Xchanging

Xchanging plc

Annual report and accounts 2009

The concept behind Xchanging was born

Seven employees

18 employees

£0.05m revenue

1,038 employees

£39.9m revenue

1,108 employees

£115.4m revenue

1,241 employees

£130.8m revenue

2,465 employees

£254.1m revenue

3,116 employees

£350.0m revenue

3,449 employees

£393.5m revenue

4,255 employees

£468.2m revenue

4,541 employees

£557.8m revenue

Serving customers in 42 countries

8,211 employees

£750.4m revenue

Building the global business processor of choice

1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009

Who we are and what we do

Xchanging is one of the largest and fastest growing business processors. With a wide range of multinational customers in 42 countries and employing over 8,000 people, we are a truly global company. We deliver mission-critical, high-volume processing to our customers. Our aim is simply to provide business processing services better, cheaper and faster.

Key performance indicators

34.5%

Revenue growth
up to £750.4 million from £557.8 million in 2008

36.1%

XEBIT growth
Up to £52.4 million from £38.5 million in 2008

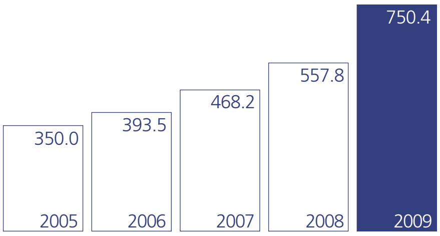
15.40p

Underlying EPS – basic[2]
14.40p in 2008

2.75p

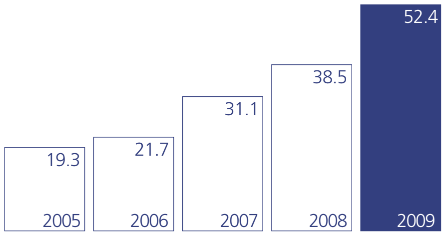
Dividend per share
2.5p per share in 2008, an increase of 10% year-on-year

Revenue (£ million)
CAGR[2] (2005 – 2009) 21%



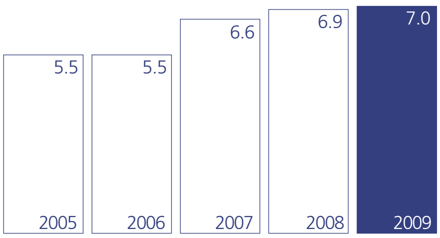
Xchanging has a track record of rapid growth, with a compound annual growth rate of 21%.

XEBIT[1] (£ million)
CAGR[2] (2005 – 2009) 28%



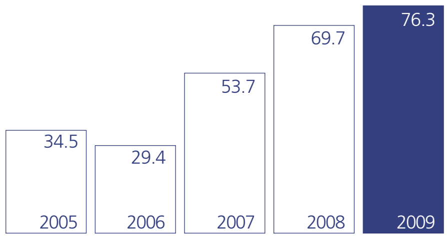
Xchanging has continued to deliver strong profit growth with XEBIT up 36% in 2009 over 2008.

XEBIT[1] margin (%)
(2005 – 2009) +150 basis points



Margin has improved by 10 basis points in 2009 despite dilutive impact of acquisition of Cambridge business.

Cash generated from operations[3]
(£ million) CAGR[2] (2005 – 2009) 22%



Operating cash flow remains strong with cash generated from operations pre cash exceptional items increasing by 9.5% to £76.3 million in 2009.

Footnotes

1 A full reconciliation to the statutory numbers can be found on **page 18**.
See glossary of terms on **page 120** for definition.

2 See glossary of terms on **page 120** for definition.

3 Represents operating cash pre cash exceptional items.

Contents

Business review
Describing our business

Xchanging is one of the largest and fastest growing business processors. Our core business is re-inventing and operating our customers' non-core or back-office activities.

Who we are

Xchanging is one of the largest and fastest growing business processors. With a wide range of multinational customers in 42 countries and employing over 8,000 people, we are a truly global company. We deliver mission-critical, high-volume processing to our customers. Our aim is to provide a better service at lower cost than can be achieved internally.

Listed on the London Stock Exchange in 2007, Xchanging has almost doubled its revenues and more than doubled profits[1] since our initial public offering (IPO). The Company is in the FTSE 250, the index of mid-capitalised companies traded on the London Stock Exchange. Xchanging is also a member of the FTSE4Good index, which measures the performance of companies that meet globally-recognised corporate responsibility standards.

What we do

Our core business is re-inventing and operating our customers' non-core or back-office activities. We provide business processing services across a broad range of industries. Our areas of expertise include:

Procurement

We source in excess of £1 billion of spend on behalf of our customers. Our top categories of indirect spend include contract labour, travel, telecoms, facilities, IT and office supplies. We act either as an agent between the customer and the supplier, or we deliver a fully-managed service where we contract directly with suppliers, on-selling their goods or services to our customers. By leveraging our supplier relationships and applying our trading expertise and buying power, we drive savings to our customers' bottom lines. Key procurement customers include Alexander Mann Solutions (AMS), BAE Systems, National Australia Group Europe (NAGE), Caisse d'Epargne (part of the Banque Populaire Caisse d'Epargne Group) and Finmeccanica Group.

Finance & Accounting (F&A)

We process approximately £3.5 billion of payables and receivables accounts and complex orders and invoices each year for our customers across a range of industries. We provide general payables and receivables accounting and complex payments and settlement processing of an industry-specific nature. Key accounting customers include Boots UK and London insurance market participants. We also provide F&A services in the real estate sector for CB Richard Ellis (CBRE).

Human resources (HR)

We provide a complete set of employment services. These services cover the entire employment life cycle from recruitment through to payroll and pensions payments. Our aim is to provide an integrated approach that uses the underlying employment data in the wide variety of HR tasks and activities. Data integrity and responsiveness is crucial to delivering reliable, high-quality HR services. We undertake the administrative processing and manage the supply chain for HR-related categories of spend such as car schemes, medical assurance, travel and training. We provide expert advice on the various facets of HR, be it pensions calculations, learning and development, performance measurement or international recruitment, relocation, immigration and tax compliance. Xchanging delivers HR and payroll services and support to 1.25 million employees and pensioners and their dependents across multiple locations and countries.

We run a number of back-to-work and medical compensation schemes for a wide variety of customers in the USA, the UK and Australia. For example in Australia, we manage the end-to-end process in placing employees back into the workforce. We manage this for 37,500 employers in a government-managed scheme. In 2009, we successfully returned 7,940 injured workers back to work.

Footnote

1 Xchanging's share of underlying profit for the year.

Technology
We design, build and run a range of business processing solutions. We embed our Intellectual Property (IP) to create a solution faster and more cost-effectively than customers can themselves. We host the software and hardware to run systems and provide the extensive data warehousing facilities needed by our customers. Our services are aimed at companies that wish to use IT services to improve organisational effectiveness and profitability. For instance, we have designed, built and now operate one of the most comprehensive suites of insurance-related document management services in the world. These are employed by the global participants of the London insurance market. Other key technology customers include QBE Europe, DHL and Allianz Global Solutions.

Industry-specific services
We also provide a range of industry-specific services which draw on the above functional expertise, combined with deep industry domain knowledge.

Banking and securities services
In the banking and securities industry, we provide retail investment account management and securities processing services. By the end of 2010, we will be the largest independent investment account processor in Germany, where we will administer approximately 1.5 million accounts on behalf of our Enterprise Partnership (EP) partner Allianz Global Investors and additional customers such as SEB Bank and MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH (MEAG). In securities processing our services include trades processing, corporate event processing, handling of corporate annual general meetings, regulatory reporting and tax services. Key customers include Deutsche Bank, TARGOBANK (part of Crédit Mutuel Banking Group) and Sparda-Banken and netbank.

Insurance services
Xchanging is one of the leading providers of business processing services and software solutions to the insurance industry internationally. This includes processing of insurance policies, premiums and claims, and broking services. In 2008, in partnership with the London insurance market, we embarked on an ambitious project of making this market paperless through the Insurers' Market Repository (IMR). In 2009, we successfully implemented an upgraded IMR. The development of the IMR is a key part of the London insurance market's effort to achieve more efficient business processing. Key insurance services customers include Lloyd's, Liberty Mutual Insurance Europe and Ace.

In the Americas, we provide claims processing services to companies for their injured workers' compensation as well as other areas such as professional, auto, product, general and consumer warranty liability claims. Our services include the initial claim intake, adjusting the claim, medical and non-medical bill review and claim payments. Key customers include Toyota and Mastercard. In Australia, we provide workers' compensation and claims management services to WorkCover New South Wales and WorkSafe Victoria.

How we do it
Our value proposition is based on building economies of scale and standardising business processes. We call this lean processing. Scale and standardisation are essential to meet customer demands for efficiency and better quality of service.

Scale economies
We generate economies of scale through growing our processing platforms and expanding our international footprint. We follow standard production methodologies across all our processing centres globally. Our major processing centres are in London, Romford, Fulwood and Chatham (UK), Sossenheim and Hof (Germany), Gurgaon, Chennai, Shimoga and Bangalore (India), Solon and Chicago (USA), Melbourne and Sydney (Australia).

Global Balancing
We leverage the scale of our processing centres by moving work around the globe to take advantage of time zones and lower cost operations. We sometimes retain processes that are most critical to the customer on-site, while transferring other processing to nearshore and offshore centres. This way we can maximise the benefits of aggregating processes and using lower cost resources. It also allows us to provide 24-hour processing services to our customers. We call this Global Balancing.

Business review
Describing our business

Quality
Xchanging has a distinctive competence in understanding how to meet global processing standards. For example, Xchanging is the largest processor of ACORD messages in the world; we have two recognised banks in Germany (each with a full banking licence), one of which is a fully ISO 9001: 2008 certified transaction bank. A number of our operations in India, Europe and the USA undergo SAS70 audits on an annual basis. In addition, Xchanging has achieved CMMi (v1.1) Level 5 in the majority of our Indian processing centres.

Quality standards
Xchanging has a number of certifications and recognitions which illustrate the importance we place on delivering services at the highest quality.

Non industry-specific certifications and recognitions	
SAS 70 An auditing standard designed to enable an independent auditor to evaluate and issue an opinion on a service organisation's controls.	• A number of our operations in India, Europe and the USA undergo SAS 70 audits on an annual basis. These audits cover the control environment, control activities, risk assessment processes, information and communication processes, and monitoring processes.
ISO ISO develops voluntary technical standards which serve to safeguard consumers and general users of products and services.	• Xchanging has ISO 9001, ISO 9001: 2008, ISO 27001 and ISO 27001: 2005 in India; ISO 9001: 2000, ISO 27001: 2005 and ISO 9001: 2008 in Europe.
CMMi Capability Maturity Model Integration (CMMi) helps "integrate traditionally separate organisational functions, set process improvement goals and priorities, provide guidance for quality processes, and provide a point of reference for appraising current processes[1]".	• Xchanging has achieved CMMi (v1.2) Level 3 and CMMi (v1.1) Level 5 in a number of our Indian operations and has achieved CMMi (v1.2) Level 3 in Singapore.
Industry-specific certifications and recognitions	
ACORD ACORD Standards allow different companies "to transact business electronically with agents, brokers and other data partners in the insurance, reinsurance and related financial services industries. They serve as a common communication method for use by multiple parties, thereby increasing the efficiency of the entire industry[2]".	• Xchanging is the largest processor of ACORD messages. • ACORD certifications include: Technical Accounts and Financial Accounts, Claim Movement messages, and Document transmission.
Others	• Xchanging has two full banking licences in Germany. • Xchanging was voted 'Technology provider of the year' in 2009 by Global Broker and Underwriter, one of the leading magazines for the international insurance and reinsurance markets. • In the USA, Xchanging has 283 adjusters licensed in 39 states, resulting in 2,994 individual adjuster licences. • Xchanging's Solon (USA) site obtained a Payment Card Industry (PCI) certification which includes requirements for security management, policies and procedures.

Sources (18 February 2010)
1 CMMi definition: Software Engineering Institute (www.sei.cmu.edu/cmmi).
2 ACORD Standards definition: ACORD Insurance Data Standards (www.classic.acord.org /Standards/what.aspx).

Measurement
We have a rigorous performance measurement methodology. We measure our performance regularly, in great detail and in the same way across our processing centres globally. For example, our monthly service report measures thousands of data points across hundreds of processes, measuring not only quantitative, but also qualitative outputs, such as customer satisfaction, service levels and the quality of processes. It is our belief that the customer's own perception of a service is just as important as the actual quantitative results.

How we contract
We offer services through a range of *Partnering* and *Outsourcing* contracting mechanisms. In *Partnering* we share the profit and capital upside from productivity improvements, scale advantages and entrepreneurship with our customers. The upside is split 50:50 so that our interests are aligned with those of our partners. In *Outsourcing* we typically 'lift' a customer's business processes, or back-office function, and 'shift' them onto one of our existing platforms to offer better and cheaper processing.

How we are structured
Our vision is to be *the global business processor of choice*. To provide global coverage, we have structured ourselves into four regions with strong management teams in the UK, the Americas, Continental Europe and Asia Pacific.

UK
In the UK, we provide cross-industry services including insurance processing services, human resources, finance and accounting, and technology services.

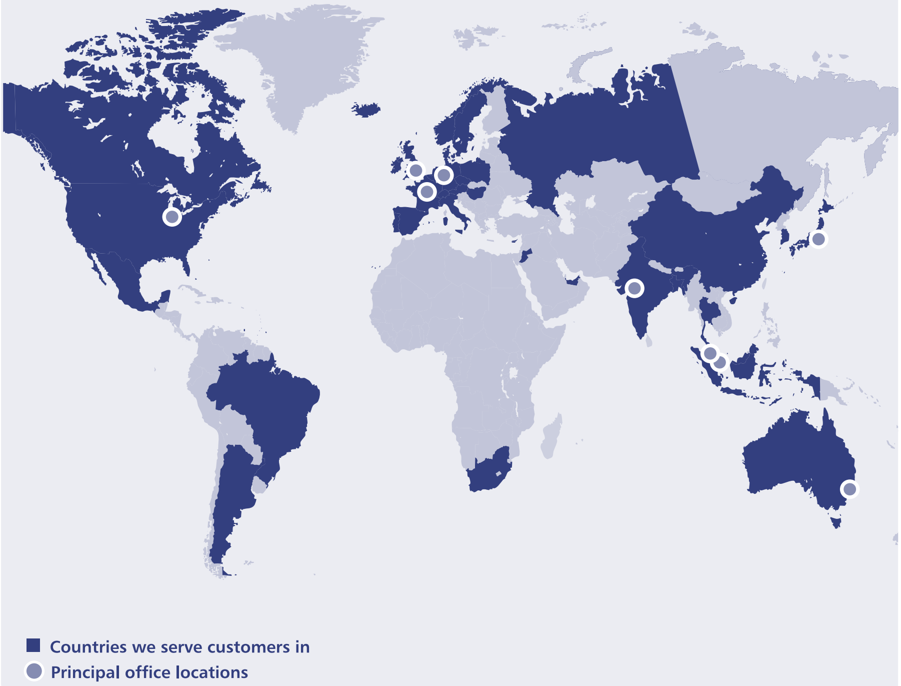
Americas
In the Americas, we provide cross-industry IT products and services, alongside both workers' compensation and other specialist insurance claims processing services for customers across the USA.

Continental Europe
In Continental Europe, we provide industry-specific processing services to the banking and securities industry.

Asia Pacific
In the Asia Pacific region, we provide offshore business processing services such as accounting, pension administration and broking services to a range of cross-industry customers. We also provide workers' compensation claims processing services in Australia and technology products and services in Singapore.

Global operating model
To ensure that we operate in a standard way globally, we have a supporting global performance infrastructure and operating model. We manage our procurement business across regions to benefit from trading synergies and the sharing of know-how. (See P page 25 for the number of employees in each of the our regions).

Our global presence



Why customers choose Xchanging

Global footprint	Serve multinational customers in 42 countries across a broad range of industries.
Breadth of services	Offer a range of business processing services across multiple industries and geographies.
Functional and industry expertise	Provide a combination of functional business processing expertise and deep industry domain knowledge.
Flexible contracting mechanisms	Provide our customers with the flexibility to engage with Xchanging in ways that suit their short- or long-term requirements.
Track record of quality	Have received industry awards and world-class certifications demonstrating our focus on quality.
Stable supplier	Have a 10-year track record of continued reliable service and responsiveness to our customers' needs.
Strong management	Have experienced senior management teams with access to a vast pool of global talent both within Xchanging and in the external market.

Business review
Chairman's statement

In 2009, Xchanging became a truly global business processing company, with nearly 75% of our employees outside of the UK employed in the Americas, Continental Europe and Asia Pacific. We are confident we have built a strong platform for growth in the coming year.

Nigel Rich, Chairman

In 2009, Xchanging became a truly global business processing company following the acquisition of Cambridge. We now earn more than 40% of our revenue outside of the UK. Nearly 75% of our employees are based in the Americas, Continental Europe and Asia Pacific.

Our performance in 2009
Revenues grew by 35% to £750.4 million compared to 2008 and the underlying operating profit attributable to Xchanging (XEBIT) increased by 36% to £52.4 million. This substantial growth was helped by the acquisition of Cambridge and by achieving organic revenue growth of 5%. Xchanging's underlying earnings per share grew 7% from 14.40 pence to 15.40 pence.

The Board has approved the payment of a 2009 interim dividend of 2.75 pence per share to be paid on 1 April 2010, a 10% increase on last year's final dividend of 2.5 pence.

Acquisition of Cambridge
The acquisition of 76% of Cambridge was completed on 9 April 2009, but it has been consolidated from 1 January 2009, the date of change of control.

Following the acquisition, the Group was re-organised into four geographic regions, with our procurement business managed across the regions. We are now very focused on being a global business serving many multinational customers.

Board changes
In January 2009, Dennis Millard was appointed Senior Independent Director and in July, Pat O'Driscoll became Chairman of the Remuneration Committee in succession to Stephen Brenninkmeijer. Stephen continues to play an important role as Chairman of the CSR Committee.

In September 2009, General Atlantic reduced their holding in Xchanging to just under 10%. As a consequence, Tom Tinsley announced his retirement from the Board. Tom has made a significant contribution to the Board since joining it in 2000, and we would like to thank him and General Atlantic for their support.

On 1 January 2010, Michel Paulin was appointed to the Board as a Non-Executive Director. He brings significant Board-level commercial experience from Continental Europe.

Our people
Xchanging is very demanding of its management and its people to ensure first-class service to our customers. We are fortunate to have very committed and talented employees throughout our global network.

Prospects
The global markets we serve are more stable than at the beginning of last year and we are confident in our ability to continue to grow the business in the coming year.

Nigel Rich

Nigel Rich CBE
Chairman
1 March 2010

Business review
Chief Executive Officer's statement

Against the backdrop of one of the most severe global recessions, Xchanging has grown its revenues by 35% and underlying operating profits by 36%.

David Andrews, Chief Executive Officer

35%

Revenue growth
up to £750 million from £558 million in 2008

36%

XEBIT growth
Up to £52 million from £39 million in 2008

2009 marked our tenth year as a company. In our first decade, Xchanging has grown rapidly from winning BAE Systems as our first customer, to delivering services to more than 500 customers around the world. Over the 10 years, we have built a track record of fast growth. More recently, since our IPO in 2007, we have increased revenues by 91% (compound annual growth rate (CAGR) of 24%)[1]. We have grown XEBIT by 141% during the same period with XEBIT margins increasing from 5.5% to 7.0%. From a shareholder perspective, we have delivered a 40% increase in underlying earnings per share (CAGR of 12%). We are confident that we are well positioned for strong growth in the years ahead.

Our confidence comes from the resilience of our business in 2009; our successful integration of the Cambridge acquisition; our international footprint; our relentless focus on customer requirements; and our clear strategy for growth. In short, we are determined to become *the global business processor of choice*.

Footnote
1 CAGR based on 2006 full-year number.

Business review
Chief Executive Officer's statement (continued)

Resilient in the face of difficult markets

Against the backdrop of one of the most severe global recessions, Xchanging has grown its revenues by 35% and underlying operating profits by 36%. In 2009, Xchanging delivered 5% organic revenue growth (8.4% including gains from currency movements). Significantly, we have delivered this growth despite the reduction of volumes in our German business and the weakness in the US market.

In 2009, we took a number of steps to review our cost base, accelerating our lean processing strategy and enhancing the resilience of our business going forward. In the first half of the year, we rationalised our US business and combined the UK operations under a single management team. We also initiated steps to reduce our onshore capacity in both the UK and Germany and will be further increasing offshoring activities during 2010. We will make best use of our increased scale in India to enhance our competitive cost position. This increased offshoring and associated capacity rationalisation has resulted in an exceptional one-off cost in 2009 of £17.4 million. This will lead to a reduction in annual costs of c. £14 million in 2010 with an anticipated full year run-rate benefit of c. £17 million per annum from 2011 onwards.

These cost savings will underpin our margin improvements in 2010 and beyond. We are also re-investing an element of these savings into our sales operations within each region. This will enhance our ability to win and implement large contracts and to take advantage of the expected uplift in the market.

Successful integration of our major acquisition

As planned, we successfully completed the Cambridge integration by the end of the year and in line with the integration budget disclosed in our half year results. We have increased underlying basic earnings per share (EPS) by 7% after accounting for the additional shares issued and debt drawn down to fund the Cambridge acquisition. With the addition of Cambridge, we have built a solid platform for profitable growth and achieved critical mass in India, our principal offshore location. Cambridge accounted for 26% of revenue growth in the Group in 2009 and has expanded our international reach. Most importantly, it has given us a broader base of customers, particularly in the USA and Asia Pacific.

In 2009, we re-organised the US operations into 16 primary processing centres and secondary sites, down from 45 locations. We also established our new Americas region headquarters and flagship processing centre in Chicago. Numerous customers from across the USA joined us at our inauguration event in October. We are delighted with the positive response we received from them and the wider US market. With 41% of our top 280 customers contracting with our US operations, we now have an established and growing presence in the largest Business Process Outsourcing (BPO) market in the world.

The addition of Cambridge has given us considerable scale in India. We now have processing centres in Gurgaon, Bangalore, Shimoga and Chennai. This puts Xchanging in a highly competitive cost position. We now have a rich pool of highly-skilled IT and multilingual processing expertise in India to support our growth. One of our key aims for 2010 will be to leverage the arbitrage opportunities available through attractive incentives in the tier 3 and 4 locations in India.

International coverage and capability

To exploit our international coverage, in 2009 we moved from a sector-based to a regional management structure. We appointed experienced leaders in all of our regions and strengthened the local sales forces and operational management teams. Xchanging now has a powerful combination of global processing capabilities and local, national and regional presence.

Our experience, supported by industry commentators, is that there is a growing desire among customers to reduce the total number of BPO providers they use across locations. We are able to respond to this trend with our global business processing capability. With customers in 42 countries, Xchanging has built an enviable track record for delivering services efficiently across multiple geographies, with the right mix of onshore and offshore processing. This track record positions us well to add new customers seeking global services for multinational operations as well as to expand internationally the services we provide to our existing customers.

Customer-focused approach

Over the last 10 years we have built a superb portfolio of blue-chip customers. Our customer base is diverse, both geographically and across the industries we serve. During 2009, we have devoted, through tailored programmes, substantial efforts to extending the scope of services we provide to our top 280 customers. Industry commentators re-inforce the benefits of this approach by noting that the companies most likely to lead the outsourcing trend are those that have outsourced in the past. We are excited that this focus on existing customers will generate new opportunities for 2010 and beyond.

We continue to target the top 500 multinational companies in the world through a globally co-ordinated programme. These companies represent an enormous medium-term opportunity for boosting growth. Our distinctive capabilities for meeting their needs internationally put us in a strong competitive position.

Clear strategy for growth

We have the same vision as when we launched Xchanging 10 years ago – to become *the global business processor of choice*. Our strong growth to date combined with our multinational customer base indicate that this is indeed what the market wants. We will continue to keep a close eye on emerging public and industry opportunities as these sectors seek alternative methods to drive efficiency in existing cost structures.

To realise our vision we continue to follow our simple three-pronged strategy: growing existing platforms, adding new platforms, and becoming *the* lean processor. In our first 10 years, we have built a distinctive position in the BPO market. We have consistently reached out to seize the opportunities for growth, and this has been coupled with the clear imperative to deliver value for our customers and shareholders.

Having established Xchanging in the UK in 1999, we quickly moved into Germany with our partnership with Deutsche Bank in 2004. Since then we have built our presence further in Continental Europe as well as the USA and Asia Pacific, through a combination of organic growth and acquisition. We have progressively developed our global processing centre network, and rolled out our standard production methodologies in our centres in the UK, Germany, the USA, India, Singapore and Australia.

We believe that our strategy is the right one for delivering the same strong trajectory of growth in the next decade as we have achieved in our first 10 years. We are particularly well placed to capitalise on the rapid growth that is forecast for the global BPO market, as the various economies recover.

In the following pages, you will find more details on the BPO market, our 2009 business achievements and how we continue to deliver on our strategy.

I would like to thank our customers, our employees and our investors for their continued trust in us. We are determined to deliver the superior value that you seek from Xchanging.

David Andrews
Chief Executive Officer
1 March 2010

Business review
A year in review

During 2009, we continued to win new customers while expanding the services we offer our existing customers. We firmly established our presence in the Americas and Asia Pacific, while continuing our growth in the UK and Continental Europe.

Below are some of the key highlights of the year.

UK

- Implemented an upgraded Insurers' Market Repository (IMR) **(See page 3)**. The IMR made a significant contribution to revenue growth in 2009. This has been a very successful joint project with the London Market. As of December, the IMR had over nine million documents stored and was receiving over 15,000 new documents a day from over 6,000 registered users.
- Signed a significant contract to provide insurance broking services for Aon Benfield, which was acquired by Aon during the year. This brings additional volumes to Xchanging's broking platform.
- Delivered an increase in electronic trading volumes on the London Metal Exchange (LME). This has enabled LME's growth into new markets. Also increased the scope of services offered to the Market with LMEselect (Clearing Platform) and LME SMART (Matching Platform).
- Continued our work with Cooper Gay to outsource and offshore back-office processing functions via our Xchanging Broking Services (XBS) processing platform.
- During 2009, Xchanging continued to provide a range of services to Tokio Marine Group, supporting their operations through the delivery of complex BPO processes. Success in this platform has led to an extension of the services to the wider Tokio Marine Group.

Americas

- Integrated the Cambridge business into Xchanging. Re-organised the services to our customers to deliver better claims outcomes and higher quality with more consistent service.
- Consolidated the US operations from 45 locations into 16 primary processing centres and secondary sites.
- Expanded our insurance software operations with a number of significant new sales including a new contract with QBE European Operations (QBE), a longstanding customer. Xchanging will deliver a unified technology solution for QBE's European commercial property and casualty business. This makes QBE the first customer to benefit from Xchanging's new .NET Insurance Application Platform (XIAP).

Continental Europe

- Agreed to acquire FondsServiceBank (FSB) in May 2009. FSB was the investment account administration services business unit of DAB bank AG and had revenues of over €40 million in 2008. The migration of the investment accounts onto Fondsdepot Bank's (FDB's) platform, expected to complete in early 2010, will generate scale benefits through the consolidation of up to 460,000 accounts. Fondsdepot Bank, our modern, low-cost platform in Hof, Germany, is our partnership with Allianz Global Investors (AGI), which was established in 2007.
- Expanded this platform further in January 2010. SEB Bank and SEB Asset Management in Germany chose Xchanging to administer their investment accounts. By the end of 2010, Xchanging will be the largest independent investment account processing platform in Germany. Xchanging will manage approximately 1.5 million investment accounts, and will have around €30 billion of assets under administration.
- Completed the implementation of systems and processes with respect to additional functionality relating to the German withholding tax law (Abgeltungssteuer). This has led to an increase in the scope of services delivered to our customers.

Asia Pacific

- Renewed our workers' compensation claims administration contract with the WorkCover Authority of New South Wales. This five-year contract replaces an earlier Cambridge contract which was entered into in 2006.
- Appointed to manage the workers' compensation claims for the Melbourne Health Service, which includes the Royal Melbourne Hospital, the State of Victoria's first hospital. The Melbourne Health Service is the second largest metropolitan health service in Victoria with more than 8,000 employees. Xchanging will now handle over 50% of the major metropolitan hospitals in the State of Victoria.
- Achieved several IT outsourcing renewals including contracts with DHL and the Government of Singapore. Xchanging is an approved vendor to the Government of Singapore and its centre in Singapore has achieved a CMMi (v1.2) Level 3.

Global Procurement

- Signed Xchanging's largest ever procurement outsourcing contract with AMS, a leading global recruitment process outsourcing (RPO) provider. This was also one of the largest contracts of its kind in the industry. The contract will see Xchanging manage £825 million of indirect procurement spend over five years on behalf of AMS.
- Agreed a four-year contract extension with NAGE which increased the potential level of spend managed by Xchanging. Xchanging will continue to offer a full suite of sourcing and procure-to-pay services to NAGE, which it has done since July 2006 when NAGE first became a customer.
- Signed a three-year procurement outsourcing contract with SELEX Galileo in December 2009. SELEX Galileo is part of the Finmeccanica Group, one of Italy's leading industrial groups. The contract commenced on 1 January 2010 and Xchanging now manages indirect procurement spend of c. £17 million across a number of spend categories for SELEX Galileo in the UK.

Business review
Market overview

The global market for business processing services continues to be attractive. IDC forecasts a US$36 billion increase in the market size to US$148 billion over the next four years. Most of this growth is expected to occur in the geographic markets where Xchanging now operates.

Accelerating adoption of BPO

Xchanging is well placed to take advantage of the rapid growth forecast in the global BPO market. We believe that changing market needs will accelerate the adoption of BPO and put Xchanging in a strong competitive position.

Evolution of BPO services

Companies are starting to move beyond tactical measures and are seeking structural solutions for their non-core operations. We are seeing considerable interest from existing and new customers who are looking to reduce costs and minimise investment in their non-core operations.

There is also an increasing demand for global services. We are one of only a handful of companies able to provide services to multinational customers on a global basis. Our global presence spreads our geographic risk, while our regional structure positions us strongly to seize these global opportunities.

Increasing role of technology

As business processing services assume a broader strategic role within companies, customers are increasingly looking for fully-integrated suites of services that can safely cater to scale and efficiency demands. In a global operating environment this requires, among other things, world-class technology platforms. We continue to develop Xchanging's distinctive IP to respond to the changing needs of our customers. Examples of this include our platforms in the insurance and banking and securities services sectors. (See P page 3)

Regulatory changes

Companies, especially those in the insurance and banking and securities services sectors, have recently witnessed substantial regulatory changes. We expect to see further changes in this area that will demand cost-intensive compliance solutions. We have significant opportunities to provide technology-enabled shared infrastructure and services to our customers enabling them to avoid investment while remaining compliant at lower costs.

An example of this is Solvency II, which is one of the biggest regulatory changes the insurance industry has ever seen. These changes demand sophisticated technology to implement complex financial models. Xchanging has the technology platforms and proven expertise to manage such complex changes on behalf of our customers. We are already ahead of the market in the development of a comprehensive and cost-effective Solvency II service. We see significant demand for such IP-led business processing services in 2010.

Recovering global economy

The slowdown in economic activity in 2009 had an adverse effect on certain parts of our business. Customers have continued to defer discretionary spend, particularly in IT services. Volumes in the German banking sector were also subdued. This slowdown was consistent with the trends reported by industry commentators such as IDC. Encouragingly, the market is expected to bounce back over the next few years. We expect to benefit from higher levels of transaction and discretionary spend as the global economy recovers.

Growing global market

The global trends for BPO are positive. We see opportunities within our customer base and in this growing global market.

Below are the key industry trends and forecasts for Xchanging's markets and services.

Europe

Consistent with the trends reported by industry commentators, German banks experienced lower retail securities volumes in 2009 as consumers stayed out of the market. Banks also cut back on discretionary spend in order to protect their overall financial and cash positions.

There are opportunities in the funds administration and securities businesses as the market continues to consolidate. There is also an increased interest in BPO from the insurance and manufacturing sectors in Germany.

In Italy, opportunities in the banking sector (procurement, securities processing, fund administration and investment account administration) are expected to open up from 2010 onwards.

The market for HR services was adversely affected as companies reduced recruitment, training and relocation in order to reduce employment costs. Moving into 2010, we see similar trends. Demand will depend on the state of the economy and is unlikely to pick up in the UK until the second half of the year, at the earliest.

During 2010, we will look to expand our HR services portfolio into the USA and Australia to meet the growing demand for broader employment services such as back-to-work and medical compensation schemes.

In insurance, we expect commercial insurance companies to continue to invest in infrastructure and to look for ways of reducing back-office costs. We see strong latent demand for insurance processing services globally.

USA

The weak US economy in 2009 resulted in both reduced IT outsourcing spend and weak demand for discretionary services. However, the US continues to be the largest BPO market in the world. IDC estimates the current size of the US BPO market to be c. US$70 billion and projected to grow to US$89 billion by 2013.

The BPO market for industry-specific processing looks attractive in 2010 with increased interest in insurance and financial services.

Multi-line claims processing remains a largely untapped market in the USA. This market looks attractive for global players with deep industry expertise.

The life and annuity industry has experienced significant change in 2009 due to the financial market crisis. This has required the marketplace to refocus on product development and find ways of unlocking lower transaction costs against a back drop of increasing regulation and high technology-based fixed costs.

Given the restructuring of the US banking industry and increase in Government oversight, we are witnessing a return to banks focusing on core products and services. These strategic changes are creating market opportunities for both BPO and technology services.

Asia Pacific

China and India remain the growth engines of Asia Pacific and their recovery has, to a certain extent, insulated Australia from the recession. The fast-growing Australian BPO market presents significant opportunities in banking, funds administration (superannuation) and procurement where Xchanging is a strong player in Europe. The claims processing sector in Australia is fragmented and dominated by insurance companies. Therefore, there is significant opportunity to grow in this market.

In India, there is an emerging domestic market opportunity in the financial services space. In addition, Singapore has started to recover as the financial services industry is showing signs of rebounding.

Overall, as a result of their limited exposure to the US mortgage market, local and multinational corporations in Asia Pacific performed well in 2009.

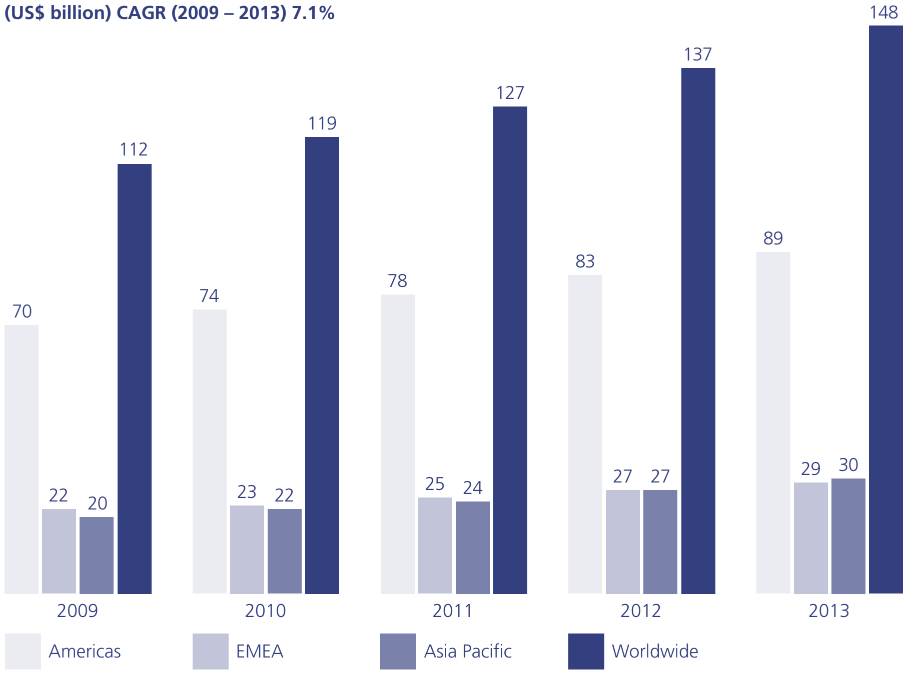
Future opportunities with multinational, regional and local banks, insurance and fund management groups are expected to be centred around lessons learned from the financial crisis, such as focusing on core competencies and driving transparency in business.

Global Procurement

An increasing number of companies are looking to re-invent their procurement processes in order to get better control over bought-in spend and achieve sustainable cost savings over time. The effective delivery of these services needs global expertise and a balanced onshore/offshore model.

Procurement is projected to be a fast-growing BPO service over the next few years. We see opportunities for growth with existing and new customers.

Projected worldwide BPO spending by region[1]
(US$ billion) CAGR (2009 – 2013) 7.1%



Footnotes

1 Source: IDC, 'Market Analysis: Worldwide and US Business Process Outsourcing Services 2009 – 2013 Forecast: Worldwide BPO Services spending by region', Doc #221272, 2009. The graph shows total spend for HR, procurement, finance and accounting, customer care and training in the Americas, EMEA and Asia Pacific.

Business review
Our strategy

Delivering on our strategy

To realise our vision and mission, we continue to follow our simple three-pronged strategy aimed at accelerating growth and becoming *the global business processor of choice*.

Strategic aims	Progress in 2009

Grow existing platforms

Strategic aims

1. Develop our existing customer relationships in new geographies and service offerings.
2. Add processing volumes to the functional and industry-specific platforms.
3. Extend the scope and service capabilities of our processing platforms.

Progress in 2009

- Created a customer-focused go-to-market approach with an emphasis on our top 280 customers.
- Agreed to acquire FondsServiceBank (FSB) which will add up to 460,000 accounts as well as major customers such as MEAG to our investment accounts processing platform.
- Provided the taxation processing to meet the German 'Abgeltungssteuer' regulatory requirement for banks to deduct tax at source for German equities.

Add new platforms

Strategic aims

1. Add new customers and develop new platforms, or significantly extend existing platforms through open-book gain-share agreements.
2. Make acquisitions which add international scale and market access through new customer relationships and functional and industry-specific platforms.
3. Exploit existing infrastructure and use domain expertise to create new platforms.

