

Xchanging plc
Preliminary announcement - 2 March 2009

Xchanging has produced another excellent set of results in 2008, with strong revenue growth and profitability underpinned by operational and strategic successes. Despite a difficult economic environment, the market for our services remains active and we remain positive for Xchanging about the outlook for 2009.

	12 months ended 31 December 2008	12 months ended 31 December 2007	Increase
Revenue	£557.8m	£468.2m	19%
Statutory operating profit 1	£46.5m	£31.7m	47%
Group adjusted operating profit 2	£49.7m	£38.9m	28%
Xchanging's share of adjusted operating profit (XEBIT) 2	£40.8m	£31.6m	29%
XEBIT Margin	7.3%	6.8%	+50 basis points
Xchanging's share of adjusted profit after tax (XPAT) 3	£33.0m	£22.8m	44%
Pro forma EPS - diluted 4	14.67p	10.51p	40%
Proposed dividend (per share)	2.5p	2.0p	25%
Free cash flow	£33.0m	£27.7m	19%
Group net cash 5	£117.8m	£98.4m	

Strategic highlights of the year:

- Signed contracts to acquire 75% of Cambridge Solutions Ltd (Cambridge) for £83 million⁶, with effective control from 1 January 2009
- Completed acquisition of Mercuris SA (French procurement outsourcing)
- Expanded our Broking Services platform through Cooper Gay outsourcing contract
- Expanded our Retail Investment Account platform with Allianz Global Investors
- Significant progress in developing electronic processing in the London insurance market
- Successfully upgraded our securities processing platform to address German withholding tax changes (Abgeltungssteuer)

David Andrews, CEO of Xchanging, commented: "I am delighted with the excellent progress the Group has made over the last 12 months. Our strong growth this year has been primarily organic, driven by expansion across all our businesses with notable success in providing additional services to existing customers. We have also made good progress in standardising our processing centres across the globe. The Cambridge acquisition is exciting as it will allow us to become one of the leading global business processors at a time when our industry is internationalising.

"The business processing market continues to grow despite the difficult economic environment and our strong cash position will allow us to be responsive to opportunities as they arise. We have invested in our platforms over the past few years and combined with our strong reputation and unique business model, we are well positioned for continued growth in 2009."

2 March 2009

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Timing of analysts/ investor presentation

A presentation for investors and analysts will be held at Xchanging's offices at 34 Leadenhall Street, London, EC3A 1AX at 9:00am on 2 March 2009.

Footnotes:

¹ The Group has not incurred exceptional costs in 2008. (2007: statutory operating profit of £31.7 million is stated post exceptional IPO items and software migration costs of £6.2 million).

² Group adjusted operating profit excludes exceptional items and certain non-cash items, which comprise share-based payment charges and amortisation of intangible assets previously unrecognised by acquired entities. A detailed reconciliation to statutory operating profit is provided in the section 'Shareholder value – key performance indicators' below.

³ XPAT incorporates add backs to profit for the year comprising of exceptional 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. A detailed reconciliation to statutory profit for the year is provided in the section 'Shareholder value – key performance indicators'.

⁴ Pro forma diluted EPS is calculated by dividing the Group's adjusted earnings (based on XPAT) by the weighted average number of shares. For 2007, the pro forma number of shares for the year was calculated by adding the weighted average number of shares issued between IPO and 31 December 2007 to the actual number of shares in issue at the IPO. Statutory EPS numbers are disclosed in Note 4 to the financial information but have not been presented in this summary as comparisons are misleading due to the impact of the IPO exceptional items and the significant change in the capital structure of the Group at the time of the IPO.

⁵ Group net cash includes £25.5 million placed in escrow in relation to the pending acquisition of Cambridge, and which is therefore restricted.

⁶ The consideration based on Xchanging share price and Indian Rupee/British Sterling exchange rate as at 31 December 2008 was £88 million. £83 million is based on share price and Indian Rupee/British Sterling exchange rate as at 3 October 2008.

About Xchanging

Xchanging is a fast growing, pure play global business processor with blue chip customers. Xchanging provides 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

Full Year Results for the 12 months ended 31 December 2008

Overview

Xchanging has produced another set of excellent financial results for 2008. We have also made significant operational progress in delivering on our stated strategy, namely:

- **growing existing platforms** in commercial insurance, financial markets, HR, procurement, accounting and technology infrastructure
- **adding new platforms** in new processes, new geographies or new industry sectors
- **becoming the lean processor** through standardisation, scale and our Global Balancing approach.

This strong achievement confirms our position as a fast growing, pure play global business processor. It also reflects the resilience of our unique business model despite worsening economic conditions.

Reported revenue grew by 19.1% to £557.8 million (2007: £468.2 million). On a constant currency basis, revenue grew by 15.6%. Growth was predominantly organic with acquisitions accounting for less than 1%. Growth has come across all our businesses and products. In particular, we experienced strong volume growth in our procurement and banking businesses and a full year contribution from contracts won in the second half of 2007, especially the Fondsdepot Bank (FDB) Enterprise Partnership.

The Group uses a revenue visibility measure to monitor the revenue that it expects to achieve in the coming year. Revenue visibility going into 2008 was £445.7 million, which was 80% of the full year revenue achieved. On the same basis, revenue visibility going into 2009 is £527.2 million, representing an increase of 18%.

Largely as a result of the growth in revenues, the Group delivered a 29.0% increase in Xchanging's share of adjusted operating profit (XEBIT) to £40.8 million (2007: £31.6 million). Profit growth also benefited from an increase in XEBIT margins, which rose by 50 basis points to 7.3% (2007: 6.8%), in line with the Group's target for 2008.

Xchanging's share of adjusted profit after tax (XPAT) grew by 44.4% to £33.0 million (2007: £22.8 million). This represents an XPAT margin of 5.9% (2007: 4.9%). XPAT growth was higher than growth in XEBIT due to an increase in net finance income attributable to Xchanging and a lower effective tax rate compared to the prior year.

Cash conversion, calculated as cash generated from operations (pre capital expenditure) divided by the Group's adjusted operating profit, was 139% (2007: 128%). Free cash flow, defined as operating cash flow less capital expenditure, interest and taxation, increased by 19% to £33.0 million (2007: £27.7 million) despite significant investment in our platforms.

The Directors recommend a dividend payment of 2.5 pence per share up 25% from 2.0 pence per share in 2007. This reflects the strong performance in 2008 and our confidence for the future.

Our people are critical to sustaining Xchanging's growth. We build, sustain and grow our business based on a clear culture, strong set of values, defined organisation structure and proven repeatable methodologies; all of which come together as *the Xchanging Way* – our global approach to deliver standardised, consistent and repeatable results.

Market outlook

Market conditions have become more demanding than ever for our customers. During 2008 the macroeconomic environment deteriorated as global deleveraging (banking, corporate and household) drove down demand. Margins have been squeezed and cash has become tighter. As a result, companies need to drive down costs, improve efficiency and reduce investment in their back offices.

