

## PRESS RELEASE

29 June 2006

### Preliminary Results Announcement for the year ended 30 April 2006

Xansa, the outsourcing and technology company, is pleased to announce its results for the full year ended 30 April 2006.

#### Business Highlights

- Revenue has returned to growth in the second half of the year.
- Public sector revenues up almost 50% year on year to £66.8 million
- Full year underlying margins\* increased to 6.5% (FY 2005: 5.4%)
- All contract renewals successfully completed
- Strong new client list including Renault Formula 1, Northern Ireland Water Service, Littlewoods and Peterborough City Council
- India workforce increased by 39% to 3,920 people, for the first time representing over half of the total workforce
- 100 trusts are now live with NHS Shared Business Services with a further 16 lined up

#### Financial Performance

	<b>FY 2006</b>	<b>FY 2005</b>	<b>Change</b>
<b>Summary</b>	<b>£ million</b>	<b>£ million</b>	<b>%</b>
<b>Revenue</b>	357.3	376.4	(5)
<b>Underlying operating profit*</b>	23.3	20.2	15
<b>Underlying operating margin*</b>	6.5%	5.4%	
<b>Underlying profit before tax**</b>	13.3	12.5	6
<b>Profit before tax</b>	9.0	15.5	(42)

- Turnover decreased 5% to £357.3 million (2005: £376.4 million)
- Underlying operating profit\* increased 15% to £23.3 million (2005: £20.2 million)
- Underlying operating margin\* increased to 6.5% (2005: 5.4%)
- Underlying pre-tax profit\*\* increased 6% to £13.3 million (2005: £12.5 million)
- Exceptional charges for vacant property of £4.3 million
- Diluted adjusted earnings per share\* increased by 13% to 4.29 pence (2005: 3.79 pence)
- Dividend per share has been proposed at 3.24 pence (2005: 3.24 pence) for the year

\* Before exceptional charges, pension settlements and curtailments, share based payments, but including share of joint venture losses after tax

\*\* Before exceptional charges and pension settlements and curtailments.

**Bill Alexander, Chairman, Xansa commented:**

"This year has seen us building on the progress which we began in 2005. Our business model of integrated UK-India delivery and strategic investment is beginning to show results. This progress is illustrated in a number of areas. Firstly we have grown profits and margins and returned to revenue growth in the second half of the year. We have also continued to see rapid expansion in our India operations. India has expanded by 39% and over half of our people are now working in India. The other key area is the continued strong progress in our public sector business which has grown by 48%. This year has also seen our client base grow strongly. We have seen consortia becoming more prevalent in both the public and private sector and Xansa has successfully lead and participated in such verticals. This shows that we not only work closely with our clients but can also form strategic alliances with best-of-breed partners to ensure that our clients are able to do more with their businesses."

**Commenting on the results, Alistair Cox, Chief Executive, Xansa said:**

"Margins are up as expected year on year and we have seen a return to revenue growth in the second half of the year. This important turning point means that the volume of new work we are now undertaking outweighs the dilutive effect of moving previously onshore delivered work to our offshore delivery centres in India. Of our revenue, over half of is derived from clients who we have worked with for over five years. We have successfully extended 100% of those contracts due for re-tender, totalling 25 such renewals over the last 2 years. At the same time we have a strong new client list with 16 new clients signed in the year.

All our attention is now focused on continuing this revenue and margin momentum and our strategy and goals remain unchanged: growing our business in the UK market in both the public and private sectors; delivering client solutions that benefit from the convergence of IT and BPO; and leveraging our integrated onshore and offshore capabilities.

In summary, our strategy is paying off: execution is on track and we are encouraged by our progress in growing our company."

**Contacts**

Alistair Cox, Chief Executive, Xansa  
Gordon Stuart, Finance Director, Xansa  
Tel : + 44 (0)8702 416181

Giles Sanderson, James Melville-Ross  
Financial Dynamics  
Tel : + 44 (0)20 7831 3113

**About Xansa**

Xansa is an outsourcing and technology company. Committed to delivering guaranteed business outcomes through a combination of technology and process expertise, Xansa gives its clients the freedom to do more with their business. Strong relationships, commercial innovation and an integrated Indian delivery capability ensure that Xansa drives real and long-term cost reductions, performance improvements and new ways of working tailored to each client. The services Xansa provides are Business and Technology Consulting, IT Implementation, IT Outsourcing and Business Process Outsourcing. Head-quartered in Reading, Berkshire, Xansa is listed on the London Stock Exchange (LSE: XAN) and has over 8000 people in the UK and India.