Progress in 2009

- Acquired Cambridge, which has provided significant US and Asian footprints and 129 major new customers to our top 280 customers portfolio. In addition, Cambridge has provided a claims processing platform with technology, over 250 qualified claims adjusters and medical back-to-work HR expertise.
- Added our largest procurement contract to date with AMS managing £825 million spend over five years to boost the volumes traded on our procurement platform.
- Moved the existing largely paper-based insurance claims infrastructure to a highly electronic 'digitised' document management environment that is instantly accessible globally.

Lean processor

Strategic aims

1. Develop a standard operating model that is repeatable across the regions, to provide services at internationally competitive prices.
2. Create a globally integrated infrastructure of processing centres which are operated on a consistent basis. Move workloads between centres to take advantage of spare capacity and arbitrage benefits.
3. Drive quality throughout Xchanging.

Progress in 2009

- Integrated all Cambridge processing centres and rolled out a global production approach. Appointed a full-time Global Production Director.
- Established the major processing centres and aligned them to use the same processing methodologies. 35% of workload delivered from offshore centres.
- Appointed a full-time Head of Quality. Completed rigorous monthly quality reporting exercises. Maintained our global quality certifications.

Objectives for 2010 and beyond	Further reference
• Increase the average revenue per top 280 customers and build the top 50 global customer relationships and range of offerings provided. • Continue to make small acquisitions to increase the scale and international reach of our functional HR, procurement, accounting and hosting platforms and our industry-specific claims, investment accounts, securities and property management platforms. • Invest in global HR and procurement hubs to provide services cost-effectively internationally. Continue to invest in the industry-specific platforms to ensure that they are best-in-class.	Describing our business **(see P pages 2 to 5)** CEO statement, Customer-focused approach **(see P page 9)** A year in review, Continental Europe **(see P page 10)** OFR, Segmental overview **(see P pages 22 and 23)**
• Seek major new partnerships in the USA, Europe and Asia Pacific where we believe that the Enterprise Partnership offering is distinctive and appealing, given our track record of success in the UK and Germany. • Currently, there are no specific expectations to make another major acquisition. In line with our vision to become *the global business processor of choice*, we will keep the situation under review. • Continue to develop our electronic repository and claims handling platform. Specifically, over time consolidate our US and Australian medical, healthcare and credit card retail claims IP and expertise. Become the global electronically-enabled claims processor of choice across a range of industry sectors beyond just insurance.	Describing our business, Insurance services **(see P page 3)** CEO statement, Successful integration of our major acquisition **(see P page 8)** A year in review, Global Procurement **(see P page 11)**
• Continue to standardise the processes to drive interoperability between the major processing centres. • Expand our lean processing centre in Shimoga – a tier 3 Indian city. Promote our environmental agenda in this and all processing centres to reduce energy costs. • Make service quality the number one operational target for 2010.	Describing our business **(see P pages 2 to 5)** CEO statement **(see P pages 7 to 9)**

Business review
Operational and financial review

Xchanging has continued to grow rapidly helped by the acquisition of Cambridge. The integration of the two businesses has gone well, resulting in a truly global processing business. There was a focus on lean processing during the year with rationalisation of surplus capacity and operating sites.

Richard Houghton, Chief Financial Officer

£750m

Revenue

£64m

Underlying operating profit

Summary

Continued rapid growth
Xchanging continued to grow rapidly in 2009. Revenues increased by 35% year-on-year helped by the acquisition of Cambridge. The Group delivered organic growth of 5% in the year before acquisitions and foreign exchange gains.

While largely protected from general economic conditions by virtue of its long-term contracts, Xchanging did experience declines in transactional volumes and revenues from Business Support. Uncertain markets also resulted in our customers delaying their decision making on new outsourcing contracts.

Integrating Cambridge and reducing our cost base
During the year, we took significant actions to reduce underlying costs while integrating Cambridge to create a single global business. Most significantly, our US BPO operations were rationalised with the number of sites being reduced from 45 to 16 primary processing centres and secondary sites. Steps are also underway to reduce excess capacity in our UK and German businesses and to accelerate offshoring.

Margins
Despite the difficult economic conditions, underlying operating profit margins were maintained at 8.5%. Margins in the underlying Xchanging business actually increased but this was offset by the addition of the lower margin Cambridge business.

Cash generation and funding
The business continued to be strongly cash-generative with cash conversion of 119%. Cash was utilised to fund the Cambridge acquisition, capital expenditure and restructuring.
We increased our debt facilities during the year by c. £20 million to ensure that we have adequate resources to fund future growth.

Details of our financial performance in 2009 are provided in the following financial review.

The Group's key performance indicators (KPIs) are summarised below[1]:

	2009	2008	Increase
Revenue	**£750.4m**	£557.8m	34.5%
Underlying operating profit (EBIT)[1]	**£63.9m**	£47.3m	35.1%
Xchanging's share of underlying operating profit (XEBIT)[1]	**£52.4m**	£38.5m	36.1%
XEBIT margin	**7.0%**	6.9%	+10 bps
Xchanging's share of underlying profit for the year[2]	**£36.3m**	£31.2m	16.3%
Underlying EPS – basic[3]	**15.40p**	14.40p	6.9%
Cash generated from operations (pre cash exceptional items)	**£76.3m**	£69.7m	9.5%
Cash conversion (pre cash exceptional items)[4]	**119.4%**	147.3%	
Free cash flow (pre cash exceptional items)[5]	**£28.4m**	£33.0m	

1 Underlying operating profit excludes exceptional items (FY 2009: £29.2 million, FY 2008: £nil) and amortisation of intangible assets previously unrecognised by acquired entities (FY 2009: £9.9 million, FY 2008: £0.9 million). In prior years, IFRS 2 share-based payment charges were also excluded from underlying operating profit. In the current year, IFRS 2 share-based payment charges (FY 2009: £1.9 million) are included in underlying operating profit, to align with current market practices. The prior year comparatives have been restated to enable a like-for-like comparison (FY 2008: £2.3 million).

2 See glossary of terms on **page 120** for definition.

3 See glossary of terms on **page 120** for definition.

4 Cash conversion (pre cash exceptional items) is calculated as cash generated from operations (pre cash exceptional items) divided by the Group's underlying operating profit.

5 Free cash flow (pre cash exceptional items) is calculated as cash generated from operations (pre cash exceptional items) less capital expenditure, interest and taxation.

Group key performance indicators

The Group's KPIs are calculated after 'adding back' a number of non-cash adjustments and exceptional charges in order to present the underlying performance of the business. In prior periods, these add backs have included the IFRS 2 share-based payment charges in relation to share and share option awards (2009: £1.9 million; 2008: £2.3 million). As of the 2009 half year results, share-based payments are no longer included in the add backs. Historical comparatives have been re-calculated for presentation in these financial statements.

Group performance

Revenue growth

Revenue for the 12 months ended 31 December 2009 was £750.4 million, an increase of 34.5% over the same period last year (2008: £557.8 million), of which 26.2% (£146.0 million) relates to revenues acquired with the consolidation of Cambridge in 2009.

Organic revenue growth was 4.8% on a like-for-like currency basis. Currency movements added a further 3.6% to the underlying growth rate. Organic growth was driven primarily by the UK region as a result of the Insurers' Market Repository (IMR) and growth of the broking platform with the full-year impact of the Cooper Gay contract and the addition of the contract with Aon Benfield. The Group's hosting business, also in the UK region, benefited from growth in demand from its insurance customers and the LME. In the Continental Europe region, growth from the new withholding tax service was offset by lower volumes in securities processing and reduced asset values in our funds administration business.

Revenue visibility

The Group uses a revenue visibility measure which represents revenue which can reasonably be expected to arise in the year from current customers where we have in place a contractual relationship. We have undertaken a thorough review of visibility in the light of the economic climate and incorporating the Cambridge business.

Visible revenue going into 2009 was £527.2 million for Xchanging (excluding Cambridge). Revenue visibility for Xchanging (including Cambridge) going into 2010 is £684.0 million.

Business review
Operational and financial review (continued)

Profit growth
Underlying operating profit (EBIT) grew 35.1% to £63.9 million (2008: £47.3 million), representing an operating margin of 8.5% (2008: 8.5%). Statutory operating profit declined 46.7% to £24.8 million (2008: £46.5 million) after recognising net exceptional items of £29.2 million (2008: £nil) in relation to the integration of Cambridge, restructuring costs and a liability provision release. There was also a £9.9 million charge due to the amortisation of acquired intangibles, of which £9.1 million related to the Cambridge acquisition.

XEBIT grew 36.1% to £52.4 million (2008: £38.5 million). This represents an XEBIT margin of 7.0% (2008: 6.9%). XEBIT (excluding Cambridge) grew 15.6% to £44.5 million, including currency gains of £2.1 million. The XEBIT margin (excluding Cambridge) was 7.4%.

Cambridge made a contribution to the Group of £7.9 million of XEBIT with an XEBIT margin of 5.4%.

The table below details the adjustments to operating profit to determine XEBIT:

XEBIT	2009 £m	2008 £m
XEBIT	**52.4**	38.5
Underlying operating profit attributable to minority interests	**11.5**	8.9
Underlying operating profit	**63.9**	47.3
Less:		
Exceptional items	(29.2)	–
Amortisation of intangible assets that were previously unrecognised by an entity acquired by the Group	(9.9)	(0.9)
Statutory operating profit	**24.8**	46.5

Xchanging's share of underlying profit for the year grew 16.3% to £36.3 million (2008: £31.2 million). This represents a margin of 4.8% (2008: 5.6%). Growth in profit for the year was substantially lower than growth in operating profit due to the adverse movement in finance expense compared with the previous year.

Margins
EBIT margins improved in the UK region due to revenue growth (the signing of the Cooper Gay and Aon Benfield contracts in August 2008 and March 2009 respectively), the benefits of the UK consolidation and improvements in productivity. Overall margins were diluted by the lower EBIT margins of the acquired Cambridge business, together with margin falls in Continental Europe and Global Procurement.

Exceptional items
The Group posted exceptional charges of £29.2 million during the year (2008: £nil), associated with the integration of Cambridge and restructuring of the existing Xchanging business (see note 6 in the Notes to consolidated financial statements on P page 75). A significant proportion of the £16.7 million integration of Cambridge charge was associated with the integration of the Cambridge US BPO business, which was primarily the cost of reducing the number of sites from 45 to 16 primary processing centres and secondary sites in the first half of the year. The primary focus of restructuring in the existing Xchanging business was in the UK and Germany, which generated an exceptional cost of £17.4 million in 2009. In the UK, we are looking to deliver efficiencies and synergies by combining operations and in Germany we are streamlining capacity to ensure that it is in line with trading volumes and demand for Business Support. This will lead to a reduction in annual costs of c. £14 million in 2010 with an anticipated full year run-rate benefit of c. £17 million per annum from 2011 onwards.

There was an exceptional gain of £5.0 million during the year associated with the release of a provision in the FDB business. This provision was held against a potential liability arising from FDB's membership of the EdW banking group in Germany. When FDB was granted a full banking licence in early 2010, this potential liability fell away. A deferred tax asset related to this provision of £1.6 million was also released and is included with taxation in the income statement.

Earnings per share (EPS)
When considering earnings per share, the Group believes it is appropriate to use Xchanging's share of underlying profit for the year as it represents the underlying performance of the business. Further, management believes the focus should be on basic earnings per share so as not to double count the impact of share-based payment charges, which are included in the underlying profit for the year.

Basic / diluted earnings per share	2009	2008
Xchanging's share of underlying profit for the year (£m)	**36.3**	31.2
Weighted average number of shares (m)	**235.4**	216.4
Underlying basic earnings per share (pence)	**15.40**	14.40

Xchanging's share of underlying profit for the year (£m)	**36.3**	31.2
Weighted average diluted number of shares (m)	**238.1**	224.6
Underlying diluted earnings per share (pence)	**15.23**	13.88

Underlying basic earnings per share has grown 6.9% to 15.40 pence (2008: 14.40 pence). The improvement in earnings per share has been driven by growth of 16.3% in Xchanging's share of underlying profit for the year. At the underlying basic EPS level, this growth has been diluted by an increase in the average number of shares in issue by 8.8% to 235.4 million shares (2008: 216.4 million shares). The increase in the average number of shares in issue is due to the issue of 15.2 million shares as part consideration for the acquisition of Cambridge in April 2009 and the exercise of options resulting in the issue of 2.4 million shares (0.7 million on weighted average basis). Underlying diluted earnings per share has grown 9.7%.

Finance cost

Net finance cost (pre exceptional items, imputed interest on put options and imputed interest on employee loans) increased to £4.1 million (2008: £4.7 million finance income). The movement from net finance income to a net finance cost was due to the combined impact of holding significantly lower cash balances post the Cambridge acquisition, interest charges associated with the acquired and re-financed debt in Cambridge, and increased pension costs as a result of lower returns on plan assets and higher pension liabilities.

Finance costs include interest charges incurred in 2009 relating to the Group's committed credit facility (this facility was not drawn against in 2008). In addition, finance costs of £2.3 million were incurred by the acquired Cambridge entities in 2009 relating to the servicing of several debt facilities and loans held primarily in the USA and India.

The Group reviews its interest rate exposure against acceptable risk profiles on a periodic basis. At the reporting end date all of the Group's debt facilities were subject to floating rate interest.

Taxation

The Group's effective tax rate on Xchanging's share of underlying operating profit for the year was 26.4% (2008: 27.0%). The effective tax rate for the year benefited from the recognition of tax losses in the central services entity.

The Group's underlying effective tax rate, before exceptional items, was 25.7% (2008: 27.8%).

Balance sheet and liquidity

The balance sheet and liquidity position of the Group remain strong following the consolidation of Cambridge during the year. Cash held by the Group companies at the period end was £60.1 million (2008: £117.8 million) of which £31.5 million (2008: £42.5 million) was held by Enterprise Partnerships. Centrally controlled cash was £28.6 million (2008: £75.3 million).

During the year, the Group syndicated its existing bank credit facility and increased it by c. £20 million to £111.4 million. The £111.4 million comprises a £75 million revolving credit facility which matures in October 2012 and a US$58 million term loan which amortises from December 2009 and matures in 2012. The facility was increased to help fund the acquisition of Cambridge and the related implementation costs and to provide the Group with sufficient headroom to finance future growth.

At the reporting period end date, the Group had utilised US$50 million (£31.4 million) of the term loan facility. It also had £7.4 million of drawn debt facilities in Cambridge, giving a total drawn debt facility of £38.8 million (2008: Xchanging had no drawn debt). In addition, €20 million (£18.0 million) of the revolving credit facility has been used to support a letter of credit.

At the end of 2009, the Group had a net cash position of £22.1 million (2008: £117.8 million).

Operating cash flow

Cash flows from operating activities (pre cash exceptional items) increased by 9.5% to £76.3 million (2008: £69.7 million).

	2009	2008
Cash generated from operations (pre cash exceptional items)	**£76.3m**	£69.7m
Underlying operating profit	**£63.9m**	£47.3m
Cash conversion	**119.4%**	147.3%

Cash performance is measured using a cash conversion ratio, calculated as cash generated from operations divided by the Group's underlying operating profit. Cash conversion, pre cash exceptional items of £13.4 million, was 119.4% (2008: 147.3%). The Group's cash conversion has been adversely impacted by the US BPO business, where the Group has taken on a number of legacy cash absorbing onerous contracts, primarily related to vacant space.

Business review
Operational and financial review (continued)

Capital expenditure, depreciation and amortisation
The Group invested £32.3 million (2008: £39.0 million) on tangible and intangible assets during the period, representing 4.3% (2008: 7.0%) of revenue. The investment has mainly been in the insurance and banking and securities businesses. We have continued to invest in developing products, technology and infrastructure for the electronic handling of policies and claims in the London insurance market. £3.8 million (11.2%) of the total capital expenditure for the period related to the integration of Cambridge including premises fit out, IT infrastructure and implementation. Excluding this, capital expenditure would have been 3.8% of revenue.

The depreciation and amortisation charges of £26.6 million excluding IFRS amortisation of acquired intangible assets (2008: £16.4 million) represented 3.5% of revenue (2008: 2.9%).

The Group deferred £1.1 million (2008: £0.4 million) as pre-contract costs, which are disclosed as trade and other receivables in the consolidated financial statements. 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 the period was £1.4 million (2008: £1.4 million).

Free cash flow
Free cash flow, defined as operating cash flow (post cash exceptional items) less capital expenditure, interest and taxation, was £15.0 million (2008: £33.0 million). The cash cost of acquiring 76% of the issued share capital of Cambridge and the 2009 cash payment relating to the FondsServiceBank (FSB) acquisition totalled £62.1 million. Taken together with free cash flow, financing activities and distributions to shareholders, the overall cash movement for the Group was an outflow of £57.7 million.

Regulatory capital
Xchanging operates in a number of regulatory regimes. The key businesses affected by regulatory requirements are Xchanging Transaction Bank (XTB) and Fondsdepot Bank (FDB), which conduct securities processing and retail investment account management processing in Germany. They both maintain full banking licences (FDB maintained only a partial banking licence until the full licence was granted) and are regulated under the German Federal Financial Supervisory Authority (BaFin). Components of the insurance businesses are regulated in the United Kingdom by the Financial Services Authority (FSA).

There was no increase in regulatory capital requirements in the Group during 2009. On 5 January 2010, £6.7 million was injected into the German banking group in advance of the completion of the acquisition of FSB, which is expected in April 2010.

Dividend
The Board has approved the payment of a 2009 interim dividend of 2.75 pence per share payable on 1 April 2010 to all shareholders on the share register at the record date 19 March 2010. This interim dividend will be in place of a final dividend. Based on the 2009 underlying diluted earnings per share of 15.23 pence, this dividend is covered 5.5 times.

Segmental performance
Xchanging has changed its financial reporting structure from a business line to a regional basis (UK, Americas, Continental Europe and Asia Pacific) plus Global Procurement. This is to reflect the way we manage the business globally post the acquisition of Cambridge. Segmental performance, based on the new regional structure, is discussed as follows:

UK
Revenue in the UK region increased by 13.3% to £237.7 million (2008: £209.7 million). Contracts won in XBS, the Group's broking business, in the second half of 2008 (Cooper Gay) and early in 2009 (Aon Benfield) have had a favourable impact on revenue. The Insurers' Market Repository (IMR) has also contributed to this growth.

XEBIT for the period increased by 40.9% to £30.3 million (2008: £21.5 million) resulting from new and incremental business and through the scale benefits achieved from the new regional structure.

The XEBIT margin increased during the period to 12.8% (2008: 10.3%) primarily due to the increased contribution to XEBIT from XBS, productivity improvements and leveraging management overhead across the enlarged business, which resulted from the restructure into regions.

Americas
The Americas region revenue of £145.9 million includes £113.3 million relating to the acquired Cambridge business and £32.6 million (2008: £32.1 million) relating to the Xchanging (excluding Cambridge) insurance software business. The Americas revenue for the period included £4.8 million of revenue from the contract for services with Compagnie Pour Assistance Technique et Investissements S.A. announced on 12 January 2009.

XEBIT of £6.7 million includes profit of £0.9 million from the Cambridge US BPO and IT businesses with the Xchanging (excluding Cambridge) insurance software XEBIT growing by 3.4% to £5.8 million (2008: £5.6 million) due to improved revenue mix and contribution from the sale of the XIAP licences to QBE. This contract with QBE commenced implementation during the second half of the year.

The XEBIT margin for the region was 4.6% (2008: 17.4%) as a result of the acquired Cambridge businesses operating at lower margins, in particular the US BPO business which historically has underperformed. Management have taken actions to improve the margins of the acquired Cambridge businesses, with the restructuring of the US BPO business completed during 2009. The XEBIT margin of the Xchanging (excluding Cambridge) insurance software business grew to 17.8% (2008: 17.4%).

Continental Europe

Revenue in the Continental Europe region grew by 9.9% to £165.1 million (2008: £150.3 million). Organic growth was flat with reported growth driven by the movement in foreign exchange rates between the periods.

Growth from the new German withholding tax service (Abgeltungssteuer) was offset by lower volumes in securities processing and lower asset values in investment accounts. Business Support revenues were also down as our customers reduced short-term expenditure.

XEBIT for the period declined by 13.8% to £12.9 million (2008: £14.9 million). Margin growth from the new Abgeltungssteuer service and productivity improvements was offset by the loss of margin related to the lower securities processing volumes and Business Support revenues. The XEBIT margin therefore decreased for the period to 7.8% (2008: 9.9%).

Asia Pacific

Revenue in the Asia Pacific region of £47.5 million includes £41.4 million of revenue from the Cambridge Australian and Indian BPO businesses and £6.1 million (2008: £5.4 million) of revenue related to the Xchanging (excluding Cambridge) Business Processing Services (BPS) unit which has grown 13.0% due to increased offshoring by the insurance and Continental European businesses.

XEBIT of £8.1 million includes £7.0 million of profit from the acquired Cambridge business and £1.1 million (2008: £0.8 million) from the BPS business.

The XEBIT margin for the region has increased to 17.1% (2008: 14.0%) as a result of the acquired Australian BPO and Indian BPO businesses which operate at higher margins. The underlying operating margin for the period has increased to 21.7% (2008: 14.0%).

Global Procurement

Global Procurement revenues increased by 4.2% to £185.4 million (2008: £177.9 million) due to growth in revenue from BAE Systems, partially offset by declines in some volume-related revenues, particularly in the banking and securities sector. The contract with AMS made a small contribution to revenues during the year.

XEBIT decreased by 12.7% to £12.5 million (2008: £14.3 million). Margins were adversely impacted by a mix change in the business, pricing pressures and significantly reduced Business Support revenues in France.

The XEBIT margin has decreased to 6.7% in the period (2008: 8.0%) reflecting the pressures described above. There are no minority interests within the segment hence XEBIT is the same as underlying operating profit.

Corporate

Corporate costs declined by 2.3% to £18.1 million (2008: £18.6 million). Corporate costs were constrained despite the increased scale and geographic reach of the Group. As a result corporate costs, as a percentage of revenue, reduced from 3.3% to 2.4%.

Segmental overview

The following two pages provide the segmental split on a few of the Group's key performance indicators.

Richard Houghton
Chief Financial Officer
1 March 2010

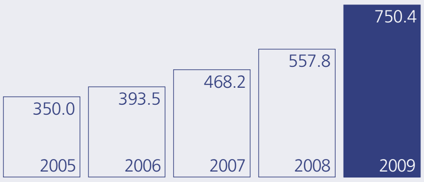
Business review
Operational and financial review (continued)

Segmental overview

Xchanging has changed its financial reporting structure from a business line to a regional basis (UK, Americas, Continental Europe and Asia Pacific) plus Global Procurement. This is to reflect the way we manage the business globally post the acquisition of Cambridge.

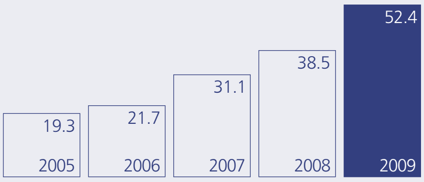
Group

Revenue (£ million)
CAGR[2] (2005 – 2009) 21%



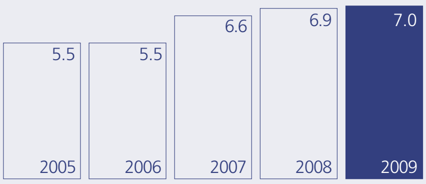
Xchanging has a track record of rapid growth, with a compound annual growth of 21%.

XEBIT[2] (£ million)
CAGR[2] (2005 – 2009) 28%



Xchanging has continued to deliver strong profit growth with XEBIT up 36% in 2009 over 2008.

XEBIT[2] margin (%)
(2005 – 2009) +150 basis points



Margin has improved by 10 basis points in 2009 despite dilutive impact of acquisition of Cambridge.

Employees[3]

8,211

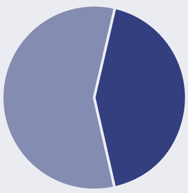
UK

Revenue[1] (£ million)

30.4%
£237.7m

UK region revenue growth of 13.3% over 2008.

XEBIT[2] (£ million)



43.0%
£30.3m

XEBIT growth driven by new incremental business and scale benefits from centralised management structure.

XEBIT margin (%)

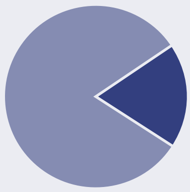
12.8%

Employees[3]

1,941

Americas

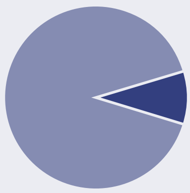
Revenue[1] (£ million)



18.7%
£145.9m

Americas region revenue growth, excluding Cambridge, of 1.6% over 2008.

XEBIT[2] (£ million)



9.6%
£6.7m

XEBIT growth, excluding Cambridge, driven by improved revenue mix and contribution from XIAP licence sales.

XEBIT margin (%)

4.6%

Employees[3]

2,494

Footnotes

1 Regional revenues include inter-segment revenues of £31.4 million, which eliminate on consolidation. For a full segmental analysis, refer to note 4 to the consolidated financial statements on P **pages 71 to 74**.
2 Regional XEBIT does not include Central costs. Group XEBIT before the deduction of Central costs (of £18.1 million) is £70.5 million.

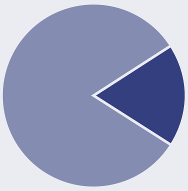
Continental Europe

Revenue[1] **(£ million)**

21.1%
£165.1m

Continental Europe region revenue growth of 9.9% over 2008.

XEBIT[2] **(£ million)**



18.2%
£12.9m

XEBIT growth from Abgeltungssteuer service and productivity improvements offset by lower securities volumes and Business Support revenues.

XEBIT margin (%)

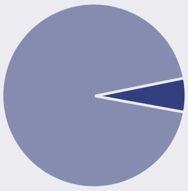
7.8%

Employees[3]

1,286

Asia Pacific

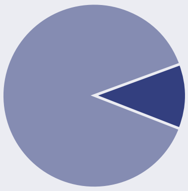
Revenue[1] **(£ million)**



6.1%
£47.5m

Asia Pacific region revenue growth, excluding Cambridge, of 13.0% over 2008.

XEBIT[2] **(£ million)**



11.5%
£8.1m

XEBIT growth, excluding Cambridge, driven by increased offshoring by UK and Continental Europe regions.

XEBIT margin (%)

17.1%

Employees[3]

2,161

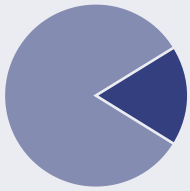
Global Procurement

Revenue[1] **(£ million)**

23.7%
£185.4m

Global Procurement revenue growth of 4.2% over 2008.

XEBIT[2] **(£ million)**



17.7%
£12.5m

XEBIT growth adversely impacted by pricing pressures and reduced Business Support revenues in France.

XEBIT margin (%)

6.7%

Employees[3]

247

3 The total number of employees in the Group at 31 December 2009 includes 82 Central employees. Employee numbers based on our segmental split and not geographic split.

Business review
Key risks, potential impacts and mitigation strategy

Xchanging maintains a hierarchy of risk registers, which cover the key internal and external risks to our businesses. The Group risk register is approved by the Board and ensures we have mitigation plans in place to minimise the potential impact of key risks on the Group.

Key risks	Potential impacts	Mitigation strategy
Our growth strategy is dependent on attracting new customers in large-scale arrangements	Not attracting new customers could make it difficult to achieve our financial goals	• Clearly defined service offerings and sales strategies • Building and developing strong relationships are key to our core values • Central and regional sales teams with strong sales governance processes
Our reputation is reliant on successful implementation of large-scale partnerships, outsourcing contracts and integrating new international businesses	Poor implementation of partnerships, or integration of new international businesses, could impact customer service levels and profitability and thereby damage our reputation	• Application of standard procedures for implementing new partnerships • Rigid approval processes requiring defined standard deliverables • Using experienced employees with strong project, change and people management skills to ensure continuity of service and retention of employees • Using standard supporting tools proven to be effective in previous implementations
Our customers and partners demand efficient processing and high levels of service to help them achieve their objectives	Not meeting our customer and partner required service levels could impact our relationships and reputation	• Disciplined measuring and monitoring of performance across all functions • Continued focus on one of our core values of being responsive to customer needs • Clearly defined operating strategy and target model • Centrally-led Quality function focused on improving processes, controls and performance
We may be exposed to complex and technical contractual terms with key customers	Breaching contracts may lead to customer relationship issues and potential financial penalties. In certain cases, partners may have rights to 'put' their shares, creating a cash requirement, or to 'call' the Group's shares for little consideration	• Clearly defined partnership governance structures helping to identify and resolve potential issues • Embedded Delegated Authorities process requires involvement of senior management for complex transactions • Structural service management approach identifies issues early and triggers corrective actions • Close monitoring of all key contractual obligations with partners through detailed registers
Continuing to retain our key personnel and recruit new talented individuals is key to our success	Failure to retain and develop our skill sets may hinder the ability to achieve our goals	• Retention plans in place for key employees • Established structure for employee performance and development monitoring • Clear recruitment strategy and graduate programme attracting high-potential employees • Leadership training schemes in place to underpin succession plans
Our service delivery and reputation is highly reliant on business continuity and information security	Business disruption, IT system issues or security issues could result in loss of service, loss or compromise of customer and internal data, breach of legal and regulatory obligations and damage to our reputation	• Clearly defined information security policies and protocols • Focus on continued development of business continuity and disaster recovery planning, and testing • Group Information Security Officer leading teams within each region
We could be impacted by the general economic downturn	Market conditions have led to a slow down in economic growth in a number of sectors and territories, potentially impacting our ability to secure new revenue opportunities	• Clearly defined service offerings and sales strategies • Strong outsourcing offering and partnership model, complementary to customer needs in such market conditions • Disciplined sales governance processes

Business review
Our people

We are passionate about our people. Xchanging recruits, manages and develops a versatile and dynamic workforce. They are the key to our prosperity and success. We are committed to realising our people's ambitions and achieving our common goal to become the global business processor of choice.

Our people

As a fast growing business our ability to attract, retain and motivate our people globally is something we take seriously. To support our global growth, new learning and development systems have been enhanced and introduced for our employees worldwide. All our people undergo regular performance reviews, and development plans are in place throughout the organisation. Our global talent scouting programme actively seeks to attract some of the world's best business professionals.

Talent management

Identifying and developing senior and emerging talent is a key priority for Xchanging. In 2009, we appointed a full-time Group Head of Talent to work with our regional and heads of Human Resources to help release the potential of these talented employees. We have succession plans in place for our Board and regional leadership teams. Development and support is in place for individuals who have the desire and capability to undertake senior roles in the future growth of Xchanging. We have identified a series of Xchanging-specific leadership competencies which now play a key part in the recruitment and development of our top talent.

We are constantly investing in our people to build capability in our business to meet our current and future objectives. To this effect, exceptionally talented graduates are recruited to join our graduate programmes.

Graduate programmes

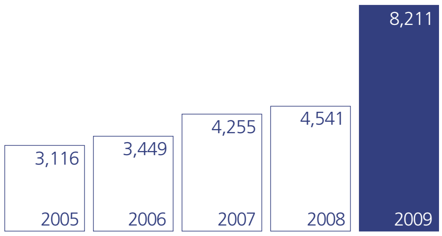
Our two-year graduate programmes give graduates the opportunity to work closely with senior executives. Our graduates receive Director-level mentoring as part of the programme. They are also exposed to a mix of industry, geographical and functional experience, gaining a real insight into the business. Additionally, they have the opportunity to gain a professional qualification.

W www.xchanging.com

Learning and development

Building on the importance of talent and leadership, The Xchanging Academy (the Academy) was set up in 2009. It is led by the Group Head of Learning and Development. The Academy is an internal university for all Xchanging employees worldwide. It comprises a framework, model and methodology by which employees can embark on a consistent, measurable and planned learning journey.

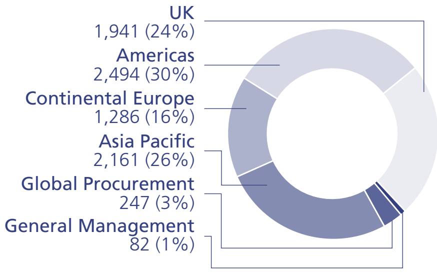
Number of employees globally



Figures for 2005 – 2006 are average numbers of employees for the year.

Figures for 2007 – 2009 are actual numbers of employees as at 31 December for each respective year.

Number of employees by our segments (% of total employees)



Figures are actual numbers of employees as at 31 December 2009.

Business review
Our people (continued)

Creating a better workplace

Nicki Sullivan
Business Change
Xchanging Insurance Services
Chatham, UK.

Nicki has two children, aged 16 and 12 years, and lives in Maidstone with her husband.

"Xchanging has always been flexible with my contracted hours which have varied over the years, depending on schooling and availability of childcare. I extended from working part time to four short days and then to five short days which left time for the school run. Some of the hours were completed remotely from home so that I could be at home when the children returned from school. Having an understanding employer has enabled me to stay in employment with the flexibility to accommodate my family commitments."

A set of global competencies has been established providing employees and their managers with a clear understanding of their job roles, skills, behaviours and experiences. The implementation and roll-out of the Academy across Xchanging will embed employee development into their day-to-day operations.

Performance *the Xchanging Way* embraces a single, Group-wide, high-performance culture. It creates an environment in which all employees can make a real contribution and be recognised for their part in Xchanging's continuous improvement drive.

Our bi-annual Personal Development Review (PDR) process measures performance against objectives. In 2009, our PDR timely completion rate was 93% (2008: 91%). To enhance our PDR process, The Xchanging Talent Management Service was launched in December 2009 and it will be fully implemented across Xchanging by July 2010. This is an integrated talent service that enables Xchanging to address talent challenges globally in order to align development, performance and succession with Company objectives. As well as using The Xchanging Talent Management Service internally, we added this service to our HR service offering in early 2010.

Employee engagement
We have appointed a Global Head of Internal Communications who is responsible for ensuring our communication with employees remains open and transparent. During 2009, we continued to invest in and develop two-way internal communications channels such as web seminars. We share information to inspire, motivate and engage with our employees around the world and to receive their feedback. This contributes to our objective of motivating and retaining employees.

Most significantly, we have changed our Championship Team Survey (CTS). To improve our understanding of employees' views, the online survey is now an employee engagement survey focusing on the individual employees rather than employees in the context of teams. This survey went to all employees in early 2010. Once employee feedback is reviewed and understood, we will make the necessary changes and will begin implementing where required in a consistent manner globally. Any changes will be in line with our aim to continually improve employee experience.

Reward
Our reward principles are based around fairness, consistency of application and flexibility while being market competitive and reflecting the Company's ability to pay. Reward is used to drive a high-performing culture through promoting the Company values and encouraging preferred behaviours. It is supported by clear communication.

Policies

Our values are backed up by specific policies that set out the standards that we expect our employees to work to. With the acquisition of Cambridge, Xchanging has become a truly global business. We will be working towards a suite of global policies during 2010.

Equal opportunities and diversity

The Group is committed to employment policies which follow best practice based on equal opportunities for all employees irrespective of gender, race, colour, ethnic or national origin, disability, political opinions, age, nationality, sexual orientation, religion, marital status, social class or family circumstances. We ensure that diversity is appropriately supported in our workforce and reflected in our leaders. For example 45% of our employees globally are women, and we have a wealth of nationalities across the Group.

Health, safety and wellbeing

Providing and promoting the health, safety and wellbeing of all our employees is a priority for Xchanging.

Health and safety

All Xchanging employees work in an environment where health and safety risks are understood and managed responsibly. Many of our site locations are based on the OHSAS 180001 management system and have a number of initiatives in place to provide a safe and healthy environment for all employees and visitors affected by Xchanging's activities. In 2009, we gained the OHSAS 180001 accreditation for a number of our UK location sites.

Wellbeing

Our priority is to provide a wide range of health and wellbeing improvement programmes across the Group. In the UK we have introduced pre-employment occupational health assessments. This allows any current or long-term health issues, along with any disabilities, to be identified before a new starter commences employment thus minimising any associated risk to the employee. The process involves three simple stages; the completion of an online survey, a follow-up call with a Registered General Nurse if required, and notification of any recommendations made.

Ethics

Our Ethical Code of Business Conduct guides the actions of our employees in accordance with our values. The Code ensures that we adhere to all applicable laws, regulations and standards in every country in which we operate around the globe. Our whistle-blowing policy provides a safe channel for employees to report breaches of policies or illegal activity.

Creating a better workplace

Women's network

Gurgaon, India

Established in December 2008, the women's network has become popular with almost 80% of the women's workforce in Gurgaon taking part in the activities. Some of the activities conducted by the network included celebrating women's day, sessions on tax, casual get-togethers and self-defence classes. There are now plans in place to extend this network across all of our operations in India.

Xchanging Better Workplace Awards

Victoria, Australia.

The annual Xchanging Better Workplace Awards recognise that commitment to health and safety in the workplace benefits all concerned particularly workers by reducing hardship, improving recovery rates and easing the assimilation of workers back to the workforce.

Nominations are received from employers across a wide range of industries in Victoria. The Awards are presented to organisations demonstrating extraordinary results in occupational health and safety or returning injured or ill workers back to work.

Business review
Corporate social responsibility

Corporate Social Responsibility (CSR) is embedded into our planning and processes. It is closely aligned with our values. We aim to grow our business in a socially responsible way.

CSR Committee
Our Corporate Social Responsibility (CSR) Committee is responsible for setting the strategy of the Group's CSR programme and overseeing its performance.

Additionally, each region has a CSR Co-ordinator and each major location has a CSR Champion. Each is responsible for the execution of the CSR programme in their region or location and together, they form a Group-wide CSR network.

Governance
The CSR Committee remains confident that the internal measures taken to review the CSR information are of a suitable level. Xchanging calls upon industry specialists on specific issues as necessary.

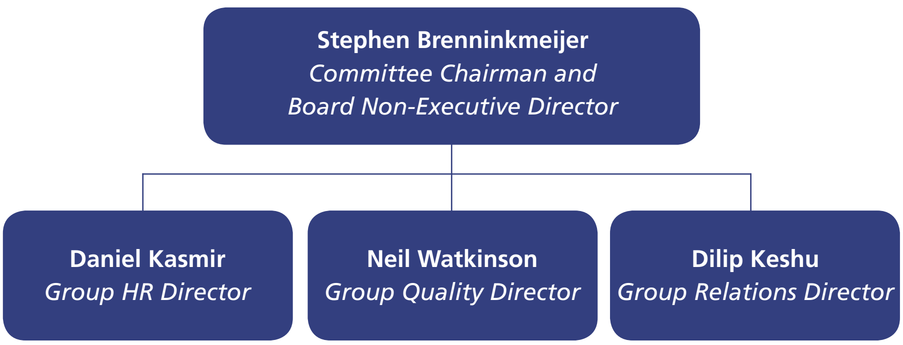
Social, ethical and environmental (SEE) risks
The CSR Committee reviews the Group's SEE risk register to ensure that the correct actions plans are in place to mitigate these risks.