A significant development, especially in the banking sector, has been the increasing regulatory pressures coming from both national and pan-European regulatory institutions requiring significant investment into financial processing platforms. One example has been the introduction of a withholding tax, Abgeltungssteuer, in Germany. More broadly, regulatory change is happening on a pan-European basis with initiatives for common financial processes across Europe, such as the Single Euro Payments Area (SEPA).

These regulatory pressures combined with the current market conditions are catalysing a number of the major banks into broader strategic consolidation activity through acquisitions both within their own geographies and across borders. In the short-term, business process outsourcing (BPO) will help achieve cost reductions and facilitate restructuring and, ultimately, provide support for growth out of the economic downturn.

The current market drivers for BPO come on top of a long-term structural growth trend for the industry. We believe that there is pent-up demand. For instance, full year 2007 Selling, General and Administrative (SG&A) costs for 377 of the Fortune 500 companies totalled US\$1.3 trillion (as per available information on Factset). IDC estimated that the global market for BPO will be \$68 billion by 2012. The market is still only in early stages of development. So, the global business processor vision is there for us to go after.

Xchanging is well placed to take advantage of these current and long-term market trends. Our customers represent some of the larger Fortune 500 companies who want consistently high quality services globally for the right price. We have invested heavily to maintain our leading position in Europe and the acquisition of Cambridge will strengthen our capability to serve customers on a global scale and deliver the economies of scale that our customers are seeking. For large blue chip corporations, our unique Enterprise Partnership proposition offers the platform required to take on complex business processes not accessible through traditional outsourcing. For smaller companies, we provide cost-effective solutions through our full suite of BPO offerings.

We saw early indications of the accelerated market demand with a higher number of new opportunities in 2008 than previously. We see the trend continuing in 2009. Of particular note is the trend towards bigger and more complex partnering opportunities with an international dimension. We believe that this trend will play to our strengths.

Although such major partnering opportunities in both processing and procurement are going to take longer to conclude, we will be aggressively pursuing several during 2009. At the same time, we are mindful of the paramount importance of partnering with robust companies, where it makes long-term economic sense for both of us. This will continue to be our measure.

2008 has also proved the importance of maintaining a heavy emphasis on our Outsourcing, Products and additional services to existing customers. We continue to see a healthy pipeline for these offerings in 2009. As market conditions worsen, we expect companies to look to savings through the economies of scale that our platforms and solutions provide. Our aim here is to sell these offerings to grow at a level that the market allows and consistent with our past performance.

Delivering on the Xchanging strategy...

To realize our vision and mission we have a simple three-pronged strategy, aimed at accelerating growth and creating shareholder value:

- **growing existing platforms**
- **adding new platforms**
- **becoming the lean processor**

Doing complex processing for blue chip customers, we understand what world-class performance means. It requires powerful economies of scale and processing precision. Therefore, at the heart of our strategy is *the Xchanging Way* for defining and measuring performance and achieving processing precision.

We have invested in *the Xchanging Way* as our standard operating methodology for implementing and delivering business processing services globally. During 2008, we put significant emphasis on embedding *the Xchanging Way* of doing business across all of our operations in seven countries. We will continue to develop and embed our *Xchanging Way* operating methodology to achieve the level of world-class performance that our customers expect.

Delivering growth from our existing platforms

2008 has been an important year for investing in our insurance, banking and procurement platforms, as well as strengthening our technology infrastructure capabilities. As a result, we have enhanced our international capabilities in the UK, Continental Europe, India, the USA and Bermuda. Delivering complex mission-critical processing gives us an unparalleled position for further international growth in 2009 and beyond.

Strengthening our European Financial Services position

In 2008, we have made progress in expanding our European platforms, including a significant investment in Germany into our Enterprise Partnership with Deutsche Bank and automating the valuation process in Central Price Services.

The implications of the changes in the German withholding tax laws (Abgeltungssteuer) to the banking sector, most notably in the processing of securities transactions, are significant. Xchanging has been designing and implementing a change program for processes and IT to accommodate the new requirements and to take advantage of new opportunities. Together with our customers, we have invested €17.6 million on being in compliance with Abgeltungssteuer. We have also made other additional investments into our securities processing platform, which put us at the forefront of consolidation and regulatory compliance not only in Germany but also across Europe.

In line with our objective to drive electronification of markets, Xchanging significantly expanded its Central Price Service (CPS) capabilities and automated the existing valuation process. With its CPS, Xchanging Transaction Bank provides institutional investors, such as investment companies and custodian banks, with validated prices for a variety of financial instruments, whether they are publicly listed on an exchange or structured and mostly traded over the counter such as bonds, warrants and swaps.

Leading insurance processor

Xchanging's insurance processor success to date comes from working collaboratively with our customers. In 2008, through working together with the London market, we achieved significant success in moving from a paper-based to an electronic processing platform. The investment in the Insurers' Market Repository will simplify dealing with the London insurance market. This new suite of electronic services will help in bringing new business to London and generate additional revenues for Xchanging in 2009. Specific examples of success in 2008 in the London insurance market include:

- in Q4 2008, the Insurers' Market Repository published 2.9 million web pages a week
- 4 million documents stored and 20,000 added daily to the Insurers' Market Repository
- over 200 customers in 15 countries connected to the Xchanging Distribution Hub
- winning two ACORD 2008 Accomplishment Awards in the categories 'Industry Leadership for Straight Through Processing' and 'Outsourcer'

On the broking processing side, our 2008 contract with Cooper Gay demonstrates the scale benefits envisaged when we established the broking platform in late 2006. In 2009 we expect to see customers added to this platform, with an emphasis on Europe, the USA and Asia.

We expect the adoption of efficient electronic processing infrastructures to gather pace during 2009 and 2010. We believe that Xchanging is uniquely positioned to become the preferred processor globally for both brokers and carriers.

Global technology solution for carriers

For QBE, in 2008 we successfully concluded the first phase of a European roll out of Genius – our global insurance software product. We also entered into an enterprise license agreement with Allianz Global Corporate and Specialty for the international implementation of Genius.

We have also signed Business Support contracts with new customers such as ACE and completed work for existing customers such as Lloyd's.

Global procurement and technology hosting

Xchanging's European procurement capability has been enhanced with the acquisition of Mercuris SA, a French procurement outsourcing services company. During the year we completed the re-alignment of Mercuris SA and integrated it with our existing French procurement business. From 1 September 2008, Mercuris SA became known as Xchanging Procurement Services (France). This acquisition provides a solid base from which to extend our European procurement services. In 2009, we expect to expand our procurement services to Germany, Asia and the USA. In 2008, we also entered into an agreement for the management of Birds Eye's utilities spend in the UK.

Our Hosting services have also expanded significantly during the year to support the demand for complex technology infrastructures we operate for our customers. We contracted with Northgate Arinso, the UK and Ireland's leading supplier of HR solutions, for mainframe and BACS processing services. In 2008, we implemented a new technology trading infrastructure for the London Metal Exchange. The requirement for complex technology infrastructure solutions is set to continue as part of mission-critical business processing services.