## Business Review

### Business Performance

The last 12 months has seen the business deliver on its key strategic objectives: revenue has returned to growth in the second half of the year, margins have continued to grow on a year on year basis, from 5.4% to 6.5% and our average level of debt has reduced to £36.7 million from £38.0 million. As a result of our accelerated move to an offshore bias, we have vacated a number of properties in the UK. Current property market conditions have made the disposal of these vacant properties challenging and we have therefore taken an exceptional charge to cover the expected additional future cost of these properties. Our tax rate shows the impact of the continuing benefit from the effects of our Indian tax position. As a result, diluted adjusted EPS\* shows an increase of 13% to 4.29 pence.

### Key Performance Indicators

Xansa's financial key performance indicators reflect our strategy and focus on revenue growth, profitability, adjusted EPS and the level of net debt.

### Financial KPIs

Key Performance Indicator	2005	2006
Revenue	£376.4 million	£357.3 million
Underlying operating profit*	£20.2 million	£23.3 million
Underlying operating margin*	5.4%	6.5%
Underlying PBT**	£12.5 million	£13.3 million
Diluted adjusted EPS*	3.79 pence	4.29 pence
Net Debt	£15.7 million	£17.7 million

As previously stated, the dilutive effect of moving existing onshore delivered work to our offshore delivery centres in India has had an impact on revenues over the past few years. Although revenue is down year on year, we have seen a return to sequential growth in the second half of the year. This important turning point means that the volume of new work we are now undertaking outweighs the dilutive effect on revenues of moving work to India.

The impact of our continued transition allows us to deliver enhanced margins as a result of the more favourable cost structure that we have established in India. Our underlying operating margin\* has increased to 6.5% from 5.4% last year. In terms of underlying profit before tax (before pension settlement and curtailments and exceptional items), we have seen an increase from £12.5 million to £13.3 million, an increase of 6.4%.

As a result of the improved underlying operating margin, and the ongoing benefit of our India tax position, diluted adjusted EPS\* has increased by 13% to 4.29p.

\* Before share based payments, pension settlements and curtailments and exceptional charges.

\*\* Before exceptional charges and pension settlements and curtailments.

Our net debt position at the year end was £17.7 million, up £2.0 million on last year. This increase is due to ongoing capital expenditure requirements as we continue to build our Indian infrastructure, investment in an internal ERP platform, investment in our joint venture with the Department of Health and the funding of our dividend to shareholders.

### **Our Clients**

Our public sector business continued to grow strongly. Revenues increased by 48% to £66.8 million (2005: £45.0 million) representing around a fifth of our total revenues. Our services include both technology management and back office processing. We have successfully expanded our client base in both central and local government. In central government, new clients include the Cabinet Office, Ofcom, the Metropolitan Police Service and The Club, a consortium of the Department of Health, Department for Education and Skills and Cabinet Office. In local government, we have built on our foundation at Solihull Metropolitan Borough Council with new orders from Peterborough County Council and Cornwall County Council.

Today we are leaders in the provision of shared services in government. In April 2005, we established NHS Shared Business Services (NHS SBS) our ground-breaking joint venture with the Department of Health for the provision of Finance and Accounting services to the NHS. Progress has been very encouraging and, since its establishment, we have almost tripled the number of NHS organisations utilising the joint ventures services. 100 NHS Trusts are now on-stream (2005: 47) and we expect volumes to continue to grow strongly with 16 others in progress. We have also invested in new services lines within NHS SBS and in September 2005 introduced payroll services as an additional offering. Together, the finance and accounting and payroll markets for the NHS represent around £250 million of annual spend and therefore offer us a significant opportunity.

In the UK private sector, we have continued to grow our volumes and headcount has increased by 14% to manage this increased activity. The transition of our business towards greater offshore delivery has progressed well and all our private sector accounts now leverage our Indian operations. However, the lower rates earned from offshore delivery were not fully offset by increased volumes and hence revenues earned in the private sector declined.

Our integrated onshore / offshore operations provide us with a clear competitive advantage in today's market place. Clients demand the lower costs and increased flexibility that offshore delivery offers. However, they also require the risk management, client support and sector-specific expertise that is only available from onshore teams. A key differentiator is our ability to blend this expertise across the world into a single, seamless organisation where accountabilities for delivery to the client are very clear. This level of integration is unique in today's market.

Increasingly we see clients demand solutions that encompass a number of 'best-in-class' suppliers. Our strategy is to focus on what we do best and work with partners who are experts in their own areas to build a complete solution. This allows us to deliver the best possible outcome to our clients. Our collaborative and client-focused style is another differentiator that allows us to work effectively in such consortium arrangements. Over the year we have created a number of such partnerships, including those with Echo Managed Services and AMT-SYBEX in our work for Northern Ireland Water Services and with Unilog, Verio and Vamosa in our shared services for The Club.

