)	204	433
Imputed interest on put options (net of tax)	187	-
Imputed interest on employee loans through the share purchase plan (net of tax)	(105)	-
Adjusted net profit attributable to Xchanging plc equity holders for adjusted basic & diluted earnings per share	8,374	7,002

## **XCHANGING PLC**

### **Notes to the consolidated financial information for the 6 months ended 30 June 2007**

#### **7 Acquisition of minority interests**

During the six months ended 30 June 2007, the Group purchased BAE Systems' 50% interests in two of the enterprise partnerships giving the Group full ownership of these.

##### **(i) HR Enterprise Limited**

With effect from 1 January 2007, the Xchanging Group acquired the remaining 50% minority holding in the HR Enterprise Limited enterprise partnership from BAE Systems plc. This 50% interest was acquired by HR Holdco, a subsidiary of Xchanging plc.

Details of the minority interests' share of the book and fair value of the assets of HR Enterprise Limited acquired, consideration paid and the resulting goodwill are set out below:

	Book and fair value £'000
Costs of acquisition - consideration	10,085
Costs of acquisition - fees	97
Minority interests' share of net assets acquired	(374)
<b>Goodwill</b>	<b>9,808</b>

##### **(ii) Xchanging Procurement Services (Holdco) Limited**

With effect from 1 January 2007, the Xchanging Group acquired the remaining 50% minority holding in the Xchanging Procurement Services (Holdco) Limited enterprise partnership from BAE Systems plc. This 50% interest was acquired by XUK Holdco (No. 2) Limited, a subsidiary of Xchanging plc.

Details of the minority interests' share of the book and fair value of the assets of Xchanging Procurement Services (Holdco) Limited acquired, consideration paid and the resulting goodwill are set out below:

	Book and fair value £'000
Costs of acquisition - consideration	46,651
Costs of acquisition - fees	458
Minority interests' share of net assets acquired	(2,790)
<b>Goodwill</b>	<b>44,319</b>

The consideration has been discounted using the effective interest rate at the time of the acquisition which mirrors that of a similar instrument in the market place.

**XCHANGING PLC****Notes to the consolidated financial information  
for the 6 months ended 30 June 2007****8 Borrowings**

	<b>30 June 2007</b>	<b>30 June 2006</b>
	<b>£'000</b>	<b>£'000</b>
<b>Current</b>		
Obligations under finance leases	-	143
Deferred consideration on acquisitions	<b>3,192</b>	5,778
<b>Total current borrowings</b>	<b>3,192</b>	5,921
<b>Non-current</b>		
Convertible loan note	-	12,607
Obligations under finance leases	-	108
Deferred consideration on acquisitions	<b>788</b>	-
<b>Total non-current borrowings</b>	<b>788</b>	12,715

The Group's finances were restructured prior to the listing of Xchanging plc on the London Stock Exchange, with the full amount outstanding under the convertible loan note being converted into shares in Xchanging B.V. and subsequently included in the share for share exchange with Xchanging plc.

**XCHANGING PLC**
**Notes to the consolidated financial information  
for the 6 months ended 30 June 2007**
**9 Movements in shareholders' equity**