We introduced SEE risks into our risk management process in 2008. Our priority is to continue to integrate these into new locations and employees from the acquisition of Cambridge. While these are not priority risks for us at present, we consider them important in providing us with a balanced risk portfolio.

Performance reporting
The Group monitors and measures its performance on a range of CSR activities through our Quality Performance Reports. These are reviewed each month at the Xchanging Performance Committee (XPC) which includes the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and the Group Quality Director who represents the CSR Committee. See page 45 under Internal control and risk management.

Carbon Disclosure Project
We also provide information on our carbon and greenhouse gas emissions to the Carbon Disclosure Project.

CSR Committee as at 1 March 2010



Our values
- Responsive to the aims of customers
- Clear thinking, resolute and brave in decisions
- Reliable in delivering everything we promise
- Farsighted in relationships
- Skilled at releasing the entrepreneurial spirit in our people.

Our values are translated into everyday actions: from our performance management process, training and development, right through to our remuneration and benefits strategy.

Our CSR programme drivers are:
- **People:** focusing on aspects of CSR that support and develop Xchanging's employees
- **Environment:** understanding and reducing the impact that Xchanging has on the environment by ensuring efficient and responsible use of resources
- **Communities:** working with the communities within the regions in which we operate, focusing on youth and education. We support charitable causes by providing skills, resources and supporting employee fundraising
- **Marketplace:** achieving long-term sustainable relationships with our customers and suppliers.

Our people

Xchanging's core asset is its people and we set out our approach in this key area on pages 25 to 27.

Environment

As a service provider, with the majority of our employees being office based, we recognise our responsibility to conduct business in a sustainable manner. Measuring, understanding and reducing our carbon footprint is high on our agenda.

Carbon footprint

Our carbon footprint for 2009 was 15,075 tonnes of CO_2e (2008 restated: 14,155 tonnes of CO_2e), an increase of 6.5% from 2008. This was due to increased business travel with the acquisition of Cambridge and improved data quality. It is premature to report on the carbon footprint figures for Cambridge as we are only beginning to understand its energy consumption. Our aim is to include it in 2010.

In areas outside our direct control, we aim to work with sustainable third parties and engage with our suppliers on their approach to corporate social responsibility. See page 30. Our focus is an ongoing understanding of the Group's consumption and developing a global programme of energy-saving initiatives for our operations worldwide.

Real estate

Xchanging is looking to enhance its efficient use of real estate, by prioritising green buildings when considering new premises. We already optimise our space-per-desk ratios and are investigating the incorporation of green building technologies in the design process for the development of a new processing centre in India. For example:

- the use of natural ventilation as much as possible
- the utilisation of other viable energy efficiency technologies
- the use of local materials and resources in the construction process.

Making our datacentres greener

We have been working on 'greening' our datacentres by moving towards virtual servers. Virtualisation allows multiple 'virtual' server environments to operate within a significantly reduced hardware environment. The key benefits are:

- reducing datacentre capacity per server
- lowering energy consumption to power and cool each server
- flexibility when building, deploying and adding capacity to virtual servers
- making it easier to migrate servers in a virtual environment.

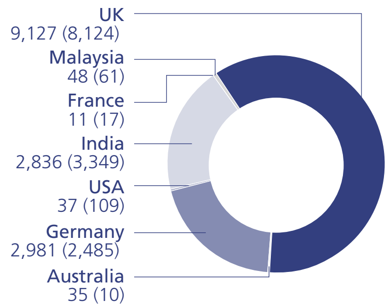
Global environment week

We held a Global environment week in June 2009 which coincided with the United Nations World Environment Day on 5 June. It was an opportunity to communicate with our employees on our environmental successes and future plans. Many of our global offices held local activities including:

- environmental-themed painting competitions with local schools
- promoting car pooling
- dressing up in green for the day.

The week was a great success and we look forward to holding this again in 2010 and including employees from Cambridge.

Group's carbon footprint in 2009 (2008) Tonnes of CO_2e



Numbers in brackets are 2008 comparisons.

Our 2008 carbon footprint values have been restated with the revised emission factors used for 2009 calculations, to give a like-for-like comparison. The data for the USA in 2009 relates to the period from January to April, after which the office was closed and merged with the Cambridge operations in Whippany, New Jersey.

Calculated using the GHG Protocol Corporate Accounting and Reporting Standard. Includes actual and estimated data for all offices operated by Xchanging. Excludes employees working at customer sites. Based on scope one, two and three (excluding waste).

FTSE4Good

We are pleased to confirm Xchanging remains part of the FTSE4Good Index Series for the second consecutive year.

FTSE4Good

FTSE Group confirms that Xchanging plc has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Companies in the FTSE4Good Index Series have met stringent social and environmental criteria, and are positioned to capitalise on the benefits of responsible business practice.

Business review
Corporate social responsibility (continued)

Communities
We recognise the importance of engaging with the local communities in which we operate, and actively encourage our employees to participate. Our focus is on youth and education, linking to one of our values 'skilled at releasing the entrepreneurial spirit in our people'. We also believe in entering into sustainable long-term relationships with our community partners, in keeping with our value 'farsighted in relationships'.

We support charitable causes by providing skills and resources as well as supporting employee fundraising worldwide. Read more on our website on how we are engaging in our communities.
W www.xchanging.com

Marketplace
We aim to achieve long-term sustainable relationships with all our customers and suppliers. Our values (see P page 28) and Ethical Code of Business Conduct support what we expect of our people and their interactions with our customers and suppliers. We aim to be honest, transparent and ethical in all of our interactions.

Our customers
With the acquisition of Cambridge, we now deliver our services to customers in 42 countries. Understanding our customers is critical to provide excellent customer service. Our Service professionals manage the relationships with our customers. They invest a considerable amount of time receiving customer feedback of their perceived service delivery. It is tracked in a consistent and measured way. Each month, the scores are reviewed by the XPC which includes the CEO and CFO.

Our suppliers
Our Procurement service purchases £1 billion of third party goods and services each year. Xchanging launched its Supplier Policy in 2009, which is our approach to an Ethical Supplier Programme. It is based on CSR principles, covering environmental protection, anti-corruption standards and labour and human rights.

All UK contract suppliers have been invited to take part in our online Ethical Supplier survey and sign up to the policy. All future contracts will incorporate the policy and survey process. Plans are also in place to extend this to the rest of the Group beyond our UK contract suppliers.

Xchanging's community initiatives
Below are just a few examples of how we are engaging in our communities.

UK
- Our office in Basildon continued to support Little Havens Children's Hospice throughout 2009. Employees volunteered their time in the sensory garden, hosted a sponsored walk and held quiz nights.
- Xchanging developed its relationship with Career Academies, a charity that works with affiliated schools and colleges. It equips students with the necessary knowledge and skills required to enter the work environment upon graduation. Xchanging provides partners in business, internships and guru lectures across major UK sites.

Americas
- Our office in Bermuda supported the IT for schools quiz in November for the third consecutive year.
- Our office in Pompano Beach, Florida collected toys for donations to Child and Family Connections in West Palm Beach. The donations benefited children, teens and adults in the foster care system.
- Our office in Whippany, New Jersey held an Art Auction to benefit the American Diabetes Association.

Continental Europe
- Our office in Frankfurt has supported Network for Teaching Entrepreneurship (NFTE) since 2008. In 2009, it hosted its second Biz Camp summer programme, which teaches pupils entrepreneurial thinking and gives a taste of the business world.
- Employees in Frankfurt took part in The Malteser Social Day. They volunteered their time painting and gardening to improve the lives of many within the city.

Asia Pacific
- Xchanging and employees in Melbourne and Sydney collectively raised Aus$37,000 for the Victorian Bushfire Fund. It was launched to assist individuals and communities affected by the devastating Victorian bushfires.
- Our office in Gurgaon opened its doors to Pragati School offering building tours and talks, providing an insight into the Xchanging business. It was awe-inspiring for the children as many had never seen the inside of any of the city's office buildings before. Employees in Gurgaon also supported Pragati School with fundraising activities and a recent school garden plantation drive.

Visit W www.xchanging.com for more details of our CSR activities.

Objectives and targets

Our CSR-related objectives and targets were first set and disclosed in 2008. We are pleased with the performance progress and the direction from the Committee.

The information below highlights the status of new and existing objectives and their targets.

●●● Completed ●●○ Mostly achieved ●○○ In progress ○○○ Not yet started

Issue	Objective	Target	2008 Status	2009 Status	Update
Management					
• Measuring and monitoring	Improve measuring and monitoring of Group-wide CSR performance	Improve our CSR data collection processes by the end of 2009	●○○	●●●	Completed
• Employee engagement	Develop and measure employee engagement in Xchanging's CSR programme	Achieve employee awareness of Xchanging's CSR activity of 75% by the end of 2010	●○○	●●○	On target See page 26
• Acquisitions	Evaluate CSR practices of Cambridge following the completion of the acquisition	Understand CSR activities of Cambridge by the end of 2010	○○○	●○○	Evaluation completed and integration plan generated See pages 28 to 30
People					
• Wellbeing	Ensure the health and wellbeing of employees at work	Deliver a workplace health programme that is aligned to the business and makes a positive contribution to the health and wellbeing of our people by the end of 2011	●○○	●○○	On target See page 27
• Career development	Continue to provide career development opportunities for all employees	Introduction of career development framework across the Group by the end of 2011	●○○	●○○	On target See page 26
Environment					
• Energy use reduction	Make efforts to reduce Xchanging's impact on the environment and help tackle climate change	Understand ways in which we can reduce our energy consumption and create specific reduction plans across the Group (excluding Cambridge) by the end of 2009	●●○	●●○	Not completed as revised plan to include Cambridge within this target
		As above with the inclusion of Cambridge by the end of 2011	n/a	●○○	New objective See page 29
• Environmental engagement	Improve employee engagement in environmental issues	Run a 'Global environment week' to engage employees across the Group (excluding Cambridge) by the end of 2009	●○○	●●●	Completed See page 29
		As above with the inclusion of Cambridge by the end of 2010	n/a	●○○	New objective
Communities					
• Give as you earn (GAYE)	Widen implementation of the GAYE initiative across the UK	Achieve silver payroll giving award (5% of UK employees donating) by the end of 2010	●○○	●○○	On target
Marketplace					
• Ethical supply chain	Interact with our suppliers to promote CSR within our supply chain	Implement ethical and environmental considerations into supplier policies, tools and processes in the UK by the end of 2009	●○○	●●●	UK process implementation and review completed
		Continue the above across the Group, leveraging the UK approach, by the end of 2011	n/a	●○○	New objective to roll out the above to the Group See page 30

Governance
Our management team

The Xchanging Management Board's (XMB) experience and capabilities reflect the diverse nature of the Company. The XMB is collectively responsible for developing and delivering the strategy and the annual budget.

In the past 12 months, the XMB has grown from eight to 10 members. This has been necessary due to Xchanging's growth following the acquisition of Cambridge and its subsequent re-alignment as a global business processor.

David Andrews
Chief Executive Officer

David founded Xchanging in 1999. For most of his career he has specialised in IT and outsourcing. He brings international experience, having worked in Africa, the UK, the USA, France, Germany, Scandinavia and Australia. Previously, he was Partner at Andersen Consulting (Accenture) for 14 years, a Board member of Andersen Worldwide and a Board member of Deutsche Börse, chairing their technology committee for five years. David is a Fellow of the Chartered Institute of Accountants, has an MA from Sheffield University and is a William Pitt Fellow of Pembroke College, Cambridge.

Richard Houghton
Chief Financial Officer

Richard joined Xchanging in 1999 and was appointed Chief Financial Officer in September 2003. He brings diverse finance experience having worked in a wide range of industries and in multiple geographies including Europe, the USA and Australia. Prior to joining Xchanging, Richard worked as Chief Executive Officer of the Industrial Products Division of Caradon plc, and as a consultant at Mckinsey & Company for five years. He began his career at Esso. He holds an MBA from Harvard and graduated with a degree in Chemical Engineering from Cambridge University.

Paddy Byrne
Head of UK

Paddy joined Xchanging in 2006 and was appointed Head of UK on a permanent basis in November 2009, when he joined the XMB, having previously led Xchanging's Hosting business. He brings over 25 years experience working in the Lloyd's and London insurance markets, with Alexander Howdens, QBE and Sphere Drake. He also worked for Viag Interkom in Germany, where he was responsible for delivering the mobile telephone platform. Paddy has served at Her Majesty's Revenue and Customs as a member of the Technology Services Board. He has also served on the Advisory Board of CIO Connect, the leading affinity group for Chief Information Officers in the UK.

Steven Beard
Head of the Americas

Steven joined Xchanging in 2002 and moved to the USA in 2009 to become Head of the Americas, responsible for delivering the regional strategy and financial performance. Steven brings a strong finance and leadership background coupled with an extensive knowledge of Xchanging's business processes. Steven started his career in finance and has held Director-level positions in insurance, technology and venture capital companies. Steven's previous roles included Finance Director of a division of XL Capital, and Executive Director and Chief Financial Officer of a venture capital plc. Steven is a Fellow of the Association of Chartered Certified Accountants.

Matthias Sohler
Head of Continental Europe

Matthias joined Xchanging in January 2009 as Head of Continental Europe. He brings more than 16 years of banking and business processing experience in the financial services industry. Prior to joining Xchanging, he was a member of the Senior Executive Committee of the UniCredit Group and on the management board of Bayerische Hypo-und Vereinsbank AG. At UniCredit Group he was Deputy Head of Global Operations responsible for the operating model, sourcing, cost containment and real estate. Matthias has a Masters in Business Economics.

Kerry Purcell
Head of Asia Pacific

Kerry joined Xchanging in November 2009. Based in Sydney, he is responsible for spearheading Xchanging's growth in the Asia Pacific markets and brings with him rich leadership experience across multiple cultures. He has worked extensively in the Asian markets; his most recent role as Vice President and Managing Director – Asia Pacific for HP/EDS. Kerry successfully led the integration of HP/EDS services group across Greater China, Korea and South East Asia. Prior to that, he led the Japanese business division for HP/EDS. He has also worked with Telstra and Telecom NZ Group with senior sales and marketing responsibilities.

David Rich-Jones

Head of Global Procurement

David joined Xchanging in 2000 and is responsible for delivering the segment's strategy and financial performance. Prior to Xchanging, David was Group Purchasing Director at Caradon plc, Vice President of Global Purchasing at SmithKline Beecham, and Group Purchasing Director (IT) for National Westminster Bank plc. He is past president of the Chartered Institute of Purchasing and Supply. He has a degree in Business Studies and holds a Diplôme Supérieur de La Chambre de Commerce de Paris.

Daniel Kasmir

Group HR Director

Daniel joined Xchanging in July 2009. He brings with him a wealth of experience working with large global organisations across a range of industries. He has held senior HR positions at Shell, Manpower, The Caudwell Group and BDO. His specialist HR background, strategic and operational experience and knowledge will be invaluable in engaging our geographically diverse workforce as well as ensuring our HR operations are leading edge. Daniel holds a degree in Economics and International Relations from the London Business School.

Thomas Runge

Global Head of Production

Thomas joined Xchanging in 2004 and is responsible for driving the lean processor strategy for Xchanging. Thomas brings experience of managing various large-scale operations and projects, such as the migration of Citibank's German retail processing to Xchanging. Thomas started his career at Deutsche Bank in Frankfurt and has also worked for Salomon Brothers and Citibank where he held various positions in projects, operations and IT management. Thomas holds a Masters degree in Macroeconomics.

Dilip Keshu

Group Head of Relations

Dilip joined Xchanging in January 2009 when it acquired a controlling interest in Cambridge. Dilip spent his early years working in a large aerospace firm before moving into senior management roles in companies like Baan and Cincom Systems. As an entrepreneur, he has lived, worked and built businesses in various parts of Asia, the UK and the USA. He utilises all these experiences to perform his role at Xchanging as a specialist in global enterprise partnering. He holds a Masters degree from IIT Madras.

Governance
Board of Directors

The Board will continue to review its composition to ensure continuing alignment with Xchanging's organisation into four regions (UK, the Americas, Continental Europe and Asia Pacific). The Directors and their expertise are set out below.

With the resignation in September 2009 of Tom Tinsley, the composition of the Xchanging Board moved to full compliance with the Combined Code (June 2008). The search commenced in 2009 for an additional Non-Executive Director to strengthen the Board's experience in relation to Continental Europe, reaching fruition on 1 January 2010 with the appointment of Michel Paulin. The Group Board currently comprises a Chairman, two Executive Directors and five other Non-Executive Directors.

Nigel Rich[3*]
Chairman, Age: 64

Joined the Board as Non-Executive Deputy Chairman in November 2006 and was appointed Chairman in 2008. He also chairs the Board's Nominations Committee. Nigel is currently Chairman of Segro plc and a Non-Executive Director of Pacific Assets Trust plc, Matheson & Co Ltd, Castle Asia Alternative PCC Ltd and Bank of the Philippine Islands (Europe) plc. His previous roles include Chairman of Exel plc, CP Ships and Hamptons Group Ltd, Managing Director of Jardine Matheson Holdings Ltd and Chief Executive of Trafalgar House plc. He has worked in South Africa, the UK, the USA and spent more than 20 years in the Far East. He is a chartered accountant and was awarded a CBE in 1995.

Nigel is an experienced company chairman, providing broad international business and leadership experience.

David Andrews[3]
Chief Executive Officer, Age: 60

Founded Xchanging and has served as Chief Executive Officer of the Group since inception. He is also Executive Chairman of Cambridge Solutions Limited. David was formerly a Board member of Andersen Worldwide and the Managing Partner of Andersen Consulting West Europe. He is a Fellow of the Institute of Chartered Accountants, a William Pitt Fellow of Pembroke College, Cambridge and a member of the PCC of Holy Trinity Brompton.

David founded Xchanging and provides global leadership to the Group, combined with extensive knowledge of business processing and outsourcing.

Richard Houghton
Chief Financial Officer, Age: 51

Joined the Group in 1999 and was appointed Chief Financial Officer in 2003. He is also Vice Chairman of Cambridge Solutions Limited. Richard was formerly the Chief Executive Officer of the Industrial Products Division at Caradon plc. He completed an MBA at Harvard and subsequently spent five years working in consulting at McKinsey & Company.

Richard has worked in a wide range of industries and in multiple geographies including Europe, USA and Australia, and provides diverse financial and operational experience to the Group.

Footnotes

The numbers relate to the various Committees as follows:

1 member of the Audit Committee
2 member of the Remuneration Committee
3 member of the Nominations Committee
4 member of the Corporate Social Responsibility Committee
* Chairman of the Committee

Stephen Brenninkmeijer[1 2 3 4*]

Non-Executive Director, Age: 53

Joined the Board in 2000 as a Non-Executive Director and chairs the Corporate Social Responsibility Committee. Stephen is currently a Board member of responsAbility Social Investment AG in Zurich Switzerland, deputy Chairman of the Enterprise Education Trust based in London and a Director of both OptiNose Ltd and Porticus UK.

Stephen provides broad international business experience, particularly of the Far East, having worked for C&A in the UK, Continental Europe and Japan.

Johannes Maret

Non-Executive Director, Age: 59

Joined the Board in 2003 as a Non-Executive Director. Johannes is currently Managing Director of Maret GmbH and is Advisory Board Chairman of Bex Beteiligungs GmbH and Gebr Rhodius GmbH & Co KG. He is a Non-Executive Director of both MLP AG and the investment committee of Triton Managers Ltd, and Managing Partner of Weingut Reverchon KG. He was formerly a partner in, and Chief Financial Officer of, Sal. Oppenheim jr, where he was responsible for banking and administration and a member of the supervisory board of European Transaction Bank.

Johannes provides essential insight and advice on the German financial services industry.

Dennis Millard[1* 2 3]

Senior Non-Executive Director, Age: 61

Joined the Board in 2005 as a Non-Executive Director and is currently the Chairman of the Audit Committee and Senior Independent Director. Dennis is currently Chairman of both Halfords Group plc and Smiths News plc, and a Non-Executive Director and Chairman of the Audit Committee of Debenhams plc. He is Senior Independent Non-Executive Director and Chairman of the Audit Committee of Premier Farnell plc. He was previously Finance Director of Cookson Group plc. He holds an MBA from the GSB of Cape Town University and is a member of the South African Institute of Chartered Accountants.

Dennis provides current and relevant experience on financial issues and broad international business experience.

Pat O'Driscoll[1 2* 3]

Non-Executive Director, Age: 50

Joined the Board in November 2008 as a Non-Executive Director and is currently Chairman of the Remuneration Committee. Pat is currently a Director of Maltby Capital Limited and an Operational Managing Director with Terra Firma Capital Partners Ltd where she oversees EMI's portfolio investment. She was Chief Executive Officer of Northern Foods plc and ran Shell's European retail business. She is also a Trustee of the Cherie Blair Foundation for Women and mentors young women in business.

Pat has large multi-national company management experience, providing valuable insight into developing and implementing Xchanging's international strategy.

Michel Paulin[1 3]

Non-Executive Director: Age: 49

Joined the Board on 1 January 2010 as a Non-Executive Director. Michel is currently Chief Operating Officer at the Louis Dreyfus Group's major commodity trading business. He is also a Non-Executive Director of Myriad Group AG, Switzerland. Michel recently held the position of Deputy Chief Executive Officer of Neuf Telecom/Cegetel.

Michel is an experienced French business leader, providing knowledge and guidance to assist Xchanging's growth, particularly in Continental Europe.

Governance
Directors' report

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2009.

Principal activity and business review
The principal activity of the Group is the provision of a range of industry-specific processing services to the banking and insurance industries as well as procurement, finance and accounting, human resources and technology services across industries. The Company acts as a holding company for the Group.

The Chairman's statement, Chief Executive Officer's statement, operational and financial review and performance reviews for the Group's main businesses, on pages 2 to 31, provide detailed information on the Group and its strategy, the operation of the businesses, and the results and financial position for the year ended 31 December 2009. These report on the principal risks and uncertainties facing the Group, post balance sheet events, trends and economic factors impacting the business and likely future developments. The information in the business review meets the requirements of the Companies Act 2006 and forms part of the Directors' report.

Results and dividends
The profit for the year attributable to equity shareholders was £7,390,000 (2008: £29,155,000). On 28 February 2010, the Board approved the payment of a 2009 interim dividend of 2.75 pence per share (2008: 2.5 pence) to be paid on 1 April 2010. The total dividend recommended is anticipated to be £6,520,707, based on the total shares in issue as at 1 March 2010.

Research and development
The Group incurs development costs in the design of processes and systems that substantially improve those already installed in the Enterprise Partnerships and used in other parts of the Group, which include business process mapping, process re-organisation and software development. Research and development is discussed further in Capital expenditure, depreciation and amortisation under Group performance on page 20.

The amount capitalised in the year in respect of development expenditure was £7,765,000 (2008: £8,137,000).

Charitable donations
Donations towards various international, national and local charities amounted to £36,060 during the year (2008: £25,000). No donations have been made to political parties.

Directors and their interests
Details of changes to the Board during the year, and up to the date of this report, are set out on pages 41 and 42.

Details of Directors' service contracts are set out in the Directors' remuneration section on page 50.

The interests of the Directors in the shares and share options of the Company are shown on pages 52 and 53.

Significant agreements
The key customer and supplier contracts and other arrangements essential to the Group are described throughout the business review. Xchanging does not consider itself to be dependent on a single key supplier.

Significant agreements – change of control
Upon a change of control (as variously defined in the respective agreements outlined below) of Xchanging plc, a number of significant agreements take effect, alter or terminate as follows:

Customer service agreements
Under the terms of the following service agreements, the customer may elect to continue to receive such services, or alternatively terminate the contract:

a. the agreement for the provision of human resource services by Xchanging HR Services Ltd to BAE Systems plc, entered into on 19 April 2001 (as amended on 16 January 2007)
b. the agreement for the provision of securities transaction services by Xchanging Transaction Bank GmbH (XTB) to Sal. Oppenheim Partners jr. & Cie. KGaA, entered into on 29 December 2004
c. the agreement for the provision of claims handling, payment and settlement services by Xchanging Broking Services Ltd (XBS) to Aon Limited (Aon), entered into on 9 August 2006.

Enterprise Partnership shareholder agreements

Under the terms of certain Enterprise Partnership shareholders' agreements, the Enterprise Partner may elect to exercise options over the shares in the Enterprise Partnership, for a share value as variously defined in the respective agreements. The agreements are as follows:

a. Deutsche Bank AG (DB) may elect to call Xchanging's shares in XTB under the terms of the shareholders' agreement, entered into between DB and Xchanging Holdco No. 3 Ltd, on 26 May 2004
b. Aon may elect to put its own shares to Xchanging, or call Xchanging's shares in XBS under the terms of the shareholders' agreement, entered into between Aon and Xpanse Ltd, on 9 August 2006
c. Allianz Global Investors Kapitalanlagegesellschaft mbH (AGI) may elect to call Xchanging's shares in Fondsdepot Bank GmbH under the terms of the shareholders' agreement, entered into between AGI and XTB, on 21 August 2007.

Revolving credit facility

Under the terms of the £111.4 million revolving credit facility provided by a syndicate of banks to Xchanging plc, entered into on 31 July 2009, the majority of lenders may elect to continue to provide such facility, or alternatively cancel it and require all monies borrowed under such facility to be repaid.

Share schemes

Under the terms of the Xchanging plc 2007 Performance Share Plan (PSP), all PSP awards will vest, normally pro rata to the period of time from grant compared to three years, and are subject to satisfaction of the performance conditions.

Under the terms of each of the Xchanging BV Approved Share Option Plan, the Xchanging BV Unapproved Share Option Plan, the Xchanging BV Unapproved G Share Option Plan and the Xchanging plc 2007 Executive Share Option Plan, option holders under each scheme will, with the agreement of the acquirer, release their rights under option in exchange for the grant to them of rights to acquire shares of equivalent market value in the acquirer.

Under the terms of the Xchanging plc 2007 Executive Share Option Plan, early exercise of options is permitted based on the level of performance up to the date of the triggering event.

Statement of Directors' responsibilities in respect of the financial statements and auditors

The Directors are responsible for preparing the annual report, the remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS, as adopted by the European Union (EU) and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent company financial statements respectively;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Governance
Directors' report (continued)

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed in the section, Board of Directors, on pages 34 and 35, confirm that, to the best of each person's knowledge and belief:

- the Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the business review and Directors' report contained in the annual report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces. (See pages 2 to 40)

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the Directors confirm that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets and liabilities, financial position and profit of the Group and Company; and
- the Directors' report contained in the annual report includes a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal risks and uncertainties that they face.

Statement of disclosure of information to auditors

In the case of each of the persons who are Directors of the Company at the date when the report was approved:

- so far as each of the Directors is aware, there is no relevant audit information of which the Company's auditors are unaware
- each of the Directors has taken all the steps he/she ought to have taken individually as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors' indemnities

The Company's Articles of Association contain a qualifying third party indemnity provision (as per the Companies Act 2006) that provides that the Company may pay for Directors' indemnities out of its own assets. The Company has procured directors' and officers' insurance for this purpose.

Share capital

At the date of this report, 237,116,600 ordinary shares of 5 pence each have been issued, are fully paid up and are admitted to trading on the London Stock Exchange.

The rights and obligations attaching to the Company's ordinary shares, as well as the powers of the Company's Directors are set out in the Company's Articles of Association, copies of which can be obtained from Companies House or by writing to the Company Secretary.

There are no general restrictions on the voting rights attaching to the Company's ordinary shares (and the times by which proxies must be lodged are specified in the Articles of Association) or on the transfer of ordinary shares. No person holds ordinary shares in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreement between holders of ordinary shares that may result in restrictions on voting rights or on the transfer of ordinary shares. Unless expressly specified to the contrary in the Articles of Association of the Company, the Company's Articles of Association may be amended by special resolution of the Company's shareholders.

The Articles of Association contain provisions governing the appointment, retirement and removal of Directors.

The Articles of Association grant the Company power to purchase its own shares subject to specific authority being granted by the shareholders. An authority to purchase ordinary shares was granted at the Annual General Meeting (AGM) held on 21 May 2009. A resolution to renew this authority will be proposed at the AGM in 2010, details of which are given in the Notice of AGM 2010. The current authority is described in the explanatory notes which accompanied the Notice of AGM 2009. The details of the replacement authorities to be proposed at the AGM in 2010 are given in the Notice of AGM 2010.

Substantial shareholders

On 24 February 2010, the Company had been notified of the following material or notifiable interests in its issued share capital by persons other than the Directors of the Company:

	Number of shares	Percentage
Fidelity Investment Services Limited	30,830,908	13.00%
General Atlantic[1 2]	23,539,226	9.99%
Artemis Investment Management Limited	14,333,597	6.04%
Breeden European Partners (California) L.P.	11,856,097	5.00%
Blackrock Inc	10,889,394	4.60%
Standard Life Investments Limited	10,653,817	4.50%
Scandent Holdings Mauritius Limited	9,855,038	4.16%
Legal & General Group plc (L&G)	7,504,271	3.16%
Aegon Asset Management	7,335,585	3.09%

1 The General Atlantic Group is the beneficial owner of 23,539,226 ordinary shares of the Company in aggregate. The Managing Directors of General Atlantic LLC possess the sole power to vote and direct the disposition of shares held by the General Atlantic Group. Therefore General Atlantic LLC has the indirect power to control in aggregate 23,539,226 ordinary shares which reflects 9.99% of the voting power. The General Atlantic holding includes General Atlantic Partners (Bermuda) L.P. 13,616,745 shares (5.78%).

2 General Atlantic sold 15,553,854 shares in Xchanging on 9 September 2009. This reduced General Atlantic's share in Xchanging to below the 10% threshold. As a result, the Relationship Deed between General Atlantic and Xchanging, entered into on 24 April 2007 and described in Xchanging's Global Offer, ended. Consequently, Tom Tinsley, resigned his position as a Non-Executive Director of Xchanging and member of the Remuneration Committee.

Minority interests

The minority interests in the Group's subsidiaries at 31 December 2009 are set out as follows:

Minority interest	Interest in Xchanging Group Enterprise Partnership
The Corporation of Lloyd's	25% interest in Ins-sure Holdings Limited 50% interest in Xchanging Claims Services Limited
International Underwriting Association	25% interest in Ins-sure Holdings Limited
Aon Limited	50% interest in Xchanging Broking Services Limited
Deutsche Bank AG	44% interest in Xchanging etb GmbH
Sal. Oppenheim jr. & Cie. KgaA	5% interest in Xchanging etb GmbH
Allianz Global Investors Kapitalanlagegesellschaft mbH	49% interest in Fondsdepot Bank GmbH

Minority interest	Interest in other Xchanging Group companies
Scandent Holdings Mauritius Ltd (11.8%) Katra Finance Limited (2.7%) Aon Minet Pension Scheme (3.8%) Other (public) (5.7%)	24.0% interest in Cambridge Solutions Limited

The profits of the Xchanging Group Enterprise Partnerships in which the minorities have an interest are not necessarily shared in proportion to the shareholding interest in that company, as individual Enterprise Partnerships have a distinct contractual method of profit share.

Governance
Directors' report (continued)

Employee involvement
The Group is committed to providing employees with information on matters of concern to them on a regular basis. This is done to achieve a common awareness of financial and economic factors affecting the performance of the Group. It also enables the views of employees to be taken into account when making decisions that are likely to affect their interests. One of the ways by which employees are involved with the Group's performance is through Xchanging's Personal Development Review (PDR) process.

Equal opportunities
The Group is committed to employment policies which follow best practice based on equal opportunities for all employees, irrespective of gender, race, nationality, colour, disability, marital status, sexual orientation, age or religion. All decisions relating to employment practices are objective, free from bias and based upon work criteria and individual merit. It is the policy of the Group to offer appropriate training and career development to disabled persons that are, as far as possible, identical to other employees and in line with best practice. In the event of a member of staff becoming disabled, every effort is made by the Group to continue employment, arrange appropriate retraining and offer opportunities for promotion.

Policy on payment of creditors
The Company aims to pay suppliers in accordance with the suppliers' contract terms. The Company had an average of 36 days purchases outstanding (2008: 39 days) outstanding in trade payables in 2009.

Policy on financial instruments
The policy with respect to financial instruments is covered in the accounting policy note 2(xiii) on P pages 66 and 67.

Auditors
A new audit partner at our auditors, PricewaterhouseCoopers LLP (PwC), was in place for the review of the Interim Financial Statement and the statutory audit for 2009. Given the performance of the auditors, including the new partner during the course of the financial year, a resolution will be proposed at the 2009 AGM to reappoint PwC for 2010 and also allow the Board to set their remuneration. The Committee is satisfied that the external auditors remain independent and PwC have indicated their willingness to continue in office.

Going concern
The Board has a reasonable expectation that the Group and the Company have adequate resources to continue in operation for the foreseeable future. Accordingly, the financial statements set out on P pages 54 to 118 have been prepared on the going concern basis.

Annual General Meeting
The Annual General Meeting of the Company will be held at 34 Leadenhall Street, London, EC3A 1AX at 9.00am on Tuesday 27 April 2010. The notice convening the meeting, together with details of the business to be considered and explanatory notes for each resolution, is distributed separately to shareholders. It is also available on the Group's website.

By order of the Board

Gary Whitaker
Company Secretary
1 March 2010

Governance
Corporate governance

Introduction

Xchanging plc remains committed to ensuring high standards of corporate governance. The areas of non-compliance outlined in last year's annual report have all been addressed with effect from September 2009 and, following changes made to the composition of the Board and its Committees, as explained below, Xchanging now applies all provisions set out in the Combined Code 2008 (Code)[1]. The areas of non-compliance with the Code, until all changes were completed in 2009, are set out below.

The Board and Committees

The Board and its Committees consist of Directors with the appropriate balance of skills, experience, independence and knowledge of the Group. The Board is collectively responsible to shareholders for creating and sustaining shareholder value through the management of the Group's businesses. It sets the Group's strategic plan and budgets, monitors their implementation and, with the assistance of the Audit Committee, ensures that executive management maintain a system of internal operational, financial and regulatory controls that identify and manage appropriately the risks set out on P page 24. The Board has a formal schedule of matters reserved for its decision, including the approval of half year and full year financial statements, significant changes in accounting policy and practice, the appointment or removal of Directors or the Company Secretary, changes to the Group's capital structure, investments, contracts, acquisitions, mergers and disposals.

Other specific responsibilities are delegated to the Board sub-committees which operate within clearly defined terms of reference.

Details of the schedule of matters reserved for the Board and the responsibilities delegated to the Board Committees can be found on the Group's website. W www.xchanging.com

The operational management of Xchanging is delegated to the Xchanging Management Board (XMB). The composition of the XMB is set out on P pages 32 and 33.

Board composition and structure

Following Tom Tinsley's resignation on 10 September 2009, the Board comprised a Non-Executive Chairman, Nigel Rich; the Chief Executive Officer, David Andrews; the Chief Financial Officer, Richard Houghton; and four other Non-Executive Directors: Dennis Millard (the Senior Independent Director); Stephen Brenninkmeijer; Johannes Maret and Pat O'Driscoll. On 1 January 2010, Michel Paulin was appointed to the Board as an additional Non-Executive Director.

The roles of the Chairman and the Chief Executive Officer are segregated and the division of responsibilities between the two roles has been set out in writing and approved by the Board.

The Board has reviewed the independence of all Non-Executive Directors and determined that all remain independent except for Johannes Maret. This is due to Johannes Maret being a consultant to Xchanging GmbH, a Group company, since June 2003. Nonetheless, the Board believe that Johannes Maret continues to provide essential insight and advice on the German financial services industry – a key market for Xchanging. Stephen Brenninkmeijer has been a director of Xchanging's parent company (first, Xchanging BV and then, from 27 April 2007, Xchanging plc) for more than nine years. Nonetheless, following a formal performance evaluation as described below, the Board has determined that Stephen continues to be effective and to demonstrate commitment to the role, and on careful consideration believe that Stephen remains independent in character and judgement. Consequently, since Tom Tinsley's resignation on 10 September 2009, the Board has been compliant with provision A.3.2 of the Code relating to Board composition.

Governance structure at 1 March 2010

Board of Directors

Audit Committee
Dennis Millard (Chairman)
Stephen Brenninkmeijer
Pat O'Driscoll
Michel Paulin
P pages 43 and 44

Nominations Committee
Nigel Rich (Chairman)
David Andrews
Stephen Brenninkmeijer
Dennis Millard
Pat O'Driscoll
Michel Paulin
P page 44

Remuneration Committee
Pat O'Driscoll (Chairman)
Stephen Brenninkmeijer
Dennis Millard
P pages 47 to 53

Corporate Social Responsibility Committee
Stephen Brenninkmeijer (Chairman)
P pages 28 to 30

1 The Combined Code can be found at W www.frc.org.uk/corporate/combinedcode

Governance
Corporate governance (continued)

Dennis Millard was appointed as Senior Independent Director (SID) at the 11 January 2009 Board meeting. However, for the period between Nigel Rich becoming Chairman at the May 2008 AGM and the appointment of Dennis Millard as SID, there was no designated Senior Independent Director. Consequently, the Company was not compliant with provision A.3.3 of the Code for this period.

Attendance at Board and committee meetings

The table below shows the number of Board and Audit, Remuneration, Nominations and Corporate Social Responsibility (CSR) Committee meetings held during 2009 (excluding ad hoc meetings held to deal with procedural matters), and the attendance of Directors at such meetings. The absence of a Director from a Board or Committee meeting was due to illness or an absence previously agreed with the Chairman of the Board or relevant Committee Chairman.

