

*Anite*

Anite Group plc Interim Results for the six months ended 31 October 2006

Solutions that make a difference



# Anite Group

Anite is an international IT solutions and services company whose primary business is the provision of business critical solutions based on its deep sector knowledge of the wireless telecoms, public sector, and travel markets. These solutions almost always include at their core the supply of Anite-owned software products. The Group offers a comprehensive service to its customers, including implementation, systems integration, maintenance and managed services, enabling it to maximise customer satisfaction and financial returns.

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## Financial highlights

- Orders up 7.7% at £75.8m (2005: £70.4m), following a strong performance by Travel and Wireless (formerly Telecoms).
- Revenues £78.0m (2005: £82.2m), primarily due to lower revenues in Public Sector – 2005 included higher third-party hardware revenues (£2.2m) and State of Victoria (SoV) revenues (£1.3m).
- Profit before tax £10.3m (2005: £10.1m).
- Net cash of £22.7m (2005: £25.6m) after payment of £11.3m in respect of SoV and £2.2m settlement of onerous property lease.
- Operating margins up to 12.9% (2005: 11.8%).
- Group profit after tax including discontinued operations £8.3m (2005: £9.2m).
- Basic and diluted earnings per share from continuing operations 2.2p (2005: 2.2p), 2.4p including discontinued operations (2005: 2.6p).

## Operating highlights

- Results in line with expectations, following another strong performance by Wireless and good performance in other businesses.
- Successful settlement of SoV contract in July.
- Considerable progress with Pericles.
- Strong operating cash flow before SoV settlement.
- Recommended interim dividend of 0.25p per share – first interim dividend since 2001.
- Acquisition of Nemo completed on 30 November 2006 for an initial consideration of £57m (€85m).

# Chairman's statement

I am pleased to report further progress in the six months ended 31 October 2006. The Group performed well during this period with a strong performance by Wireless (formerly Telecoms) a good achievement by Public Sector despite slowing market conditions, and solid results from Travel, which reported a record half-year order book.

The last three years have been transformational for Anite and the management team are delivering increased strategic momentum. Progress has been enhanced by their being able to focus wholly on Anite's core businesses and growth strategy following the successful settlement of the troubled State of Victoria (SoV) contract.

We continue to evolve from a UK-centric, public sector and IT consulting and services business into a leading global software business with a stronger focus on the highly attractive wireless telecoms industry. Over the last three years, Anite has streamlined its core activities following seven disposals of non-core businesses, reducing its headcount from approximately 2,000 to 1,300 and has strengthened its balance sheet.

## Acquisitions and disposals

The next phase of Anite's transformation and future growth commenced following the half-year end with the acquisition of Nemo, a leading, Finnish based, global provider of specialist systems and software for mobile phone network testing, for an initial consideration of £57m.

Following this acquisition, our Wireless businesses as a whole are expected to represent around 40% of revenues and 70% of operating profit before intangible amortisation.

After the period end we also successfully disposed of one small non-core business, GMO MC, the smaller of Anite's two IT consultancy businesses based in Germany.

We will continue to review selective acquisition opportunities that would help achieve our aim of being number one or two in our chosen markets and to dispose of businesses for which we see little prospect of achieving leadership in the short to medium term. Our overriding objective in all cases is to create shareholder value.

## Divisional overview

The half year has seen good progress in all our businesses. A full account of the Group's activities is included in the Chief Executive's operating review, but I highlight some significant aspects of our business below.

Our existing Wireless business, which holds a leading global position in its chosen field, had another successful trading period and continues to invest in research and development whilst maintaining our top-tier position. The acquisition of Nemo, which operates in an adjacent and complementary area of the wireless telecoms market to our existing business, adds new products to our portfolio deepens our customer relationships and considerably strengthens our geographical reach.

We continue to evolve from a UK-centric, public sector and IT consulting and services business into a leading global software business with a stronger focus on the highly attractive wireless telecoms industry

## Basic and diluted earnings per share p

2006		2.2
2005		2.2

## Revenue £m

2006		78.0
2005		82.2

## Profit before tax £m

2006		10.3
2005		10.1

Our market-leading Travel division had a solid first half during a period of investment in its exciting new reservation system @com, which is at the forefront of helping its tour operator customers meet the challenges of internet-based competition. Its order book has seen significant growth in the year to date and now stands at record levels.