Resilient platforms

Our existing platforms continue to be resilient in the face of the current economic downturn. Xchanging's main exposure to the economic cycle is in procurement and business support services.

In procurement, addressing a larger proportion of our customers' spend and adding new spend categories should offset any weakness in primary demand.

We have seen some weakness in business support services (both in Insurance and Business Lines sectors), which include services such as consulting, immigration and recruiting. However, these make up a relatively small proportion of our business, accounting for less than 3% of Group revenues.

Adding new platforms

In 2008 we deliberately turned our attention to increasing our reach to become a global business processor. At the same time we have consolidated our position in Germany with the successful implementation of the partnership with Allianz Global Investors.

Cambridge Solutions Ltd acquisition

In October 2008, we agreed to acquire Cambridge. Cambridge is an international BPO and IT services provider listed on several stock exchanges in India. It has 4,500 employees in the USA, Europe, India, South East Asia and Australia, and provides BPO and IT services to the insurance, banking, manufacturing and healthcare sectors.

Cambridge has been a supplier to Xchanging since 2006. The acquisition will broaden our international reach complementing us with US, India and Asia Pacific scale. Moreover, Cambridge will bring us IT depth, with advanced capabilities and some leading edge products for automation and programming.

The acquisition will also accelerate Xchanging's global vision. In the USA, we have the opportunity to build up our London market claims processing and software capabilities and serve both our existing customers and large American corporations that Cambridge brings as customers. In India, Cambridge's local listing will increase Xchanging's visibility and enable us to take advantage of India's position as a global BPO powerhouse. Cambridge's Singapore, Malaysian and Japanese operations will further strengthen our South East Asian market credibility and our ability to serve customers in the region. In Australia, we also have the opportunity to become a leading claims processor.

Cambridge implementation update

Integration of Cambridge is underway and will follow our proven and standard approach. This is a four phase approach that we use for all our Enterprise Partnerships, from preparation, to re-alignment, streamlining and continuous improvement. To make the implementation manageable, we have established three regional teams (with central co-ordination); one team for the USA; one team for India, Singapore, Malaysia and Japan; and one team for Australia.

As previously announced, David Andrews and Richard Houghton were appointed to the Board of Cambridge on 12 January 2009 as Chairman and CEO, and Executive Director, respectively. However, pursuant to the sale and purchase agreements, Xchanging is considered to have taken operational control of Cambridge from 1 January 2009 and will consolidate its results from that date. Existing and new customers have responded well to the acquisition, particularly in the USA and Australia.

The acquisition is expected to complete on 2 April 2009.

Enterprise Partnership with Allianz Global Investors

In November 2007, Xchanging took operational control of Fondsdepot Bank (FDB), our Enterprise Partnership with Allianz Global Investors. FDB provides retail investment account management services adopting Group-wide management and processing standards.

In line with our stated schedule, we completed the re-alignment phase of our integration process in September 2008. Ahead of plan, we have also grown our third-party customer accounts by 40% since change of control.

Over 80% of investment account administration is performed in-house in Germany. Therefore, during 2009 we will be actively seeking back-office consolidation opportunities with asset managers to offer economies of scale to our customers.

Becoming the lean processor

With increased regulatory oversight and the rising cost of compliance, there is an even greater need for processing precision, coupled with the power of economies of scale. This is exactly what the lean processing element of our strategy strives for.

Processing precision

Xchanging has established a unique approach for processing precision. It goes well beyond Six Sigma and is part of our continuing investment in *the Xchanging Way*. During 2008, we implemented a set of standard production methods across our top 10 centres globally. We also commissioned a new technology infrastructure to support complex processing. Combining standard production, world-class technology and global scale, Xchanging is creating a new blueprint for the business processing industry.

A winning formula for Global Balancing

We aim to balance workloads globally and meet the highest standard demanded by customers in the regulated industries we serve. In 2008, we made significant strides in sharing spare capacity and combining the advantages of local, nearshore and offshore processing. During 2009, we will continue to develop the concept of Global Balancing.

Medium term, the acquisition of Cambridge will provide further opportunities to create scale advantage. 2009 will see a continuing emphasis on standard production. We will set up standard processing centres in the USA, India and Australia that will be linked with Xchanging's existing capacity during 2010.

Shareholder value – key performance indicators (KPIs)

Financially, 2008 has been a very good year for Xchanging. The Group's KPIs, as defined below, are:

	12 months ended 31 December 2008	12 months ended 31 December 2007	Increase
Revenue	£557.8m	£468.2m	19.1%
Xchanging's share of adjusted operating profit (XEBIT)	£40.8m	£31.6m	29.0%
XEBIT Margin	7.3%	6.8%	+50 bps
Xchanging's share of adjusted profit after tax (XPAT)	£33.0m	£22.8m	44.4%
Pro forma EPS - diluted	14.67p	10.51p	39.6%
Cash generated from operations	£69.7m	£49.7m	40.2%
Cash conversion ratio	139%	128%	
Free cash flow	£33.0m	£27.7m	19.0%

Revenues

Revenue growth continued to be strong, increasing 19.1% to £557.8 million in 2008 (2007: £468.2 million). The Group has delivered consistently strong growth, with a compound annual growth rate of 22% between 2004 and 2008. Growth was predominantly organic in 2008, with acquisitions accounting for less than 1% of the growth during the year.

Sales across the full range of offerings, combined with revenues from contracts won in 2007 (particularly FDB, our Enterprise Partnership with Allianz Global Investors), have made a contribution to growth in 2008. The Group experienced strong volumes throughout the year in our securities processing and procurement businesses. The one area of weakness was in Business Support which was adversely impacted by the current economic climate.

Revenue visibility

The Group has high revenue visibility due to the long-term nature of its contracts and the relatively high predictability of revenues generated. The revenue visibility measure represents revenue that can be expected to arise in the year from current customers where we have a contractual relationship in place. Revenue visibility going into 2008 was £445.7 million, which was 80% of the full year revenue achieved. On the same basis, revenue visibility going into 2009 is £527.2 million, up 18% on 2008.

Profits

There is a sizeable minority element in the Xchanging income statement as a result of the Group's Enterprise Partnerships. Furthermore, the minority share of profits is not necessarily directly related to their shareholding in the Enterprise Partnership. The Group therefore measures and tracks both operating and after tax profit directly attributable to equity shareholders (net of Enterprise Partnership minority interests) as the comparable and consistent measure of profit performance for Xchanging's shareholders. Profits are also adjusted to exclude exceptional and certain non-cash items. We use two 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 for the year after tax attributable to equity holders of the Group (XPAT).