As a result of our differentiated and expert services and our style of doing business, we have been very successful over the year in winning a wide range of contracts with both existing and new clients. As well as securing 100% of all renewals, we have grown the number of clients we serve by more than at any other time in our history.

### **Xansa Recruitment**

Our recruitment business underwent a significant change over the past year as it re-oriented itself away from serving a small number of major accounts to a much broader client spread. During the year we signed 11 new long term contracts on a preferred supplier basis. In the longer term this creates a more resilient client base. At the end of the year we had 353 contractors placed with clients (2005: 305). Revenue for the year was £31.7 million (2005: £32.3 million).

### **Total Sales Orders**

The orderbank was flat in value terms over the year and closed at £474 million. However underlying activity levels and volumes contracted for have increased. This growth is masked in order value terms due to the greater proportion of offshore delivery at lower day rates now required on typical contracts.

In addition, since the close of the year, we have won further orders with Lawson, Office for National Statistics and Barclays totalling a further £89 million.

Examples of major orders signed during the year include:-

- Boots: In September 2005, we extended and expanded our IT outsourcing relationship with Boots to cover application support and maintenance and various back office processes. This will continue to involve application support and maintenance throughout the client's business.
- Northern Ireland Water Services: In January 2006, the Xansa-led Crystal Alliance was awarded the contract for the provision of its new customer billing and contacts system. We will be responsible for front to back office customer billing and relationship management services to over 760,000 customers.
- Lloyds TSB: In April 2006, Xansa signed one of the first finance & accounting outsourcing contracts in the UK financial services industry. The contract includes accounts payable, employee expenses and fixed asset accounting, and will involve the processing of over 330,000 invoices and 144,000 expense claims each month. In addition, since the year end, Lloyds TSB has selected Xansa as a preferred supplier for the outsourcing of a range of HR and employee services. Once concluded, this contract will be another first for the UK financial services industry.

### **Resources**

Our total workforce, including external and internal contractors grew 18% to 8,070 (2005: 6,850). Of this total at the year end, we had 353 external contractors placed with clients and 686 internal contractors operating within Xansa teams. Salaried staff numbers fell by 3% in the UK to 3,111 (2005: 3,211). Our Indian workforce grew by 39% to 3,920 (2005: 2,815). To accommodate the ramp-up in Indian based resources, we continued to invest in our offshore delivery centres and now have installed capacity of 4,232 seats (on a single shift basis). During the year, we completed our second phase of development at Chennai to bring on stream an additional 672 seats. In Noida, we commissioned a

further 669 seats and at year-end, we were in the process of completing our second phase at Pune for 620 more seats. With such scale in India, we remain the largest UK-based supplier of offshore services. Xansa is also now one of the UK's largest employers in India.

## Strategy

Our strategy remains unchanged and we will continue to focus on the same goals as last year:

- Growing our business in the UK market in both the public and private sectors
- Delivering client solutions that benefit from the convergence of IT and BPO
- Leveraging our integrated onshore and offshore capabilities

Having grown revenues in the second half of the year, all of our attention is now on continuing this momentum. The four priorities around which we manage the business are:

- Sales growth
- Profit and margin improvement
- Cash management
- Expansion in India and the UK

With over half of our staff based offshore, our Indian operations have reached a level of maturity and scale that makes us confident that further expansion will follow naturally. Having almost completed a successful and major transition of our business toward a more offshore-centric model, we are now creating opportunities for growth in our UK-based operations. Consequently we are investing in training and recruitment of the appropriate skills that we require on-shore to complement our offshore delivery capabilities.

Our earlier investment in our sales team is paying off through extensions to existing relationships and new client wins. We will continue to invest in this area to develop new propositions, sell our services to a wider market and foster deeper alliances with our partners.

We will continue to target capital investment to expand our Indian facilities. New capacity at Pune will be completed during the year and further investment is likely to accommodate the headcount growth we are expecting.

Net debt at the year end was up £2.0 million against the prior year. While average net debt runs at a higher level than this during the year, we aim to reduce the overall level of debt through effective account management.