	Board meetings	Audit Committee meetings	Nominations Committee meetings	Remuneration Committee meetings	CSR Committee meetings
Scheduled meetings	9	5	3	5	4
Nigel Rich	9	N/A	3	N/A	N/A
David Andrews	9	N/A	3	N/A	N/A
Stephen Brenninkmeijer	9	5	3	5	4
Richard Houghton	9	N/A	N/A	N/A	N/A
Johannes Maret	8	N/A	N/A	N/A	N/A
Dennis Millard	9	5	3	5	N/A
Tom Tinsley[1]	4	N/A	N/A	2	N/A
Pat O'Driscoll	9	5	3	5	N/A

1 Resigned 10 September 2009

Directors' induction, training and information

The Board has a full induction programme for all new Directors. The Directors receive ongoing updates to improve their knowledge and enable them to discharge their duties. For example, during 2009, Board members received presentations on the various changes to the law under the Companies Act 2006.

Directors receive written reports prior to each Board meeting which enable them to make an informed decision on the issues under consideration. In addition to formal Board meetings, the Chairman maintains regular contact with the Chief Executive Officer and Chief Financial Officer to discuss specific issues. The Company Secretary acts as an adviser to the Board on matters concerning governance and ensures Board procedures are complied with. All Directors have access to his advice and during 2009, this was sought from time-to-time. Directors may also take independent professional advice at the Company's expense.

Board conflicts

Under Xchanging's Articles of Association, the Board is empowered to authorise matters giving rise to Directors' actual or potential conflicts of interest. Pursuant to such power, each Director has completed and returned a detailed form listing all other positions held (e.g. directorships) and detailing any other conflict situations that each thought required prior Board authorisation. Each Director's disclosure was reviewed by the Board and any potential conflict of interest was approved where relevant (for example, in relation to Johannes Maret's incentive arrangements under his consultancy arrangements with Xchanging GmbH). In each such situation, the Director under consideration did not vote on the matter. The Board reviewed and approved the latest register of Directors' conflicts at the December 2009 Board meeting and will continue to review the conflict authorisations annually to ensure the authorisations, and any conditions attached to them, are appropriate for the relevant matter to remain authorised. The Company Secretary maintains a list of all authorisations granted to Directors, setting out the date of authorisation and its expiry, scope and any limitations.

Board performance evaluation

During 2009, actions were taken to address the findings of the 2008 Board evaluation; principal amongst them being to seek an additional Non-Executive Director and to deepen the Board's knowledge of Xchanging's business operations and its material risks. Michel Paulin was appointed as a new Non-Executive Director on 1 January 2010 and Board meetings are now scheduled to be held in each of the regional hubs, where the Board meet the senior regional management teams and are briefed on their respective business operations and material risks. The evaluation of the Board and its Committees in 2009 was conducted under the leadership of the Chairman. Each Director completed a detailed questionnaire covering their assessment of the Board structure (the content and functionality of meetings, corporate governance and interaction with management) and Board Committee members reviewed the activities of each Committee against the actions required by their terms of reference. Formal evaluation of the performance of the Executive Director is undertaken annually by the Chief Executive Officer. The Non-Executive Directors, led by the SID, met separately to evaluate the performance of the Chairman, who then joined them to evaluate the performance of the Chief Executive Officer. The performance of the Non-Executive Directors was reviewed by the Chairman taking into account the views of the other Directors.

Following the 2009 Board evaluation, the Company Secretary held interviews with each of the Directors, the details of which were included in a report, prepared by the Company Secretary in conjunction with the Chairman and presented to the February 2010 Board. Based on this assessment it is considered that the Board is operating effectively, and is now in full compliance with the Code.

Election and re-appointment of Directors

All Directors are subject to re-election at the Annual General Meeting (AGM) at intervals of no more than three years. In compliance with this requirement, Nigel Rich, Johannes Maret, Dennis Millard and Richard Houghton will retire by rotation and seek re-appointment at the AGM on 27 April 2010. Stephen Brenninkmeijer was re-elected to the Board at 22 May 2008 AGM. However, Stephen has served as a director of Xchanging's parent company for more than nine years, and so will seek re-election at the next AGM as well. Michel Paulin was appointed to the Board at the December 2009 Board meeting and so will also seek re-election at the next AGM. As outlined above, the performance of each Director seeking re-election (except Michel Paulin given his recent appointment) has been formally reviewed and in each case remains satisfactory. The reasons to support their election/re-election are set out in the Board biographies on P pages 34 and 35.

The Non-Executive Directors' Service Agreements for Nigel Rich, Dennis Millard, Johannes Maret and Stephen Brenninkmeijer all expire in April 2010. Conditional upon each Director being re-appointed at the 2010 AGM, the intention is that Stephen Brenninkmeijer's agreement be renewed for a fixed one-year term (and any further one-year renewals reviewed by the Board prior to the next AGM), and that the three others be renewed for a further three-year fixed term.

Board Committees

The Group Board has established Audit, Nominations, Remuneration and CSR Committees. The Committees have all reviewed their terms of reference for the 2009 year end, and the changes recommended to the Board have been accepted. The minutes of Committee meetings are sent to all Directors and oral updates are given at Board meetings.

Audit Committee

The Audit Committee is chaired by Dennis Millard, who is also the SID and is considered to have recent and relevant financial experience.

The Group Audit Committee met five times during 2009. Also in attendance, by invitation, were the Group Chairman, the Chief Financial Officer, the Group Financial Controller, the Chief Executive Officer, the Head of Group Internal Audit and the external auditors for specific matters. Both the Head of Group Internal Audit and the external auditors have access to, and met periodically with, the Audit Committee Chairman outside of formal Committee meetings.

The Committee maintains a formal schedule of items to be considered at each meeting to ensure that its work is in line with the requirements of the Code. Key items considered during 2009 include the review of key accounting policies; material judgements; quality of earnings and estimates; scope of work and findings of the 2009 internal and external audits; half year and full year financial statements; risk register process; non-audit services; results from Enterprise Partnership Audit Committee meetings; and the effectiveness of internal control and risk management systems.

The Group Audit Committee reviews the Group's annual report and accounts, as well as reports from the external auditors identifying any accounting or judgemental issues requiring its attention. In its July 2009 and February 2010 meetings, the Committee approved the half year and full year financial statements respectively, and confirmed agreement with key accounting policies and material judgements.

Governance
Corporate governance (continued)

Reports summarising internal audit activities and key matters of control are presented at each meeting by the Head of Group Internal Audit. In 2009, the Committee reviewed management's progress against actions throughout the year, agreeing the appropriateness of key recommendations made. In addition, the Committee reviews and approves both internal and external audits' plans for the coming year. The plan for external audit's 2009 year end audit was approved in October 2009 and internal audit's plan for 2010 was approved in December 2009.

The Committee receives updates from the Head of Group Internal Audit and Executive Directors on the subject of risk and the processes employed to both identify and mitigate the risks. In December 2009, the Committee reviewed the changes to the latest Group risk register and concluded that the process undertaken to identify and mitigate risks was effective.

In February 2010, the Committee conducted its annual assessment of the suitability and performance of the external auditors in making its recommendation to the Board for their re-appointment. In addition, to ensure that the objectivity and independence of the audit is not compromised, a review is undertaken of the level of non-audit services provided by the external auditors and safeguards are put in place such as:

- adherence to a detailed policy for non-audit services prohibiting the use of auditors for certain services and for permissible services, defining clear guidelines and safeguards to be put in place with defined approval levels based on materiality and nature of the service
- seeking confirmation that the auditors are, in their professional judgement, independent of the Company
- obtaining from the external auditors an account of all relationships with the Company and considering whether, taken as a whole, the various relationships between the Company and the external auditors impair, or appear to impair, the auditors' judgement or independence.

In addition to the Group Audit Committee, each UK Enterprise Partnership (EP) has its own Audit Committee whose members and chairman are independent of the EP. Such committees are attended by Xchanging's partners, nominated Xchanging Executive Directors and senior EP management. The Head of Group Internal Audit attends EP Audit Committees on a regular basis. EP Audit Committees have similar terms of reference to the Group Audit Committee. In Continental Europe, Xchanging Transaction Bank (XTB) and Fondsdepot Bank (FDB) have Shareholder Committees attended by representatives from Xchanging's partners and nominated Xchanging Executive Directors. Key issues and the minutes of each EP meeting are reported to the Group Audit Committee. The Chairman of the Group Audit Committee meets with the Chairmen of the EP Audit Committees as appropriate.

Nominations Committee

The Group Nominations Committee comprised five Board members: Nigel Rich (Committee Chairman), Stephen Brenninkmeijer, Dennis Millard, David Andrews and Pat O'Driscoll. Throughout the year, the majority of the Committee has been independent Non-Executive Directors. The Committee leads the process for all Board appointments, reviewing candidates and making a final recommendation to the Board. The most recent example was the search for a new independent Non-Executive Director, leading to the appointment of Michel Paulin to the Board (and Nominations Committee) on 1 January 2010. The process involved the Committee retaining the services of an independent search consultancy to source potential candidates. The Committee meets as and when required. During 2009, it met three times in May, October and December.

The Committee's broader role remains to assist the Board in discharging its responsibilities relating to the structure, composition and size of the Board.

Remuneration Committee

The Group Remuneration Committee is chaired by Pat O'Driscoll. Details of its composition, role and activities are given in the Remuneration report on P pages 47 to 53.

The Remuneration Committee believed that Tom Tinsley continued to provide valuable knowledge and experience to proceedings up to his resignation from the Board. As he was not considered to be an independent Non-Executive Director, the Company did not comply with provision B.2.1 of the Code, from 1 January 2009 until Tom Tinsley's resignation on 10 September 2009, which states that all members of the Committee are independent Non-Executive Directors. The Company is now in compliance with this provision of the Code.

Corporate Social Responsibility Committee

The CSR Committee is chaired by Stephen Brenninkmeijer. Details of its composition, role and activities are given in the CSR section on P pages 28 to 31.

Whistle-blowing policy

The Group is committed to the highest standards of openness, probity and accountability. A Group-wide whistle-blowing policy has been established to enable employees to voice concerns in a responsible and effective manner, without fear of reprisal. The whistle-blowing policy was last reviewed and approved by the Board at the December 2009 Board meeting. Employees can communicate concerns in confidence about any possible improprieties or other matters, through a dedicated email address, to which only the Head of Group Internal Audit and the Group Company Secretary have access.

Reported concerns are investigated at the earliest opportunity by the Head of Group Internal Audit, the Group Company Secretary and, if appropriate, by management of the respective business. The Head of Group Internal Audit reports to the Chairman of the Group Audit Committee on the concerns raised and any action taken.

Internal control and risk management

The Board is responsible for regularly reviewing the operation and effectiveness of the Group's internal controls. The internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material errors, losses or fraud. The Board is also responsible for ensuring, and has satisfied itself through the half-yearly risk summary report, that appropriate systems are in place to enable it to identify, assess and manage key risks.

The Board has reviewed the effectiveness of the Group's internal control systems for 2009 and the period prior to approval of the annual report. The review was undertaken by the Audit Committee and its findings were reported to the Board by the Audit Committee Chairman at the 15 December 2009 and 24 February 2010 Board meetings. It considered all material controls in accordance with the Turnbull guidance. No significant failings or weaknesses were identified during this review and the Board confirms that the necessary actions are in place to remedy any less than significant ones. The Group's key internal control and risk management procedures include the following:

- reviews of the Group's strategy and the performance of principal subsidiaries and EPs through a comprehensive system of reporting based on variances to annual budgets, key performance indicators and regular forecasting
- well-defined Group policies and processes, communicated through the Group Financial Reporting Procedures Manual and intranet portal and a strict process governing the approval of sales opportunities and capital expenditure
- a defined organisational structure with appropriate delegation of authority
- formal authorisation procedures for all investments with clear guidelines on appraisal techniques and success criteria (Xchanging's 'Authority to Invest' process)
- formal authorisation procedures for all significant sales opportunities, with clear guidelines on success criteria (Xchanging's sales opportunities approval process including 'Authority to Proceed and Contract')
- a monthly review by the XPC, a sub-committee of the XMB, of performance reports for each region. This covers financial performance and a detailed range of qualitative information such as customer satisfaction, service levels and the quality of processes. This identifies the key operational issues and actions required to address any deficiencies

Governance
Corporate governance (continued)

- the Audit Committee routinely monitors the internal control environment through its review of control matters from both internal audit and external audit and other related reports from management
- the work performed by the Group's Internal Audit department is focused on areas of greatest risk to the Group (as identified through the risk management process outlined below), as well as issues identified by monthly performance reporting. Internal Audit's objective is to provide independent assurance to the Board and Audit Committee over operational and financial controls and to assist the Board in its assessment of the effectiveness of internal controls. The Head of Group Internal Audit reports directly to the Chief Financial Officer, but has the right to report to the Audit Committee Chairman independently of Executive Management. All significant internal audit reports are reviewed by the Audit Committee and made available to the external auditors
- each region has a Head of Quality, responsible for the quality of controls and processes within that sector as well as for ensuring compliance with policies and procedures, legislation and the operation of risk management procedures. Each regional Head of Quality reports to the regional Managing Director and attends, by invitation, the EP Audit Committees within their region.

The Group's key risk management procedures have been in place throughout 2009 and up to the date of approval of the annual report and accounts include the following:

- the maintenance of a hierarchy of risk registers for each business and region, assessing the probability of key risks occurring, the consequences should those risks crystallise and the controls in place to mitigate those risks. The registers and mitigating actions are monitored on an ongoing basis within the respective region and business unit's management team. The Group risk register incorporates risks pervasive or material to the whole Group and is reviewed at least annually by the XMB, the Board and the Audit Committee
- the half-yearly Board approval of the Group risk summary report that collates information from risk registers, XPC meetings and other corporate-level meetings and reports. The Group risk summary report identifies and assesses key risks and sets out management actions to address those risks and any required Board actions.

The internal control environment will continue to be monitored and reviewed by the Board which will, where necessary, ensure improvements are implemented.

Communication with shareholders

The Board places importance on communication with shareholders and gives them the opportunity to meet the Chairman and Directors as appropriate. Shareholders will continue to be given the opportunity to meet the Chairman and Directors in the coming 12 months. Arrangements can be made for major shareholders to meet with any newly-appointed Directors. The Company's Investor Relations team organises an ongoing programme of dialogue and meetings between the Chief Executive Officer and the Chief Financial Officer and institutional investors, fund managers and analysts.

Brokers' reports and investor feedback are circulated to the Board, who discuss any key matters raised with management by large investors.

The Company's Annual General Meeting on 27 April 2010 will provide a valuable opportunity for the Board to communicate with private investors. We encourage shareholders to attend the meeting and to ask questions of any of the Directors following the conclusion of the formal part of the meeting. Details of proxy voting by shareholders, including votes withheld, will be made available on request and will be placed on the Company's website following the meeting.

Going concern

After making enquiries, the Directors consider that the Group and the Company have adequate resources and committed borrowing facilities to continue in operational existence for the foreseeable future. Consequently, they continue to adopt the going concern basis in preparing the accounts.

The attention of shareholders is drawn to independent auditors' report on P page 54, which incorporates their report on corporate governance.

By order of the Board

Gary Whitaker
Company Secretary
1 March 2010

Governance
Remuneration report

The remuneration report covers the 12 month period to 31 December 2009. It shows remuneration paid to Directors over that period by Xchanging plc.

This part of the remuneration report is unaudited.

Foreword

2009 has been a challenging yet successful year for Xchanging despite the adverse effect on certain parts of the business arising from the economic slowdown. Following the successful acquisition of Cambridge in January 2009, we have a global footprint and the scale to become *the global business processor of choice*.

During 2009, the Remuneration Committee has debated Xchanging's Remuneration philosophy to ensure that we deliver against the business strategy, use reward to drive behaviour change and attract and retain key talent in order to create value for shareholders. The Remuneration Committee has agreed the remuneration philosophy as follows:

- position base salaries around the relevant mid-market. Above mid-market salaries may be paid for consistently demonstrated high performance. The mid-market base salary benchmark will be determined by reference to the local geographic market for the role and its scope
- reward individuals for business success with a significant proportion of the reward opportunity for our senior employees linked to delivered performance
- annual bonuses should reward individuals for their contribution to business performance. Performance measures in annual bonuses will be based on a balanced set of key performance drivers
- long-term incentives will form part of a market competitive remuneration package. The long-term measures of business performance will lead to the creation of sustainable shareholder value. Making awards in the form of shares aligns the interests of our executives with those of shareholders.

A Shareholding Policy was also approved by the Remuneration Committee which came into effect on 1 January 2010. The policy applies to the Executive Directors of Xchanging plc and requires them to build up and hold throughout their period of employment as an Executive Director of Xchanging plc a minimum shareholding of one times base salary.

The Remuneration Committee has reviewed the total remuneration packages for the Executive Directors for 2010, to ensure that they continue to have the right balance of incentives to encourage and reward superior performance, while not incentivising excessive risk taking. With the philosophy determined, benchmarking undertaken and being sensitive to the employment conditions and salary increases elsewhere in the Group, the following has been approved for 2010:

- no increase in salaries will be granted to the Executive Directors
- the bonus structure will remain the same for 2010, with a bonus maximum of 150% for Executive Directors. The bonus will be paid on a graduated scale, linked to stretching profit before tax targets, with 70% payable on achievement of the high growth targets and 130% payable on achievement of the superior growth targets. For the Executive Directors with revenue responsibility, stretching revenue-growth targets continue to be applied. If revenue targets are not achieved, then the bonus will be adjusted downwards. Twenty percent of the bonus maximum for all Executive Directors will be determined based on the achievement of measurable personal objectives
- the long-term variable element will be delivered by the Performance Share Plan, which will contain stretching performance conditions, graduated on a scale from median through to upper decile, relative to total shareholder return (TSR) performance compared with the FTSE 250 (subject also to the achievement of a minimum level of real earnings per share growth).

The Remuneration Committee believes that the policy is aligned to Xchanging's business objectives and is in the interests of shareholders. The Remuneration Committee will continue to monitor performance against the total remuneration policy to ensure that it achieves its aim of attracting, motivating and retaining the senior management talent that is required to develop the Company and deliver shareholder value.

Governance
Remuneration report (continued)

Remuneration Committee
The Remuneration Committee is chaired by Pat O'Driscoll. Pat was appointed on 22 July 2009 by the Board to succeed Stephen Brenninkmeijer, who remains a member of the Remuneration Committee. The Committee's terms of reference can be found under the corporate governance section of the Xchanging website. Its primary purpose is to review the ongoing appropriateness of the remuneration policy as it applies to the Executive Directors and key senior management, make recommendations on the framework for their remuneration and to determine their specific remuneration packages. In addition, the Remuneration Committee is responsible for monitoring the remuneration strategy and policy of the Group. In making its decisions, the Remuneration Committee considers the Employee, Social and Governance (ESG) implications in making its decisions. It is also mindful to ensure that inappropriate risk-taking is not incentivised.

The Remuneration Committee consists of the following Non-Executive Directors: Pat O'Driscoll, Stephen Brenninkmeijer and Dennis Millard. They are all deemed independent. Tom Tinsley was a member until he resigned from the Board on 10 September 2009. The Company Secretary is secretary to the Remuneration Committee. Only Committee members and the Company Secretary (except when his own remuneration is being directly considered) are entitled to attend meetings of the Remuneration Committee. However, the Chairman of the Board, the Chief Executive Officer, Group HR Director and others may attend by invitation.

The Remuneration Committee met five times in 2009. Stephen Brenninkmeijer, Dennis Millard and Pat O'Driscoll were present for all meetings, while Tom Tinsley attended two of a possible three meetings during his membership of the Committee.

The Remuneration Committee received advice from Towers Perrin in respect of market data, market practice, governance and advice on long-term incentive schemes. Towers Perrin has also provided remuneration advice more widely to the Company. In January 2010, Towers Perrin merged with Watson Wyatt to become Towers Watson. The Remuneration Committee intends to continue to seek advice from Towers Watson in 2010.

Remuneration policy for Executive Directors
Total remuneration is benchmarked against relevant FTSE 250 companies (excluding investment trusts) taking into account the geographic reach of each role in determining competitive remuneration.

The only fixed payment to Executive Directors is their base salary. Therefore, a significant proportion of Executive Director remuneration is linked to corporate and individual performance.

Remuneration packages for the Executive Directors consist of base salary, annual bonus, awards under long-term incentive schemes and other benefits. The Executive Directors have never participated in any of the Group's pension schemes and have formally waived their right to do so.

Base salary
Salaries are reviewed annually at the start of each year by the Remuneration Committee. Salaries are set with due account given to Company performance, prevailing market conditions, individual performance, market competitiveness and changes in responsibilities.

With effect from 1 January 2010, the base salaries of the Executive Directors (along with those of other key senior managers) have been reviewed by the Remuneration Committee. The Executive Directors' base salaries for 2010 will remain unchanged:
- David Andrews – £585,000
- Richard Houghton – £411,000.

Annual bonus
Bonuses payable to Executive Directors for performance in 2009 are set out in the emoluments table (See P page 51). For the year 2009, the Remuneration Committee agreed to award the Executive Directors a bonus in recognition of the growth that has been achieved and because financial performance is broadly in line with consensus forecasts. The Remuneration Committee also took into account the successful integration of Cambridge in a challenging economic environment.

Long-term incentive plans
The Company established a number of share incentive plans around the time of the initial public offering (IPO), namely an Approved and Unapproved Executive Share Option Plan (ESOP) and a Performance Share Plan (PSP). Other share plans, namely the Share Purchase Plan and earlier Approved, Unapproved and Unapproved G Share Options Plans were also in existence at the IPO, but no further awards will be made under these pre-IPO plans.

Executive Share Option Plan (ESOP)
No ESOPs were granted to the Executive Directors in 2009.

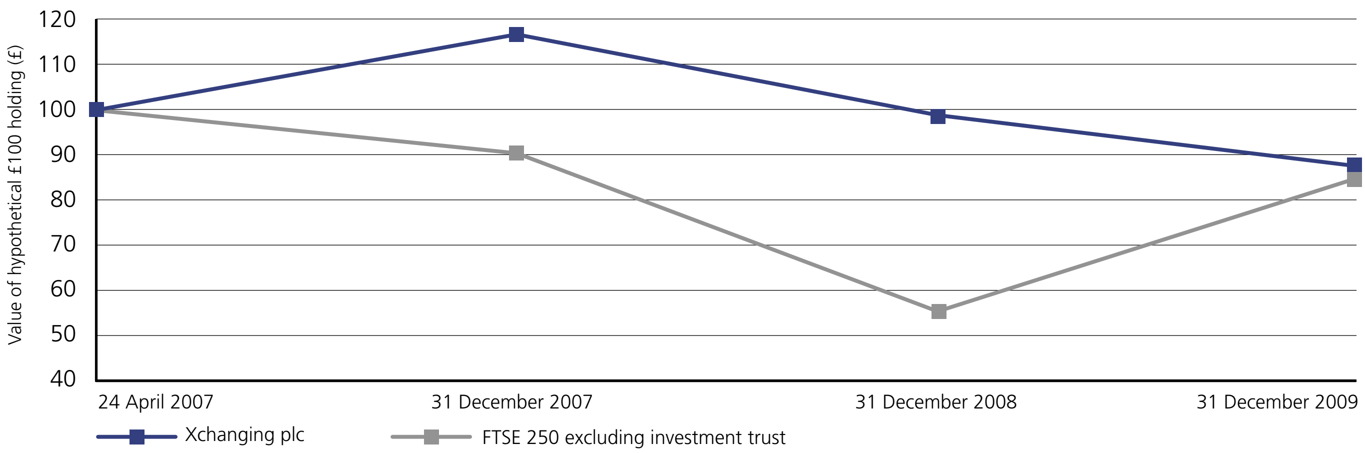
Performance Share Plan (PSP)
The Remuneration Committee chose the PSP as the primary vehicle through which share-based long-term incentives were offered to Executive Directors and other senior executives in 2009. Under the PSP, conditional awards of shares (or phantom shares where tax/regulatory conditions made it more appropriate) were made for a value up to 150% of the recipient's salary. Such shares will vest three years after grant, depending upon the Company's TSR performance when compared to the TSR performance of the constituents of the FTSE 250 index (excluding investment trusts) (the 'Comparators'). In 2009, Richard Houghton received a 'basic award' of PSP shares worth 100% of his 2009 base salary and a 'stretch award' of PSP shares equal to 50% of his 2009 base salary. The 'basic award' will vest ranging from 25% if the Company's TSR is equal to the median TSR of the Comparators, through to 100% if the Company's TSR performance is at or above the upper quartile of the Comparators. The 'stretch award' will begin to vest only if the Company's TSR performance is at least upper quartile of the Comparators, with full vesting of the stretch award only for upper decile performance. In any event, the basic and stretch awards will vest only if the Company's annual average EPS growth over the relevant three-year period is no less than the Retail Price Index (RPI) + 3%. In light of the challenging economic circumstances facing the Company, the CEO declined his PSP award for 2009.

The Remuneration Committee believes that the TSR-based performance conditions that apply to basic and stretch awards, together with the related EPS growth condition, ensure that the PSP participants are further incentivised to deliver outstanding returns to shareholders while also enhancing underlying financial performance. The extent to which the performance conditions are achieved, will be determined by the Remuneration Committee having received appropriate third party advice.

Share Purchase Plan (SPP)
At the start of 2007, prior to the listing of Xchanging plc, certain Executive Directors, and members of senior management (excluding David Andrews), purchased class F Common Shares (in Xchanging BV), under the terms of the SPP, at the prevailing market price (equivalent to £1.33 following the four-for-one share split at IPO). The Xchanging BV 2007 Employee Benefit Trust provided non-interest bearing loans to the participants to enable them to fund the purchase of the class F Common Shares. The SPP shares were subject to an 18-month lock-in period, which expired in August 2008. The SPP shares may now be sold on the condition that a pro rata proportion of any loan from the Xchanging BV 2007 Employee Benefit Trust is repaid.

With the exception of David Andrews, the non-interest bearing loans provided to the Executive Directors become repayable on the earliest of the employee ceasing employment, the employee transferring or otherwise disposing of their shares (or attempting to do so), the employee accepting another loan from a member of the Group to refinance the loan and the 'long stop' date of 31 December 2011. Such repayments must all be for the whole of the loan amount, save where the trigger event is a sale or transfer of the shares, in which case the amount to be repaid will be pro rata to the percentage of such shares sold.

Total shareholder return performance
Historical TSR Performance
Growth in the value of a hypothetical £100 holding invested in Xchanging plc at the IPO price compared to the FTSE 250 (excluding investment trusts) based on spot values:



Governance
Remuneration report (continued)

Other benefits
The Executive Directors are eligible to participate in benefit plans on the same basis as other employees. However, they have waived their right to join the Company's defined contribution pension arrangements.

The Executive Directors are eligible to receive other benefits including life assurance and permanent health insurance. They are also eligible to join Xchanging's private medical insurance scheme in accordance with the scheme terms and conditions under which cover is provided. They are covered by the Group's Life Assurance and Permanent Health Insurance scheme, which provides a benefit equal to four times their basic salary at the time of their death and 75% of their basic salary should they be off work due to a critical illness for 26 continuous weeks. These benefits are valid until they reach their 65th birthday and as long as they remain employees of Xchanging.

Dilution and the pre-IPO share pool for entrepreneurial achievement
As disclosed in Xchanging's IPO prospectus, 4,006,388 shares authorised by shareholders prior to the IPO but not allocated to employees at that time, may be placed under option or issued under the Company's share incentive plans without counting towards the ongoing Association of British Insurers (ABI) guideline dilution limits. The Remuneration Committee has subsequently approved that such pool of options will be awarded to employees in recognition of entrepreneurial achievement or to new senior employees. In 2009, one senior manager was awarded 25,000 ESOP options, making the cumulative total of ESOP awards made to date 465,000 options.

Service contracts
Executive Directors have service contracts with notice periods of 12 months from either the Director or the Company. This is in line with best practice for listed companies. The Company has the right to terminate the employment of the Executive Director without notice or with less than 12 months' notice by making a payment in lieu of notice equal to the base salary the Executive Director would be entitled to receive during any unexpired period of the notice period. The Executive Directors' service contracts do not contain provisions for compensation in the event of early termination. In the event of termination, the Executive Directors lose their entitlement to receive any bonus payment. However, the Remuneration Committee may, in its complete discretion, choose to make an award.

Fees retained for non-executive directorships
The policy on non-executive directorships is that the Chief Executive Officer may hold up to two non-executive directorships and other Executive Directors may hold one position each. Directors may retain any fees payable to them with the consent of the Remuneration Committee, except in the case where the directorship is as a representative of the Company. No Executive Director held an external non-executive director position in 2009.

Non-Executive Directors
The Board aims to recruit Non-Executive Directors of a high calibre with broad commercial, international or other relevant experience. Non-Executive Directors are expected to bring an objectivity and independence of view to the Board's discussions, and to help provide the Board with effective leadership in relation to the Company's strategy, performance, risk and people management as well as ensuring high standards of financial probity and corporate governance.

The Non-Executive Directors of the Company, with the exception of Pat O'Driscoll and Michel Paulin, have agreed terms of appointment with the Company which took effect on Admission to the London Stock Exchange on 30 April 2007. These letters of appointment are all dated 2 April 2007 and are for a fixed term of three years. As required by the Company's Articles of Association, all such directors shall resign and seek re-election at the next AGM (see P page 43) and, conditional upon their being re-elected, shall enter new terms of appointment with the Company for a further three-year term.

Pat O'Driscoll was appointed by the Board on 3 November 2008 (re-elected at the 21 May 2009 AGM) and has agreed terms of appointment with the Company for a fixed term of three years from 3 November 2008. Michel Paulin's appointment by the Board took effect on 1 January 2010 and he shall seek re-election at the next AGM for a fixed three-year term from 1 January 2010.

All Non-Executive Directors' appointments may be terminated by either party upon three months written notice. The appointment of each of the Non-Executive Directors does not give rise to any entitlement to compensation in respect of their termination.

The fees paid to Non-Executive Directors are reviewed regularly. In setting the fees, a review of current market practice is used which takes into account time commitment and responsibility. The fees payable to Non-Executive Directors are ratified by the Board, based on the recommendations of the Executive Directors and the Chairman. The Non-Executive Directors do not participate in the Company's incentive or pension schemes nor do they receive any employee benefits. A review of Non-Executive Director fees took place in 2009 and no increases were awarded.

This part of the remuneration report is audited.

Individual Directors' remuneration

The remuneration of the Directors for the year ended 31 December 2009 is made up as follows:

Directors' remuneration

Director	For the financial year ended 31 December 2009 Base salary and fees (£)	Bonus (£)	Benefits (£)	Total (£)	2008 Total (£)
Executive Directors					
David Andrews	**585,000**	**351,000**	**27,230**	**963,230**	1,030,336
Richard Houghton	**411,000**	**246,600**	**57,646**	**715,246**	782,964
Non-Executive Directors					
Nigel Rich (Chairman)	**150,000**	–	–	**150,000**	123,692
Stephen Brenninkmeijer	**48,333**	–	–	**48,333**	46,103
Johannes Maret	**65,000**	–	–	**65,000**	65,000
Dennis Millard (Senior Non-Executive Director)	**64,481**	–	–	**64,481**	50,000
Tom Tinsley	**31,231**	–	–	**31,231**	40,000
Pat O'Driscoll	**44,513**	–	–	**44,513**	6,667
Adele Browne	–	–	–	–	712,064
John Robins	–	–	–	–	52,083
John Bramley	–	–	–	–	16,667
David Hodgson	–	–	–	–	15,793

Notes

- Adele Browne resigned from the Board on 31 December 2008. She remained an employee of Xchanging plc until she resigned on 5 March 2009. She was paid a bonus of £285,006 in 2009 which was based on business performance and performance against her personal objectives. This was accrued in 2008. No payments were made for loss of office.
- John Robins, John Bramley and David Hodgson all retired from the Board on 22 May 2008.
- The amount paid to Johannes Maret in the year to 31 December 2009 comprises two separate tranches. Fees of £40,000 (2008: £40,000) have been paid in respect of the period January to December 2009 for his services as Non-Executive Director of Xchanging plc. Additionally, base fees of £25,000 (2008: £25,000) have been paid under the terms of the special adviser agreement dated 26 March 2009 as detailed below.
- The fee paid to Nigel Rich was in relation to his appointment as Chairman to the Board and as Chairman of the Nominations Committee.
- As Chairman of the Remuneration Committee, Stephen Brenninkmeijer received a fee of £10,000 per annum. When he stepped down and became the Chairman of the CSR Committee, he received a fee reduction of £5,000 per annum with effect from 1 September 2009.
- The fee paid to Dennis Millard included a fee of £10,000 in relation to his role as Chairman of the Audit Committee and member of the Remuneration and Nominations Committees and a fee of £15,000 in relation to his appointment as Senior Independent Director on 14 January 2009.
- The fee paid to Pat O'Driscoll included a fee of £10,000 per annum in relation to her appointment as Chairman of the Remuneration Committee which was effective 21 July 2009.
- In addition to the fees and benefits mentioned above, the Company will reimburse all expenses reasonably incurred by the Non-Executive Directors in the performance of their duties. The Company has obtained appropriate directors' and officers' liability insurance.

Governance
Remuneration report (continued)

- In addition to his letter of appointment as a Non-Executive Director, Johannes Maret renewed his special adviser agreement with Xchanging GmbH, for a further two years from 26 March 2009. Pursuant to this agreement, Johannes Maret assists the Group in the development of the Group's customer base in Germany and other countries in Continental Europe. The terms of Johannes Maret's special adviser agreement remain unchanged and are as follows:
  - a fee of £25,000 per annum (payable in quarterly instalments)
  - in relation to each potential customer or partner in respect of whom Johannes Maret has assisted the Group, a fee of £200,000 on each occasion that a member of the Group signs a contract with a customer or partner with an annual value to the Group in excess of €100 million
  - in relation to each potential customer or partner in respect of whom Johannes Maret has assisted the Group, a fee of £50,000 on each occasion that a member of the Group signs a contract with such customer or partner with an annual value to the Group of less than €100 million, but greater than €30 million.

Johannes Maret's special adviser agreement is subject to termination by either party giving no less than three months notice in writing.

Share options and long-term incentive schemes

Details of share options held, granted and exercised in 2009 in respect of qualifying services are outlined below.

Xchanging plc share options – approved scheme

Director	Number of options held at 1 January 2009	Granted during the year	Exercised during the year	Number of options held at 31 December 2009	Exercise price £	Date from which exercisable	Expiry date
Richard Houghton	85,180	–	–	85,180	0.33	24/11/2006	24/11/2013

Xchanging plc share options – unapproved scheme

Director	Number of options held at 1 January 2009	Granted during the year	Exercised during the year	Number of options held at 31 December 2009	Exercise price £	Date from which exercisable	Expiry date
Richard Houghton							
– issued at £0.33	414,820	–	–	414,820	0.33	24/11/2006	24/11/2013
– issued at £0.94	500,000	–	–	500,000	0.94	24/11/2006	24/11/2013
Johannes Maret	200,000	–	–	200,000	1.63	15/03/2010	15/03/2017

The market price of the Company's shares on 31 December 2009 was £2.062. The highest and lowest market prices during the year for each share under option that was unexpired at the end of the year was £2.56 and £1.64.

The options shown above have no performance conditions attached. They were all issued prior to IPO. All options issued after IPO will be subject to performance conditions.

Xchanging plc 2007 Performance Share Plan

Director	Number of PSP shares held on 1 January 2009	Grants on 9 April 2009		Date of vesting	Total conditional PSP shares held at 31 December 2009
		Basic award	Stretch award		
David Andrews					
– grant 31/03/2008	312,555	–	–	31/03/2011	312,555
Richard Houghton					
– grant 31/03/2008	219,589	–	–	31/03/2011	219,589
– grant 09/04/2009	–	222,764	111,382	09/04/2012	334,146

Each PSP Award will normally vest on the third anniversary of the date of grant, subject to the satisfaction of the Performance Conditions (set out in PSP) and continued employment with the Xchanging Group.

The market price at the time of the award on 8 April 2009 was £1.845.

Directors' shareholdings

Director	Number of shares at 1 January 2009	Disposals of shares during the year	Acquisition of shares during the year	Shares issued following exercise of share options	Number of shares at 31 December 2009
David Andrews	19,938,448[1]	175,000[2]	–	–	19,763,448[1]
Richard Houghton	1,400,200[3]	–	20,000[4]	–	1,420,200
Nigel Rich	200,000	–	–	–	200,000
Stephen Brenninkmeijer	350,000	–	25,000[5]	–	375,000
Johannes Maret	1,224 ,004	–	–	–	1,224,004
Dennis Millard	100,000	–	–	–	100,000
Pat O'Driscoll	–	–	5,230[6]	–	5,230
Tom Tinsley[7]	–	–	–	–	–

1 Includes 400,000 shares held by the Trustees of the David William Andrews Discretionary Fund.
2 David Andrews transferred 175,000 shares to Sylvia Andrews on 23 December 2009.
3 Includes 500,000 shares which were issued under the Share Purchase Plan (SPP) in 2007.
4 Richard Houghton acquired 20,000 shares on 2 March 2009.
5 Stephen Brenninkmeijer acquired 25,000 shares on 9 March 2009.
6 Pat O'Driscoll acquired 5,230 shares on 2 March 2009.
7 Tom Tinsley retired from the Board on 10 September 2009.

As at 24 February 2010 there have been no changes to the Directors' shareholdings above.

Employee Benefit Trust

Xchanging has three Employee Benefit Trusts. The Infrex Employee Share Trust, the Xchanging Employee Benefit Trust and the Xchanging BV 2007 Employee Benefit Trust.

The trustees of the Infrex Employee Share Trust are David Andrews and Richard Houghton. The Infrex Employee Share Trust is a discretionary trust for the benefit of employees of Xchanging UK Limited and its subsidiaries as the trustees decide. The Infrex Employee Share Trust holds 191,108 shares.

The trustee of the Xchanging Employee Benefit Trust is Ogier Employee Benefit Trustee Limited, an independent professional trustee situated in Jersey. The Xchanging Employee Benefit Trust is a discretionary trust for the benefit of such employees of Xchanging BV and its subsidiaries as the trustees decide. The Xchanging Employee Benefit Trust does not hold any shares.

The trustee of the Xchanging BV 2007 Employee Benefit Trust is Ogier Employee Benefit Trustee Limited, an independent professional trustee situated in Jersey. The Xchanging BV 2007 Employee Benefit Trust is a discretionary trust for the benefit of such employees of Xchanging UK Limited as the trustees decide. The Xchanging BV 2007 Employee Benefit Trust does not hold any shares.