XEBIT grew by 29.0% to £ 40.8 million (2007: £31.6 million). This represents an XEBIT operating margin of 7.3% (2007: 6.8%). The growth in XEBIT margin of 50 basis points is in line with the 50 basis points growth that the Group targets annually. XEBIT growth is driven by strong performances across all three sectors, including a contribution from FDB in its first full year of operation and the acquisition of Mercuris SA, effective 1 January 2008.

Xchanging's share of adjusted profit after tax (XPAT) grew by 44.4% to £33.0 million (2007: £22.8 million). This represents an XPAT margin of 5.9% (2007: 4.9%). XPAT growth was higher than growth in XEBIT due to an increase in finance income and a decrease in the effective tax rate to 27.0% (2007: 31.8%).

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

XEBIT	2008	2007
	£m	£m
Statutory operating profit	46.5	31.7
Add:		
Exceptional items	-	6.2
Share-based payment charges	2.3	0.5
Amortisation of intangible assets previously unrecognised by acquired entities	0.9	0.5
Adjusted operating profit	49.7	38.9
Adjusted profit before taxation attributable to minority interests	(8.9)	(7.3)
XEBIT	40.8	31.6
XPAT	2008	2007
	£m	£m
Statutory profit for the year	35.5	20.5
Add:		
Exceptional items	-	6.9
Share-based payment charges	2.3	0.5
Amortisation of intangible assets previously unrecognised by acquired entities	0.9	0.5
Imputed interest	2.0	0.8
Tax effect of above	(1.3)	(1.5)
Adjusted profit after taxation	39.4	27.7
Adjusted profit after taxation attributable to minority interests	(6.4)	(4.9)
XPAT	33.0	22.8

XEBIT margin and margin drivers

The Group grew XEBIT margin during the year to 7.3% (2007: 6.8%), which is in line with the 50 basis points growth in XEBIT margin that the Group targets annually.

Xchanging has continued to drive XEBIT margin growth through productivity improvement and leveraging of our central costs. The Group's administrative expenses declined as a percentage of revenues to 3.0% (2007: 3.2%).

Margin growth has been partially offset by the dilutive effect of the integration of FDB and the weakness in Business Support revenues, which tend to be high margin. FDB only made a small contribution in its first full year of operation, as is expected from a new Enterprise Partnership.

Pro forma earnings per share (EPS)

When calculating earnings per share, the Group considers it appropriate to use XPAT, as it represents the underlying performance of the business. As the Group's results were impacted by the change in capital structure resulting from the IPO in April 2007, a pro forma number of shares has been used for comparison purposes. The pro forma number of shares for the year ended 31 December 2007 has

been calculated by adding the weighted average number of shares issued between IPO and 31 December 2007 to the actual number of shares in issue at IPO.

The pro forma analysis is set out below to show how the Group's adjusted earnings per share would have been calculated had the Group's post-IPO capital structure been in place from the beginning of 2007.

Pro forma basic / diluted earnings per share	2008	2007
XPAT (£m)	33.0	22.8
Pro forma number of shares in issue (m)*	216.4	209.5
Pro forma basic earnings per share (pence)	15.22	10.89
XPAT (£m)	33.0	22.8
Pro forma diluted number of shares (m)*	224.6	217.2
Pro forma diluted earnings per share (pence)	14.67	10.51

* weighted average number of shares

The Company believes that the pro forma earnings per share provide the best analysis of the underlying performance of the business for the period. For reference, the 2007 adjusted earnings per share using the actual weighted average shares during the year is 11.68 pence basic and 11.20 pence diluted.

Income statement

Statutory operating profit grew 46.7% to £46.5 million (2007: £31.7 million), while adjusted operating profit grew 27.8% to £49.7 million (2007: £38.9 million).

Exceptional costs

The Group has not incurred exceptional costs in 2008 (2007: £6.9 million). Exceptional costs incurred in 2007 were in relation to the Group's IPO. They totalled £6.2 million at the operating profit level and a further £0.7 million classified as an exceptional finance cost.

Finance costs

Adjusted net finance income, which excludes imputed interest on put options and employee loans, increased by 104% to £4.7 million (2007: £2.3 million). Finance income has increased due to interest earned on the higher cash balances held by the Group. Cash has increased as a result of strong cash conversion and the full year effect of the primary funding received from the IPO during the first half of 2007. Finance costs have decreased due to a reduction in actual and imputed interest charges on deferred consideration for acquisitions and minority buy outs.

Net finance income (pre exceptional items) increased by 78.2% to £2.7 million (2007: £1.5 million).

Taxation

The Group's effective tax rate on Xchanging's share of adjusted profit before tax decreased to 27.0% (2007: 31.8%). This reduction is primarily due to utilisation of tax losses in the central services entity. The effective tax rate in the prior year was negatively affected by the decrease in corporation tax rates in Germany and the UK, resulting in a reduction of deferred tax assets. Additionally, in 2007 the Group did not utilise prior year accumulated unrecognised tax losses, which favourably impacts the Group's effective tax rate. The use of these was limited in 2007 by additional tax deductions in relation to employees exercising share options in that year.

The Group's effective tax rate on the statutory results was also down for the period at 27.7% (2007: 36.8%). In addition to the above, the effective tax rate in 2007 was affected by exceptional costs related to the IPO; a high proportion of which were disallowable for tax purposes.

Segmental revenues and profits

Business Lines

Revenue in the Business Lines sector increased by 21.3% to £261.8 million (2007: £215.8 million). Business Lines revenue grew primarily due to strong organic growth in procurement revenues. Procurement revenues were driven by increased volumes from existing long-term customers and the full effect of new contracts, which were in the process of being implemented during the course of 2007. The Mercuris SA acquisition (effective from 1 January 2008) contributed 1.4% of this revenue increase.

XEBIT grew during 2008 by 8.6% to £21.4 million (2007: £19.7 million) driven by the increased procurement revenues together with improvements in procurement margins. Growth in XEBIT was diluted in the year by the disappointing performance of the Business Support offering within the sector, which has been adversely impacted by the current economic climate. While Business Support constitutes only a small part of the sector, these services operate at higher margins. There are no minority interests within the sector, hence XEBIT is the same as adjusted operating profit.

XEBIT margin has decreased to 8.2% (2007: 9.1%). This was primarily driven by the impact of the current economic climate on the sector's Business Support offering, which offset margin improvement in the procurement business.

Insurance

Revenue in the Insurance sector increased by 1.4 % to £167.0 million (2007: £164.7 million). This slight increase has resulted from higher claims volumes and growth in Straight Through Processing revenues offset by the impact of guaranteed discounts and the loss of certain policy preparation services resulting from regulatory changes. Automation of insurance processes in 2008 will drive future growth in revenues from the electronic handling of premiums and claims.

XEBIT for 2008 remained in line with the previous year at £20.6 million (2007: £20.8 million). Higher claims handling volumes and net cost savings in Xchanging Broking Services (XBS) had a favourable impact on XEBIT. Profitability was adversely impacted by loss of certain policy preparation services, weaker Business Support revenues and non-recurring implementation costs incurred during the year relating to offshoring and electronification of the London market.