## Outlook

We do not expect to see any material change in market growth next year with growth in low single digits anticipated. Within this context, we expect our own revenues to grow at a rate faster than the market, driven by both recent contract wins and our expectation of new wins during the year. The operational gearing we now enjoy in the business should allow us to achieve profit growth greater than revenue growth. We will continue to channel investment into our sales effort to support the increasing demand for our services. Investment will also continue as we grow our offshore-centric resource

base. However, having reached a turning point in our business transition, we anticipate that headcount will resume modest growth in the UK and grow strongly in India to cater for the increased level of activity we are now enjoying.

In summary, our strategy is paying off: execution is on track and we are encouraged by our progress in growing our company.

## Financial Review

This is the Group's first full year reporting presented under International Financial Reporting Standards. We issued our historic restated results in October 2005 which set out the significant changes arising from this transition, and a reconciliation to UK GAAP. Xansa provides outsourced business process and technology services to a wide range of clients. Our services are generally tailored to each specific client engagement and are not ubiquitous for any particular client grouping. We do not have any differentiated routes to market or dedicated resources for specific geographies, industries or sectors. As such, we report our business as a single entity with no segmental breakdown.

### Income statement

Turnover of £357.3 million was 5.1% down from 2005 but importantly showed sequential growth in the second half of the year. This turning point indicates the return to growth of the business after the curtailment of overseas activities, and the dilutive impact of the strategic transition of work from onshore rates to offshore rates. Trading performance has been reviewed in detail in the Chief Executive's Statement. The underlying profit before tax for the year was £13.3 million compared to £12.5 million last year (before exceptional items and pension settlements and curtailments).

### Share-based payments

Share-based payments were 41% higher at £3.8 million reflecting the impact of the IFRS 2 transition provisions. In the current year we have a true full year effect, reduced by the impact of share option lapses due to leavers from the scheme.

### Exceptional item

Largely as a result of the transition of a significant amount of the Group's activities to India there are a number of vacant leasehold properties. As a consequence of the current property market, we have taken a provision of £4.3m (2005: nil) to cover the additional future cost of these properties for the period until we believe they will be sublet.

### Pension curtailments and settlements

There was no settlement or curtailment charge arising in 2006. The bulk transfer in respect of the settlement recognised in 2005 took place during the year.

### Joint venture

This year's accounts reflect the first year of operation of the joint venture with the Department of Health, NHS Shared Business Services. The share of the joint venture's loss after tax is £2.7 million.

### Net interest payable

Although average borrowings fell from £38.0 million in 2005 to £36.7 million in 2006, higher average net borrowings in the UK have increased the cost of the Group's borrowings during the current year. In addition to this, there were higher interest costs on pension liabilities, new finance leases and the unwinding of the discount on certain provisions.

### Profit before tax

Profit before tax, after share based payments, pension settlements and curtailments and exceptional items declined from £15.5 million in 2005 to £9.0 million in 2006.

## Taxation

The tax charge of £2.8 million on profit before tax\* of £19.8 million results in a tax rate of 14.1% (2005: 17.8%). The tax rate has reduced because of increased profits in our India subsidiary, which presently benefits from a corporate tax holiday.

## Minority interest

The minority interest in the income statement represents Barclays' interest in the Barclays Xansa Partnership Ltd.

## EPS and Dividend

Diluted adjusted earnings per share\* of 4.29p (2005: 3.79p) is computed on underlying profit before tax\* of £17.1 million (2005: £15.2 million).

The effective tax rate applied to these profits is 19.3% (2005: 21.1%), which excludes a £0.5 million tax credit (2005: £0.5 million credit) arising on the distribution of shares from the trusts since the related charge is not reflected in underlying profit before tax\*.

Minority interests of £0.3 million (2005: £0.4 million) are deducted to arrive at adjusted earnings\* of £13.5 million (2005: £11.6 million).

The diluted earnings per share after share-based payments, pension settlements and curtailments and exceptional items was 2.32p (2005: 4.05p).

The Board intends to propose a final dividend of 2.16p in respect of the current year. Dividend cover, defined as basic earnings per share divided by the dividend per share, was 1.4 times (2005: 1.2 times).

## Consolidated balance sheet

	2005 £ million	2006 £ million
<b>Non-current assets</b>		
Intangible assets	81.9	85.9
Tangible assets	20.9	24.9
Investment in joint venture	10.0	8.8
	<u>112.8</u>	<u>119.6</u>
<b>Working Capital</b>		
Inventories	-	0.2
Debtors	56.3	64.5
Creditors	(76.5)	(80.2)
	<u>(20.2)</u>	<u>(15.5)</u>
<b>Provision</b>	(103.0)	(94.4)
<b>Borrowings</b>	(15.7)	(17.7)
<b>Corporate and deferred tax</b>	9.3	13.9
<b>Net assets</b>	<u>(16.8)</u>	<u>5.9</u>

\* before share based payments, pensions settlements and curtailments and exceptional items.