Despite anticipated softness in Local Government revenues, our Public Sector division, which is a market leader in a number of its key activities, reported a double-digit operating margin. Erosion of legacy product income and increased development spending was in part offset by a good performance by Secure Information Solutions (SIS) and a reduction in Pericles losses.

### Group results

Profit before tax from continuing operations was £10.3m (2005: £10.1m), giving basic and diluted earnings per share of 2.2p (2005: 2.2p). Group revenues amounted to £78.0m (2005: £82.2m) – noting that 2005 included higher third-party hardware revenues (£2.2m) and SoV revenues (£1.3m). Good cost control and a better mix benefited operating margins, which were 12.9% (2005: 11.8%) in the period. Unallocated Group central costs increased by £0.6m including £0.2m of additional share-based payment costs and the impact of having established a central project management resource.

Group profit after tax including discontinued operations was £8.3m (2005: £9.2m), with basic and diluted earnings per share

including discontinued operations of 2.4p (2005: 2.6p) after an exceptional tax credit of £0.7m in respect of prior year discontinued activities.

As announced on 10 July 2006, we agreed a full and final settlement to release the Group from its liabilities and obligations relating to the SoV contract. The costs of this were expensed in the last financial year, although the cash payment is included in these results. Pericles losses reduced substantially during the period, whilst there has been no addition to the related contract provisions. Group development spending in the period rose to £8.3m (2005: £6.7m) including net capitalised development £2.0m (2005: £0.8m).

### Dividend and share buy back

Dividend payments were resumed with the payment in November 2006 of Anite's first dividend since 2001. The Board has indicated its intention to adopt a progressive dividend policy with an intended split of approximately one third at the half year and two thirds at the full year. Accordingly, the Board has declared an interim dividend of 0.25p per share. This dividend will be payable on 16 May 2007 to shareholders on the register on 20 April 2007.

A resolution to renew the authority to buy back shares was approved at the Group's AGM held on 3 October 2006. During the period 0.86m shares were bought back at a cost of £0.6m and an average price of 71.5p per share.

### Balance sheet and cash

The Group generated strong operating cash flow during the period despite payment of £11.3m to settle the SoV contract and £2.2m in settlement of an onerous property lease. Net cash only fell slightly during the period to £22.7m (2005: £25.6m).

In conjunction with the acquisition financing in relation to Nemo and other opportunities, our existing banking facilities were renegotiated and increased during the period.

### People

In September, our Group Finance Director, Christopher Humphrey, took leave of absence on health grounds. We anticipate that Chris will return to the business in the New Year. We thank Geoff Bicknell, who has stood in as Interim Group Finance Director during this period.

On behalf of the Board, I would like to thank all employees for their contribution, hard work and support during the period.

### Conclusion

In recent months we have continued to make good progress against our objectives, invested in growth opportunities as planned and continued to strengthen Anite's financial and market positions, as well as continuing the transformation of the Company through acquisitions and disposals.

The Board is cautiously optimistic about Anite's prospects for the remainder of the current financial year.

**Clay Brendish** *Chairman*

# Chief Executive's operating review

Anite's performance in the first half of this financial year has been in line with our expectations. We have grown profits in Wireless, maintained margins in Public Sector, increased investment in the development of our products (to a total spend of £8.3m in the first half), and grown our order book, especially in Travel, where the order book is currently at record levels.

Compared to three years ago, the Group now has a strong balance sheet and high quality earnings and margins, derived from strong and growing licence revenues in Wireless and increasing recurring revenues.

This progress has enabled management to focus wholly on Anite's core business and growth strategy, resulting in our first major acquisition for a number of years, Nemo. Together with other exciting opportunities within the existing businesses, we are now focused on maximising the benefits of this acquisition, whilst exploring further avenues for future growth.

## Strategy

Anite's primary business is the provision of business critical solutions based on its deep sector knowledge of the wireless telecoms, public sector, and travel markets. These solutions almost always include at their core the supply of Anite-owned software products.

Our strategy is to be number one or two in each of these markets as we believe that businesses with strong market positions have demonstrably superior returns. Following the acquisition of Nemo, our Wireless division is now firmly established at the heart of our business.