Approved on behalf of the Board of Directors

Pat O'Driscoll
Chairman of the Remuneration Committee
1 March 2010

Financial statements
Independent auditors' report to the members of Xchanging plc on the Group financial statements

We have audited the Group financial statements of Xchanging plc for the year ended 31 December 2009 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

Respective responsibilities of Directors and auditors
As explained more fully in the Directors' responsibilities statement set out on P page 37, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with chapter 3 of part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on the financial statements
In our opinion the Group financial statements:
- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:
- the information given in the Directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements; and
- the information given in the corporate governance statement set out on P pages 41 to 46 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:
- the Directors' statement, set out on P page 40, in relation to going concern; and
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matters
We have reported separately on the parent company financial statements of Xchanging plc for the year ended 31 December 2009 and on the information in the remuneration report that is described as having been audited.

Paul Aitken (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
1 March 2010

Financial statements
Consolidated income statement
for the year ended 31 December 2009

	Note	2009 Underlying £'000	2009 Exceptional items (refer note 6), amortisation of intangible assets previously unrecognised by an acquired entity and imputed interest on put options £'000	2009 Total £'000	2008 Underlying £'000	2008 Exceptional items (refer note 6), amortisation of intangible assets previously unrecognised by an acquired entity and imputed interest on put options and employee loans £'000	2008 Total £'000
Revenue	4	750,416	–	750,416	557,763	–	557,763
Cost of sales		(667,470)	(39,116)	(706,586)	(492,340)	(886)	(493,226)
Gross profit		82,946	(39,116)	43,830	65,423	(886)	64,537
Administrative expenses		(19,071)	–	(19,071)	(18,078)	–	(18,078)
Operating profit	7	63,875	(39,116)	24,759	47,345	(886)	46,459
Finance costs	9	(13,061)	(1,222)	(14,283)	(9,156)	(2,232)	(11,388)
Finance income	9	8,982	–	8,982	13,857	238	14,095
Profit before taxation		59,796	(40,338)	19,458	52,046	(2,880)	49,166
Taxation	10	(15,391)	8,874	(6,517)	(14,486)	865	(13,621)
Profit for the year		44,405	(31,464)	12,941	37,560	(2,015)	35,545
Attributable to:							
– equity holders of the Company		36,259	(28,869)	7,390	31,170	(2,015)	29,155
– minority interests	27	8,146	(2,595)	5,551	6,390	–	6,390
		44,405	(31,464)	12,941	37,560	(2,015)	35,545

Earnings per share attributable to equity holders of the Company (expressed in pence per share)	Note	2009 Underlying	2009 Total	2008 Underlying	2008 Total
– basic	11	15.40	3.14	14.40	13.47
– diluted	11	15.23	3.10	13.88	12.98

The notes on pages 60 to 111 form an integral part of these consolidated financial statements.

Business review
Governance
Financial statements
Information

Financial statements
Consolidated statement of comprehensive income for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Actuarial loss arising from defined benefit pension schemes	31	**(8,475)**	(9,394)
Movement on deferred tax relating to defined benefit pension schemes	22	**2,411**	2,596
Revaluation of available-for-sale financial assets	16	**324**	(2,207)
Deferred tax on revaluation of available-for-sale financial assets	22	**(155)**	(382)
Foreign exchange movement on hedged item		**–**	3,208
Transfer of foreign exchange movement on hedged item to cost of acquisition	26	**(3,208)**	–
Currency translation differences		**2,912**	11,579
Other comprehensive (loss)/income, net of tax		**(6,191)**	5,400
Profit for the year		**12,941**	35,545
Total comprehensive income for the year		**6,750**	40,945
Attributable to:			
– equity holders of the Company		**720**	34,615
– minority interests		**6,030**	6,330
Total comprehensive income for the year		**6,750**	40,945

The notes on P pages 60 to 111 form an integral part of these consolidated financial statements.

Financial statements
Consolidated statement of changes in equity for the year ended 31 December 2009

		Attributable to equity holders of the Company								
	Note	Share capital £'000	Share premium £'000	Merger reserve £'000	Reverse acquisition reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000	Minority interests £'000	Total equity £'000
At 1 January 2008		10,740	73,715	409,672	(312,238)	11,032	13,661	206,582	15,336	221,918
Total comprehensive income for the year		–	–	–	–	5,460	29,155	34,615	6,330	40,945
Transactions with owners:										
Share-based payments		–	–	–	–	–	2,131	2,131	–	2,131
Deferred and current income tax on share-based payments		–	–	–	–	–	392	392	–	392
Shares issued										
– employee share-based payments	23	233	2,932	–	–	–	–	3,165	–	3,165
Dividends paid	12	–	–	–	–	–	(4,297)	(4,297)	(5,874)	(10,171)
At 31 December 2008		**10,973**	**76,647**	**409,672**	**(312,238)**	**16,492**	**41,042**	**242,588**	**15,792**	**258,380**
Total comprehensive income for the year		–	–	–	–	(6,670)	7,390	720	6,030	6,750
Transactions with owners:										
Share-based payments		–	–	–	–	–	1,737	1,737	–	1,737
Deferred and current income tax on share-based payments		–	–	–	–	–	(1,091)	(1,091)	–	(1,091)
Shares issued										
– in respect of Cambridge acquisition (net of issue costs)	30	762	27,355	–	–	7,778	–	35,895	–	35,895
– employee share-based payments	23	121	1,803	–	–	–	–	1,924	13	1,937
Other translation equity movements	26	–	–	–	–	(1,990)	–	(1,990)	–	(1,990)
Dividends paid/payable	12/27	–	–	–	–	–	(5,487)	(5,487)	(6,317)	(11,804)
At 31 December 2009		**11,856**	**105,805**	**409,672**	**(312,238)**	**15,610**	**43,591**	**274,296**	**15,518**	**289,814**

For a description of the nature and purpose of each reserve within shareholders' equity refer to note 25.

The notes on P pages 60 to 111 form an integral part of these consolidated financial statements.

Financial statements
Consolidated balance sheet as at 31 December 2009

	Note	2009 £'000	2008 £'000
Assets			
Non-current assets			
Goodwill	13	**259,613**	95,558
Other intangible assets	14	**75,336**	58,478
Property, plant and equipment	15	**30,707**	24,486
Available-for-sale financial assets	16	**26,264**	26,782
Trade and other receivables	17	**4,107**	5,586
Retirement benefit assets	31	**396**	407
Deferred income tax assets	22	**25,015**	20,043
Total non-current assets		**421,438**	231,340
Current assets			
Trade and other receivables	17	**153,699**	112,451
Cash and cash equivalents	18	**60,115**	117,798
Total current assets		**213,814**	230,249
Total assets		**635,252**	461,589
Liabilities			
Current liabilities			
Trade and other payables	19	**(160,429)**	(117,598)
Current income tax liabilities		**(6,444)**	(4,443)
Financial liabilities – borrowings	20	**(16,361)**	(276)
Financial liabilities – other	20	**(900)**	(974)
Provisions	21	**(32,057)**	(6,617)
Total current liabilities		**(216,191)**	(129,908)
Non-current liabilities			
Trade and other payables	19	**(25,505)**	(13,215)
Financial liabilities – borrowings	20	**(22,926)**	–
Financial liabilities – other	20	**(22,404)**	(23,145)
Deferred income tax liabilities	22	**(11,714)**	(5,666)
Retirement benefit obligations	31	**(30,304)**	(18,587)
Provisions	21	**(16,394)**	(12,688)
Total non-current liabilities		**(129,247)**	(73,301)
Total liabilities		**(345,438)**	(203,209)
Net assets		**289,814**	258,380
Shareholders' equity			
Ordinary shares	23	**11,856**	10,973
Share premium	25	**105,805**	76,647
Merger reserve	25	**409,672**	409,672
Reverse acquisition reserve	25	**(312,238)**	(312,238)
Other reserves	26	**15,610**	16,492
Retained earnings	25	**43,591**	41,042
Total shareholders' equity		**274,296**	242,588
Minority interest in equity	27	**15,518**	15,792
Total equity		**289,814**	258,380

The notes on P pages 60 to 111 form an integral part of these consolidated financial statements.
The consolidated financial statements on P pages 55 to 111 were approved by the Board of Directors on 1 March 2010 and signed on its behalf by:

D W Andrews
Chief Executive Officer

R A H Houghton
Chief Financial Officer

Financial statements
Consolidated cash flow statement for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Cash flows from operating activities			
Cash generated from operations	29	**62,937**	69,715
Income tax paid		**(13,824)**	(8,896)
Net cash from operating activities		**49,113**	60,819
Cash flows from investing activities			
Acquisition expenses		**(4,903)**	(391)
Acquisition cost of subsidiaries		**(48,803)**	(5,890)
Cash and cash equivalents acquired with subsidiaries	30	**3,947**	627
Acquisition cost/expenses in relation to future acquisitions		**(8,674)**	(3,287)
Interim payment of put option		**(890)**	(129)
Purchase of available-for-sale financial assets		**(518)**	–
Purchase of property, plant and equipment		**(13,640)**	(13,476)
Purchase of intangible assets		**(18,081)**	(18,967)
Pre-contract expenditure		**(1,129)**	(394)
Proceeds from sale of property, plant and equipment		**221**	85
Interest received		**1,514**	5,391
Dividends received		**395**	497
Net cash used in investing activities		**(90,561)**	(35,934)
Cash flows from financing activities			
Proceeds from issue of shares		**1,923**	3,165
Transaction costs of shares issued		**(19)**	–
Proceeds from borrowings		**31,930**	–
Repayment of borrowings		**(28,221)**	–
Repayment of finance lease creditor		**(740)**	–
Transaction costs of arranged borrowings		**(924)**	–
Interest paid		**(3,408)**	(761)
Dividends paid to equity shareholders	12	**(5,487)**	(4,297)
Dividends paid to minority interests		**(4,296)**	(5,874)
Net cash used in financing activities		**(9,242)**	(7,767)
Effects of exchange adjustments		**(6,993)**	2,314
Net (decrease)/increase in cash and cash equivalents		**(57,683)**	19,432
Cash and cash equivalents at 1 January		**117,798**	98,366
Cash and cash equivalents at 31 December	18	**60,115**	117,798

The notes on P pages 60 to 111 form an integral part of these consolidated financial statements.

Business review
Governance
Financial statements
Information

Financial statements
Notes to the consolidated financial statements for the year ended 31 December 2009

1 General information
Xchanging plc ('the Company') and its subsidiaries (together 'the Group') provide a range of industry specific processing services to the banking and insurance industries as well as procurement, finance and accounting, human resources and technology services across industries. The nature of the Group's operations and its principal activities are discussed further on P pages 2 to 5.

Xchanging plc is a public limited company incorporated and domiciled in the UK. The address of its registered office is 13 Hanover Square, London, W1S 1HN. The Company's ordinary shares are traded on the London Stock Exchange.

2 Principal accounting policies
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

(i) Basis of preparation of the financial statements
These financial statements have been prepared on the going concern basis, and in accordance with the European Union (EU) endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

All values are rounded to the nearest thousand pounds (£'000) except where otherwise stated.

The Directors, having carried out a review of the Group's 2008 financial statements, have made a presentational change to the income statement in this annual report. The Group has opted to present its income statement for the years ended 31 December 2009 and 31 December 2008 in a three-column format. Such presentation allows exceptional items (charged to cost of sales), amortisation of intangible assets previously unrecognised by an acquired entity (charged to cost of sales) and imputed interest on both put options and employee loans (charged to net finance costs) and the related taxation to be presented separately in the middle column of the income statement. The various line items of the income statement are therefore shown both before and after these items in the first and last columns, respectively. This allows shareholders to understand better the elements of financial performance in the current period, so as to facilitate comparison with the prior periods.

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets, other financial assets and financial liabilities at fair value through profit and loss, in addition to the fair valuation of share-based payments. A summary of the most significant Group accounting policies is set out below.

The preparation of financial statements in conformity with EU endorsed IFRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Note 3 of these financial statements sets out the areas where significant judgements, estimates and assumptions have been made.

(a) Standards, amendments and interpretations effective in 2009

- IAS 1 (revised), "Presentation of financial statements". The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement. Under the revised standard, entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present two statements. Comparative information has been re-presented so that it is also in conformity with the revised standard. The change is a presentational change only, with no impact on earnings per share
- IFRS 2, "Share-based payment" (amendment). The amendment deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only; other features of a share-based payment are not vesting conditions. These features are therefore to be included in the fair value exercise at grant date for transactions with employees and other parties providing similar services; they should not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or other parties, are required to receive the same accounting treatment. This amendment will not impact the financial statements

2 Principal accounting policies continued

(i) Basis of preparation of the financial statements continued

(a) Standards, amendments and interpretations effective in 2009 continued

- IFRS 7, "Financial instruments – Disclosures" (amendment). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosures of fair value measurements by level of fair value measurement hierarchy. These disclosures are included in note 32, Financial Instruments
- IFRS 8, "Operating segments". IFRS 8 replaces IAS 14, "Segment reporting". It requires a 'management approach' to be adopted, under which segment information is presented on the same basis as for internal reporting purposes. This new standard, combined with the management organisational and reporting restructuring exercise undertaken following the acquisition of Cambridge Solutions Limited, has resulted in a new segmental format being presented by the Group. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Xchanging Management Board (XMB), the primary executive body responsible for all major operating decisions. Comparatives for 2008 have been restated under the new segmental format
- IFRIC 14, "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction". IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of surplus that can be recognised as an asset. It also provides an explanation for how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation will not have a significant impact on the Group's financial statements
- IFRIC 16, "Hedges of a net investment in a foreign operation". IFRIC 16 clarifies the accounting treatment in respect of a net investment hedge. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of IAS 21, "The effects of changes in foreign exchange rates" do apply to the hedged item. The impact of this clarification will not have a material impact on the Group's financial statements
- There have been a number of minor amendments to IAS 1, "Presentation of financial statements", IAS 16, "Property, plant and equipment", IAS 19, "Employee benefits", IAS 27, "Consolidated and separate financial statements", IAS 36, "Impairment of assets", IAS 38, "Intangible assets" , IAS 39, "Financial instruments: Recognition and measurement" which are part of the IASB's annual improvement project published in May 2008 and are considered relevant to the Group. As none of these will have a significant impact on the Group's financial statements, they have not been analysed in detail.

(b) Standards, amendments and interpretations effective in 2009 but not relevant for the Group

The following standards, amendments and interpretations are mandatory for the first time for the current accounting period but are not relevant to the Group's operations:

- IAS 23 (amendment), "Borrowing costs"
- IAS 1 (amendment), "Presentation of financial statements"
- IAS 32 (amendment), "Financial instruments – Presentation"
- IFRS 1 (amendment), "First-time adoption of IFRS"
- There have been a number of minor amendments to IFRS 5, "Non-current assets held for sale and discontinued operations", IAS 20, "Government grants and assistance", IAS 28, "Investments in Associates", IAS 29, "Financial reporting in hyperinflationary economies" and IAS 40, "Investment property" which are part of the IASB's annual improvement project published in May 2008 but are not considered relevant to the Group and therefore have not been analysed in detail.

(c) New standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following new standards and interpretations to existing standards have been published and are mandatory for the Group's future accounting periods but which the Group has not early adopted:

- IAS 27 (revised), "Consolidated and separate financial statements". The revision to the standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control, and these transactions will no longer result in goodwill or gains and losses being recognised. The standard also specifies the accounting treatment to be applied when control over a subsidiary is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (revised) prospectively from 1 January 2010. The financial effect of the adoption of this standard will be dependent on the circumstances surrounding the future transactions to which they apply, that are at present unknown

Financial statements
Notes to the consolidated financial statements for the year ended 31 December 2009 (continued)

2 Principal accounting policies continued

(i) Basis of preparation of the financial statements continued

(c) New standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group continued

- IAS 24 (revised), "Related party disclosures". The revision to the standard includes a revised definition of what constitutes a related party and will be applied by the Group from 1 January 2011. This revision is considered unlikely to have an impact on the related party disclosures provided in the Group's financial statements
- IFRS 3 (revised), "Business combinations – Comprehensive revision on applying the acquisition method" (effective from 1 July 2009). This revision will impact the way future acquisitions are reported. The Group will apply IFRS 3 (revised) from 1 January 2010 with the main changes being that directly attributable costs such as advisers' fees and stamp duty will be charged to the income statement, revisions to contingent cash consideration in the period following the acquisition will be recorded in the income statement and any difference between the fair value of the consideration in the buy out of minority interests and the value of their reported minority interest will be recorded against equity rather than goodwill. The financial effect of the adoption of this standard will be dependent on the circumstances surrounding the future transactions to which they apply, that are at present unknown
- IFRS 9, "Financial instruments – classification and measurement". IFRS 9 introduces new requirements for classifying and measuring financial assets. Management are still assessing the impact of this new standard on the financial statements
- There are a number of minor amendments to IFRS 2, "Share-based payment", IFRS 5, "Non-current assets held for sale and discontinued operations", IFRS 8, "Operating segments", IAS 1, "Presentation of financial statements", IAS 7, "Statement of cash flows", IAS 17, "Leases", IAS 36, "Impairment of assets", IAS 38, "Intangible assets", and IAS 39, "Financial instruments – Recognition and measurement" which are part of the IASB's annual improvements project published in April 2009. These amendments are unlikely to have a significant impact on the Group's financial statements, and have therefore not been analysed in detail.

(d) Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published and endorsed by the EU and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 but are not relevant for the Group's operations:

- IAS 28, "Investments in associates – consequential amendment arising from amendments to IFRS 3"
- IAS 31, "Investments in joint ventures – consequential amendment arising from amendments to IFRS 3"
- IAS 32, "Financial instruments – Presentation" – amendments relating to classification of rights issues
- IAS 39, "Financial instruments – Recognition and measurement" – amendments for embedded derivatives when reclassifying financial instruments
- IAS 39, "Financial instruments – Recognition and measurement" – amendments for eligible hedged items
- IFRS 1 (amendment), "First-time adoption of IFRS"
- IFRS 2 (amendment), "Share-based payment"
- IFRIC 17, "Distributions of non-cash assets to owners"
- IFRIC 18, "Transfers of assets from customers".

(ii) Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 31 December each year and are based on consistent accounting policies. Subsidiary undertakings include those companies in which the Company has a 50% equity stake, commonly referred to by the Directors as Enterprise Partnerships, but over which the Company has the power of overall operational and financial control.

Interests acquired in subsidiary undertakings are consolidated from the date power to control passes to the Group. Transactions and balances, including unrealised profits and losses, between Group companies are eliminated. The interest of minority shareholders in the balance sheet is stated at the minority's proportion of the carrying values of the assets and liabilities recognised.

(iii) Business combinations

Business combinations are accounted for under the purchase method of accounting as set out in IFRS 3. A business combination is deemed to have occurred where the Group acquires a third party business, either in whole or in part, so that it obtains control of that business.

2 Principal accounting policies continued

(iii) Business combinations continued

Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at acquisition date. Any excess of the fair value of purchase consideration (and direct expenses of acquisition) over the fair value of the net assets acquired, including intangibles and contingent liabilities, is recognised as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

The fair values of identifiable assets and liabilities acquired are initially stated on a provisional basis, but are finalised over a 12 month period, as permitted under IFRS 3.

IFRS 3 (revised) will be adopted by the Group with effect from 1 January 2010. Under the transitional provisions of IFRS 3 (revised), the Group has elected to capitalise any costs incurred during 2009 in relation to future acquisitions, and to adjust these against retained earnings on transition to IFRS 3 (revised).

(iv) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, excluding value added tax, rebates and discounts. It comprises the value of services provided for human resources, procurement services, claims servicing, software development services, securities processing, finance and accounting services, customer administration, maintenance contracts and software sales.

Revenue from the provision of human resources and finance and accounting services is recognised according to the period to which the service relates, net of guaranteed rebates to customers, when all obligations are fulfilled.

Revenue from the provision of procurement services is recognised on a gross basis where the Group is responsible for the whole supply chain process and associated business process from end-to-end. Where the Group acts as an agent, revenue is recognised on a net basis. Revenue is recognised, net of guaranteed rebates to customers, according to the period to which the service relates and only when all obligations are fulfilled.

Revenue from the servicing of claims comprises claims processing and fees arising from the administration of programmes is recognised either in accordance with estimated claims closure ratios, or over the period of the underlying service contract, as appropriate. Revenue from incentive schemes associated with the provision of claims servicing is recognised on the basis of estimates of the amounts which are considered reasonably certain to be received.

Revenue from the provision of securities processing services is recognised according to the period to which the service relates, net of guaranteed rebates to customers.

Revenue from software development services is recognised as related services are performed when the contract is one based on time and materials, or under the percentage completion basis where work is performed under a fixed price contract. Revenue from maintenance contracts is recognised as it is considered to have been earned, over the term of the maintenance contract. Revenue from the sale of software licences is recognised when the significant risks and rewards of ownership are considered to have passed to the buyer and all obligations have been fulfilled; usually considered to occur on delivery of the licences to the buyer.

The Group provides administration services to the insurance market, from which there are three principal sources of revenue. These, together with the bases of revenue recognition, are set out below:

- revenue in respect of the provision of administration services comprises amounts receivable for subscription fees, a transaction charge for the provision of administration services and fees for other ad hoc services. Subscription fees are recognised in the income statement according to the period to which they relate. Transactional revenue for these services is recognised in the period in which the transaction takes place. Ad hoc revenue is recognised in the period in which the service is provided
- revenue in respect of business process services contracts is divided into an implementation phase and a service provision phase. Revenue in respect of the implementation phase is accounted for on a long-term contract basis where it is separable from the provision of administration services. Revenue and attributable profit are recognised on a percentage completion basis representing the stage of completion of contractual obligations. Revenue in respect of the provision of post-implementation administration services to business process services customers is recognised in the period to which the service relates

Financial statements
Notes to the consolidated financial statements for the year ended 31 December 2009 (continued)

2 Principal accounting policies continued

(iv) Revenue recognition continued

- revenue in respect of the rental or maintenance of computer software programs is recognised as earned. Billings are included in trade receivables in accordance with the terms of the relevant rental or maintenance contract. To the extent that billings are recorded in advance of the relevant revenue, such advance billings are included in deferred income. The income arising from the sale of an initial licence is recognised upfront with implementation income being recognised over the period of implementation of the software.

(v) Finance costs

Finance costs are charged to the income statement using the effective interest rate method.

(vi) Finance income

Finance income is reported in the income statement as it arises through the application of the effective interest rate method.

(vii) Dividend distributions

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

(viii) Foreign currency transactions

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Sterling, which is the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'foreign exchange (loss)/gain'.

Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the revaluation reserve in equity.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- all assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement are translated at monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions)
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of long-term monetary items designated as part of the net investment in foreign operation are taken to shareholders' equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) Hedging

The Group applies cash flow hedge accounting when it hedges exposure to variability in cash flows associated with a recognised asset or liability or a highly probable forecast transaction and where the hedge is expected to be highly effective.

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the income statement.

(ix) Goodwill

Goodwill recognised under UK Generally Accepted Accounting Practice prior to the date of transition to IFRS, 1 January 2003, is stated at net book value at the date of transition. This goodwill had been amortised on a straight-line basis over its useful economic life (being 10 years).

Goodwill recognised subsequent to 1 January 2003, arising from the purchase of subsidiary undertakings, represents the excess of the fair value of the consideration paid over the fair value of the identifiable net assets (including intangible assets) acquired. Goodwill is capitalised as a non-current asset.

2 Principal accounting policies continued

(ix) Goodwill continued

After initial recognition, goodwill is stated at cost less any accumulated impairment losses. Impairment reviews are performed annually to ensure that the present value of estimated future net income streams from the associated cash-generating units to which the goodwill has been allocated, discounted using discount rates specific to the Group, exceeds the goodwill capitalised. Any impairment losses identified are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Purchases of the minority interests' shareholdings result in goodwill, being the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired.

(x) Intangible assets

(a) Development costs

Where development costs meet the criteria for capitalisation, these are stated at cost less a provision for amortisation and any provision for impairment. Research costs are expensed as incurred.

Costs incurred during the development period of new contracts, including the costs of process and system designs that substantially improve those processes and systems already installed in either the Enterprise Partnerships or recently acquired subsidiaries, are treated as development costs. Expenditure relating to these clearly defined and identifiable development projects is recognised as an intangible asset only where costs can be reliably measured and after the following criteria have been met:

- the technical feasibility and commercial viability of the development project have been demonstrated
- the availability of adequate technical and financial resources and an intention to complete the project have been confirmed
- future economic benefits are expected.

Costs that are capitalised comprise directly attributable incremental costs incurred during the development period, including wages and salaries of staff employed solely for the purpose of improving the processes and systems, and third party costs. Development costs do not include restructuring costs, (including redundancy, early termination penalties and such like), which are expensed to the income statement as they are incurred.

Amortisation of development costs occurs on a straight-line basis over the life of the contract to which they relate (between 6 and 12 years). This period represents the useful life of the intangible asset.

(b) Software costs

Software costs are capitalised where they meet the criteria for recognition under IAS 38. Where the criteria for capitalisation are not met, software development expenditure is expensed as incurred.

Software development costs are amortised on a straight-line basis at an annual rate of 20% or over the life of the related contract, where appropriate, so as to write off the asset cost on a straight-line basis over the expected useful economic life. Purchased software is stated at cost and amortised on a straight-line basis over three years.

(c) Assets in the course of development

Assets in the course of development are not amortised until the asset is brought into use.

Subsequent expenditure undertaken to ensure that an asset maintains its previously assessed standard of performance, for example, routine repairs and maintenance expenditure, is recognised in the income statement as it is incurred. Where subsequent expenditure significantly enhances an asset, this is capitalised.

(d) Contractual customer relationships

Contractual customer relationships are capitalised on acquisition where they meet the criteria for recognition under IFRS 3 and IAS 38. Amortisation of customer contractual relationships is in line with the expected length of the customer relationship, which is between one and seven years.

(xi) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment is their purchase cost, together with any incidental costs of acquisition.

Financial statements
Notes to the consolidated financial statements for the year ended 31 December 2009 (continued)

2 Principal accounting policies continued

(xi) Property, plant and equipment continued
Depreciation is calculated so as to write off the cost of the assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Leasehold improvements	over the period of the lease
Computer equipment	20 – 33% per annum
Fixtures and fittings	10 – 33% per annum
Motor vehicles	25% per annum

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(xii) Impairment of tangible and intangible assets
At each balance sheet date, management reviews its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Intangible assets are reviewed if a trigger event is deemed to have happened. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects the current market assessments of the time value of money. Future cash flows are adjusted to take account of any risks specific to an asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the income statement immediately.

(xiii) Financial instruments
(a) Financial assets

Classification

The Group classifies its financial assets into one of the following categories: loans and receivables, available-for-sale and financial assets at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. The Group determines the classification of its financial assets at initial recognition:

- loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets
- available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date
- financial assets at fair value through profit or loss includes residual equities purchased as part of a requisitioned trade on behalf of a client of the Continental Europe sector and are held at their fair value until the opportunity arises to sell the equity as part of a new requisitioned trade by a client. They are included within current assets and classified as held-for-trading assets within trade and other receivables in the balance sheet
- financial assets at fair value through profit or loss also includes warrants purchased alongside an equity investment which offer the Group the opportunity to purchase additional shares in an unquoted entity at a future date. They are carried at fair value in the balance sheet and classified as held-for-trading financial assets.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest rate method. Held-for-trading assets are carried at fair value through profit and loss.

2 Principal accounting policies continued

(xiii) Financial instruments continued

(a) Financial assets continued

Recognition and measurement continued

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Dividends on available-for-sale equity instruments are recognised in the income statement as part of finance income when the Group's right to receive payments is established. Gains or losses arising from changes in the fair values of other financial assets at fair value through profit and loss are presented within finance costs or income in the period in which they arise. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

The fair values of quoted investments are based on current bid prices at the close of business on the balance sheet date.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(xiv) Put options granted to minority shareholders

In accordance with IAS 32, when minority interests hold put options that enable them to sell their investments to the Group, the net present value of the future payment is reflected as a financial liability in the consolidated balance sheet. At the end of each period, the valuation of the liability is reassessed with any changes recognised in the income statement for the period through finance costs.

(xv) Trade and other receivables

Trade and other receivables are recognised at fair value and subsequently measured at amortised cost less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Pre-contract costs comprise legal and other professional expenses and other directly attributable staff costs incurred in order to obtain specific customer contracts. Costs that are directly attributable to a contract are deferred when it is virtually certain that the contract will be awarded and the contract will result in future net cash inflows with a present value at least equal to all amounts recognised as an asset.

Pre-contract costs are included within trade and other receivables and are amortised on a straight-line basis over the life of the contract, starting from the date when the contract commences.

(xvi) Cash and cash equivalents

Cash and cash equivalents include cash in hand, demand deposits and short-term highly liquid investments which are readily convertible to cash and are subject to minimal risk of changes in value.

(xvii) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost.

Financial statements
Notes to the consolidated financial statements for the year ended 31 December 2009 (continued)

2 Principal accounting policies continued

(xviii) Operating and finance leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rental costs under operating leases are charged to the income statement on a straight-line basis over the lease term. Lease incentives provided by lessors to the Group are amortised over the lease term together with any related costs of acquiring the lease.

Assets held under finance leases are initially reported at the lower of the fair value of the assets and the present value of minimum lease payments with an equivalent liability categorised as appropriate under current or non-current liabilities. The asset is depreciated over the shorter of the lease term and its useful economic life. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance.

(xix) Taxation including deferred taxation

Current and deferred tax is recognised at the amount expected to be paid to (or recovered from) the taxation authorities on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised under the liability method on an undiscounted basis in respect of all temporary differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss
- deferred tax assets are regarded as recoverable and therefore recognised, only when, on the basis of all available evidence, the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise, income tax is recognised directly in the income statement.

(xx) Employee benefit costs

(a) Pension obligations

The Group operates, or participates in, both defined contribution and defined benefit pension schemes. All the pension schemes are accounted for in accordance with IAS 19.

Professional independent actuaries value the defined benefit schemes triennially and the valuations are updated at each year end using the projected unit credit method. Scheme assets are measured using closing market values at the balance sheet date. Pension scheme liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Variations between the scheme assets and liabilities identified as a result of these actuarial valuations (actuarial gains and losses) are recognised in full through the statement of comprehensive income (SOCI) in the period in which they arise. Current service costs, expected returns on plan assets and interest costs are charged to the income statement. Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

The Group participates in a number of defined benefit schemes which are multi-employer schemes and where insufficient information exists to be able to account for the schemes as defined benefit plans as there is no consistent and reliable basis for allocating the obligations, plan assets and costs to individual entities participating in these schemes. In accordance with IAS 19, such schemes are accounted for as defined contribution schemes and contributions are charged to the income statement as incurred.

Contributions to the Group's defined contribution schemes are charged to the income statement as incurred.

2 Principal accounting policies continued

(xx) Employee benefit costs continued

(b) Share-based compensation

The Group operates a number of equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of an equity-settled transaction is recognised as an expense over the periods in which the performance conditions are fulfilled, ending on the vesting date of the award. The total amount to be expensed over the vesting period is determined by reference to the fair value of the equity instruments granted. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. Awards, where vesting is conditional upon a market condition, are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the options are exercised.

(xxi) Provisions

Provisions are recognised when a present obligation exists as the result of a past event and it is probable that this will result in an outflow of economic benefit, the amount of which can be reliably estimated. Where the provision is long-term, such as onerous contract provisions where the unavoidable costs of meeting obligations exceed any economic benefits expected to be received, the net cash flows are discounted using an appropriate risk-free rate.

Restructuring provisions are only recognised if an obligation exists at the balance sheet date, i.e. a formal plan exists and those affected by that plan have a valid expectation that the restructuring will be carried out. Employee termination payments are included within restructuring provisions. Provisions are not recognised for future operating losses.

(xxii) Share capital

Share capital comprises the nominal value of all issued shares. On subscribing for shares any excess consideration over the nominal value of the shares issued less any issue costs is credited to the share premium account.

(xxiii) Fair value estimation

The fair values of short-term loans and overdrafts with a maturity of less than one year are assumed to approximate to their book values. For loans due in more than one year, the fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the market interest rate available to the Group for similar financial instruments. The fair value for quoted available-for-sale investments and held-for-trading equity securities is based on their quoted market price. The fair value of unquoted available-for-sale investments and held-for-trading equity securities is estimated by reference to a discounted cash flow calculation.

(xxiv) Exceptional items

Exceptional items are events or transactions that fall within the ordinary activities of the Group, but which by virtue of their size or incidence, have been separately disclosed in order to improve a reader's understanding of the financial statements. These include items relating to the restructuring of a significant part of the Group, expenditure relating to the integration and implementation of significant acquisitions and other one-off events or transactions.

3 Critical accounting estimations and judgements

The Group's principal accounting policies are set out in note 2 of these financial statements. Management is required to exercise significant judgement and make use of estimates and assumptions in the application of these policies.

Areas which management believes require the most critical accounting judgements are:

(i) Retirement benefit obligations

The Group operates a number of defined benefit plans. The retirement benefit obligations recorded are based on actuarial assumptions, including discount rates, expected long-term rate of return on plan assets, inflation and mortality rates. These assumptions are based on current market conditions, historical information and consultation with, and input from, actuaries. Management reviews these assumptions annually. If they change, or if actual experience is different from the assumptions, the funding status of the plan will change and the retirement benefit obligation will be adjusted accordingly. The assumptions used are detailed in note 31.

Financial statements

Notes to the consolidated financial statements for the year ended 31 December 2009 (continued)

3 Critical accounting estimations and judgements continued

(i) Retirement benefit obligations continued

Xchanging participates in various BAE Systems pension schemes. The terms on which Xchanging participates in these schemes give Xchanging protection against any requirement to fund future deficits that arise in the schemes, and against future exit debts that may arise on withdrawal from these schemes. However, in the event of BAE Systems becoming insolvent, there is a risk that Xchanging could become liable to fund the wider pension schemes of these companies, which would result in a significant exposure should these events occur. The Directors consider the risk of this event to be extremely remote and consequently the schemes are accounted for as defined contribution schemes as per note 31.

(ii) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2(xii). The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates (see note 13).

(iii) Exceptional items

The Directors consider that items of income or expense which are material and non-recurring by virtue of their nature and amount should be disclosed separately if the financial statements are to reflect a full understanding of the financial position and underlying financial performance of the Group on a comparable basis. The Directors label these items collectively as "exceptional items" (see note 6). Consideration of what should be labelled as "exceptional" requires management judgement to be applied.

(iv) Calculation of pre-contract costs and appropriate amortisation period

The original cost of pre-contract costs includes project development costs (including appropriate direct internal costs) which are deferred from the point that it is virtually certain that the project will proceed to completion. The Directors consider that this point of virtual certainty is normally reached when the memorandum of understanding related to the contract is signed by all parties involved (see note 17).

The amortisation of these pre-contract costs is charged so as to write down the value of the asset to its residual value over the life of the contract.

(v) Assumptions on put options

Three put options are accounted for as financial liabilities under paragraph 23 of IAS 32. These liabilities are carried at fair value through profit and loss and measured at the fair value of the future cash flows associated with them. The levels of these cash flows and the relevant discount rates used in the fair value calculations are based on future projections and incorporate a certain element of management judgement (see note 20).

(vi) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Judgement is required in determining the Group-wide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The Group is required to estimate the corporate tax in each of the jurisdictions in which it operates. This requires an estimation of the current tax liability together with an assessment of the temporary differences which arise as a consequence of different accounting and tax treatments. These temporary differences result in deferred tax assets or liabilities which are included within the balance sheet. Deferred tax assets are not recognised where it is more likely than not that the asset will not be realised in the future. This evaluation requires judgements to be made including the forecast of future taxable income.

(vii) Acquisitions

When acquiring a business, the Group has to make judgements and best estimates about the fair value allocation of the purchase price. The Group tests the valuation of goodwill on an annual basis and whenever events or circumstances indicate that the carrying amount may not be recoverable. These tests require the use of estimates (see note 3(ii)).

(viii) Deferred revenue recognition

The Group applies judgement in determining the most appropriate method to use in estimating the amount of deferred revenue to be recognised in a financial period. Following the acquisition of Cambridge Solutions Limited on 1 January 2009, a significant amount of deferred revenue was recognised on acquisition arising on a number of claims service contracts. The amount of deferred revenue released in relation to these contracts is then estimated based on management's estimation of the services performed to date against the total estimated cost to fulfil all obligations.

(ix) Valuation of provisions

Due to the nature of provisions, an element of their determination is based on estimates and judgements, including assumptions regarding the future anticipated cash outflows required to settle obligations, and the period over which these outflows will arise. The actual outcome of these uncertain factors may differ from these estimations, giving rise to differences with the estimated provisions. Any such differences between actual outcomes and the provisions recorded may impact the Group's results over the periods involved. The timing of the outflow of resources required to settle these obligations is subject to similar uncertain factors.

4 Segmental reporting

Following the acquisition of Cambridge Solutions Limited, the segments previously reported under Business Lines, Financial Markets, Insurance and BPS & Corporate have been restructured. The Group has determined the new operating segments based on the management organisational structure and monitoring of performance by the Xchanging Management Board (XMB), the chief operating decision-maker. Six reportable operating segments have been identified, which form the basis of the segmental reporting note. These are UK, Americas, Continental Europe, Asia Pacific, Global Procurement and Central. A brief description of each segment follows:

- UK is a cross-industry sector providing insurance BPO services, human resources, finance and accounting, and technology;
- Americas comprises the provision of cross-industry IT products and services, alongside both workers' compensation and other specialist insurance claims processing services for customers across the USA;
- Continental Europe is an industry-specific sector in which the Group provides BPO services to financial markets customers;
- Asia Pacific contains the Group's offshore business processing services function, which provides accounting, pension administration and broking services to a range of cross-industry customers. It also includes the workers' compensation claims processing services business in Australia;
- Global Procurement is a cross-industry sector in which the Group provides procurement services to a range of customers across geographical borders; and
- Central provides the infrastructure, resources and investment to sustain and grow the Group, including the corporate sales and commercial, performance management, implementation and business management functions.