XEBIT margin declined slightly to 12.3% (2007: 12.6%). Adjusted operating margin was in line with the prior year at 17.2% (2007: 17.2%).

Financial Markets

Revenue in the Financial Markets sector increased by 46.0% to £150.3 million (2007: £102.9 million), primarily as a result of revenue contributed by FDB. In addition, Financial Markets experienced strong securities transaction volumes in Xchanging Transaction Bank (XTB) during the year. The strengthening of the Euro against Sterling during 2008 also positively affected Financial Markets revenue and contributed 12.9% to overall sector growth.

XEBIT increased by 44.8% during 2008 to £15.1 million (2007: £10.4 million). XEBIT growth is primarily attributable to a contribution to profit from increased processing volumes, the impact of arbitrage savings from offshoring, and non-recurrence of the associated implementation costs in 2007. In addition, the sector benefited from a small contribution from FDB in its first full year of operation. These gains were partly offset by an increase in guaranteed discounts to Deutsche Bank. Adjusted operating profit increased by 57.6% to £15.8 million (2007: £10.1 million). The strengthening of the Euro during the year contributed 12.3% to the overall sector XEBIT growth.

XEBIT margin has remained flat at 10.0% (2007: 10.1%). Margin improvements have been offset by increased guaranteed discounts and the dilutive effect of the FDB Enterprise Partnership that was completed at the end of 2007. FDB contributed to a significant increase in revenue but on a near break-even basis as expected in the first year of operation of an Enterprise Partnership. Adjusted operating margin for the sector increased to 10.5% (2007: 9.8%).

Corporate and Business Processing Services (BPS)

Corporate and BPS costs decreased during 2008 by 15.6% to £16.3 million (2007: £19.3 million).

Corporate costs decreased due to implementation costs for XBS being materially completed in 2007. Lower corporate costs were also driven by the closure of the Sydney business development office and lower depreciation and amortisation.

Business Processing Services (the Group's Indian processing operations) moved to break-even during 2008. BPS was loss-making in previous years as the Group invested in developing its offshore capability.

Operating cash flow and capital expenditure

Operating cash flow

The business continued to be strongly cash generative with reported cash generated from operations increasing by 40.2% to £69.7 million.

	2008	2007
	£m	£m
Cash generated from operations	69.7	49.7
Adjusted operating profit	49.7	38.9
Cash conversion	139%	128%

Cash performance is measured using a cash conversion ratio, calculated as cash generated from operations (pre capital expenditure) divided by the Group's adjusted operating profit. Cash conversion was 139% (2007: 128%) driven by tight working capital management during the year.

Free cash flow, defined as operating cash flow less capital expenditure, interest and taxation, increased by 19% to £33.0 million (2007: £27.7 million).

Capital expenditure

The Group invested £39.0 million (2007: £14.2 million) in capital expenditure (on intangible assets, primarily software; and, property, plant and equipment (PPE)) during the year, representing 7.0% of revenue (significantly above our expected long-term average of 4.0%). Capital was invested across the Group, primarily in developing infrastructure assets to support new and existing business in the Financial Markets and Insurance sectors. It is expected that investment in PPE and intangible assets will fall during the next year but remain above the expected long-term average of 4% during 2009 as the Group invests in the Cambridge business and continues development of the insurance market electronic infrastructure assets.

The depreciation and amortisation charges of £17.3 million incurred during 2008 (2007: £13.8 million) in relation to PPE and intangible assets increased as a proportion of revenue to 3.1% (2007: 2.9%).

In addition, the Group deferred £0.4 million (2007: £0.2 million) of pre-contract costs, which are disclosed as trade and other receivables in the statutory accounts. Costs directly attributable to winning a contract are deferred when it is virtually certain that the contract will be awarded. These costs are amortised over the life of the contract; the amortisation charge for 2008 was £1.4 million (2007: £1.2 million).

Balance sheet and liquidity

The balance sheet has strengthened between reporting periods, primarily as a result of strong cash conversion and investments in infrastructure assets in the Financial Markets and Insurance sectors.

The net deficit in relation to defined benefit pension and retirement schemes increased to £18.2 million (2007: £8.7 million). The accounting deficit is primarily due to falls in the value of the schemes' investments during 2008. In particular, the value of the schemes' UK equity holdings fell sharply in the

last four months of 2008 reflecting the uncertain global economic outlook and the impact of this on the UK banking sector.

Net cash (including £25.5 million held in escrow in relation to the Cambridge acquisition and so restricted in use) held by the Group at the year end was £117.8 million (2007: £98.4 million). Centrally managed cash, which includes the amount in escrow, was £75.3 million (2007: £57.5 million) and £42.5 million (2007: £40.9 million) was held by Enterprise Partnerships. The major movements in cash between the periods related to strong cash conversion partly offset by capital investment and distributions to shareholders.

The Group has a strong liquidity position. During the year we extended our Lloyd's facility from £35 million to £90 million, partly to fund the acquisition of Cambridge, and partly to provide headroom to fund future growth. At the year end, the Group had only utilised €20 million (£19.5 million) of this facility to support a letter of credit. These facilities, the strong cash generation and the net cash position give the Group headroom to finance future growth post the Cambridge acquisition.

Dividend

The Board recommends the payment of a dividend of 2.5 pence per share payable on 29 May 2009 to all shareholders on the share register at the record date 27 March 2009. This proposed dividend is not reflected in the 2008 financial accounts. Based on the 2008 pro forma diluted EPS of 14.67 pence, this dividend is covered 5.9 times.

Board and management changes

In line with the plans set out in our last Annual Report, there have been a series of changes to the composition of the Xchanging plc Board and its committees during 2008. John Robins, John Bramley and David Hodgson all retired from the Board at the AGM in May. We wish all of our retired Board members well for the future and thank them for their significant contributions over their years on the Board.

In their place, Nigel Rich took over as Chairman, Dennis Millard was appointed as the Senior Independent Director and Stephen Brenninkmeijer replaced Nigel Rich as Chairman of the Remuneration Committee. On 3 November 2008, Pat O'Driscoll was appointed to the Board as an independent Non-Executive director and joined the Company's Audit, Remuneration and Nominations Committees.

In December 2008, Adele Browne resigned as an Executive Director and will be leaving as an employee in March 2009, after being with the Company almost from the outset. Adele has played a significant part in the growth of the business. We are delighted that Adele will continue to provide us with consultancy and advice in the commercial area at Xchanging. Mike Margetts left the company at the end of 2008 and we extend our thanks to him for his contributions to Xchanging over a number of years.

The Cambridge acquisition has significantly broadened the geographic footprint of the Group. We will therefore be moving to a more regional management structure in 2009. We have also taken the opportunity to strengthen the management team. Stewart McCulloch, formerly CEO of Lockton Companies International plc who joined the Group in July 2008, has been appointed Head of Insurance. Matthias Sohler, formerly COO of Bayerische Hypo-und Vereinsbank AG joined in January 2009 as Head of European Financial Services. Steven Beard (formerly Head of the Insurance Sector) has been appointed Head of the Americas. David Rich Jones (Head of Business Lines) will focus his efforts on building a global procurement business.