The change in fixed assets represents the capitalisation of computer software and the addition of new properties in India. Under IFRS goodwill is no longer amortised but rather is subject to annual review for impairment. There was no impairment in the current year.

Investment in joint venture of £8.8m represents our investment in the JV with the Department of Health and comprises the share of the JV net assets plus the goodwill arising on investment. This has been subject to revision of estimates since its formation a year ago.

Overall working capital has improved by £4.7 million in the year. The change in terms of certain contracts that alters their cash flow profile adversely impacted debtor days but better collection across the accounts has mitigated this impact. Debtor days at 35 are 7 higher than last year.

The reduction in provisions is largely due to a decrease in the pension deficit. The adoption of IAS 19 results in the Group's pension deficit being included as a liability in the balance sheet. The net pension scheme deficit has been reduced from £92.6 million to £84.5 million. This movement was principally attributable to a strengthening in equity markets which increased the value of the pension plan assets. It was, however, partially offset by the use of updated mortality assumptions generating an increase in the gross pension liability.

This year Xansa undertook an extensive consultation with employees, members, the scheme trustees and other interested parties to determine the best way to address the pension funding deficit. The aim was to keep the scheme open and affordable to both the company and members while ensuring that it did not reduce Xansa's ability to compete. The consultation concluded with a way forward that amortises the deficit over an appropriate term while enabling employee members to continue within the defined benefit scheme.

### Cash flow

Underlying operating cash inflow of £15.3 million, calculated after capital expenditure but before cash flows relating to exceptional items, exceeded the outflows of £3.9 million in respect of interest and tax, resulting in operating free cash flow of £11.4 million (2005: £11.2 million). Overall the Group ended the year with net borrowings of £17.7 million.

	2005 £ million	2006 £ million
Operating free cash flow	11.2	11.4
Dividends paid to Xansa shareholders	(7.6)	(7.8)
Exceptional items	(12.6)	(4.1)
Other movements	1.2	(1.4)
Change in net debt	<u>(7.8)</u>	<u>(1.9)</u>
Net borrowings at start of period	(7.9)	(15.7)
IAS 32/39 adjustment	-	(0.1)
Net borrowings at end of period	<u>(15.7)</u>	<u>(17.7)</u>

Net borrowings of £17.7 million comprised cash and deposits of £33.3 million offset by bank loans and overdrafts of £51.0 million.

## Consolidated income statement

For the year ended 30 April 2006

	Notes	2006 Before exceptional items £ million	2006 Exceptional items £ million	2006 Total £ million	2005 Total £ million
<b>Revenue</b>		357.3	-	357.3	376.4
<b>Operating profit:</b>					
Before share based payments and pension settlements and curtailments		26.0	(4.3)	21.7	20.2
Share based payments		(3.8)	-	(3.8)	(2.7)
Pension settlements and curtailments		-	-	-	3.0
Share of joint venture loss after tax		(2.7)	-	(2.7)	-
<b>Operating profit</b>		19.5	(4.3)	15.2	20.5
Finance income		0.5	-	0.5	0.3
Finance expense	3	(6.7)	-	(6.7)	(5.3)
<b>Profit before tax</b>		13.3	(4.3)	9.0	15.5
Taxation	4	(2.8)	1.4	(1.4)	(2.7)
<b>Profit for the year</b>		10.5	(2.9)	7.6	12.8
Attributable to:					
Equity shareholders of the parent		10.2	(2.9)	7.3	12.4
Minority interests		0.3	-	0.3	0.4
		10.5	(2.9)	7.6	12.8
	<b>Notes</b>			<b>2006</b>	<b>2005</b>
<b>Earnings per share (pence):</b>					
- basic	5			<b>2.39p</b>	4.14p
- diluted	5			<b>2.32p</b>	4.05p
Underlying earnings per share before share-based payments and pension settlements and curtailments and exceptional items (pence):					
- basic	5			<b>4.42p</b>	3.87p
- diluted	5			<b>4.29p</b>	3.79p
					2005
				Pence per share	£ million
2004 final dividend				2.16	6.6
2005 interim dividend				1.08	3.3
				<b>3.24</b>	<b>9.9</b>
					2006
				Pence per share	£ million
2005 final dividend				<b>2.16</b>	6.8
2006 interim dividend				<b>1.08</b>	3.4
				<b>3.24</b>	<b>10.2</b>
2006 final dividend proposed				<b>2.16</b>	6.9
All the above results relate to continuing activities					