## Divisional performance

Divisional performance\* was as follows:

£m	Revenue	Operating profit pre-SBP	Share based payments (SBP)	Operating profit
Wireless	26.4	7.3	(0.1)	7.2
Public Sector	28.5	3.1	(0.1)	3.0
Pericles	2.5	(1.9)	–	(1.9)
Total Public Sector	31.0	1.2	(0.1)	1.1
Travel	14.6	3.0	(0.1)	2.9
International	6.0	0.5	–	0.5
<b>Total operating companies</b>	<b>78.0</b>	<b>12.0</b>	<b>(0.3)</b>	<b>11.7</b>

\* results are for continuing operations excluding SoV and unallocated central costs.

Divisional order book performance was as follows:

£m	2006 Order intake	2005 Order intake	Inc/(dec)
Wireless	24.3	19.5	4.8
Public Sector	25.6	33.5	(7.9)
Travel	22.5	13.7	8.8
International	3.4	3.7	(0.3)
<b>Total operating companies</b>	<b>75.8</b>	<b>70.4</b>	<b>5.4</b>

This progress has enabled management to focus wholly on Anite's core business and growth strategy, resulting in our first major acquisition for a number of years, Nemo.

### Wireless

Anite provides specialist systems and software for mobile phone network simulation and handset testing, and, following the recent acquisition of Nemo, testing solutions for measurement and analysis of air interface between mobile terminals and radio access network. Going forward, the two businesses will report their results as one within the Wireless sector.

#### Existing Wireless (formerly Telecoms)

The existing Wireless business had another very successful trading period increasing orders, revenues and operating profits, building market share in its core areas. This result included the impact of capitalised development spend.

Our Anite Baseband Processor, which was successfully introduced last year and is now an essential component of our 3G and future solutions, has continued to be well received by our customers worldwide. Our continuing investment in product development enables us to be first to market with evolving technologies, an important hallmark of our technology leadership.

Our export sales, representing approximately 90% of divisional sales, are evidence that our recent investment in overseas expansion continues to be successful. Recurring maintenance revenues also continue to grow, representing 26% of divisional revenues in the period.

The first half was characterised by a number of market developments: positives included continued strong global growth in mobile handset sales; the ongoing adoption of 3G; and the proliferation of new wireless devices. These were partly balanced by the continuing decline of demand for older 2G technologies, the impact of consolidation amongst customers and more aggressive pricing tactics by competitors. To protect against the latter, we continue to focus on reducing our hardware costs. Overall we remain confident about prospects for this business.

### Nemo

Nemo, which was acquired after the half-year end, has more than doubled its sales and operating profits over the last three years and has strong margins. Our immediate focus is on integrating the business with the Group and beginning to take advantage of the benefits that we believe the acquisition will bring to our wireless telecoms offering.

These include:

- extended product offering, adding network testing to Anite's current focus on handset testing;
- attractive portfolio of proven revenue-generating products together with exciting new developments in the pipeline;
- greater access to a large and expanding market driven by rollout of new wireless technologies including 3G and its evolutions;
- further investment in our most successful market;
- valuable complementary relationships with key wireless operators and extended geographical coverage; and
- R&D benefits to arise through shared knowledge and customer/supplier relationships.

## Public Sector

Anite is a market leader in software and solutions to key parts of local government, such as local tax collection, benefits payments, housing management and social care solutions – as well as an important supplier of secure information solutions (SIS) to the law enforcement markets.

Public Sector (excluding Pericles) achieved a creditable double-digit operating margin despite higher development spending and the expected erosion of income from our legacy Council Tax and Benefits product (VME). Revenues fell as a result of the anticipated slowdown in demand ahead of the Local Government White Paper/Lyons Review, especially notable in social care markets. Additionally, lower third-party hardware revenues and the inclusion of SoV revenues totalling £1.3m in the same period last year further impact comparisons. Public Sector markets generally continue to see a shift in business mix to more long-term contracts and less software licences.

SIS continued to perform well reflecting its strong market position and we continue to expand this part of the division for which we see growth opportunities.

Overall we continue to manage divisional costs to ensure that these are in line with anticipated revenues and that a good level of profitability is therefore sustained.

## Pericles

Pericles losses fell by £0.8m during the period, in line with our expectations. We are currently working through the few remaining implementations, and now have just four outstanding out of a total of 88, all to be completed by our financial year end. A further software release during the period was also well received, with another due by the financial year end.

The provision carried forward continues to be adequate but is under continual review. As previously indicated a small number of customers may require settlements. Overall, a successful completion of Pericles' implementations is a major achievement compared to three years ago.

## Travel

Anite is the UK's leading travel technology solution provider for tour operators, air fare consolidators, and cruise, ferry, motor and rail inclusive operators.