Looking ahead

We do not under-estimate the scale of change or difficulties that 2009 could bring. Nevertheless, we remain confident in delivering strong organic growth and margin upside in 2009 and beyond.

Our growth is primarily underpinned by the investments we have made in the past few years to strengthen and expand our existing platforms. This gives us comfort in our ability to deliver despite an uncertain economic environment.

We have also enhanced our international delivery capabilities with the acquisition of Cambridge. We expect our global business processing competence to put Xchanging in the forefront of our sector.

With global presence and local expertise, we are creating a new blueprint for the industry. This will drive forward our ambition to be the global business processor of choice.

Consolidated income statement for the year ended 31 December 2008

	2008	2007
	£'000	£'000
Revenue	557,763	468,160
Cost of sales	(493,226)	(414,622)
Gross profit	64,537	53,538
Administrative expenses - before exceptional items	(18,078)	(15,667)
Administrative expenses - exceptional items	-	(6,200)
Administrative expenses	(18,078)	(21,867)
Operating profit	46,459	31,671
Finance costs - before exceptional items	(11,388)	(10,502)
Finance costs - exceptional items	-	(719)
Finance costs	(11,388)	(11,221)
Finance income	14,095	12,021
Profit before taxation	49,166	32,471
Taxation – UK	(10,394)	(10,632)
Taxation – overseas	(3,227)	(1,314)
Profit for the year	35,545	20,525
Attributable to:		
- equity holders of the Company	29,155	15,336
- minority interests	6,390	5,189
	35,545	20,525

Earnings per share (expressed in pence per share)		
- basic	13.47	7.85
- diluted	12.98	7.52

Dividends

A dividend in respect of the year ended 31 December 2008 of 2.5 pence per share, amounting to £5,486,720 is to be proposed at the Annual General Meeting on 21 May 2009. This preliminary announcement does not reflect this dividend payable. A dividend in respect of the year ended 31 December 2007 of 2.0 pence per share, amounting to £4,296,000, was paid in 2008.

**Consolidated statement of recognised income and expense
for the year ended 31 December 2008**

	2008	2007
	£'000	£'000
Actuarial (losses)/gains arising from defined benefit pension schemes	(9,394)	14,101
Movement on deferred tax relating to defined benefit pension schemes	2,596	(4,082)
Revaluation of available-for-sale financial assets	(2,207)	1,791
Deferred tax on revaluation of available-for-sale financial assets	(382)	94
Foreign exchange movement on hedged item	3,208	-
Currency translation differences	11,579	1,628
Net income recognised directly in equity	5,400	13,532
Profit for the year	35,545	20,525
Total recognised income for the year	40,945	34,057
Attributable to:		
- equity holders of the Company	34,615	25,366
- minority interests	6,330	8,691
	40,945	34,057

**Consolidated balance sheet
as at 31 December 2008**

	2008 £'000	2007 £'000
Assets		
Non-current assets		
Goodwill	95,558	85,620
Intangible assets	58,478	39,053
Property, plant and equipment	24,486	16,444
Available-for-sale financial assets	26,782	23,609
Trade and other receivables	5,586	6,056
Retirement benefit assets	407	6,158
Deferred income tax assets	20,043	16,894
Total non-current assets	231,340	193,834
Current assets		
Trade and other receivables	112,451	100,855
Cash and cash equivalents	117,798	98,366
Total current assets	230,249	199,221
Liabilities		
Current liabilities		
Trade and other payables	(117,598)	(98,989)
Current income tax liabilities	(4,443)	(1,609)
Financial liabilities		
- borrowings	(276)	(856)
- other liabilities	(974)	-
Provisions	(6,617)	(8,141)
Net current assets	100,341	89,626
Total assets less current liabilities	331,681	283,460
Non-current liabilities		
Trade and other payables	(13,215)	(9,974)
Financial liabilities		
- borrowings	-	(655)
- other liabilities	(23,145)	(17,865)
Deferred income tax liabilities	(5,666)	(4,837)
Retirement benefit obligations	(18,587)	(14,836)
Provisions	(12,688)	(13,375)
Net assets	258,380	221,918
Shareholders' equity		
Ordinary shares	10,973	10,740
Share premium	76,647	73,715
Merger reserve	409,672	409,672
Reverse acquisition reserve	(312,238)	(312,238)
Other reserves	16,492	11,032
Retained earnings	41,042	13,661
Total shareholders' equity	242,588	206,582
Minority interest in equity	15,792	15,336
Total equity	258,380	221,918

**Consolidated cash flow statement
for the year ended 31 December 2008**

	2008 £'000	2007 £'000
Cash flows from operating activities		
Cash generated from operations	69,715	49,720
Income tax paid	(8,896)	(10,910)
Net cash from operating activities	60,819	38,810
Cash flows from investing activities		
Acquisition expenses	(391)	(1,021)
Acquisition costs of minority interests in subsidiaries	-	(56,934)
Acquisition cost of subsidiaries	(5,890)	(12,329)
Cash and cash equivalents acquired with subsidiaries	627	8,498
Acquisition expenses in relation to future acquisitions	(3,287)	-
Purchase of property, plant and equipment	(13,476)	(5,477)
Purchase of intangibles assets	(18,967)	(8,710)
Pre-contract expenditure	(394)	(225)
Proceeds from sale of property, plant and equipment	85	113
Interest received	5,888	4,638
Net cash used in investing activities	(35,805)	(71,447)
Cash flows from financing activities		
Proceeds from issue of shares	3,165	83,611
Transaction costs of shares issued	-	(4,664)
Interest paid	(890)	(1,408)
Dividends paid to equity shareholders	(4,297)	-
Dividends paid to minority interests	(5,874)	(4,262)
Net cash (used in)/from financing activities	(7,896)	73,277
Effects of exchange adjustments	2,314	(958)
Net increase in cash and cash equivalents	19,432	39,682
Cash and cash equivalents at 1 January	98,366	58,684
Cash and cash equivalents at 31 December	117,798	98,366

**Notes to the preliminary announcement
for the year ended 31 December 2008**

1. Basis of preparation and accounting policies

The preliminary announcement for the full year ended 31 December 2008 has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. Details of the accounting policies applied are set out in Xchanging plc's 2007 Annual Report. The annual financial information presented in this preliminary announcement for the year ended 31 December 2008 is based on, and is consistent with, that in the Group's audited financial statements for the year ended 31 December 2008, and those financial statements will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The independent auditors' report on those financial statements is unqualified and does not contain any statement under section 237 (2) or (3) of the Companies Act 1985.