## Consolidated balance sheet

As at 30 April 2006

	Notes	2006 £ million	2005 £ million
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment		24.9	20.9
Deferred income tax assets		20.4	15.9
Intangible assets		85.9	81.9
Prepayments		1.6	1.7
Investment in joint venture accounted for using the equity method		8.8	10.0
Other receivables		0.2	-
		<b>141.8</b>	<b>130.4</b>
<b>Current assets</b>			
Inventories		0.2	-
Trade and other receivables		49.1	47.3
Amount due from joint venture		6.5	0.8
Prepayments		7.1	6.5
Cash and cash equivalents		33.3	27.4
		<b>96.2</b>	<b>82.0</b>
<b>Total Assets</b>		<b>238.0</b>	<b>212.4</b>
<b>Equity and Liabilities</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital		17.3	17.1
Share premium		68.3	66.1
Own shares		(17.7)	(20.6)
Other reserves		759.3	759.7
Retained earnings		(821.3)	(839.1)
Shareholder's equity	8	<b>5.9</b>	<b>(16.8)</b>
<b>Non-current liabilities</b>			
Trade and other payables		0.5	2.8
Interest bearing loan and borrowings		38.3	37.6
Provisions		3.9	5.4
Post-retirement benefit liability		84.8	92.6
		<b>127.5</b>	<b>138.4</b>
<b>Current liabilities</b>			
Trade and other payables		79.7	73.7
Interest bearing loans and borrowings		12.7	5.5
Income tax payable		6.5	6.6
Provisions		5.7	5.0
		<b>104.6</b>	<b>90.8</b>
<b>Total liabilities</b>		<b>232.1</b>	<b>229.2</b>
<b>Total equity and liabilities</b>		<b>238.0</b>	<b>212.4</b>

The financial statements were authorised for issue by the Board on 29 June 2006.

## Consolidated statement of recognised income and expense

For the year ended 30 April 2006

	2006	2005
	£ million	£ million
Employee defined benefit obligations:		
- actuarial profit (losses) on defined benefits obligations	13.7	(15.9)
- deferred taxation recognised directly in equity	5.0	2.8
Employee share option scheme - deferred taxation recognised in equity	0.3	(0.1)
Effect of foreign exchange rate changes	<u>(0.4)</u>	<u>(0.6)</u>
Net expense recognised directly in shareholders' equity	18.6	(13.8)
Profit for the year	<u>7.6</u>	<u>12.8</u>
Total recognised income (expense) for the year	<u>26.2</u>	<u>(1.0)</u>
Attributable to:		
Equity shareholders of the parent	25.9	(1.4)
Minority interests	<u>0.3</u>	<u>0.4</u>
	<u>26.2</u>	<u>(1.0)</u>
Effect of change in accounting policy:		
Equity holders of the parent		
- Net loss on recognising foreign exchange contracts on first time application of IAS 39	(0.1)	
Minority Interest	<u>-</u>	
	<u>(0.1)</u>	

## Consolidated cash flow statement

For the year ended 30 April 2006

	Notes	2006 £ million	2005 £ million
Profit before tax		9.0	15.5
Depreciation and amortisation		6.9	6.9
Loss on sale of property, plant and equipment		-	0.1
Cost of employee share schemes		3.8	2.7
Finance income		(0.5)	(0.3)
Finance expense		6.7	5.3
IAS 19 pension cost in excess of contributions		3.6	(2.1)
Share of joint venture's loss after tax		2.7	-
Exceptional costs charged to income statement		4.3	-
Exceptional costs spent		(4.1)	(12.6)
(Increase) in receivables		(8.3)	(3.6)
Increase in payables		3.9	-
<b>Cash generated from operations</b>		<b>28.0</b>	<b>11.9</b>
Interest paid		(3.6)	(4.2)
Tax paid		(0.8)	(0.7)
<b>Net cash generated from operating activities</b>		<b>23.6</b>	<b>7.0</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of property, plant and equipment		0.1	0.3
Interest received		0.5	0.3
Investment in joint venture		(3.9)	-
Purchase of property, plant and equipment		(6.5)	(5.9)
Purchase of intangible assets		(5.9)	(3.1)
<b>Net cash used in investing activities</b>		<b>(15.7)</b>	<b>(8.4)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary shares		-	0.1
Repayments of amounts borrowed		(0.1)	(8.4)
Cash paid to acquire own shares		(1.2)	(0.7)
Proceeds from sale of own shares		2.1	1.4
Payment of finance lease liabilities		(0.6)	(1.2)
Dividends paid to the Company's equity holders		(7.8)	(7.6)
<b>Net cash used in financing activities</b>		<b>(7.6)</b>	<b>(16.4)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	7	<b>0.3</b>	<b>(17.8)</b>
Cash and cash equivalents at the beginning of the year		21.9	39.7
Effect of foreign exchange rate changes		0.1	-
<b>Cash and cash equivalents at the end of the year</b>		<b>22.3</b>	<b>21.9</b>