Management uses Xchanging's share of underlying operating profit (XEBIT) as a measure of segment result. XEBIT represents underlying operating profit attributable to equity holders of the Group. Underlying operating profit excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs. The measure also excludes the amortisation of intangible assets previously unrecognised by an acquired entity and imputed interest on both put options issued to minority interests and employee loans. Interest income and expenditure are not allocated to segments, as this type of activity is driven by the Group treasury function, which manages the cash position of the whole Group.

Management makes regular use of this XEBIT measure to evaluate performance in the operating segments, both in absolute terms and comparatively from period to period, and to allocate resources among its operating segments. Management believes that this measure provides a better understanding, for both management and investors, of the operating results of its business segments for the period under review.

Xchanging's reportable segments account for inter-segment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

Unallocated assets include deferred tax assets. Unallocated liabilities include current income tax liabilities, deferred tax liabilities, borrowings, and other financial liabilities.

Financial statements
Notes to the consolidated financial statements for the year ended 31 December 2009 (continued)

4 Segmental reporting continued

The segment information for the year ended 31 December 2009 is as follows:

Year ended 31 December 2009	UK £'000	Americas £'000	Continental Europe £'000	Asia Pacific £'000	Global Procurement £'000	Central £'000	Total £'000
Revenue	**237,689**	**145,931**[1]	**165,126**	**47,534**	**185,366**	**187**	**781,833**
– from external customers	228,024	140,530	165,097	32,951	183,627	187	750,416
– inter-segment	9,665	5,401	29	14,583	1,739	–	31,417
Depreciation and amortisation	10,228	10,907	9,014	3,470	2,090	2,262	37,971
Xchanging's share of underlying operating profit/(loss) (XEBIT)	**30,307**	**6,744**	**12,864**	**8,142**	**12,476**	**(18,125)**	**52,408**
XEBIT margin	*12.8%*	*4.6%*	*7.8%*	*17.1%*	*6.7%*		*7.0%*
Underlying operating profit/(loss)	**38,899**	**7,095**	**13,195**	**10,335**	**12,476**	**(18,125)**	**63,875**
Underlying operating profit margin	*16.4%*	*4.9%*	*8.0%*	*21.7%*	*6.7%*		*8.5%*
Adjustment of certain non-cash items:							
– amortisation of intangible assets previously unrecognised by an acquired entity	(161)	(7,575)	(444)	(1,571)	(205)	–	(9,956)
Operating profit/(loss) before allocation of central costs and exceptional items	**38,738**	**(480)**	**12,751**	**8,764**	**12,271**	**(18,125)**	**53,919**
Allocation of central costs:							
– investment in Enterprise Partnerships	(50)	–	–	–	–	50	–
– depreciation and amortisation	(1,503)	–	(526)	–	(205)	2,234	–
– other	468	–	(163)	–	22	(327)	–
Operating profit/(loss) before allocation of exceptional items	**37,653**	**(480)**	**12,062**	**8,764**	**12,088**	**(16,168)**	**53,919**
Exceptional items (note 6)	(5,462)	(12,446)	(3,378)	(990)	(988)	(5,896)	(29,160)
Operating profit/(loss)	**32,191**	**(12,926)**	**8,684**	**7,774**	**11,100**	**(22,064)**	**24,759**
Finance costs							(14,283)
Finance income							8,982
Taxation							(6,517)
Profit for the year							**12,941**
Segment assets	**132,910**	**151,575**	**121,057**	**132,843**	**100,109**	**74,852**	**713,346**
– inter-segment assets	(7,806)	(11,093)	(107)	(17,439)	(1,110)	(65,554)	(103,109)
– unallocated assets							25,015
Total assets	**125,104**	**140,482**	**120,950**	**115,404**	**98,999**	**9,298**	**635,252**
Segment liabilities	**(82,727)**	**(155,953)**	**(58,002)**	**(9,040)**	**(37,661)**	**(24,416)**	**(367,799)**
– inter-segment liabilities	25,354	65,648	3,638	1,004	4,145	3,320	103,109
– unallocated liabilities							(80,748)
Total liabilities	**(57,373)**	**(90,305)**	**(54,364)**	**(8,036)**	**(33,516)**	**(21,096)**	**(345,438)**
Capital expenditure	**11,071**	**105,753**	**9,163**	**102,205**	**563**	**3,673**	**232,428**

1 Americas external revenue for the year ended 31 December 2009 includes £4,789,000 of revenue from a contract entered into during the period by Cambridge Integrated Services Group Inc., a subsidiary of the Group, to provide consulting, business development and procurement services over the next two years to Compagnie Pour Assistance Technique et Investissements S.A. The contract has a value of up to £9,600,000 (US$15,000,000) over this two year period. This has been disclosed within the related party disclosures in note 33.

Capital expenditure includes additions to intangible assets and property, plant and equipment through normal business activities (£32,314,000), acquisitions of intangible assets and property, plant and equipment as a result of the Cambridge Solutions Limited business combination (£33,713,000), and the related increase in goodwill as a result of this transaction (£166,401,000).

4 Segmental reporting continued

The segment information for the year ended 31 December 2008 is as follows:

Year ended 31 December 2008 (restated)	UK £'000	Americas £'000	Continental Europe £'000	Asia Pacific £'000	Global Procurement £'000	Central £'000	Total £'000
Revenue	**209,739**	**32,056**	**150,280**	**5,430**	**177,897**	**794**	**576,196**
– from external customers	201,658	28,263	150,199	–	176,849	794	557,763
– inter-segment	8,081	3,793	81	5,430	1,048	–	18,433
Depreciation and amortisation	6,968	487	6,118	284	1,600	3,258	18,715
Xchanging's share of underlying operating profit/(loss) (XEBIT)	**21,508**	**5,571**	**14,918**	**762**	**14,293**	**(18,560)**	**38,492**
XEBIT margin	*10.3%*	*17.4%*	*9.9%*	*14.0%*	*8.0%*		*6.9%*
Underlying operating profit/(loss)	**29,601**	**5,571**	**15,678**	**762**	**14,293**	**(18,560)**	**47,345**
Underlying operating profit margin	*14.1%*	*17.4%*	*10.4%*	*14.0%*	*8.0%*		*8.5%*
Adjustment of certain non-cash items:							
– amortisation of intangible assets previously unrecognised by an acquired entity	(219)	(88)	(370)	–	(209)	–	(886)
Operating profit/(loss) before allocation of central costs and exceptional items	**29,382**	**5,483**	**15,308**	**762**	**14,084**	**(18,560)**	**46,459**
Allocation of central costs:							
– investment in Enterprise Partnerships	(24)	–	–	–	–	24	–
– depreciation and amortisation	(1,367)	–	(527)	–	(307)	2,201	–
– other	501	–	(315)	–	(50)	(136)	–
Operating profit/(loss) before allocation of exceptional items	**28,492**	**5,483**	**14,466**	**762**	**13,727**	**(16,471)**	**46,459**
Exceptional items (note 6)	–	–	–	–	–	–	–
Operating profit/(loss)	**28,492**	**5,483**	**14,466**	**762**	**13,727**	**(16,471)**	**46,459**
Finance costs							(11,388)
Finance income							14,095
Taxation							(13,621)
Profit for the year							**35,545**
Segment assets	**125,767**	**39,534**	**120,859**	**4,135**	**100,404**	**97,580**	**488,279**
– inter-segment assets	(6,951)	(9,195)	(598)	(305)	(1,134)	(28,550)	(46,733)
– unallocated assets							20,043
Total assets	**118,816**	**30,339**	**120,261**	**3,830**	**99,270**	**69,030**	**461,589**
Segment liabilities	**(65,897)**	**(29,635)**	**(58,553)**	**(1,335)**	**(37,079)**	**(23,925)**	**(216,424)**
– inter-segment liabilities	23,745	10,650	5,341	44	5,204	1,755	46,739
– unallocated liabilities							(33,524)
Total liabilities	**(42,152)**	**(18,985)**	**(53,212)**	**(1,291)**	**(31,875)**	**(22,170)**	**(203,209)**
Capital expenditure	**14,415**	**3,341**	**18,705**	**378**	**6,626**	**979**	**44,444**

Capital expenditure includes additions to intangible assets and property, plant and equipment through normal business activities (£39,009,000), acquisitions of intangible assets and property, plant and equipment as a result of the Mercuris SA business combination (£628,000), and the related increase in goodwill as a result of this transaction (£4,807,000).

Financial statements
Notes to the consolidated financial statements for the year ended 31 December 2009 (continued)

4 Segmental reporting continued
The tables below present revenue by the geographical location of customers and by category:

Revenue by geographical destination	2009 £'000	2008 £'000
United Kingdom	**432,388**	388,961
Continental Europe	**165,683**	156,304
United States of America	**110,433**	10,820
Australia	**28,681**	964
India	**2,263**	–
Rest of world	**10,968**	714
Total revenue	**750,416**	557,763

Analysis of revenue by category	2009 £'000	2008 £'000
Revenue from services	**732,674**	557,366
Sale of goods	**17,742**	397
Total revenue	**750,416**	557,763

Material customers
Revenues from two external customers each account for greater than ten per cent of the Group's external revenues. Revenues of approximately £185,322,000 and £91,680,000 have been derived from these two customers for the year ended 31 December 2009 (2008: £177,107,000 and £74,377,000 respectively). These revenues are attributable to the UK, Global Procurement and Continental Europe segments.

5 Expenses by nature

	Note	2009 £'000	2008 £'000
Cost of goods and services directly related to sales		**182,711**	172,388
Direct staff costs	8	**291,690**	193,755
Other staff related costs		**51,822**	33,707
Technology and communications		**70,368**	64,208
Property costs		**36,696**	21,549
Depreciation and amortisation		**37,971**	18,715
Other costs		**25,239**	6,982
Exceptional items	6	**29,160**	–
Total cost of sales and administrative expenses		**725,657**	511,304

	2009 £'000	2008 £'000
Included within:		
– cost of sales	**706,586**	493,226
– administrative expenses	**19,071**	18,078
	725,657	511,304

6 Exceptional items

	2009 £'000	2008 £'000
Exceptional items included in cost of sales comprise the following:		
Cambridge acquisition and integration costs	16,734	–
Lean processor strategy restructuring	17,393	–
Release of Phoenix provision	(4,967)	–
Total exceptional items included in cost of sales	29,160	–

The Cambridge acquisition and integration costs incurred during the period of £16,734,000 (2008: £nil) relate to specific costs incurred as a consequence of the acquisition of Cambridge Solutions Limited and its subsidiaries (Cambridge). These costs were incurred as a result of the implementation of significant restructuring efforts to integrate Cambridge into the Xchanging business. Key aspects of the implementation programme include the major restructuring of the US BPO business (included in the Americas segment), with the significant consolidation of existing sites into a few key locations. The charge consists of costs related to the restructuring of the US BPO business, including onerous lease provisions, asset impairments, severance pay and other costs associated with the management and implementation of the integration plan.

As part of the Cambridge acquisition and integration costs, the consolidation of existing US sites into a few key locations has resulted in a number of vacant properties from which the Group has been unable to terminate its commitments. The onerous lease provisions created represent the remaining costs, primarily rent, associated with these vacant properties. The impairment of assets represents the accelerated depreciation on those assets associated with the vacant properties discussed above (refer note 21).

Lean processor strategy restructuring costs of £17,393,000 (2008: £nil) incurred during the period relate to redundancy costs primarily associated with the UK and Germany. This reflects combining operations in the UK, further increasing offshoring activities to India, and streamlining operations in Germany.

An exceptional gain of £4,967,000 (2008: £nil) has been recognised in the year from the release of the Phoenix provision. This provision was held against a potential liability arising from Fondsdepot Bank GmbH's membership of the Entschädigungseinrichtung der Wertpapierhandelsunternehmen (EdW) banking group in Germany. Fondsdepot Bank GmbH obtained a full banking licence in January 2010, and has subsequently left the EdW. Consequently its obligation to make any future payments has been removed.

The tax credit arising in respect of exceptional items is £4,979,000 (2008: £nil).

7 Operating profit

Operating profit is stated after charging/(crediting):

	Note	2009 £'000	2008 £'000
Staff costs	8	291,690	193,755
Exceptional items (including impairment of property, plant and equipment)	6	29,160	–
Depreciation of property, plant and equipment			
– owned assets	15	12,791	6,191
– assets held under finance leases	15	795	–
Net amortisation of intangible assets			
– amortisation of intangible assets previously unrecognised by an acquired entity	14	9,957	886
– amortisation of other intangible assets	14	13,005	10,204
Amortisation of pre-contract costs	17	1,423	1,434
Research and development		7,052	1,494
Loss on disposal of property, plant and equipment and intangible assets		102	349
Impairment of trade receivables		1,259	226
Operating leases			
– land and buildings		19,089	9,677
– plant and machinery		126	571
Foreign exchange loss/(gain)		565	(2,326)

Financial statements
Notes to the consolidated financial statements for the year ended 31 December 2009 (continued)

7 Operating profit continued

Fees payable to the Group's auditors in the year were as follows:

	2009 £'000	2008 £'000
Audit services		
Fees payable to the Group's auditors for the audit of		
– the Company	**224**	220
– the Company's subsidiaries	**1,002**	673
– other services pursuant to legislation	**66**	53
	1,292	946
Fees payable to the Group's auditors for other services		
Tax services	**902**	702
Transaction related services	**32**	829
Other services	**36**	120
Total fees payable to the Group's auditors	**2,262**	2,597

8 Employees and Directors

	Note	2009 £'000	2008 £'000
Staff costs for the Group during the year			
Wages and salaries (including Directors)		**252,658**	161,270
Social security costs		**25,444**	20,428
Pension costs – defined contribution schemes		**9,048**	7,138
Pension costs – defined benefit schemes		**4,526**	2,860
Share-based payments	24	**1,911**	2,313
		293,587	194,009
Included within:			
– operating expenses	7	**291,690**	193,755
– finance costs		**1,897**	254
		293,587	194,009

During 2009, £7,058,000 of staff costs were capitalised during the year (2008: £8,559,000).

	2009 Number	2008 Number
Average number of persons (including Executive Directors) employed by segment		
UK	**1,936**	1,957
Americas	**2,957**	382
Continental Europe	**1,214**	1,203
Asia Pacific	**2,141**	397
Global Procurement	**228**	194
Central	**125**	232
	8,601	4,365

Disclosures in relation to Director and key management compensation are included within the related party disclosures in note 33. Further information is provided in the remuneration report on pages 47 to 53 of this annual report.

9 Finance costs and income

	Note	2009 £'000	2008 £'000
Finance costs			
Bank and other interest		**(2,755)**	(557)
Interest cost on defined benefit pension schemes	31	**(8,966)**	(8,221)
Imputed interest on deferred consideration for acquisitions		**–**	(51)
Imputed interest on put option to acquire minority interest		**(1,222)**	(2,232)
Interest payable on finance lease arrangements		**(123)**	–
Amortisation of loan arrangement fees		**(529)**	–
Unwinding of discounts on provisions	21	**(688)**	(327)
Total finance costs		**(14,283)**	(11,388)
Finance income			
Bank interest		**1,272**	5,183
Expected return on plan assets – defined benefit pension schemes	31	**7,069**	7,967
Dividends received on available-for-sale financial assets		**395**	497
Imputed interest on employee loans through the Share Purchase Plan		**–**	238
Other interest		**246**	210
Total finance income		**8,982**	14,095
Net finance (cost)/income		**(5,301)**	2,707

10 Taxation

	2009 £'000	2008 £'000
Analysis of tax charge/(credit) in the period		
Current tax:		
– current tax on profits for the year	**12,536**	13,743
– adjustments in respect of prior years	**1,156**	(685)
Total current tax	**13,692**	13,058
Deferred tax	**(7,175)**	563
	6,517	13,621

In addition to the above amounts charged to the income statement, a current income tax credit of £696,000 (2008: £1,987,000) has been credited directly to equity in respect of share options exercised in the year, and a deferred tax credit of £468,000 (2008: £619,000) has been credited directly to equity (note 22).

Factors affecting the current tax charge for the year

The tax for the period is higher than (2008: lower than) the standard rate of corporation tax in the UK of 28% (2008: 28.5%). The differences are explained below:

	2009 £'000	2008 £'000
Profit before tax	**19,458**	49,166
Profit before tax multiplied by the standard rate of corporation tax in the UK of 28% (2008: 28.5%)	**5,448**	14,012
Changes in tax rates	**–**	38
Taxable overseas dividend income	**–**	118
Unutilised/(utilised) tax losses	**3,682**	(2,081)
Expenses not deductible for tax purposes	**837**	1,661
Tax in respect of prior years	**432**	(685)
Difference on foreign tax rates	**(223)**	558
Recognition of UK tax losses brought forward	**(3,659)**	–
Tax charge for the year	**6,517**	13,621

Financial statements
Notes to the consolidated financial statements for the year ended 31 December 2009 (continued)

10 Taxation continued

Factors that may affect future tax charges

Tax losses arising in the current and previous years and other temporary differences total an estimated carried forward amount of £16,300,000 in the UK (2008: £13,093,000), £65,300,000 in the US (2008: £nil) and £2,280,000 in India (2008: £nil). The US and Indian losses largely arise in Cambridge entities which were acquired during the year.

The UK tax losses have been recognised in the year as a deferred tax asset due to expected future profitability (refer to note 22).

11 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. 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 two types of potential dilutive ordinary shares: share options, and share awards under the Performance Share Plan to the extent that the performance criteria for vesting of the awards are expected to be met.

	Earnings £'000	Weighted average number of shares thousands	Earnings per share pence
Basic earnings per share:			
– **31 December 2009**	**7,390**	**235,447**	**3.14**
– 31 December 2008	29,155	216,447	13.47
Diluted earnings per share:			
– **31 December 2009**	**7,390**	**238,059**	**3.10**
– 31 December 2008	29,155	224,628	12.98

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

	2009 thousands	2008 thousands
Weighted average number of ordinary shares for basic earnings per share	**235,447**	216,447
Dilutive potential ordinary shares:		
– employee share options	**2,612**	4,918
– awards under the Performance Share Plan	**–**	3,263
Weighted average number of ordinary shares for diluted earnings per share	**238,059**	224,628

Underlying basic and diluted earnings per share

In addition to the above, an underlying earnings per share value is disclosed to provide a better understanding of the underlying trading results of the Group. This underlying value is the KPI used to measure the Group's performance.

	Earnings £'000	Weighted average number of shares thousands	Earnings per share pence
Underlying basic earnings per share:			
– **31 December 2009**	**36,259**	**235,447**	**15.40**
– 31 December 2008	31,170	216,447	14.40
Underlying diluted earnings per share:			
– **31 December 2009**	**36,259**	**238,059**	**15.23**
– 31 December 2008	31,170	224,628	13.88

11 Earnings per share continued

The underlying earnings per share figures are calculated based on the Xchanging share of underlying net profit, divided by the basic and diluted weighted average number of shares as stated above.

The Xchanging share of underlying profit for the year is calculated as follows:

	2009 £'000	2008 £'000
Profit for the year attributable to Xchanging equity holders	**7,390**	29,155
Exceptional items (net of tax)	**24,179**	–
Amortisation of intangible assets previously unrecognised by an acquired entity (net of tax)	**6,192**	613
Imputed interest and fair value adjustments on put options (net of tax)	**1,094**	1,562
Imputed interest on employee loans through the Share Purchase Plan (net of tax)	**–**	(160)
Minority interests' share of adjustments (net of tax)	**(2,596)**	–
Underlying profit for the year attributable to Xchanging equity holders	**36,259**	31,170

In prior years, IFRS 2 share-based payment charges were also excluded from underlying profit. In the current year, IFRS 2 share-based payments charges of £1,911,000 (2008: £2,313,000) and the related tax effect of these, are included in underlying profit to align with current market practices. The prior year comparatives have been restated to enable a like-for-like comparison.

12 Dividends per share

An interim dividend in respect of the year ended 31 December 2009 of 2.75 pence per share, amounting to a total dividend of £6,521,000, will be paid on 1 April 2010 to all shareholders on the share register at the record date, 19 March 2010. This interim dividend will be in place of a final dividend. These financial statements do not reflect this proposed dividend payable. There are no material tax consequences of this dividend.

A dividend of 2.5 pence per share relating to the year ended 31 December 2008, amounting to £5,487,000 was paid on 29 May 2009, to members registered at the close of business on 27 March 2009.

13 Goodwill

	Note	£'000
Cost		
At 1 January 2008		85,620
Business combinations		4,807
Revision of deferred contingent consideration on prior year business combinations		(420)
Fair value adjustments relating to prior year business combinations		2,514
Exchange adjustments		3,037
At 31 December 2008		**95,558**
Business combinations	30	166,401
Revision of deferred contingent consideration on prior year business combinations		1,812
Exchange adjustments		(4,158)
At 31 December 2009		**259,613**
Aggregate impairment		
At 1 January 2008, 31 December 2008 and 31 December 2009		–
Net book amount		
At 1 January 2008		85,620
At 31 December 2008		**95,558**
At 31 December 2009		**259,613**

Financial statements
Notes to the consolidated financial statements for the year ended 31 December 2009 (continued)

13 Goodwill continued

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to Enterprise Partnership and segment. The carrying amounts of goodwill by segment are as follows:

	2009 £'000	2008 £'000
UK	**30,623**	30,623
Americas	**77,210**	8,460
Continental Europe	**7,191**	5,797
Asia Pacific	**94,393**	–
Global Procurement	**50,196**	50,678
	259,613	95,558

The recoverable amount of a CGU is determined based on value in use calculations. These calculations use cash flow projections based on budgets approved by the Directors covering a one year period, which incorporate growth rates specific to each CGU. For all CGUs other than those associated with the Cambridge acquisition, cash flows beyond this period are extrapolated to year five using estimated growth rates in years two and three, and a nil growth rate in years four and five; a terminal value using nil growth is then added. These growth rates reflect management's expectations of sales growth, operating costs and margin based on past experience and expectations regarding future performance and profitability.

For the goodwill associated with the Cambridge acquisition, the cash flows associated with the related CGU are extrapolated beyond the budgeted period using estimated growth rates which do not exceed the long-term average growth rate of the industry and country in which the CGU operates. A terminal value is then added. The cash flows are extrapolated over a ten year period, reflecting the benefits forecast to arise as a result of the Cambridge acquisition over the longer term.

These long-term growth rates do not exceed the long-term average market growth rates in which the CGUs operate. A post-tax discount rate of 10.00% (2008: 12.35%) is then applied to the projections. This has been assessed as an appropriate discount rate for CGUs to which significant amounts of goodwill have been allocated, based on management's estimate of the Group's weighted average cost of capital. Management believes it is appropriate to use the same rate for all significant CGUs on the basis that cash flows are adjusted as considered appropriate to reflect any risks associated with operating within specific geographic or operational segments. Sensitivity analysis performed around the base case assumptions has indicated that no reasonably possible changes in key assumptions would cause the carrying amount of goodwill allocated to significant CGUs to exceed their respective recoverable amounts.

14 Other intangible assets

	Development costs £'000	Software £'000	Customer contractual relationships £'000	Assets in the course of development £'000	Total £'000
Cost					
At 1 January 2008	15,300	51,815	2,478	–	69,593
Acquisitions	–	–	618	–	618
Fair value adjustments relating to prior year business combinations	–	(5,648)	2,484	–	(3,164)
Additions – internally generated	2,361	5,728	–	–	8,089
Additions – external	48	17,396	–	–	17,444
Transfers (to)/from tangibles	(42)	637	–	–	595
Disposals	(408)	(159)	–	–	(567)
Exchange adjustments	–	12,102	1,184	–	13,286
At 31 December 2008	**17,259**	**81,871**	**6,764**	**–**	**105,894**
Acquisitions (note 30)	–	439	24,658	104	25,201
Additions – internally generated	2,652	4,667	–	1,219	8,538
Additions – external	446	9,045	–	645	10,136
Disposals	–	(29)	–	–	(29)
Exchange adjustments	–	(8,197)	(1,540)	(130)	(9,867)
At 31 December 2009	**20,357**	**87,796**	**29,882**	**1,838**	**139,873**
Amortisation					
At 1 January 2008	5,986	22,731	1,823	–	30,540
Charge for the year	1,876	8,328	886	–	11,090
Transfers from tangibles	–	54	–	–	54
Disposals	(131)	(95)	–	–	(226)
Exchange adjustments	–	5,848	110	–	5,958
At 31 December 2008	**7,731**	**36,866**	**2,819**	**–**	**47,416**
Charge for the year	2,252	10,380	10,330	–	22,962
Disposals	–	(3)	–	–	(3)
Exchange adjustments	–	(5,921)	83	–	(5,838)
At 31 December 2009	**9,983**	**41,322**	**13,232**	**–**	**64,537**
Net book amount					
At 1 January 2008	9,314	29,084	655	–	39,053
At 31 December 2008	**9,528**	**45,005**	**3,945**	**–**	**58,478**
At 31 December 2009	**10,374**	**46,474**	**16,650**	**1,838**	**75,336**

Amortisation expense of £21,769,000 (2008: £9,073,000) has been charged through cost of sales, and £1,193,000 (2008: £2,017,000) through administrative expenses.

Financial statements
Notes to the consolidated financial statements for the year ended 31 December 2009 (continued)

15 Property, plant and equipment

	Leasehold improvements £'000	Computer equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Assets in the course of development £'000	Total £'000
Cost						
At 1 January 2008	8,298	17,676	6,813	61	579	33,427
Acquisitions	–	1	9	–	–	10
Additions	1,894	6,362	1,868	–	3,352	13,476
Transfers to/(from) assets in the course of development	–	534	–	–	(534)	–
Transfers (to)/from intangibles	–	(655)	60	–	–	(595)
Write-offs	–	(136)	–	–	–	(136)
Disposals	(2)	(1,156)	(46)	–	(4)	(1,208)
Exchange adjustments	1,025	2,883	963	–	–	4,871
At 31 December 2008	**11,215**	**25,509**	**9,667**	**61**	**3,393**	**49,845**
Acquisitions (note 30)	1,384	2,634	4,202	276	16	8,512
Additions	1,642	8,114	1,913	103	1,868	13,640
Transfers to/(from) assets in the course of development	–	4,418	–	–	(4,418)	–
Write-offs	–	(396)	(57)	(59)	–	(512)
Disposals	(237)	(3,210)	(1,391)	(102)	(159)	(5,099)
Exchange adjustments	(522)	(1,869)	(1,147)	(19)	(8)	(3,565)
At 31 December 2009	**13,482**	**35,200**	**13,187**	**260**	**692**	**62,821**
Depreciation						
At 1 January 2008	2,461	10,964	3,516	42	–	16,983
Charge for the year	1,168	3,759	1,245	19	–	6,191
Transfers to intangibles	–	(54)	–	–	–	(54)
Disposals	(1)	(1,084)	(30)	–	–	(1,115)
Exchange adjustments	394	2,352	608	–	–	3,354
At 31 December 2008	**4,022**	**15,937**	**5,339**	**61**	**–**	**25,359**
Charge for the year	703	9,693	3,057	133	–	13,586
Impairment loss	134	212	695	–	–	1,041
Write-offs	–	(363)	(56)	(59)	–	(478)
Disposals	(237)	(3,198)	(1,300)	(67)	–	(4,802)
Exchange adjustments	(271)	(1,483)	(839)	1	–	(2,592)
At 31 December 2009	**4,351**	**20,798**	**6,896**	**69**	**–**	**32,114**
Net book value						
At 1 January 2008	5,837	6,712	3,297	19	579	16,444
At 31 December 2008	**7,193**	**9,572**	**4,328**	**–**	**3,393**	**24,486**
At 31 December 2009	**9,131**	**14,402**	**6,291**	**191**	**692**	**30,707**

Depreciation expense of £12,941,000 (2008: £5,095,000) has been charged through cost of sales, and £645,000 (2008: £1,096,000) through administrative expenses. The impairment loss for the year of £1,041,000 has been charged through exceptional items, refer to note 6.

Included in property, plant and equipment are fixtures and fittings held under finance leases with a net book value of £901,000 (2008: £nil).

16 Available-for-sale financial assets

Non-current available-for-sale financial assets	2009 £'000	2008 £'000
At 1 January	**26,782**	23,609
Acquisitions (note 30)	**394**	–
Additions	**518**	–
Net gains/(losses) transferred to equity	**324**	(2,207)
Exchange adjustments	**(1,754)**	5,380
At 31 December	**26,264**	26,782

There were no disposals or impairment provisions on available-for-sale financial assets during 2009 or 2008.

Available-for-sale financial assets include the following:

	2009 £'000	2008 £'000
Listed equity securities – Eurozone	**4,428**	4,301
Listed debt security	**21,268**	22,481
Unlisted equity securities	**568**	–
Total available-for-sale financial assets	**26,264**	26,782

The listed equity securities and listed debt security investments are held at fair value, based on the listed price of the securities at the year end date. The underlying currency of the above investments is the Euro. These securities are considered to be level 1 securities under the definitions of IFRS 7.

The unlisted equity securities investment is held at fair value, based on discounted future operational cash flows. The underlying currency of the above investment is the US dollar. These securities are considered to be level 3 securities under the definitions of IFRS 7.

None of the available-for-sale financial assets are either past due or impaired. The maximum exposure to credit risk at the reporting date is the fair value of the debt securities classified as available-for-sale.

Financial statements
Notes to the consolidated financial statements for the year ended 31 December 2009 (continued)

17 Trade and other receivables

	Note	2009 £'000	2008 £'000
Current trade and other receivables			
Trade receivables – non-related parties		**52,733**	43,948
Trade receivables – related parties	33	**10,775**	3,324
Trade receivables		**63,508**	47,272
Less provision for impairment of receivables		**(7,316)**	(972)
Net trade receivables		**56,192**	46,300
Corporate income taxes receivable		**1,322**	710
Other receivables		**7,559**	12,782
Other receivables – related parties	33	**1,872**	–
Loans to related parties	33	**1,962**	4,108
Prepayments and accrued income – non-related parties		**81,745**	45,362
Prepayments and accrued income – related parties	33	**–**	750
Held-for-trading equity securities		**1,711**	466
Deferred consideration on acquisitions		**–**	738
Pre-contract costs		**1,336**	1,235
Total current trade and other receivables		**153,699**	112,451
Non-current trade and other receivables			
Other receivables		**749**	773
Deferred consideration on acquisitions		**–**	1,161
Pre-contract costs		**3,358**	3,652
Total non-current trade and other receivables		**4,107**	5,586

	2009 £'000	2008 £'000
Pre-contract costs		
Written down value at 1 January	**4,887**	6,089
Pre-contract costs deferred in the year	**1,129**	394
Exchange adjustments	**66**	40
Amortisation charge for the year	**(1,423)**	(1,434)
Costs written off in the year	**35**	–
Costs recovered in the year	**–**	(202)
Written down value at 31 December	**4,694**	4,887

The carrying values of all financial assets within trade and other receivables are considered to approximate to their fair values. It has been assumed that the loans to related parties will be repaid in the short term and no discounting has been applied. The deferred consideration on acquisitions recognised at the 2008 year end related to an amount expected to be reimbursed from Allianz Global Investors in respect of the Phoenix provision (refer to note 21). As the provision has been released in full during the year, the corresponding receivable has also been released.

17 Trade and other receivables continued

As at 31 December 2009, trade receivables of £27,421,000 (2008: £16,448,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. All trade receivables, whether current or past due, are reviewed for impairment on a case-by-case basis to identify impairment taking into account the ageing of the debt, the likelihood of recoverability and other external factors. The ageing analysis of the trade receivables is as follows:

	2009 £'000	2008 £'000
Neither past due nor impaired	**28,771**	29,852
Past due:		
1 – 30 days	**15,095**	11,515
31 – 60 days	**5,091**	2,398
61 – 90 days	**4,456**	659
Over 90 days	**2,779**	1,876
Net trade receivables	**56,192**	46,300

Movements on the Group's provision for impairment of trade receivables are as follows:

	2009 £'000	2008 £'000
At 1 January	**972**	1,031
On acquisitions (note 30)	**5,924**	–
Charged/(credited) to the income statement:		
– provided in the year	**1,861**	196
– released in the year	**(602)**	(285)
Used in the year	**(348)**	(29)
Exchange adjustments	**(491)**	59
At 31 December	**7,316**	972

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

The carrying amounts of the Group's receivables, inclusive of deferred tax assets, are denominated in the following currencies:

	2009 £'000	2008 £'000
Sterling	**102,095**	97,001
Euros	**46,259**	35,478
US Dollars	**14,017**	3,132
Australian Dollars	**15,232**	936
Indian Rupees	**2,990**	1,244
Other	**2,228**	289
At 31 December	**182,821**	138,080

Financial statements
Notes to the consolidated financial statements for the year ended 31 December 2009 (continued)

18 Cash and cash equivalents

	2009 £'000	2008 £'000
Cash at bank and in hand	**60,115**	117,798

The cash reflected on the Group's balance sheet not only includes cash immediately accessible for operations but also includes cash held within the Enterprise Partnerships. The Enterprise Partnerships make cash payments to the Group on an annual, or in some cases quarterly, basis as contractual dividends and licence fees. Therefore, cash available for the Group's 100% owned operations, and the Cambridge entities, is dependent on the periodic distributions from the Enterprise Partnerships, all of whom have a 100% distribution policy. At 31 December 2009 the Group held £28,636,000 cash available in either 100% owned operations or in Cambridge entities (2008: £75,252,000).

Included within cash and cash equivalents is an amount of US$4,500,000 (£2,825,200) which has been required by the courts to be placed in an escrow account pending final settlement of an ongoing litigation claim. This claim has been fully provided for at the year end.

Included within cash and cash equivalents at 31 December 2008 was an amount of £25,502,000 (2009: £nil) which was held in an escrow account. This amount was equivalent to the maximum consideration that had to be paid out under the Open Offer process relating to the acquisition of Cambridge.

19 Trade and other payables

	Note	2009 £'000	2008 £'000
Current trade and other payables			
Trade payables – non-related parties		**23,080**	23,340
Trade payables – related parties	33	**8,612**	6,319
Trade payables		**31,692**	29,659
Social security and other taxes		**12,818**	9,342
Other payables		**19,645**	15,508
Accruals and deferred income – non-related parties		**90,764**	59,741
Accruals and deferred income – related parties	33	**3,489**	3,348
Dividends payable to minority interests		**2,021**	–
Total current trade and other payables		**160,429**	117,598
Non-current trade and other payables			
Accruals and deferred income		**25,173**	13,013
Social security and other taxes		**332**	202
Total non-current trade and other payables		**25,505**	13,215

The carrying amounts of the Group's trade and other payables, inclusive of deferred tax and current tax liabilities, are denominated in the following currencies:

	2009 £'000	2008 £'000
Sterling	**96,448**	94,745
Euros	**42,786**	41,840
US Dollars	**38,662**	3,597
Australian Dollars	**17,575**	72
Indian Rupees	**7,076**	636
Other	**1,545**	32
At 31 December	**204,092**	140,922

The carrying values of all financial liabilities within trade and other payables are considered to approximate to their fair values.

20 Financial liabilities

	2009 £'000	2008 £'000
Current borrowings		
Bank loans and overdrafts	**15,634**	–
Finance lease liabilities	**727**	–
Deferred consideration on acquisitions	**–**	276
Total current borrowings	**16,361**	276
Non-current borrowings		
Bank loans	**22,334**	–
Finance lease liabilities	**394**	–
Receivable purchase facility	**198**	–
Total non-current borrowings	**22,926**	–
Current other financial liabilities		
Put options to acquire the minority interest in Enterprise Partnerships	**900**	974
Non-current other financial liabilities		
Put options to acquire the minority interest in Enterprise Partnerships	**22,404**	23,145

The Group has minority shareholders in three Enterprise Partnerships that hold the right to sell their shares to the Group at a future date. In accordance with IAS 32, the estimated future cash flows associated with these options are discounted back to their present value.

The carrying amounts of the Group's financial liabilities are denominated in the following currencies:

	2009 £'000	2008 £'000
Sterling	**8,652**	9,227
Euros	**14,095**	15,168
US Dollars	**34,681**	–
Indian Rupees	**5,153**	–
Singapore Dollars	**11**	–
At 31 December	**62,592**	24,395

The fair value of the current financial liabilities equals their carrying amount, as the impact of discounting is not significant. The carrying amounts and fair value of the current and non-current financial liabilities are as follows:

	Carrying amount		Fair value	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Bank loans and overdrafts	**37,968**	–	**37,968**	–
Finance lease liabilities	**1,121**	–	**1,121**	–
Receivable purchase facility	**198**	–	**198**	–
Put options to acquire the minority interest in Enterprise Partnerships	**23,304**	24,119	**23,304**	24,119
	62,591	24,119	**62,591**	24,119

The fair values of the put options are based on cash flows discounted using a rate based on the year end effective interest rate of 3.75% for Sterling-denominated instruments and 3.75% for Euro-denominated instruments (2008: 4.25% for Sterling-denominated instruments and 4.5% for Euro-denominated instruments). The fair values of the bank loans and overdrafts are assumed to equal their carrying value as these are recent arm's length transactions, and are subject to floating rate interest rates determined by movements in LIBOR.

Financial statements
Notes to the consolidated financial statements for the year ended 31 December 2009 (continued)

20 Financial liabilities continued

The finance leases held by the Group relate to leased assets including computer equipment and other various items of office equipment.