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

- the comparative consolidated income statement presented includes the results of Xchanging BV and its subsidiaries for the period until 30 April 2007, with the addition of the results of Xchanging plc from 30 April 2007 (the acquisition date)
- the consolidated retained earnings reserves of the Group include the pre Xchanging plc acquisition retained earnings of Xchanging BV and its subsidiaries

Information in this preliminary announcement does not constitute statutory accounts of the Group within the meaning of section 240 of the Companies Act 1985. The full financial statements for the Group for the year ended 31 December 2007 have been delivered to the Registrar of Companies. The independent auditor's report on those financial statements was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

2. Segmental reporting

The Group has three reportable business sectors for financial reporting purposes: Business Lines, Insurance and Financial Markets. Business Lines is a cross-industry sector in which the Group provides procurement, human resources, finance and accounting and technology infrastructure services. In both of the Insurance and Financial Markets sectors the Group provides industry specific BPO services and software to customers. 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 Group, including sales and commercial, performance management, implementation and business management functions.

Year ended 31 December 2008	Business Lines £'000	Insurance £'000	Financial Markets £'000	BPS and Corporate £'000	Total £'000
Revenue	261,785	166,956	150,280	794	579,815
- from external customers	241,619	165,151	150,199	794	557,763
- inter segment	20,166	1,805	81	-	22,052
Depreciation and amortisation	4,882	4,173	6,118	3,542	18,715
Adjusted operating profit/(loss)	21,421	28,687	15,846	(16,296)	49,658
<i>Adjusted operating profit as percentage of revenue</i>	8.2%	17.2%	10.5%		8.6%
Adjustment of certain non-cash items:					
- share-based payments	(381)	(262)	(168)	(1,502)	(2,313)
- amortisation of intangible assets previously unrecognised by an acquired entity	(428)	(88)	(370)	-	(886)
Operating profit/(loss)	20,612	28,337	15,308	(17,798)	46,459
Allocation of central costs:					
- investment in Enterprise Partnerships		(24)	-	24	-
- depreciation and amortisation	(529)	(1,145)	(527)	2,201	-
- other	(97)	548	(315)	(136)	-
Segment result	19,986	27,716	14,466	(15,709)	46,459
Finance costs					(11,388)
Finance income					14,095
Taxation					(13,621)
Profit for the year					35,545
Reportable segment assets					
Assets	156,869	101,817	120,859	107,118	486,663
Unallocated assets					(25,074)
Total assets					461,589
Reportable segment liabilities					
Liabilities	62,582	68,449	58,553	25,214	214,798
Unallocated liabilities					(11,589)
Total liabilities					203,209
Capital expenditure	11,702	12,665	18,705	1,372	44,444

Year ended 31 December 2007	Business Lines £'000	Insurance £'000	Financial Markets £'000	BPS and Corporate £'000	Total £'000
Revenue	215,775	164,710	102,929	195	483,609
- from external customers	202,729	162,541	102,695	195	468,160
- inter segment	13,046	2,169	234	-	15,449
Depreciation and amortisation	3,871	3,453	3,416	4,193	14,933
Adjusted operating profit/(loss)	19,727	28,391	10,056	(19,317)	38,857
<i>Adjusted operating profit as percentage of revenue</i>	<i>9.1%</i>	<i>17.2%</i>	<i>9.8%</i>		<i>8.0%</i>
Exceptional items	(158)	(184)	(66)	(5,792)	(6,200)
Adjustment of certain non-cash items:					
- share-based payments	(117)	(114)	(40)	(245)	(516)
- amortisation of intangible assets previously unrecognised by an acquired entity	(344)	(126)	-	-	(470)
Operating profit/(loss)	19,108	27,967	9,950	(25,354)	31,671
Allocation of central costs:					
- investment in Enterprise Partnerships	-	(1,162)	-	1,162	-
- depreciation and amortisation	(500)	(1,012)	(526)	2,038	-
- other	8	482	(1,480)	990	-
Segment result	18,616	26,275	7,944	(21,164)	31,671
Finance costs (excluding exceptionals)					(10,502)
Exceptional finance costs					(719)
Finance income					12,021
Taxation					(11,946)
Profit for the year					20,525
Reportable segment assets					
Assets	138,022	108,473	90,673	82,628	419,796
Unallocated assets					(26,741)
Total assets					393,055
Reportable segment liabilities					
Liabilities	56,342	63,396	47,298	21,914	188,950
Unallocated liabilities					(17,813)
Total liabilities					171,137
Capital expenditure	58,916	4,639	15,555	897	80,007

3. Exceptional costs

	2008	2007
	£'000	£'000
Exceptional items included in administrative expenses comprise the following:		
Costs in relation to the IPO	-	3,995
Costs related to the share gift to employees by the CEO	-	2,205
Total exceptional items included in administrative expenses	-	6,200
Exceptional items included in finance costs comprise the following:		
Costs in relation to the IPO	-	719

The IPO costs and Group restructuring costs incurred during the prior year related to specific expenses incurred in listing the Group on the London Stock Exchange and for management and legal restructuring undertaken in preparation for the listing. The charge consisted mainly of external legal and professional advisers' fees of £3,370,000, with staff and other costs totaling £625,000. An additional £4,664,000 was charged directly to equity in respect of the IPO for listing fees, underwriting fees and other professional advisers' fees directly associated with the raising of capital.

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 fell within the scope of IFRS 2 and consequently the Group incurred an accounting charge of £1,969,000 during 2007, equivalent to the value of the shares at the date of the gift. In addition, social security costs of £236,000 were incurred.

The finance cost element related 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 was a direct result of the IPO.

4. 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 and, for periods prior to 30 April 2007, the weighted average number of Xchanging BV shares having applied the same share for share exchange ratio as were applied to each class of Xchanging BV share on the acquisition of Xchanging BV by the Company on 30 April 2007.

For diluted earnings per share, the weighted average number of ordinary shares in existence is adjusted to include all potential dilutive ordinary shares. The Group has four types of potential dilutive ordinary shares: share options, share awards under the Performance Share Plan to the extent that the performance criteria for vesting of the awards are expected to be met, convertible debt and warrants. Prior to listing on the London Stock Exchange, the warrants were exercised and the debt was converted into ordinary shares.

	Earnings £'000	Weighted average number of shares thousands	Earnings per share pence
Basic earnings per share:			
- 31 December 2008	29,155	216,447	13.47
- 31 December 2007	15,336	195,428	7.85
Diluted earnings per share:			
- 31 December 2008	29,155	224,628	12.98
- 31 December 2007	15,336	203,871	7.52

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

	2008 thousands	2007 thousands
Weighted average number of ordinary shares for basic earnings per share	216,447	195,428
Dilutive potential ordinary shares:		
- employee share options	4,918	7,653
- awards under the Performance Share Plan	3,263	-
- unexercised warrants	-	790
Weighted average number of ordinary shares for dilutive earnings per share	224,628	203,871

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. This adjusted value is in line with the KPIs as used to measure the Group's performance.