## 1. Basis of preparation

The results for the year ended 30 April 2006 and 2005 are extracted from the audited accounts of Xansa plc on which the auditors have issued an unqualified opinion which did not contain a statement under section 237 (2) or (3) of the Companies Act 1985. The preliminary announcement was approved by the board on 29 June 2006 in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations and with those parts of the Companies Act 1985, applicable to companies reporting under IFRS.

The audited accounts for the year ended 30 April 2005 have been delivered to the Registrar of Companies. The Annual Report and Accounts for the year ended 30 April 2006 will be posted to shareholders in early August and will be delivered to the Registrar of Companies following the Annual General Meeting which will be held at 12 noon on 14 September 2006 at the Chartered Accountants Hall, One Moorgate Place, London, EC2R 6EA. Copies may be obtained from the Group's registered office: 420 Thames Valley Park Drive, Thames Valley Park, Reading, RG6 1PU.

Prior to 2006, the Group prepared its Financial statements under UK Generally Accepted Accounting Principles (UK GAAP). From 1 May 2005, the Group is required to prepare its annual consolidated Financial statements in accordance with IFRS as adopted by the European Union (EU) and implemented in the UK. As the 2006 Financial statements include comparatives from 2005, the Group's date of transition to IFRS is 1 May 2005 and the 2005 comparatives have been restated to IFRS.

The principal impacts of adopting IFRS and the Group's IFRS accounting policies, along with comparatives for the year end 30 April 2005, were published in a press release on 17 October 2005. Further details and reconciliations explaining the transition to IFRS are available on the Group's website, [www.xansa.com](http://www.xansa.com).

Whilst the financial information included in this preliminary announcement has been computed in accordance with IFRSs, this announcement does not itself contain sufficient information to comply with IFRSs. The Company expects to publish full financial statements that comply with IFRSs in August 2006. Therefore the financial information set out herein does not constitute the Group's statutory accounts for the years ended 30 April 2006 or 2006.

## 2. Profit and expenses

### Underlying profit measure

The Directors regard underlying profit before tax, pension settlements and curtailments and exceptional items as a key performance indicator. Profits on this basis of measurement increased to £13.3 million in 2006 from £12.5 million in 2005. They reconcile to the total profits before tax of £9.0 million (2005: £15.5 million) as shown below.

	2006	2005
	£ million	£ million
<b>Profit (loss) on ordinary activities before taxation analysed as:</b>		
Profit before pension settlements and curtailments and exceptional items	13.3	12.5
Pension settlements and curtailments	-	3.0
Exceptional items	<b>(4.3)</b>	-
	<b>9.0</b>	15.5

## 3. Finance expense

	2006	2005
	£ million	£ million
Finance expense (excluding items relating to pension scheme)	<b>(4.4)</b>	(3.6)
Expected return on pension fund assets	<b>12.0</b>	11.9
Interest on pension fund liabilities	<b>(14.3)</b>	(13.6)
	<b>(6.7)</b>	(5.3)

#### 4. Taxation

	2006	2005
	£ million	£ million
<b>Current tax:</b>		
UK Corporation tax – current year	1.1	1.1
Adjustments in respect of prior years	<u>(0.5)</u>	<u>(0.2)</u>
	0.6	0.9
Foreign tax – current year	0.1	0.1
Adjustments in respect of prior years	<u>(0.1)</u>	<u>0.1</u>
Total current tax	0.6	1.1
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	0.4	1.8
Adjustments in respect of prior years	<u>0.4</u>	<u>(0.2)</u>
	0.8	1.6
Tax on profit	<u>1.4</u>	<u>2.7</u>

#### 5. Earnings per share

	2006	2005
	pence	pence
Earnings per share:		
- Basic	2.39p	4.14p
- Diluted	2.32p	4.05p
Adjusted earnings per share before share-based payments, pension settlements and curtailments and exceptional items:		
- Basic	4.42p	3.87p
- Diluted	4.29p	3.79p

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. The average number of shares outstanding excludes those held in trusts controlled by the company, which are treated as cancelled.