The gross finance lease obligation is as follows:

	2009 £'000	2008 £'000
Expiring within one year	786	–
Expiring later than one year but not more than five years	420	–
Gross finance lease obligation	1,206	–
Future finance charges on finance leases	(85)	–
Present value of finance lease liabilities	1,121	–

The present value of finance lease liabilities is as follows:

	2009 £'000	2008 £'000
Expiring within one year	727	–
Expiring later than one year but not more than five years	394	–
	1,121	–

21 Provisions

	Phoenix £'000	Onerous lease £'000	Restructuring £'000	Operational risk £'000	Early and part-time retirement £'000	Long service £'000	Litigation provision £'000	Other £'000	Total £'000
At 1 January 2008	3,356	5,003	166	2,054	5,263	1,135	–	4,539	21,516
Transfers (to)/from accruals	–	–	–	–	–	604	–	(347)	257
Reallocation of provisions held by recently acquired subsidiaries	424	–	–	–	–	–	–	(424)	–
Charged/(credited) to the income statement:									
– provided in the year	–	276	811	265	503	–	–	1,380	3,235
– released in the year	–	(535)	(168)	(946)	(1,494)	(242)		(1,354)	(4,739)
– unwinding of discount	193	134	–	–	–	–	–	–	327
Used in the year	–	(1,822)	–	(442)	(1,752)	(199)	–	(1,498)	(5,713)
Exchange adjustments	1,257	645	2	405	1,051	458	–	604	4,422
At 31 December 2008	**5,230**	**3,701**	**811**	**1,336**	**3,571**	**1,756**	**–**	**2,900**	**19,305**
Acquisitions	–	14,739	482	–	–	299	7,397	3,003	25,920
Reallocation of provisions	–	–	–	–	(110)	(798)	–	908	–
Charged/(credited) to the income statement:									
– provided in the year	–	2,843	17,039	623	623	152	511	1,707	23,498
– released in the year	(4,967)	(2,202)	–	(112)	–	–	–	(609)	(7,890)
– unwinding of discount	183	498	–	–	–	–	–	7	688
Used in the year	–	(4,838)	(1,167)	(82)	(1,334)	(92)	(304)	(1,884)	(9,701)
Exchange adjustments	(446)	(1,480)	45	(97)	(269)	(31)	(670)	(421)	(3,369)
At 31 December 2009	**–**	**13,261**	**17,210**	**1,668**	**2,481**	**1,286**	**6,934**	**5,611**	**48,451**

Of the £17,039,000 restructuring provision provided for during the year, £16,793,000 has been included within the lean processor strategy restructuring costs and £246,000 has been included within the Cambridge acquisition and integration costs, both of which are exceptional items in the year (refer to note 6).

21 Provisions continued

Provisions have been analysed between current and non-current as follows:

	2009 £'000	2008 £'000
Current	**32,057**	6,617
Non-current	**16,394**	12,688
	48,451	19,305

The Phoenix provision related to future payments which one of the Group companies, Fondsdepot Bank GmbH, may have to make to the EdW, a federal special fund aimed at protecting investors, as a result of a securities fraud committed by one of the EdW member companies. As Fondsdepot Bank GmbH has subsequently left the EdW following it obtaining a full banking licence in January 2010, the Phoenix provision is no longer required, and has been released in full.

The onerous lease provision relates to dilapidations and a shortfall between expected sub-letting rents and future costs on a number of operating leases. The provision was largely acquired by the Xchanging Group as part of the acquisition of Cambridge Solutions Limited and mostly arises within the Americas region. Additional amounts have been provided as a result of the consolidation of existing Cambridge sites into a few key locations. The leases provided for have between two and seven years left to run.

The restructuring provision relates to an estimate of the cost of the lean processor strategy restructuring of the Xchanging Group announced in 2009, and expected to be completed by the end of 2010.

The operational risk provision comprises an estimated liability in respect of identified operating errors which had occurred in the ordinary course of business in the Continental Europe region up to 31 December 2009. This is an ongoing provision representative of the nature of the securities processing market.

The early and part-time retirement provision mainly arises from a statutory requirement for German businesses and is calculated under IAS 19 with reference to actuarial reports. The Group offers long-serving employees the opportunity to retire before reaching the statutory age of retirement. As the utilisation of the provision is dependent on the uptake of this opportunity by employees, and the timing of their decision to do so, the provision is determined using actuarial assumptions.

Employees within the German, Australian and Indian entities receive long service awards for 10 years or more of service. These awards take the form of either a payment, or paid leave. The amount of the provision recognised is based on actuarial valuations which are updated at each reporting date. As the amount and timing of utilisation of this provision is based on estimates of the number of employees likely to stay with the Group in excess of 10 years, which is outside the Group's control, there is an element of uncertainty surrounding the timing of utilisation of this provision.

The litigation provision relates to a number of ongoing claims arising primarily within the US BPO business. The utilisation of the litigation provision is dependent on the timing of the settlement of the underlying cases. Although some significant cases are expected to be settled during the first half of 2010, the settlement of others is, to an extent, outside the Group's control. There is therefore an element of uncertainty regarding the timing of a proportion of this provision's utilisation.

The other provisions include other personnel related provisions, being provisions for profit sharing, retention bonuses, gratuities and leave encashment, provisions for archiving required under banking regulations, technology and communications, and consultancy.

Financial statements
Notes to the consolidated financial statements for the year ended 31 December 2009 (continued)

22 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2008: 28%) for differences arising in the UK and at the relevant local statutory rates for differences arising in other countries.

Deferred tax assets and liabilities are only offset where there is a legal right of offset and there is an intention to settle the balance net. Deferred income tax assets and liabilities are attributable to the following items:

	2009 £'000	2008 £'000
Assets		
Retirement benefit obligation	**10,988**	9,009
Tax losses	**4,432**	9
Decelerated tax depreciation	**1,893**	1,800
Share-based payments	**995**	3,116
Put option	**90**	99
Other	**6,617**	6,010
	25,015	20,043
Liabilities		
Retirement benefit asset	**(64)**	(114)
Accelerated tax depreciation	**(2,710)**	(3,541)
Put option	**(166)**	(294)
Other	**(8,774)**	(1,717)
	(11,714)	(5,666)

Deferred tax assets have been recognised for tax losses carried forward, to the extent that the realisation of the tax benefit through future taxable profits is probable.

The Group has not recognised deferred tax assets of US$36,000,000 (£22,600,000) in relation to losses which largely arise in acquired Cambridge entities and also £918,000 (2008: £877,000) in respect of decelerated tax depreciation and other temporary differences arising in the UK. These assets have not been recognised due to the uncertainty of future suitable taxable profits.

The movement in the net deferred tax position is as follows:

	Net retirement benefit obligation/ (asset) £'000	Tax losses £'000	Accelerated tax depreciation £'000	Share-based payments £'000	Put options £'000	Other £'000	Total £'000
At 1 January 2008	5,920	168	(862)	4,128	(604)	3,307	12,057
Recognised on business combinations	–	–	(204)	–	–	–	(204)
Fair value adjustments relating to prior year business combinations	–	–	948	–	–	112	1,060
(Charged)/credited to the income statement	(827)	(159)	(1,345)	583	401	784	(563)
Credited/(charged) to equity	2,596	–	–	(1,595)	–	(382)	619
Exchange adjustments	1,206	–	(278)	–	8	472	1,408
At 31 December 2008	**8,895**	**9**	**(1,741)**	**3,116**	**(195)**	**4,293**	**14,377**
Recognised on business combinations (note 30)	–	–	–	–	–	(8,762)	(8,762)
(Charged)/credited to the income statement	(693)	4,433	1,080	(231)	127	2,459	7,175
Credited/(charged) to equity	2,411	–	–	(1,788)	–	(155)	468
Exchange adjustments	311	(10)	(156)	(102)	(8)	8	43
At 31 December 2009	**10,924**	**4,432**	**(817)**	**995**	**(76)**	**(2,157)**	**13,301**

23 Called up share capital

	2009 £'000	2008 £'000
Authorised share capital of Xchanging plc		
350,000,000 ordinary shares of 5p each	**17,500**	17,500

Allotted, called up and fully paid	2009 number
Xchanging plc ordinary shares of 5p each at 1 January 2009	219,468,787
Shares issued in respect of Cambridge acquisition	15,249,998
Exercise of share options	2,397,815
Total number of ordinary Xchanging plc shares at 31 December 2009	237,116,600
Total nominal value (£'000) at 31 December 2009	11,856

Increase in allotted share capital – 2009

15,249,998 shares were issued as part of the consideration for Cambridge Solutions Limited at the market rate applicable on the date of acquisition. Refer to note 30.

2,397,815 share options were exercised during 2009 for cash consideration of £1,924,000.

Allotted, called up and fully paid	2008 number
Xchanging plc ordinary shares of 5p each at 1 January 2008	214,799,304
Exercise of share options	4,669,483
Total number of ordinary Xchanging plc shares at 31 December 2008	219,468,787
Total nominal value (£'000) at 31 December 2008	10,973

Increase in allotted share capital – 2008

4,669,483 share options were exercised during 2008 for cash consideration of £3,165,000.

Share rights

All Xchanging plc ordinary shares carry equal share rights.

Financial statements
Notes to the consolidated financial statements for the year ended 31 December 2009 (continued)

23 Called up share capital continued

Share options

At 31 December 2009 options over 5,751,194 shares were outstanding (2008: 8,708,740 shares).

The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below.

	Approved options		Unapproved options		G share options	
	Number	WAEP* pence	Number	WAEP* pence	Number	WAEP* pence
At 1 January 2008	1,412,730	100.42	10,423,213	100.53	1,654,712	21.51
Movements during 2008						
– options granted	12,158	246.75	142,399	274.14	–	–
– options exercised	(151,932)	97.11	(3,037,687)	88.46	(1,479,864)	22.30
– options forfeited	(77,920)	127.48	(149,213)	132.50	(39,856)	32.23
At 31 December 2008	**1,195,036**	**100.56**	**7,378,712**	**108.20**	**134,992**	**9.65**
Movements during 2009						
– options granted	15,789	190.00	9,211	190.00	–	–
– options excercised	(338,286)	91.14	(1,924,537)	83.31	(134,992)	9.65
– options forfeited	(87,900)	104.80	(496,831)	128.72	–	–
At 31 December 2009	**784,639**	**105.94**	**4,966,555**	**115.95**	**–**	**–**

*Weighted average exercise price

	Approved options	Unapproved options	G share options
Range of exercise prices:			
2009	**33.20p – 277.00p**	**33.20p – 280.80p**	**–**
2008	33.20p – 277.00p	33.20p – 280.80p	9.65p
Weighted average remaining contractual life:			
2009	**2,167 days**	**2,114 days**	**–**
2008	2,483 days	2,329 days	1,944 days
Number of options exercisable at:			
31 December 2009	**302,310**	**2,550,820**	**–**
31 December 2008	434,524	4,370,160	134,992

24 Share-based payment plans

The Group operates a number of equity-settled share-based payment plans as follows:

(i) Share options

Options are granted with a fixed exercise price at the date of grant. The contractual life of an option is 10 years. Awards are granted to Directors and employees on a merit basis, and are subject to continuous employment. Options granted become exercisable on the third anniversary of the date of grant, and are valued using the Black-Scholes pricing model. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The fair value per option granted and the assumptions used in the calculations are as follows:

General assumptions	
Vesting period (years)	3
Option life (years)	10
Expected life (years)	3.25
Expected dividends expressed as a dividend yield (%)	1
Possibility of ceasing employment before vesting (%)	20
Risk-free interest rate (%)	2.1

	Year of grant 2009	Year of grant 2008
Weighted average share price at grant date (pence)	**198.00**	272.24
Weighted average exercise price (pence)		
– approved options	**190.00**	246.75
– unapproved options	**190.00**	274.14
Weighted average fair value of options granted in the period (pence)		
– approved options	**52.00**	59.00
– unapproved options	**52.00**	62.22
Expected volatility (%)	**34**	27 – 28

There were no grants of options over G shares during 2009 or 2008.

As limited historical volatility exists for Xchanging, the expected volatility is based on historical volatility of a peer group of companies over the last three years. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. A reconciliation of option movements over the year to 31 December 2009 is provided in note 23.

The weighted average share price during the year for options exercised over the year was £2.07 per share (2008: £2.46). The total charge for the year relating to employee share-based payments under the share option plans was £476,000 (2008: £548,000), all of which related to equity-settled share-based payment transactions.

(ii) Performance Share Plan (PSP)

Awards have been granted under the Performance Share Plan to Executive Directors and certain members of Xchanging's management group. Under the terms of the scheme, conditional awards of shares are granted, which will vest at the end of the three year performance period. Both basic and stretch awards have been granted, the proportion of each award that will vest is dependent on the performance of the Company's total shareholder return (TSR) as compared with the performance of its comparator group (defined as the constituents of the FTSE 250 index excluding investment trusts) and on the attainment of an EPS growth underpin. 25% of the basic awards will vest if TSR is at a median position and 100% if TSR is in the upper quartile. In between these positions, the basic award will vest on a straight-line basis. The stretch award will also vest on a straight-line basis, with 0% vesting if TSR is at an upper quartile position, up to 100% if TSR is in the top decile. The EPS underpin is the UK RPI plus 3%. The Group has no legal or constructive obligation to repurchase or settle the awards in cash.

Financial statements
Notes to the consolidated financial statements for the year ended 31 December 2009 (continued)

24 Share-based payment plans continued

(ii) Performance Share Plan (PSP) continued

Awards are granted to Directors and employees on a merit basis, and are subject to continuous employment over the length of the vesting period, or at the discretion of the Group if determined to be a 'good leaver' upon leaving. Awards granted vest three years from the date of the award and are valued using a Monte Carlo simulation model. The Monte Carlo simulation model used for valuing PSP awards with a TSR performance condition requires additional assumptions. A single co-efficient assumption of 22% (April award) or 26% (September award) (2008: 32%) (based on historical analysis) has been used in the current year, representing the level of correlation of growth in TSR between the comparator companies simulated in the model. The three year historical volatility for each company in the comparator group at grant date has been analysed and this historical volatility has been used in the model to project TSR for each company. As limited historical volatility exists for Xchanging, the expected volatility for the Group is based on historical volatility of a peer group of companies over the previous three years. The fair value per award granted and the assumptions used as inputs into the model are as follows:

General assumptions	2008 grant	April 2009 grant	September 2009 grant
Vesting period (years)	3.00 – 3.14	2.73	2.47
Expected life (years)	3.00 – 3.14	2.73	2.47
Expected dividends expressed as a dividend yield (%)	1	1	1
Possibility of ceasing employment before vesting (%)	20	20	20
Expected volatility (%)	28	35	35
Risk-free interest rate (%)	4.02 – 4.05	2.05	2.60
Weighted average share price at grant date (£)	2.59	1.86	2.25
Weighted average fair value at grant date (£)	1.36	0.69	0.56
Movements during 2008			
– awards granted	5,186,288	–	–
– awards forfeited	(194,254)	–	–
At 31 December 2008	**4,992,034**	**–**	**–**
Movements during 2009			
– awards granted	–	1,723,030	1,157,792
– awards forfeited	(1,158,586)	–	(47,725)
At 31 December 2009	**3,833,448**	**1,723,030**	**1,110,067**

The total charge for the year relating to the PSP awards including social security charges on the awards is £1,435,000 (2008: £1,765,000).

(iii) Share Purchase Plan 2007 (SPP)

The Group adopted the SPP during 2007, in which Executive Directors and certain members of senior management were invited to participate. Under this scheme, set up in February 2007, an employee benefit trust loaned money to the participants in order to allow them to purchase class F shares in Xchanging BV at the market value at the time of £5.30 (Xchanging plc equivalent value £1.33). These loans are non-interest bearing and the terms and conditions are described further in note 33. Participants may not normally sell, transfer or otherwise dispose of the shares awarded under the scheme for a period of 18 months from issue. Shares may now be sold on the condition that a pro-rata proportion of any loan from the employee benefit trust is repaid. As the shares were granted at the fair market value at the time there is no share-based payment charge as a result of this scheme.

25 Shareholders' equity

Share capital

The balance classed as share capital is the nominal proceeds on issue of the Company's equity share capital, comprising 5p ordinary shares.

Share premium

The amount paid to the Company by shareholders over and above the nominal value of the shares issued to them, less the direct costs of issuing the shares, is classified as share premium.

Merger reserve and reverse acquisition reserve

The merger and reverse acquisition reserves arise as a result of the share for share exchange undertaken in advance of the initial public offering. The merger reserve comprises the excess of the market value of the Xchanging plc shares issued to the Xchanging BV shareholders over the nominal value of those shares and arises as a result of the application of merger relief under Section 131 of the Companies Act 1985. The reverse acquisition reserve consists of the difference between the market value of the Xchanging plc shares issued to the Xchanging BV shareholders and the total share capital and share premium of the Xchanging BV shares.

Other reserves

Composition of the other reserves is described in note 26.

Retained earnings

These represent the accumulation of the Group's net profits retained within the business, after the payment of any dividends.

Minority interests

These represent the minority interests' share in the assets and liabilities of both the Enterprise Partnerships and of Cambridge Solutions Limited.

26 Other reserves

	Revaluation reserve £'000	Translation reserve £'000	Hedging reserve £'000	Other reserves £'000	Total £'000
At 1 January 2008	903	1,689	–	8,440	11,032
Revaluation of available-for-sale financial assets (net of minority interest share)	(2,791)	–	–	–	(2,791)
Actuarial loss on pensions (net of minority interest share)	–	–	–	(6,099)	(6,099)
Deferred tax on pensions and revaluations taken to reserves (net of minority interest share)	(195)	–	–	1,689	1,494
Foreign exchange movement on hedged item	–	–	3,208	–	3,208
Currency translation differences (net of minority interest share)	–	9,648	–	–	9,648
At 31 December 2008	**(2,083)**	**11,337**	**3,208**	**4,030**	**16,492**
Revaluation of available-for-sale financial assets (net of minority interest share)	155	–	–	–	155
Actuarial loss on pensions (net of minority interest share)	–	–	–	(7,593)	(7,593)
Deferred tax on pensions (net of minority interest share)	–	–	–	2,170	2,170
Deferred tax on revaluations (net of minority interest share)	(79)	–	–	–	(79)
Transfer of foreign exchange movement on hedged item to cost of acquisition	–	–	(3,208)	–	(3,208)
Share price differential on issuing Cambridge shares	–	–	–	7,778	7,778
Currency translation differences (net of minority interest share)	(6)	1,891	–	(1,990)	(105)
At 31 December 2009	**(2,013)**	**13,228**	**–**	**4,395**	**15,610**

Financial statements
Notes to the consolidated financial statements for the year ended 31 December 2009 (continued)

26 Other reserves continued

Revaluation reserve
The revaluation reserve comprises the fair value adjustments and related tax on the available-for-sale financial assets held by the Group.

Translation reserve
The translation reserve comprises the exchange adjustments arising from translating the results of foreign operations into the Group's presentation currency of Sterling.

Hedging reserve
The hedging reserve comprises the amounts taken to equity in respect of a cash flow hedge relating to an amount placed in escrow in respect of the Open Offer as part of the Cambridge Solutions Limited acquisition (note 30).

Other reserves
The other reserves comprise the amounts taken to equity in respect of retirement benefit obligations, and differences in share price between the date of issue, and the date of control passing in respect of acquisitions.

27 Equity minority interests

	2009 £'000	2008 £'000
At 1 January	15,792	15,336
Minority interests' share of profit for the year	5,551	6,390
Buy out of minority interests	13	–
Minority interests' share of actuarial loss on pensions	(882)	(3,297)
Minority interests' share of deferred tax on pensions	241	906
Minority interests' share of revaluation of available-for-sale financial assets	169	584
Minority interests' share of deferred tax on revaluation of available-for-sale financial assets	(76)	(187)
Minority interests' share of currency translation differences	1,027	1,934
Dividends payable to minority interests	(2,021)	–
Dividends paid to minority interests	(4,296)	(5,874)
At 31 December	15,518	15,792

The profits of the Xchanging Group companies in which the minorities have an interest are not necessarily shared in proportion to the shareholding interest in that company as each of the individual Enterprise Partnerships has a distinct contractual method of profit share.

28 Financial commitments and contingent liabilities

On 13 May 2009, the Group entered into an agreement with DAB bank AG to acquire their FondsServiceBank (FSB) business unit, an investment funds administration business. As a result of this agreement, the Group will acquire all contracts with distribution partners and customers relating to the safekeeping and administration of investment fund shares for a total consideration of €19,900,000 (£17,900,000 at the year end closing rate) in cash. €9,950,000 (£8,950,000 at the year end closing rate) of the total consideration was paid in 2009 and has been recognised as a prepayment in the financial statements. The remaining consideration payable of €9,950,000 will be paid during the first half of 2010. The Group will finalise the acquisition through Fondsdepot Bank (FDB), its Enterprise Partnership with Allianz Global Investors. The transaction remains subject to competition clearance by the German Federal Cartel Office (Bundeskartellamt) but is expected to be finalised during 2010.

On 31 December 2009, the Group entered an agreement with SEB Bank and SEB Asset Management to acquire their SEB Investmentservice (SEB ISG), a B2B investment accounts business, for a total consideration of €25,000 (£22,500 at the year end closing rate). The migration of the SEB ISG business onto FDB's IT platform is expected to be completed by 31 December 2010.

At 31 December future aggregate minimum lease payments under non-cancellable operating leases were as follows:

	2009 £'000	2008 £'000
Within one year	**18,733**	11,456
Later than one year but not more than five years	**44,108**	37,749
Later than five years	**17,253**	19,226

The Group's most significant leases are those of the premises at Leadenhall Street, London, at Whitefields, Bangalore and in Chicago and Frankfurt. The London lease expires in July 2021 and was subject to a rent review in July 2009. The German lease expires in May 2013, the Bangalore lease in February 2011 and the Chicago lease in April 2012.

The Group is contractually obligated to invest amounts, on behalf of the Enterprise Partnerships it has established, in technology development and maintenance and in the development of new processes and systems. The total commitment outstanding at 31 December is presented below as analysed by the period in which the commitment falls due:

	2009 £'000	2008 £'000
Within one year	**4,457**	6,144
Later than one year but not more than two years	**3,333**	3,333
Later than two years but not more than five years	**–**	1,667
	7,790	11,144

During 2008 the Group put in place a guarantee covering contributions to one of its pension schemes as part of an agreement reached with the scheme's trustees for funding the scheme at the 2007 actuarial valuation. The guarantee will remain in place until 30 April 2017 and will reduce in value in line with contributions paid to the scheme under the agreed contributions schedule. The value of the guarantee was £13,369,000 at 31 December 2009 (2008: £13,369,000). The Group would be required to make contributions to the scheme under the guarantee following any of the below occurring:

- an insolvency event of the sponsoring employers of the scheme
- a failure by the sponsoring employers to make contributions to the scheme under Section 75 or Section 75a of the Pensions Act 1995
- a failure by the sponsoring employers to make contributions to the scheme under the agreed contributions schedule within 15 business days of that payment becoming due.

Financial statements
Notes to the consolidated financial statements for the year ended 31 December 2009 (continued)

29 Cash generated from operations

	Note	2009 £'000	2008 £'000
Profit before tax		19,458	49,166
Net finance cost/(income)	9	5,301	(2,707)
Operating profit		24,759	46,459
Adjustment for non-cash items:			
– employee share-based payment charges		1,911	2,131
– depreciation	15	14,659	6,191
– amortisation of intangibles	14	22,959	11,090
– amortisation of pre-contract costs	17	1,388	1,434
– loss on disposal of property, plant and equipment and intangibles	7	102	349
– write-off of intangibles and property, plant and equipment		–	136
		65,778	67,790
Changes in working capital (excluding the effects of business combinations):			
– increase in trade and other receivables		(9,923)	(1,480)
– (decrease)/increase in payables		(272)	5,992
– decrease/(increase) in pensions		1,427	(148)
– increase/(decrease) in provisions		5,927	(2,439)
Cash generated from operations		62,937	69,715

30 Business combinations
Cambridge Solutions Limited

On 3 October 2008, Xchanging plc agreed to acquire 75% of the fully diluted share capital (76.055% of the issued share capital) of Cambridge Solutions Limited, an international BPO and IT services provider with a global presence established 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 acquisition was 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 was required to make an Open Offer to acquire up to 20% of the fully diluted share capital of Cambridge Solutions Limited.

The Open Offer to the public completed on 2 April 2009, with the acquisition of shares under the share purchase agreements completing subsequently on 9 April 2009. However, pursuant to the terms of the sales and purchase agreements entered into, certain rights were assumed by Xchanging in advance of this final completion date. A number of these rights were enacted from 1 January 2009, and therefore it is from this date that the power of operational control was considered to have passed, and is the date from which Cambridge Solutions Limited's results have been 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 was £92,621,000, settled through the payment of INR 3,711,000,000 (£48,517,000 at the prevailing exchange rate), and through the issue of 15,249,998 Xchanging plc shares (£35,895,000 based on the market share price of 235.5 pence per share prevailing on the date of operational control being assumed). Costs totalling £8,209,000 have been incurred in respect of the acquisition.

Cambridge Solutions Limited contributed revenue of £146,000,000, underlying profit of £6,125,000 and a statutory loss after tax of £11,500,000 to the Group for the period from acquisition to 31 December 2009.

30 Business combinations continued

Cambridge Solutions Limited continued

The book and fair values of the acquired assets and liabilities as at 1 January 2009 are set out below:

	Acquiree's carrying amount £'000	Net adjustments £'000	**Fair value £'000**
Intangible assets (excluding goodwill)	12,901	12,300	**25,201**
Property, plant and equipment	8,546	(34)	**8,512**
Available-for-sale financial assets	2,014	(1,620)	**394**
Held-for-trading financial assets	153	1,373	**1,526**
Deferred income tax assets	833	–	**833**
Trade and other receivables	32,668	(3,137)	**29,531**
Cash and cash equivalents	4,050	(103)	**3,947**
Trade and other payables	(41,524)	(22,803)	**(64,327)**
Current income tax liabilities	(2,643)	(984)	**(3,627)**
Financial liabilities – borrowings	(40,446)	191	**(40,255)**
Deferred income tax liabilities	(946)	(8,649)	**(9,595)**
Provisions	(15,393)	(10,527)	**(25,920)**
Net liabilities acquired	(39,787)	(33,993)	**(73,780)**

The fair value adjustments in respect of intangible assets are due to the recognition of £23,200,000 in respect of customer relationships, offset by the write-off of £10,900,000 of intangibles recorded on Cambridge Solutions Limited's balance sheet prior to the acquisition. An adjustment to deferred income of £21,200,000 has been recognised in respect of certain run-off contracts operated by Cambridge Solutions Limited for which the amount of revenue previously recognised has been re-assessed in light of revised estimations of costs expected to be incurred to close all outstanding claims. This balance is included within trade and other payables. For details of provisions recognised as a result of the acquisition of Cambridge Solutions Limited, please refer to note 21. The adjustments to current assets, current liabilities, provisions and deferred tax liabilities relate to valuation adjustments and are final, based on management's best estimates.

Goodwill represents the value of both sales and cost synergies expected to arise from combining and integrating the operations of Cambridge Solutions Limited into the Xchanging Group; the strategic premium offered by the potential for Xchanging to enter and establish critical mass in a global marketplace (a 'global footprint'); to customer relationships that are not legally secured and therefore could not be separately identified as an IFRS 3 intangible asset; and the value of the assembled Cambridge workforce.

Details of net liabilities acquired and goodwill are as follows:

	£'000
Purchase consideration	
– cash	48,517
– issue of shares	35,895
– costs of acquisition	8,209
Total purchase consideration	92,621
Xchanging's share of the fair value of net liabilities acquired	73,780
Minority interest's share of the fair value of net liabilities acquired	–
Goodwill	**166,401**

Financial statements
Notes to the consolidated financial statements for the year ended 31 December 2009 (continued)

31 Retirement benefit obligations

The Group operates a number of pension plans for its qualifying employees. The principal plans are three defined benefit schemes in the UK and two defined benefit schemes in Germany. With the exception of one scheme in Germany, the defined benefit schemes are funded and assets are held in separate trustee administered funds. For the Fondsdepot Bank scheme, there is no separate Contractual Trust Agreement which is in line with many German companies' schemes. As a result, pension liabilities are fully recognised on the balance sheet as a retirement benefit obligation with pension assets being integrated with the business assets. The Group also participates in a number of multi-employer defined benefit schemes and operates a number of defined contribution schemes. The Group introduced a salary sacrifice arrangement during 2009 for members of certain schemes.

(i) Defined benefit schemes

The disclosures below relate to post-retirement benefit plans in the UK and Germany which are accounted for as defined benefit plans in accordance with IAS 19. The valuations used for the IAS 19 disclosures are based on the most recent actuarial valuations undertaken by independent qualified actuaries and updated to take account of the requirements of IAS 19 in order to assess the funding position of the plans at 31 December each year. Plan assets are shown at the market value at 31 December each year.

Financial assumptions

The assumptions used by the actuaries are chosen from a range of possible actuarial assumptions which, due to the long-term nature of the schemes, may not necessarily be borne out in practice. These assumptions are as follows:

	2009		2008	
	UK %	Germany %	UK %	Germany %
Rate of increase in pensionable salaries	**4.25**	**2.50**	3.80	2.50
Rate of increase in pensions in payment (RPI up to 5%)	**3.20**	**n/a**	2.70	n/a
Rate of increase in pensions in payment (fixed 5%)	**5.00**	**n/a**	5.00	n/a
Rate of increase in pensions in payment (RPI up to 2.5%)	**2.10**	**n/a**	2.00	n/a
Rate of increase in pensions in payment	**n/a**	**2.00**	n/a	2.00
Rate of increase in deferred pensions	**3.50**	**2.00**	2.80	2.00
Discount rate	**5.80**	**5.40**	6.40	5.75
Inflation assumption	**3.50**	**2.00**	2.80	2.00
Long-term rate of return expected at 31 December	**n/a**	**5.00**	n/a	5.00
– equities	**8.50**	**n/a**	7.30	n/a
– gilts	**4.50**	**n/a**	3.80	n/a
– bonds	**5.80**	**n/a**	6.40	n/a
Expected return on plan assets	**6.14 – 6.58**	**5.00**	5.10 – 5.98	5.00

To develop the assumption around the expected long-term rate of return on assets, the Group considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return assumption for the portfolio.

The post-retirement mortality tables used for the schemes are based on country specific mortality tables, namely the PA 00 series in the UK (based on year of birth with a scaling factor of 110% and with allowance for medium cohort improvements) and Richtaffeln 2005 G, Heubeck-Richtaffeln GmbH, Koln 2005 in Germany. The table below illustrates life expectancy assumptions at age 65 for current pensioners and future pensioners aged 45 at the accounting date:

	2009		2008	
	UK years	Germany years	UK years	Germany years
Male current pensioner	**21.1**	**18.1**	21.0	18.0
Male future pensioner	**22.2**	**24.1**	22.2	23.9
Female current pensioner	**23.4**	**22.3**	23.3	22.1
Female future pensioner	**24.4**	**28.1**	24.3	28.0

31 Retirement benefit obligations continued

(i) Defined benefit schemes continued

Amounts recognised in the financial statements in respect of the defined benefit pension schemes

The retirement benefit obligation recognised in the balance sheet is:

	2009			2008		
	UK £'000	Germany £'000	Total £'000	UK £'000	Germany £'000	Total £'000
Equities	42,526	4,628	47,154	32,786	2,325	35,111
Bonds and gilts	37,981	49,090	87,071	33,107	47,113	80,220
Property	3,862	–	3,862	2,834	–	2,834
Cash	114	3,480	3,594	22	6,962	6,984
Other	69	508	577	4,067	5,927	9,994
Fair value of plan assets	84,552	57,706	142,258	72,816	62,327	135,143
Present value of funded obligation	(106,849)	(65,317)	(172,166)	(87,319)	(66,004)	(153,323)
Net deficit recognised in the balance sheet	(22,297)	(7,611)	(29,908)	(14,503)	(3,677)	(18,180)

The net deficit of £29,908,000 (2008: £18,180,000) at 31 December 2009 comprises £396,000 retirement benefit asset in respect of one of the schemes and £30,304,000 retirement benefit obligation (2008: £407,000 and £18,587,000 respectively).

The amounts recognised in the income statement are as follows:

	2009			2008		
	UK £'000	Germany £'000	Total £'000	UK £'000	Germany £'000	Total £'000
Current service cost	(1,529)	(1,109)	(2,638)	(1,576)	(1,030)	(2,606)
Settlements/curtailments	–	9	9	–	–	–
Interest cost	(5,565)	(3,401)	(8,966)	(5,312)	(2,909)	(8,221)
Expected return on plan assets	4,219	2,850	7,069	5,384	2,583	7,967
Total included within staff costs (note 8)	(2,875)	(1,651)	(4,526)	(1,504)	(1,356)	(2,860)
Included within:						
– cost of sales	(1,529)	(1,100)	(2,629)	(1,576)	(1,030)	(2,606)
– finance costs	(1,346)	(551)	(1,897)	72	(326)	(254)
	(2,875)	(1,651)	(4,526)	(1,504)	(1,356)	(2,860)

The total amounts for the defined benefit schemes credited/(charged) to the statement of other comprehensive income are as follows:

	2009			2008		
	UK £'000	Germany £'000	Total £'000	UK £'000	Germany £'000	Total £'000
Actuarial (losses)/gains	(8,872)	397	(8,475)	(10,275)	881	(9,394)
Exchange adjustments	–	237	237	–	(855)	(855)
	(8,872)	634	(8,238)	(10,275)	26	(10,249)
Cumulative amounts recognised	(2,996)	2,901	(95)	5,876	2,267	8,143

Financial statements
Notes to the consolidated financial statements for the year ended 31 December 2009 (continued)

31 Retirement benefit obligations continued

(i) Defined benefit schemes continued

Analysis of the movement in the present value of the defined benefit obligation

	2009			2008		
	UK £'000	Germany £'000	Total £'000	UK £'000	Germany £'000	Total £'000
Present value at 1 January	(87,319)	(66,004)	(153,323)	(89,146)	(50,300)	(139,446)
Current service cost	(1,529)	(1,109)	(2,638)	(1,576)	(1,030)	(2,606)
Settlements/curtailments	–	9	9	–	–	–
Interest cost	(5,565)	(3,401)	(8,966)	(5,312)	(2,909)	(8,221)
Actuarial (losses)/gains	(15,388)	861	(14,527)	7,475	1,819	9,294
Experience adjustments on actuarial losses	–	(2,785)	(2,785)	–	–	–
Plan participants contributions paid	(127)	3	(124)	(649)	3	(646)
Benefits paid	3,079	2,647	5,726	1,889	2,479	4,368
Exchange adjustments	–	4,462	4,462	–	(16,066)	(16,066)
Present value at 31 December	**(106,849)**	**(65,317)**	**(172,166)**	(87,319)	(66,004)	(153,323)

Analysis of the movement in the fair value of the plan assets

	2009			2008		
	UK £'000	Germany £'000	Total £'000	UK £'000	Germany £'000	Total £'000
Fair value at 1 January	72,816	62,327	135,143	82,818	47,950	130,768
Expected return on plan assets	4,219	2,850	7,069	5,384	2,583	7,967
Actuarial gains/(losses)	6,516	(464)	6,052	(17,750)	(938)	(18,688)
Employer contributions paid	3,953	(134)	3,819	3,604	–	3,604
Plan participants contributions paid	127	–	127	649	–	649
Benefits paid	(3,079)	(2,647)	(5,726)	(1,889)	(2,479)	(4,368)
Exchange adjustments	–	(4,226)	(4,226)	–	15,211	15,211
Fair value at 31 December	**84,552**	**57,706**	**142,258**	72,816	62,327	135,143
Actual return on plan assets	**10,729**	**2,386**	**13,115**	(12,366)	1,645	(10,721)

The assets and liabilities at 31 December 2009 for the UK include £3,559,000 in relation to pensioner members of the London Processing Centre Ltd Retirement and Death Benefits Scheme who have insurance policies held in respect of their benefits.

31 Retirement benefit obligations continued

(i) Defined benefit schemes continued

Historical information of experience adjustments on plan assets and liabilities

The historical information below has been presented in relation to the schemes from the later of 1 January 2005, or the date the scheme was acquired by the Group.

	2009	2008	2007	2006	2005
UK					
Fair value of scheme assets (£'000)	**84,552**	72,816	79,245	72,215	65,406
Present value of defined benefit obligation (£'000)	**(106,849)**	(87,319)	(85,573)	(91,602)	(93,260)
Net liability recognised (£'000)	**(22,297)**	(14,503)	(6,328)	(19,387)	(27,854)
Experience adjustments on plan assets:					
– amount (£'000)	**6,516**	(17,750)	(158)	1,993	4,943
– percentage of scheme assets	**8%**	(24%)	0%	3%	8%
Experience adjustments on plan liabilities:					
– amount (£'000)	**(738)**	709	3,976	234	1,122
– percentage of scheme liabilities	**(1%)**	1%	5%	0%	1%
Germany					
Fair value of scheme assets (£'000)	**57,706**	62,327	47,950	47,736	50,928
Present value of defined benefit obligation (£'000)	**(65,317)**	(66,004)	(50,300)	(50,250)	(51,586)
Net liability recognised (£'000)	**(7,611)**	(3,677)	(2,350)	(2,514)	(658)
Experience adjustments on plan assets:					
– amount (£'000)	**(464)**	(938)	(4,456)	(3,362)	4,717
– percentage of scheme assets	**(1%)**	(2%)	(9%)	(7%)	9%
Experience adjustments on plan liabilities:					
– amount (£'000)	**(2,785)**	268	1,752	200	–
– percentage of scheme liabilities	**(4%)**	0%	3%	0%	–
Total					
Fair value of scheme assets (£'000)	**142,258**	135,143	127,195	119,951	116,334
Present value of defined benefit obligation (£'000)	**(172,166)**	(153,323)	(135,873)	(141,852)	(144,846)
Net liability recognised (£'000)	**(29,908)**	(18,180)	(8,678)	(21,901)	(28,512)
Experience adjustments on plan assets:					
– amount (£'000)	**6,052**	(18,688)	(4,614)	(1,369)	9,660
– percentage of scheme assets	**4%**	(14%)	(4%)	(1%)	8%
Experience adjustments on plan liabilities:					
– amount (£'000)	**(3,523)**	977	5,728	434	1,122
– percentage of scheme liabilities	**(2%)**	1%	4%	0%	1%

It is expected that the contributions to the schemes during 2010 will be £4,172,000 for the UK schemes and £2,921,000 for the German schemes.

Financial statements
Notes to the consolidated financial statements for the year ended 31 December 2009 (continued)

31 Retirement benefit obligations continued

(ii) BAE Systems defined benefit schemes

The Group also participates in a number of multi-employer defined benefit schemes run for the employees of BAE Systems.

The terms on which the Group participates in these schemes were set in commercial agreements reached with BAE Systems during 2006. Under the terms of these agreements, the contributions payable by the Group represent the cost of accrual of future service benefits and the Group's share of the deficit contributions made by BAE Systems to the schemes only (not including any one-off contributions made by BAE Systems during 2006). The contributions are expressed as fixed percentages of pensionable payroll. The Group's contribution rates to the schemes are contractually fixed and will only be affected by changes to the cost of accrual of future service benefits, as determined at the triennial valuations of the schemes. The Group's contribution rates are not affected by any future changes in the past service position of the schemes, relating to past service of its own employees or other members of the scheme.