	Earnings £'000	Weighted average number of shares thousands	Earnings per share pence
Adjusted basic earnings per share:			
- 31 December 2008	32,952	216,447	15.22
- 31 December 2007	22,826	195,428	11.68
Adjusted diluted earnings per share:			
- 31 December 2008	32,952	224,628	14.67
- 31 December 2007	22,826	203,871	11.20

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

The XPAT is calculated as follows:

	2008	2007
	£'000	£'000
Net profit attributable to Xchanging equity holders	29,155	15,336
Exceptional items (net of tax)	-	6,246
Share-based payments (net of tax)	1,782	325
Amortisation of intangible assets previously unrecognised by an acquired entity (net of tax)	613	316
Imputed interest on historical debt (net of tax)	-	204
Imputed interest and fair value adjustments on put options (net of tax)	1,562	639
Imputed interest on employee loans through the Share Purchase Plan (net of tax)	(160)	(240)
Adjusted net profit attributable to Xchanging equity holders	32,952	22,826

5. Cash generated from operations

	2008	2007
	£'000	£'000
Profit before tax	49,166	32,471
Net finance income	(2,707)	(800)
Operating profit	46,459	31,671
Adjustment for non-cash items		
- employee share-based payment charges	2,131	2,591
- depreciation	6,191	5,478
- amortisation of intangibles	11,090	8,299
- amortisation of pre-contract costs	1,434	1,216
- loss/(profit) on disposal of property, plant and equipment	349	(25)
- write-off of intangibles and property, plant and equipment	136	230
	67,790	49,460
Changes in working capital (excluding the effects of business combinations):		
- increase in trade and other receivables	(1,480)	(12,610)
- increase in payables	5,992	15,913
- decrease in pensions	(148)	(288)
- decrease in provisions	(2,439)	(2,755)
Cash generated from operations	69,715	49,720

6. Business combinations

a) Fondsdepot Bank GmbH (revision)

Due to the proximity to the year end of signing the Fondsdepot Bank GmbH Enterprise Partnership, provisional fair values were included in the financial statements for the year ended 31 December 2007. In accordance with IFRS 3, the accounting adjustments have been finalised in relation to this acquisition and prior year goodwill of £1,445,000 has been increased to £3,960,000 following a write-down of software assets and the recognition of customer relationships. Prior year balances have not been restated as the amount of the adjustment is not significant to the Group.

b) Xchanging Procurement Services (France) SA (formerly Mercuris SA)

On 1 January 2008, XUK Holdco (No 2) Ltd, a company within the Xchanging Group, acquired 100% of the equity of Mercuris SA, a procurement services provider based in Paris. The total consideration for the acquisition was £5,085,000. Costs directly associated with the acquisition totalled £391,000.

The acquired business contributed revenue of £3,006,000 and profit after tax of £242,000 to the Group for the period from acquisition to 31 December 2008.

Details of net assets acquired and goodwill are as follows:

	£'000
Costs of acquisition - consideration	5,085
Costs of acquisition - fees	391
Total purchase consideration	5,476
Fair value of net assets acquired	(669)
Goodwill	4,807

Goodwill represents the fair value of the assembled workforce at the time of the acquisition and other potential future benefits anticipated to be derived from the integration of services offered by Mercuris SA with existing product and service offerings from Xchanging.

7. Movement 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 £'000
At 1 January 2007	221	82,589	-	-	1,251	(10,209)	11,778	85,630
Total recognised income and expense for the year	-	-	-	-	10,030	15,336	8,691	34,057
Share-based payments								
- share options	-	-	-	-	-	622	-	622
- CEO's share gift	-	-	-	-	-	1,969	-	1,969
Deferred and current income tax on share options	-	-	-	-	-	6,477	-	6,477
Buy out of minority interests	-	-	-	-	-	-	(3,165)	(3,165)
Other equity movements	-	-	-	-	-	(534)	1,047	513
Shares issued								
- initial public offering	1,563	73,437	-	-	-	-	-	75,000
- employee share-based payments	472	13,032	-	-	-	-	-	13,504
- exercise of warrants	5	1,546	-	-	-	-	-	1,551
- conversion of loan note	9	13,679	-	-	(249)	-	-	13,439
Transactional costs of shares issued	-	(4,664)	-	-	-	-	-	(4,664)
Dividends payable	-	-	-	-	-	-	(3,015)	(3,015)
IFRS 3 reverse	8,470	(105,904)	409,672	(312,238)	-	-	-	-

acquisition
conversion

At 31 December 2007	10,740	73,715	409,672	(312,238)	11,032	13,661	15,336	221,918
Total recognised income and expense for the year	-	-	-	-	5,460	29,155	6,330	40,945
Share-based payments	-	-	-	-	-	2,131	-	2,131
Deferred and current income tax on share-based payments	-	-	-	-	-	392	-	392
Shares issued - employee share-based payments	233	2,932	-	-	-	-	-	3,165 (10,171)
Dividends paid	-	-	-	-	-	(4,297)	(5,874)	
At 31 December 2008	10,973	76,647	409,672	(312,238)	16,492	41,042	15,792	258,380

8. Events after the balance sheet date

On 3 October 2008, Xchanging plc agreed to acquire 75% of the fully diluted share capital of Cambridge Solutions Limited, an international BPO and IT services provider with a global presence through offices in eight countries, including India, the USA, and Australia. Cambridge Solutions Limited is listed on the Bombay, National, Madras and Ahmedabad stock exchanges. This will be achieved via agreements reached between Xchanging and the three major shareholders of Cambridge Solutions Limited. In compliance with Indian law and as a consequence of these agreements, Xchanging are required to make an Open Offer to acquire up to 20% of the fully diluted voting share capital of Cambridge Solutions Limited. The total proportion of shares to be acquired under the agreements and the Open Offer is 75% of the fully diluted share capital, the proportion of which to be acquired under the agreements will depend on the take up under the Open Offer.

The Open Offer to the public will be open between 25 February 2009 and 16 March 2009, and will complete on 31 March 2009. The sale of shares under the share purchase agreements is expected to complete on 2 April 2009, the acquisition completion date. However, pursuant to the terms of the sale and purchase agreements entered into, certain rights are assumed by Xchanging plc in advance of the final completion date. A number of these rights can be enacted from 1 January 2009, and therefore it is from this date that the power of operational control is considered to have passed, and the date from which Cambridge Solutions Limited's results will be consolidated by the Group. David Andrews and Richard Houghton were appointed to the Board of Cambridge Solutions Limited on 12 January 2009.

The total consideration for the acquisition is expected to be approximately £88 million. The consideration will be settled through the payment of INR 3,712 million in cash (estimated as £52 million at the year end exchange rate), and the issue of 15,249,998 Xchanging plc shares (estimated as £36 million at the year end share price). An amount of £25,502,000 has been placed in an escrow account pending completion of the Open Offer and is therefore restricted in its use.

Due to the proximity of the assumption of control in relation to the signing of the year end accounts, the Directors are of the opinion that it is impracticable to provide detailed disclosure in relation to this acquisition.