	Share capital £'000	Share premium £'000	Merger reserve £'000	Reverse acquisition reserve £'000	Other reserves £'000	Retained earnings £'000	Minority interests £'000	Total equity £'000
At 1 January 2006	199	68,163	-	-	(974)	(15,696)	17,226	68,918
Profit for the period	-	-	-	-	-	4,275	2,391	6,666
Revaluation of investments	-	-	-	-	(1,624)	-	(455)	(2,079)
Deferred tax on revaluation of investments	-	-	-	-	193	-	185	378
Actuarial gains on defined benefit schemes	-	-	-	-	7,538	-	940	8,478
Deferred tax on actuarial gains	-	-	-	-	(2,228)	-	(250)	(2,478)
Convertible debt - equity element	-	-	-	-	206	-	-	206
Deferred tax on convertible debt	-	-	-	-	1,178	-	-	1,178
Exchange adjustments	-	-	-	-	(128)	-	18	(110)
Share options								
- proceeds from shares issued	4	1,389	-	-	-	-	-	1,393
- value of employee services	-	-	-	-	-	221	-	221
Exercise of warrants	4	1,480	-	-	(1,484)	-	-	-
Exchange of convertible debt into shares	13	11,665	-	-	(1,255)	-	-	10,423
Dividends paid	-	-	-	-	-	-	(10,222)	(10,222)
<b>At 30 June 2006</b>	<b>220</b>	<b>82,697</b>	<b>-</b>	<b>-</b>	<b>1,422</b>	<b>(11,200)</b>	<b>9,833</b>	<b>82,972</b>
At 1 January 2007	221	82,589	-	-	1,251	(10,209)	11,778	85,630
Profit for the period	-	-	-	-	-	1,976	2,351	4,327
Revaluation of investments	-	-	-	-	1,157	-	(283)	874
Deferred tax on revaluation of investments	-	-	-	-	123	-	115	238
Actuarial gains on defined benefit schemes	-	-	-	-	9,900	-	2,172	12,072
Deferred tax on actuarial gains	-	-	-	-	(3,028)	-	(707)	(3,735)
Deferred tax on put option	-	-	-	-	-	47	-	47
Exchange adjustments	-	-	-	-	105	-	9	114
Share options								
- proceeds from shares issued	308	11,583	-	-	-	-	-	11,891
- value of employee services	-	-	-	-	-	365	-	365
Deferred and current income tax on share options	-	-	-	-	-	5,470	-	5,470
Value of employee services attributed to CEO's share gift	-	-	-	-	-	1,969	-	1,969
Discounting of employee loans through share purchase plan	-	-	-	-	-	(581)	-	(581)
Exercise of warrants	5	1,546	-	-	-	-	-	1,551
Conversion of loan note into shares	9	13,572	-	-	(249)	-	-	13,332
Buy-out of minority interests	-	-	-	-	-	-	(3,165)	(3,165)
Dividends paid	-	-	-	-	-	-	(1,825)	(1,825)
Proceeds from new shares issued	1,563	73,437	-	-	-	-	-	75,000
Transactional costs of shares issued	-	(4,279)	-	-	-	-	-	(4,279)
IFRS 3 reverse acquisition conversion	8,470	(105,797)	409,672	(312,345)	-	-	-	-
<b>At 30 June 2007</b>	<b>10,576</b>	<b>72,651</b>	<b>409,672</b>	<b>(312,345)</b>	<b>9,259</b>	<b>(963)</b>	<b>10,445</b>	<b>199,295</b>

With effect from 30 April 2007, Xchanging plc became the legal parent company of the Xchanging Group by exchanging 174.3 million shares for 100% of the shares of Xchanging B.V., a privately held, UK based and Dutch incorporated company. This has been accounted for as a reverse acquisition in accordance with IFRS 3, 'Business combinations', using the purchase method whereby Xchanging B.V. was considered the "acquirer" and Xchanging plc the "acquiree". Comparative financial information for 2006 is that of Xchanging B.V.



## **Independent review report to Xchanging plc**

### **Introduction**

We have been instructed by the Company to review the financial information for the six months ended 30 June 2007 which comprises the consolidated interim balance sheet as at 30 June 2007 and the related consolidated interim statements of income, cash flows, statement of recognised income and expense for the six months then ended and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

### **Directors' responsibilities**

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The Listing Rules of the Financial Services Authority require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

This interim report has been prepared in accordance with the basis set out in Note 1.

### **Review work performed**

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2007.

PricewaterhouseCoopers LLP  
Chartered Accountants  
London  
30 July 2007

#### **Notes:**

(a) The maintenance and integrity of the Xchanging plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the web site.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.