It is not possible to identify the Group's share of the underlying assets and liabilities of the schemes on a consistent and reasonable basis. Accordingly, the Group accounts for contributions to the schemes as if they were defined contribution schemes under IAS 19.

The pension cost that was charged in the income statement relating to current year contributions was £1,070,000 (2008: £960,000).

(iii) Xchanging Group defined contribution schemes

The Group also operates a number of defined contribution schemes for the employees of various subsidiary companies of Xchanging plc. Pension costs for the Group that were charged to the income statement for the year relating to current year contributions were £7,978,000 (2008: £6,178,000).

32 Financial instruments

Financial risk management

The Group's financial instruments comprise borrowings, cash and liquid resources, and various items, such as trade receivables and trade payables that arise directly from its operations. The Board is ultimately responsible for ensuring that financial and non-financial risks arising from financial instruments are monitored and managed within acceptable and known parameters. The Group's treasury function acts as a service centre and operates within clearly defined guidelines and policies that are approved by the Board. The guidelines and policies define the financial risks to be managed; specify the objectives in managing these risks; delegate responsibilities to those managing the risks; and establish a control framework to regulate treasury activities to minimise operational risk.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk.

The Group may enter into derivative transactions to mitigate the exposure to these risks. It is the Group's policy that no trading in financial instruments or speculative transactions be undertaken.

32 Financial instruments continued

Classification of financial instruments

The following tables analyse by classification and category all of the Group's financial instruments that are carried in the financial statements.

Assets as per the balance sheet	Note	Loans and receivables £'000	Assets at fair through value profit and loss £'000	Available-for-sale financial assets £'000	Total £'000
31 December 2009					
Available-for-sale financial assets	16	–	–	26,264	26,264
Trade and other receivables	17	69,656	1,711	–	71,367
Cash and cash equivalents	18	60,115	–	–	60,115
Total		**129,771**	**1,711**	**26,264**	**157,746**
31 December 2008					
Available-for-sale financial assets	16	–	–	26,782	26,782
Trade and other receivables	17	66,573	466	–	67,039
Cash and cash equivalents	18	117,798	–	–	117,798
Total		**184,371**	**466**	**26,782**	**211,619**

Financial assets within trade and other receivables comprise net trade receivables, corporate income taxes receivable, other receivables, loans to related parties and deferred consideration on acquisition which have been classified as loans and receivables in the table above, and held-for-trading equity securities classified as assets at fair value through profit and loss.

Liabilities as per the balance sheet	Note	Liabilities at fair value through profit and loss £'000	Other financial liabilities £'000	Total £'000
31 December 2009				
Trade and other payables	19	–	64,488	64,488
Current income tax liabilities		–	6,444	6,444
Borrowings excluding finance lease liabilities	20	–	38,167	38,167
Finance lease liabilities	20	–	1,121	1,121
Put options to acquire the minority interest in Enterprise Partnerships	20	23,304	–	23,304
Total		**23,304**	**110,220**	**133,524**
31 December 2008				
Trade and other payables	19	–	54,711	54,711
Current income tax liabilities		–	4,443	4,443
Borrowings excluding finance lease liabilities	20	–	276	276
Put options to acquire the minority interest in Enterprise Partnerships	20	24,119	–	24,119
Total		**24,119**	**59,430**	**83,549**

Financial liabilities within trade and other payables comprise trade payables, social security and other taxes and other payables which have been classified as other financial liabilities.

Financial statements
Notes to the consolidated financial statements for the year ended 31 December 2009 (continued)

32 Financial instruments continued

Credit facilities and liquidity management

The Group maintains committed credit facilities to ensure that it has sufficient liquidity to maintain its ongoing operations. During the year the Group syndicated its existing bank credit facility and increased it by £21,400,000 to £111,400,000. The £111,400,000 comprises a £75,000,000 revolving credit facility which matures in October 2012 and a US$58,000,000 (£36,400,000) term loan which amortises from 31 December 2009 and matures in October 2012.

As at 31 December 2009, the Group had utilised US$50,000,000 (£31,400,000) of the term loan facility and €20,000,000 (£18,000,000) of the revolving credit facility. The €20,000,000 has been utilised to support a letter of credit provided to Allianz Global Investors in relation to the Fondsdepot Bank Enterprise Partnership.

The facilities are unsecured and have financial and non-financial covenants, in respect of interest cover, leverage and minimum net worth, and obligations typical of these arrangements. The Group complied with these covenants during the period.

The Group also acquired in the year the available borrowing facilities of Cambridge Solutions Limited which included secured term loans of INR 480,000,000 (£6,425,000) and US$34,000,000 (£21,346,000), bank overdrafts of INR 135,000,000 (£1,807,000), an export credit facility of INR 220,000,000 (£2,945,000), and an unsecured loan of US$4,700,000 (£2,950,000). The secured term loans and overdrafts acquired are secured by way of a first pari passu charge on the current assets and moveable fixed assets of Cambridge and a corporate guarantee. The export credit facility is secured by way of lien of all the receivables of Cambridge and a corporate guarantee.

As at 31 December 2009, the Group had a balance of INR 300,000,000 (£4,016,000) outstanding on the secured term loans, INR 33,758,000 (£452,000) drawn under the bank overdrafts and an outstanding balance of INR 215,939,000 (£2,891,000) on the export credit facility. During the year, scheduled payments were made on the INR term loans and the Group accelerated the repayment of all outstanding balances on the US dollar denominated loans.

The Group has the following undrawn committed and uncommitted borrowing facilities available:

	2009 £'000	2008 £'000
Expiring within one year	**1,510**	5,000
Expiring later than one year but not more than two years	–	10,000
Expiring later than two years but not more than five years	**57,000**	75,000
	58,510	90,000

32 Financial instruments continued

Liquidity risk

The Group monitors its risk of a shortage of funds using a daily cash management process and through regular cash reporting. These processes consider the maturity of both the Group's financial assets and liabilities and projected cash flows from operations. The Group's policy is to ensure that all projected borrowing needs are covered by committed facilities, maintaining minimum funding headroom defined by the Board.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2009 based on contractually agreed undiscounted cash flows:

	Expiring within one year £'000	Expiring later than one year but not more than two years £'000	Expiring later than two year but not more than five years £'000	Total contractual amount £'000
31 December 2009				
Trade and other payables excluding taxes, accruals and deferred income	53,359	–	–	53,359
Borrowings excluding finance lease liabilities	16,116	11,450	11,385	38,951
Interest on borrowings	1,436	860	427	2,723
Finance lease liabilities including related finance cost	727	277	117	1,121
Other financial liabilities	900	23,888	–	24,788
Total	**72,538**	**36,475**	**11,929**	**120,942**
31 December 2008				
Trade and other payables excluding taxes, accruals and deferred income	45,155	11	–	45,166
Borrowings excluding finance lease liabilities	276	–	–	276
Other financial liabilities	974	974	24,051	25,999
Total	**46,405**	**985**	**24,051**	**71,441**

Credit risk

The Group's principal financial assets are cash and cash equivalents and trade and other receivables.

The Group has a concentration of credit risk with respect to trade receivables due to the nature and structure of the Enterprise Partnerships. An analysis of all debts which are past due is included in note 17. Credit risk assessments are performed when signing up to a new Enterprise Partnership and for new customers. Credit risk is mitigated to an extent by the profile of companies with whom the Group has entered into Enterprise Partnerships, being blue chip companies. Receivable purchase facilities are considered for specific operations where credit risk is considered higher.

The Group's treasury function only transacts with counterparties that have a strong investment grade rating from a credit rating agency. It also ensures that no exposure to any one institution at any given time exceeds the Board approved exposure limit.

Interest rate risk

Currently all financial liabilities are subject to floating rate interest. The Group also holds a Euro denominated financial asset which carries a fixed coupon. The Group reviews its interest rate exposure against acceptable risk profiles on a periodic basis.

Working capital is generally held in variable rate operational accounts, with surplus cash placed on fixed rate short-term deposits.

The Group has used a sensitivity analysis technique that measures the estimated impact on the income statement and equity of a reasonably possible change in market interest rates for each class of financial instruments, with all other variables held constant. The sensitivity analysis is based on the following assumptions:

- changes in market interest rates affect interest income or expense of variable interest financial instruments
- changes in market interest rates only affect interest income or expense in relation to financial instruments with fixed interest rates if these are recognised at their fair value.

Financial statements
Notes to the consolidated financial statements for the year ended 31 December 2009 (continued)

32 Financial instruments continued

Interest rate risk continued

The table below demonstrates the sensitivity of the Group's financial assets and liabilities to a reasonably possible change in the market interest rates to which it is exposed, with all other variables held constant:

	Interest rate increase (basis points)	Income gains/(losses) £'000	Equity gains £'000	Interest rate decrease (basis points)	Income gains/(losses) £'000	Equity losses £'000
At 31 December 2009						
UK rate	100bps	273	149	25bps	(68)	(38)
US rate	100bps	(23)	–	10bps	2	–
Indian rate	100bps	(41)	–	100bps	41	–
Euro rate	100bps	19	222	25bps	(4)	(57)
Australian rate	100bps	38	–	100bps	(38)	–
Total		**266**	**371**		**(67)**	**(95)**
At 31 December 2008						
UK rate	100bps	911	225	100bps	(905)	(233)
Euro rate	100bps	(98)	357	100bps	105	(370)
Total		**813**	**582**		**(800)**	**(603)**

Foreign exchange risk

The international nature of the Group's operations expose the Group to a number of foreign currencies, and therefore to foreign exchange risk. The Group will hedge foreign exchange transaction exposure under circumstances where the risk profile is deemed unacceptable. The Group does not hedge profit translation risk. The Group will create natural balance sheet hedging by matching assets and liabilities by currency where possible.

The Group has used a sensitivity analysis technique that measures the estimated impact on the income statement and equity of a reasonably possible change in foreign currency exchange rates for each class of financial instruments, with all other variables held constant. The sensitivity analysis is based on material non-functional currency financial instruments within each entity within the Group.

With a 10% strengthening or weakening of Sterling against all material currencies (Euro, US Dollar, Indian Rupee and Australian Dollar), profit before tax would have decreased by approximately £3,800,000 (2008: £1,000,000) or increased by £4,700,000 (2008: £1,200,000) respectively, and equity would have decreased by approximately £3,100,000 (2008: £4,700,000) or increased by £3,800,000 (2008: £5,800,000) respectively.

Market risk and price risk

The Group holds listed investments, classified as available-for-sale financial assets, which expose the Group to equity securities price risk. These investments are reviewed on a regular basis to ensure their suitability according to the Group's risk profile.

A 5% increase or decrease in the market value of the Group's investments would have a £1,285,000 impact on equity (2008: £1,300,000) and no impact on the income statement.

32 Financial instruments continued

Capital risk management

The Group manages capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of its capital structure. The Group's overall strategy remains unchanged from 2008.

The table below presents quantitative data for the components the Group manages as capital:

	2009 £'000	2008 £'000
Shareholders' funds attributable to Xchanging shareholders	**274,296**	242,588
Bank loans and overdrafts	**37,968**	–
Obligations under finance leases	**1,121**	–
Cash in hand and at bank	**(60,115)**	(117,728)
At 31 December	**253,270**	124,860

The Group does not set a target level of gearing but uses capital opportunistically to add value to shareholders. In order to maintain the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders and sell or purchase assets to reduce or increase debt.

The Group seeks to maintain a strong credit profile to aid its ability to partner in business. The Group will ordinarily aim not to exceed net debt of 2.0 times XEBITDA (Xchanging's share of EBITDA) where net debt is defined as all financial indebtedness less cash. The Group was not in a net debt position at 31 December 2009 or 31 December 2008.

Xchanging operates in a number of regulatory regimes. The securities processing and retail investment account management businesses in Germany, Xchanging Transaction Bank (XTB) and Fondsdepot Bank, maintain banking licences and are regulated under the German Federal Financial Supervisory Authority (BaFin). Components of the insurance businesses are regulated in the UK by the Financial Services Authority (FSA). The Group has complied with all the BaFin and FSA regulations during 2009.

Financial statements
Notes to the consolidated financial statements for the year ended 31 December 2009 (continued)

33 Related party transactions

The following companies are considered to be related parties of the Group as they hold minority shareholdings in a number of the subsidiaries of Xchanging plc.

The Corporation of Lloyd's held a 25% interest in Ins-sure Holdings Limited and a 50% interest in Xchanging Claims Services Limited for the full year ended 31 December 2009. Some of the directors of Xchanging Claims Services Limited are employees of the Corporation of Lloyd's. The emoluments of these directors were borne by the Corporation of Lloyd's.

The International Underwriting Association held a 25% interest in Ins-sure Holdings Limited for the full year ended 31 December 2009.

Deutsche Bank AG held a 44% interest in Xchanging etb GmbH for the full year ended 31 December 2009. Some of the directors of Xchanging etb GmbH are employees of Deutsche Bank AG. The emoluments of these directors were borne by Deutsche Bank AG.

Aon Limited held a 50% interest in Xchanging Broking Services Limited for the full year ended 31 December 2009. Some of the directors of Xchanging Broking Services Limited are employees of Aon Limited. The emoluments of these directors were borne by Aon Limited.

Allianz Global Investors Kapitalanlagegesellschaft mbH held a 49% interest in Fondsdepot Bank GmbH for the full year ended 31 December 2009.

During the year Cambridge Integrated Services Group Inc., a wholly owned subsidiary of the Group, entered into a contract with Campagnie Pour Assistance Technique et Investissements S.A. to provide consulting services, business development and procurement services.

Scandent Holdings Mauritius Limited, the previous owner of Cambridge Solutions Limited, is considered to be a related party of the Group by virtue of the fact that its directors have representation on the board of Cambridge Solutions Limited.

A description of the nature of the services provided to/from these companies by/to the Group and the amount receivable/(payable) in respect of each at 31 December, are set out in the table below:

	Sales/(purchases)		Year end Receivables/(payables)	
Services provided by/to the Group	**2009 £'000**	2008 £'000	**2009 £'000**	2008 £'000
Securities processing services	**116,881**	96,856	**6,074**	2,756
Processing, expert and data services	**40,699**	35,327	**6,432**	1,318
Property charges	**648**	994	**–**	–
Consultancy, business development and procurement services	**4,789**	–	**(1,570)**	–
IT costs, premises, divisional corporate charges and other services in support of operating activities	**(27,738)**	(28,847)	**(8,907)**	(7,528)
Operating systems, development, premises and other services in support of operating activities	**(312)**	(420)	**141**	(82)
Desktop, hosting, telecommunications, accommodation and processing services	**(4,279)**	(3,741)	**(1,624)**	(2,057)
Current accounts	**–**	–	**4,679**	2,619

There have been provisions totalling £408,000 (2008: £nil) recognised against receivables from related parties.

33 Related party transactions continued

Transactions with Directors and key management

The compensation disclosure below relates to the Xchanging plc Directors and key senior managers within the Group, who constitute the people having authority and responsibility for planning, directing and controlling the Group's activities, being the Xchanging Management Board.

Key management compensation (including Directors)	2009 £'000	2008 £'000
Short-term employee benefits	**7,513**	6,662
Post-employment benefits	**114**	102
Share-based payments	**687**	597
Termination benefits	**205**	–
Total key management compensation (including Directors)	**8,519**	7,361

Further information regarding Xchanging plc Directors' remuneration is disclosed in the remuneration report on P pages 47 to 53 which forms part of these financial statements.

The total gain made by Directors and key management during the year from the exercise of share options was £2,185,000 (2008: £581,000).

During 2007, loans were provided by the Xchanging BV Employee Benefit Trust to a number of employees including Directors and key management personnel to enable them to purchase shares in Xchanging BV (these shares have been subsequently exchanged for shares in Xchanging plc). The loans are non-interest bearing and become repayable on the earlier of the cessation of employment, transfer or disposal of the shares, acceptance of another loan from the Group to refinance the shares and 31 December 2011. The Xchanging BV Employee Benefit Trust has a call option over the shares until the loans are repaid in full.

The balances due from the Directors and key management and the carrying amounts in the consolidated financial statements are:

	2009		2008	
	Balance outstanding £'000	**Carrying amount £'000**	Balance outstanding £'000	Carrying amount £'000
S Beard	**1,088**	**1,088**	1,590	1,590
C Buesnel	**–**	**–**	530	530
R Houghton	**663**	**663**	663	663
D Rich-Jones	**35**	**35**	1,325	1,325
T Runge	**176**	**176**	–	–
	1,962	**1,962**	4,108	4,108

The following table shows amounts due from those individuals who were either Directors or members of key management at 2008 but have subsequently left the Group and are therefore no longer considered to be related parties of the Group. The information is provided for comparative purposes only.

	2009		2008	
	Balance outstanding £'000	**Carrying amount £'000**	Balance outstanding £'000	Carrying amount £'000
A Browne	**663**	**663**	663	663
M Bruno	**424**	**424**	424	424
M Margetts	**–**	**–**	398	398

Financial statements
Independent auditors' report to the members of Xchanging plc on the parent company financial statements

We have audited the parent company financial statements of Xchanging plc for the year ended 31 December 2009 which comprise the Company balance sheet, the Company cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' responsibilities statement set out on page 37, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Standards Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with chapter 3 of part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent company financial statements:
- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:
- the part of the remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the parent company financials statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matters

We have reported separately on the Group financial statements of Xchanging plc for the year ended 31 December 2009.

Paul Aitken (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
1 March 2010

Financial statements
Company balance sheet as at 31 December 2009

	Note	2009 £'000	2008 £'000
Fixed assets			
Investments	5	**106,202**	12,086
		106,202	12,086
Current assets			
Debtors due within one year	6	**91,252**	100,942
Cash at bank and in hand		**230**	4,219
		91,482	105,161
Creditors: amounts falling due within one year	7	**(49,351)**	(4,635)
Net current assets		**42,131**	100,526
Creditors: amounts falling due after one year	7	**(52)**	–
Net assets		**148,281**	112,612
Capital and reserves			
Called up share capital	8	**11,856**	10,973
Share premium account	9	**105,805**	76,647
Other reserves	9	**7,778**	–
Profit and loss reserve	9	**22,842**	24,992
Total shareholders' funds	10	**148,281**	112,612

These financial statements were approved by the Board of Directors on 1 March 2010 and signed on its behalf by:

D W Andrews
Chief Executive Officer

R A H Houghton
Chief Financial Officer

Financial statements
Company cash flow statement
for the year ended 31 December 2009

	2009 £'000	2008 £'000
Net cash inflow/(outflow) from operating activities	**51,382**	(3,262)
Returns on investments and servicing of finance		
Interest received	**1,630**	1,057
Interest paid	**–**	(319)
Net cash inflow from returns on investments and servicing of finance	**1,630**	738
Acquisitions		
Acquisition of subsidiary	**(53,418)**	–
Loan to subsidiary undertaking for future acquisition	**–**	(22,377)
Net cash outflow for acquisitions	**(53,418)**	(22,377)
Equity dividends paid to shareholders	**(5,487)**	(4,297)
Financing		
Proceeds from issue of shares	**1,923**	3,165
Transaction costs of shares issued	**(19)**	–
Net cash inflow from financing	**1,904**	3,165
Net decrease in cash	**(3,989)**	(26,033)
Cash at 1 January	**4,219**	30,252
Cash at 31 December	**230**	4,219

Reconciliation of operating loss to net cash inflow/(outflow)from operating activities

	2009 £'000	2008 £'000
Operating loss from continuing activities	**(736)**	(1,495)
Share-based payment expense	**179**	226
Decrease/(increase) in debtors	**6,834**	(448)
Increase/(decrease) in creditors	**45,105**	(1,545)
Net cash inflow/(outflow) from continuing operating activities	**51,382**	(3,262)

Analysis of net funds

	At 1 January 2009 £'000	Cashflow	**At 31 December 2009 £'000**
Cash	4,219	(3,989)	**230**

Financial statements
Notes to the Company financial statements for the year ended 31 December 2009

1 Accounting policies
Basis of preparation
The financial statements have been prepared in accordance with the Companies Act 2006 and applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently with the prior year, is set out below.

No profit and loss account or statement of total recognised gains and losses has been presented by the Company as permitted by Section 408 of the Companies Act 2006.

The Company has taken advantage of the exemption available to parent companies under paragraph 3c of FRS 25, "Financial instruments: Disclosure and presentation" not to provide the information otherwise required by paragraphs 51 to 95 of the standard, as the Group's consolidated financial statements, in which the Company is included, provides equivalent disclosures under IFRS 7, "Financial instruments: Disclosures".

(i) Basis of accounting
The financial statements are prepared in accordance with the historical cost convention modified for the fair values of share-based payments and in accordance with applicable accounting standards.

(ii) Going concern
The Directors believe that preparing the financial statements on the going concern basis is appropriate based on projections for the foreseeable future.

(iii) Fixed asset investments
Fixed asset investments are stated at cost less any provision for impairment. Impairment reviews are conducted at the end of the first full year following acquisition and thereafter where indicators of impairment are present. As permitted by the Companies Act 2006, cost is the aggregate of the nominal value of the relevant number of the Company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings.

(iv) Dividend income
Dividends receivable from the Company's investments in subsidiary undertakings are recognised when the Company's right to receive payment is established.

(v) Debtors
Debtors are recognised at their fair value, which may include a provision for impairment.

(vi) Share-based payments
The Company operates a number of equity-settled share-based compensation plans. The fair value of the employee services received in exchange for the grant of an equity-settled transaction is recognised as an expense over the periods in which the performance conditions are fulfilled, ending on the vesting date of the award. The total amount to be expensed over the vesting period is determined by reference to the fair value of the equity instruments granted. Non-market vesting conditions are reflected in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity. Awards where vesting is conditional upon a market condition are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Equity-settled share-based compensation plans that are made available to employees of the Company's subsidiaries are treated as increases in equity over the vesting period of the award, with a corresponding increase in the Company's investments in subsidiaries, based on an estimate of the number of shares that will eventually vest.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the options are exercised.

(vii) Related party transactions
The Company has taken advantage of the exemption available in FRS 8, "Related party disclosures", not to disclose transactions with related parties that are 100% owned by the Group.

2 Directors' emoluments
Disclosure of the Directors' remuneration is contained in the remuneration report on P pages 47 to 53 and in note 33 of the Group financial statements.

3 Auditors' remuneration
The audit fees payable in relation to the audit of the financial statements of the Company are £109,000 (2008: £135,000). Fees paid to the auditors and their associates for non-audit services to the Company itself are not disclosed in the individual financial statements of the Company because Group financial statements are prepared which disclose such fees on a consolidated basis.

4 Employees
The Company has no employees.

Financial statements
Notes to the Company financial statements for the year ended 31 December 2009 (continued)

5 Investments

	£'000
At 1 January 2009	12,086
Addition in the year	92,622
Increase in investments in subsidiaries – share-based payments	1,494
At 31 December 2009	**106,202**

Refer to note 30 of the Group financial statements for details of the additional investment in Cambridge Solutions Limited acquired during the year.

The Company has the following significant subsidiary undertakings:

Name	Country of incorporation	Principal activity	Effective interest and proportion of equity held
Xchanging Holdings Limited*	England and Wales	Financing company	100%
Xchanging BV	Netherlands	Intermediate holding company	100%
Xchanging UK Limited	England and Wales	Management services to Group companies	100%
Xchanging Claims Services Limited	England and Wales	Intermediate holding company	50%
Ins-sure Services Limited	England and Wales	Business processing services	50%
London Processing Centre Limited	England and Wales	Business processing services	50%
LPSO Limited	England and Wales	Business processing services	50%
LCO Non-Marine and Aviation Limited	England and Wales	Business processing services	50%
LCO Marine Limited	England and Wales	Business processing services	50%
Xchanging Procurement Services Limited	England and Wales	Business processing services	100%
Xchanging HR Services Limited	England and Wales	Business processing services	100%
Xchanging Transaction Bank GmbH	Germany	Business processing services	51%
Fondsdepot Bank GmbH	Germany	Business processing services	51%
Xchanging Broking Services Limited	England and Wales	Business processing services	50%
Xchanging Global Insurance Solutions Limited	England and Wales	Business processing services	100%
Xchanging Systems & Services Inc	USA	Business processing services	100%
Xchanging Asia Pacific Sdn Bhd	Malaysia	Business processing services	100%
Xchanging Technology Services India Private Limited	India	Business processing services	100%
Xchanging Resourcing Services Limited	England and Wales	Business processing services	100%
Ferguson Snell and Associates Limited	England and Wales	Business processing services	100%
Xchanging Procurement Services (France) SA	France	Business processing services	100%
Xchanging (Mauritius) Limited	Mauritius	Intermediate holding company	100%
Cambridge Solutions Limited	India	Business processing services	76.055%
Cambridge Integrated Services Group Inc.	USA	Business processing services	76.055%
Scandent Group Inc.	USA	Business processing services	76.055%
Nexplicit Infotech India Pvt. Limited	India	Business processing services	76.055%
Cambridge Solutions Europe Limited	England and Wales	Business processing services	76.055%
Cambridge Solutions SARL	France	Business processing services	76.055%
Cambridge Solutions Pte. Limited	Singapore	Business processing services	76.055%
Cambridge Solutions Sdn. Bhd.	Malaysia	Business processing services	76.055%
Cambridge Solutions Pty Limited	Australia	Business processing services	76.055%
Cambridge Integrated Services Victoria Pty Limited	Australia	Business processing services	76.055%
Cambridge Integrated Services Australia Pty Limited	Australia	Business processing services	76.055%

*Held directly

A full list of subsidiaries will be annexed to the Company's next annual return filed with the Registrar of Companies.

Entities in which the Company holds 50% of the equity share capital are treated as subsidiaries because the Company has overall operational and financial control.

6 Debtors due within one year

	2009 £'000	2008 £'000
Amounts falling due within one year:		
Amounts owed by Group undertakings	**90,594**	96,120
Corporation tax	**507**	142
Deferred tax	**138**	71
Other debtors	**4**	4,602
Prepayments and accrued income	**9**	7
Total debtors due within one year	**91,252**	100,942

Included within amounts owed by Group undertakings above, is an unsecured loan to XUK Holdco (No. 2) Ltd of £47,690,000 (2008: £47,690,000) which bears interest at 2.5% above LIBOR, with no fixed date of repayment.

All other amounts are unsecured, interest-free and have no fixed date of repayment.

7 Creditors: amounts falling due within one year

	2009 £'000	2008 £'000
Amounts falling due within one year:		
Amounts owed to Group undertakings	**49,006**	2,544
Trade creditors	**33**	465
Other creditors	**46**	77
Accruals and deferred income	**266**	1,549
Total creditors due within one year	**49,351**	4,635

All amounts owed to Group undertakings included in the above balance are unsecured, interest-free and have no fixed date of repayment.

An amount of £52,000 has been included in long-term creditors (2008: £nil) relating to tax and social security balances due after more than one year.

8 Called up share capital

	2009 £'000	2008 £'000
Authorised		
350,000,000 (2008: 350,000,000) ordinary shares of 5p each	**17,500**	17,500

	2009 £'000	2008 £'000
Allotted, called up and fully paid		
237,116,600 (2008: 219,468,787) ordinary shares of 5p each	**11,856**	10,973

Issued share capital – ordinary shares

15,249,998 shares were issued as part of the consideration for Cambridge Solutions Limited at the market rate applicable on the date of acquisition. Refer to note 30 of the Group financial statements.

During 2009, share options were exercised over 2,397,815 shares (2008: 4,669,483) for cash consideration of £1,924,000 (2008: £3,165,000).

Financial statements
Notes to the Company financial statements for the year ended 31 December 2009 (continued)

8 Called up share capital continued

Share rights

All Xchanging plc ordinary shares carry equal share rights.

Share-based payments

A charge of £179,000 (2008: £226,000) has been incurred in the year in respect of the Performance Share Plan. Further details on this scheme are included within note 24 of the Group financial statements.

9 Reserves

	Share premium £'000	Other reserve £'000	Profit and loss reserve £'000
At 1 January 2009	76,647	–	24,992
Premium on shares issued during the year for acquisition	27,374	7,778	–
Premium on shares issued during the year under share option schemes	1,803	–	–
Transaction costs of shares issued	(19)	–	–
Profit for the year	–	–	1,665
Dividends paid	–	–	(5,487)
Value of employee services attributable to share-based payments	–	–	1,672
At 31 December 2009	**105,805**	**7,778**	**22,842**

The Company's profit for the year was £1,665,000 (2008: £13,057,000).

10 Reconciliation of movements in shareholders' funds

	2009 £'000	2008 £'000
Opening equity shareholders' funds	112,612	98,564
Issue of shares		
– in respect of the acquisition of Cambridge Solutions Limited	28,136	–
– in respect of share options issued in the year	1,924	3,165
Transaction costs of shares issued	(19)	–
Difference in price of shares issued on acquisition date and issue date	7,778	–
Profit for the year	1,665	13,057
Dividends paid	(5,487)	(4,297)
Value of employee services attributable to share-based payments	1,672	2,123
Closing equity shareholders' funds	148,281	112,612

11 Contingent liabilities

A subsidiary of the Company has a credit agreement of £111,400,000 (2008: £90,000,000) with Lloyds TSB Bank plc, dated 8 October 2008 in respect of which Xchanging plc is a guarantor. Syndicated and extended during the year, this agreement now consists of a US$58,000,000 multi-currency term loan facility, expiring half-yearly in tranches of US$8,000,000 commencing on 31 December 2009, with the final tranche expiring on 8 October 2012 and a £75,000,000 multi-currency revolving credit facility, expiring at the earlier of 8 October 2012 or cancellation of all facilities by the Company. Utilisations bear interest at a rate per annum equal to LIBOR, or in the case of drawings in Euro, EURIBOR plus a margin and any mandatory costs. As at the year end, US$50,000,000 of the multi-currency term loan facility had been drawn down and a further £18,000,000 (2008: £19,470,000) of the multi-currency revolving credit facility had been utilised as a letter of credit by the Group.

Information
Shareholder information

Share price information
The Company's share price can be found on the Company's corporate website at www.xchanging.com within the Investor Relations section.

Shares online
Equiniti Limited provides a range of shareholder information online. Shareholders can access their shareholdings and find advice on transferring shares and updating their details on www.shareview.co.uk

ShareGift
Shareholders who only have a small number of shares whose value makes it uneconomic to sell them may wish to consider donating them to charity through ShareGift, the independent charity share donation scheme (registered charity no. 1052686). Further information about ShareGift may be obtained from Equiniti Limited or from ShareGift on +44 (0)20 7337 0501 or at www.sharegift.org

There are no implications for capital gains tax purposes (no gain or loss) on gifts of shares to charity and it is also possible to claim income tax relief.

Shareholder enquiries
For queries concerning shareholdings, contact Xchanging's registrars, Equiniti Limited, whose details are below.

Shareholders who have any questions about the Group's business should contact Xchanging's Investor Relations team on +44 (0)20 7780 6999 or email investor.relations@xchanging.com

Shareholder fraud
Fraud is on the increase and many shareholders are targeted every year. If you have any reason to believe that you may have been the target of a fraud, or attempted fraud in relation to your shareholding, please contact Equiniti Limited immediately.

Company registration number
5819018

Company's registered office
Xchanging plc
13 Hanover Square
London W1S 1HN
United Kingdom

Registrars
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
United Kingdom
Tel: +44 (0)871 384 2030
Overseas tel: +44 (0)121 415 7047

Auditors
PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH
United Kingdom
Tel: +44 (0)20 7583 5000

Bankers
Lloyds TSB Bank plc
City Office Gillingham
PO Box 72
Bailey Drive
Gillingham Business Park
Kent ME8 0LS
United Kingdom

Solicitors
Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ
United Kingdom

Corporate brokers
Citigroup
Citigroup Centre
Canada Square
London E14 5LB
United Kingdom
Tel: +44 (0)20 7986 4000
Fax: +44 (0)20 7986 2266

J.P. Morgan Cazenove
20 Moorgate
London EC2R 6DA
Tel: +44 (0) 20 7588 2828
Fax: +44 (0)20 7155 9000

Financial public relations
Cardew Group
12 Suffolk Street
London SW1Y 4HG
United Kingdom
Tel: +44 (0)20 7930 0777
Fax: +44 (0)20 7925 0647

Financial calendar
17 March 2010
Ex-dividend date

19 March 2010
Record date

1 April 2010
Interim dividend payment

27 April 2010
Annual General Meeting

30 June 2010
Half year end

2 August 2010
Announcement of half year results

31 December 2010
Financial year end

Information
Glossary of terms

A

AGI – Allianz Global Investors Kapitalanlagesellschaft mbH.

AGM – Annual General Meeting.

AMS – Alexander Mann Solutions.

Asia Pacific – one of Xchanging's segments/regions.

B

BaFin – German Federal Financial Supervisory Authority overseeing banking, insurance, securities and asset management.

Board – the Board of Directors of Xchanging plc.

BPO – Business Process Outsourcing.

Business Processing Services – one of the business units in Xchanging's operations in India.

Business Support – advice on, and management of, back office functions.

C

Cambridge – Cambridge Solutions Limited and its subsidiaries and subsidiary undertakings.

Cash conversion ratio – cash generated from operations (excluding pre cash exceptional items) divided by Xchanging's underlying operating profit.

CBRE – CB Richard Ellis.

CEO – Chief Executive Officer.

CFO – Chief Financial Officer.

CGU – cash-generating unit.

Company – Xchanging plc.

Continental Europe – one of Xchanging's segments/regions.

CAGR – compound annual growth rate.

CSR – corporate social responsibility.

D

DAB bank AG – Die Direkt Anlage Bank.

E

EBITDA – underlying operating profit before depreciation and amortisation.

EdW – Entschädigungseinrichtung der Wertpapierhandelsunternehmen.

Enterprise Partnership or EP – a corporate partnership between Xchanging and a customer.

EU – European Union.

EURIBOR – Euro Interbank Offered Rate.

F

FDB – Fondsdepot Bank GmbH.

FRS – Financial Reporting Standards.

FSB – FondsServiceBank GmbH.

G

Gain-share – the allocation of achieved cost savings benefit between Xchanging and its customer.

Global Procurement – Xchanging's segment in which we manage direct and indirect spend and sourcing strategies.

Group (or Xchanging) – Xchanging plc and its subsidiaries and subsidiary undertakings.

I

IAS – International Accounting Standards.

IFRIC – International Financial Reporting Interpretations Committee.

IFRS – International Financial Reporting Standards.

IMR – Insurers' Market Repository.

INR – Indian Rupee.

IP – Intellectual Property.

IPO – initial public offering.

ITO – Information Technology Outsourcing.

K

KPI – key performance indicator.

L

LIBOR – London Interbank Offered Rate.

M

MEAG – MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH.

N

NAGE – National Australia Group Europe Ltd.

Nearshore – a region neighbouring that to where the services are provided, and to which the performance of such services is relocated, generally because the cost of performance is lower than it would be in the region or country where the services are provided.

O

Offshore – a region that doesn't neighbour that where the services are provided, and to which the performance of such services is relocated, generally because the cost of performance is lower than it would be in the country where the services are provided (e.g. India or Malaysia).

On-site – where Xchanging operations are located at the customer's site.

Outsourcing – one of Xchanging's key contracting mechanisms.

P

Partnering – one of Xchanging's key contracting mechanisms for dealing with complexity and scale. An open-book partnership owned jointly by Xchanging and the customer.

PSP – Performance Share Plan.

R

Resolutions – resolutions to be proposed at the Xchanging plc Annual General Meeting (and set out in the Notice of Annual General Meeting).

RPI – Retail Price Index.

Revenue visibility – recurring revenue comprising three components: annuity, volume at risk and renewals.

S

SEE – social, ethical and environmental.

SG&A – sales, general and administration.

SID – Senior Independent Director.

T

The Americas – one of Xchanging's segments/regions.

Tier 3 locations – centres that have a capacity to provide a workforce and a potential resource pool to an outsourcing company, but have yet to establish this.

Tier 4 locations – a tier 3 location, except the workforce and resource pool is not as large.

U

UK – one of Xchanging's segments/regions or the United Kingdom.

UK GAAP – UK Generally Accepted Accounting Principles.

Underlying earnings per share (EPS) – Xchanging's share of underlying profit for the year divided by the weighted average basic number of Xchanging plc shares in issue for the year ended 31 December.

Underlying operating profit – underlying operating profit excludes exceptional items and amortisation of intangible assets previously unrecognised by acquired entities.

Underlying profit for the year – underlying profit for the year excludes exceptional items, amortisation of intangible assets previously unrecognised by acquired entities, imputed interest on put options, and the tax impact of these items.

X

Xchanging Broking Services (or XBS) – Xchanging Broking Services Limited, an EP between Xchanging and Aon Ltd.

Xchanging (or Group) – Xchanging plc and its subsidiaries and subsidiary undertakings.

Xchanging Transaction Bank (or XTB) – Xchanging Transaction Bank GmbH, an EP between Xchanging, Deutsche Bank and Sal Oppenheim.

XEBIT – underlying operating profit attributable to equity holders of Xchanging plc shares.

XEBITDA – underlying operating profit before depreciation and amortisation attributable to equity holders of Xchanging plc shares.

XMB – Xchanging Management Board.

XPC – Xchanging Performance Committee.

Find out more about Xchanging on our website www.xchanging.com

Mixed Sources
Product group from well-managed forests and other controlled sources
www.fsc.org Cert no. TT-COC-002398
© 1996 Forest Stewardship Council
FSC

This document has been printed on Hello Silk which is Forest Stewardship Council certified (FSC) and manufactured at a mill which holds both the ISO 14001 and EMAS environmental management standards. This paper is fully recyclable and biodegradable.

Designed and produced by Cypher Design. Printed by Spellman Walker Ltd.
Spellman Walker Ltd is an FSC and ISO 14001 certified printer that uses vegetable inks and alcohol-free printing processes.

Xchanging Cost for Profit

Our aim is the radical improvement of business processing. We are a powerful force for change, bringing better service, cost savings and an entrepreneurial culture to everything we do. Hence our motto 'Xchanging Cost for Profit'.

Xchanging

Registered office:
Xchanging plc
13 Hanover Square
London • W1S 1HN • UK

Telephone **+44 (0)20 7780 6999**
Facsimile +44 (0)20 7780 6998

Email info@xchanging.com
Website www.xchanging.com