Diluted earnings per share is calculated on the same basis as the basic earnings per share with a further adjustment to the weighted average number of ordinary shares outstanding to reflect the effect of all dilutive potential ordinary shares. The group has three classes of dilutive potential ordinary shares: share options granted to employees where the exercise price is less than the average market price of the company's ordinary shares during the year, contingently exercisable options under Xansa's management incentive plan and free and matching shares awarded to employees for which

the value of the award to be recognised in the income statement in the future is less than the average market price of the company's ordinary shares during the year.

Options over 14,836,457 shares (2005: 20,466,623) shares are excluded from the calculation of diluted earnings per share as the option exercise prices exceeded the average price of Xansa shares during the period.

	<b>2006</b>	<b>2005</b>
	<b>number</b>	<b>number</b>
Weighted average number of ordinary shares used to calculate basic earnings per share	305,744,744	299,636,880
Potential dilutive effect of ordinary shares issuable under share option schemes	1,178,938	747,574
Potential dilutive effect of contingently issuable ordinary shares granted under Xansa's management incentive plan	557,116	451,466
Potential dilutive effect of free and matching shares	6,884,772	5,224,827
Weighted average number of shares used for calculating diluted earnings per share	<u>314,365,570</u>	<u>306,060,747</u>

Adjusted earnings per share before shared-based payments, pension settlements and curtailments and exceptional items is calculated using an adjusted earnings figure calculated as shown below. The number of shares used to calculate the adjusted earnings per share figures are the same as those used for the unadjusted figures above.

	<b>2006</b>	<b>2005</b>
	<b>£ million</b>	<b>£ million</b>
Profit for the year attributable to Xansa shareholders	<b>7.3</b>	12.4
Adjustments for:		
- Share based payments	<b>3.8</b>	2.7
- Pension settlements and curtailments	-	(3.0)
- Exceptional items	<b>4.3</b>	-
- Tax effect of above adjustments	<b>(1.9)</b>	(0.5)
Adjusted profit for the year attributable to Xansa shareholders	<u><b>13.5</b></u>	<u>11.6</u>

## 6. Dividends

The following dividends were paid by the Group:

	Paid in cash £ million	Scrip Elections £ million	Total £ million
<b>2005:</b>			
2004 Final dividend 2.16p – paid 30 <sup>th</sup> September 2004	5.6	1.0	6.6
2005 Interim dividend 1.08p – paid 7 <sup>th</sup> April 2005	2.0	1.3	3.3
	<u>7.6</u>	<u>2.3</u>	<u>9.9</u>
<b>2006:</b>			
2005 Final dividend 2.16p – paid 29 <sup>th</sup> September 2005	5.7	1.1	6.8
2006 Interim dividend 1.08p – paid 6 <sup>th</sup> April 2006	2.1	1.3	3.4
	<u>7.8</u>	<u>2.4</u>	<u>10.2</u>
2006 Proposed final dividend 2.16p			<u>6.9</u>

The proposed final dividend for the year ended 30 April 2006 of £6.9 million (2.16p per share) has not been recognised as a liability as at 30 April 2006.

## 7. Reconciliation of net cash flow to movement in net funds (debt)

	2006 £ million	2005 £ million
Net (decrease) in cash and cash equivalents	0.3	(17.8)
Cash outflow (inflow) from decrease (increase) in debt and lease financing	0.7	9.6
Change in net (debt) funds resulting from cash flows	1.0	(8.2)
New finance leases	(1.9)	(0.1)
Amortisation of issue costs of debt and interest on finance lease creditor	(0.4)	(0.3)
Effect of foreign exchange rate changes on net cash and debt	(0.6)	0.8
Movement in net debt	(1.9)	(7.8)
Opening net debt	(15.7)	(7.9)
Adoption of IAS 32 and IAS 39	(0.1)	
Closing net debt**	<u>(17.7)</u>	<u>(15.7)</u>

\*\* The adoption of IAS 32 and IAS 39 on 1 May 2005 resulted in an increase in net debt by £0.1m on the 30 April 2005 balance.

## 8. Consolidated statement of changes in equity

	Year to 30 April 2006	Year to 30 April 2005
<b>Group</b>		
At 1 start of year	(16.8)	(11.3)
Adoption of IAS 32 and 39 at 1 May 2005	(0.1)	n/a
At start of year restated	(16.9)	(11.3)
Total recognised income (expense) for the year	26.2	(1.0)
Issue of shares – scrip dividends	2.4	2.3
Issue of shares – exercise of options	-	0.1
Payments to acquire own shares	(1.2)	(0.7)
Receipts from sale of own shares	2.1	1.4
Share-based payment charge	3.8	2.7
Equity dividends paid	(10.5)	(10.3)
	5.9	(16.8)