Travel had a good half year, continuing to sustain profitability as it benefits from repeat demand and strong recurring revenues from its installed customer base (over 40% of revenues). As expected, this year is a transitional one for the business as it steadily increases development spending on @com, our new reservation system, with £0.3m (2005: nil) invested in the first half. This investment is helping to fund the remaining development work on, and ensure completion of, @com in the current financial year. This is a timely investment as our customers continue to focus on their internet strategies; this is resulting in many UK and international growth opportunities for Anite.

Major orders received from Condor Ferries and Finnair have resulted in a 60% increase in Travel's order book to record levels. Following the half-year end, we subsequently received a large order from XL Leisure Group. We are making significant inroads into international markets with @com.

## Anite Deutschland (formerly International)

Anite Deutschland, which focuses on IT consultancy and systems integration in finance and public sector, made a profitable contribution to the first half and continues to perform satisfactorily. This is Anite's only remaining business within the division formerly known as International, following the disposal of GMO MC.

## Outlook

Following a good first-half performance, we will continue to invest in growth opportunities during the second half.

The existing Wireless business is expected to continue to perform well in a growing market.

Following the completion of the acquisition of Nemo on 30 November 2006, we have already begun work to integrate this business and to maximise the benefits that we expect to accrue in future years. Although Nemo will contribute just five months' trading in the current financial year, we expect it to materially enhance Anite's adjusted earnings per share (before amortisation of intangible assets and exceptional items) in the first full year of ownership.

Public Sector is expected to continue to report mixed results, with continuing success in SIS and reduction in Pericles losses, being counterbalanced by the current softness in the local government revenues, ongoing erosion of VME income and higher development spending. To protect profitability we continue to manage the cost base in this division with the aim of maintaining margins, concentrating our recruitment in SIS where the opportunities for growth are more evident.

In Travel, development spend on completing @com will hold back profits this year as expected, although the full benefits of its rapidly rising order book and growing international momentum will be seen in future years.

Overall, we are cautiously optimistic about Anite's prospects for the remainder of the current financial year with the Group's trading, as in previous years, being weighted towards the second half.

**Steve Rowley** *Chief Executive*

# Condensed consolidated income statement

Six months ended 31 October 2006

	Notes	Six months ended 31 October 2006 (unaudited) £000	Six months ended 31 October 2005 (unaudited) £000	Year ended 30 April 2006 (audited) £000
<b>Continuing operations</b>				
<b>Revenue</b>	2	<b>78,042</b>	82,167	164,667
<b>Cost of sales</b>		<b>(41,437)</b>	(46,622)	(101,704)
<b>Gross profit</b>		<b>36,605</b>	35,545	62,963
Distribution costs		(5,227)	(5,198)	(10,956)
Administrative expenses		(21,319)	(20,688)	(42,142)
<b>Net operating costs</b>		<b>(26,546)</b>	(25,886)	(53,098)
<b>Operating profit from continuing operations</b>	2	<b>10,059</b>	9,659	9,865
Investment income		430	608	939
Finance charges		(227)	(158)	(355)
<b>Profit on ordinary activities from continuing operations before taxation</b>		<b>10,262</b>	10,109	10,449
Income tax expense	4	(2,560)	(2,374)	(6,879)
<b>Profit for the period from continuing operations</b>		<b>7,702</b>	7,735	3,570
<b>Discontinued operations</b>				
Profit for the period from discontinued operations	3(a)	628	1,447	5,299
<b>Profit for the period</b>		<b>8,330</b>	9,182	8,869
Profit attributable to equity holders of the parent		8,330	9,182	8,869
<b>Continuing and discontinued operations</b>				
Earnings per share				
– basic	5	2.4p	2.6p	2.5p
– diluted		2.4p	2.6p	2.5p
<b>Continuing operations</b>				
Earnings per share				
– basic	5	2.2p	2.2p	1.0p
– diluted		2.2p	2.2p	1.0p

# Condensed consolidated balance sheet

31 October 2006

	Notes	31 October 2006 (unaudited) £000	31 October 2005 (unaudited) £000	30 April 2006 (audited) £000
<b>Non-current assets</b>				
Goodwill		34,119	34,619	34,119
Other intangible assets		6,900	3,427	4,751
Intangible assets		41,019	38,046	38,870
Property, plant and equipment		12,751	12,363	12,936
Deferred tax assets		2,183	2,489	2,438
		55,953	52,898	54,244
<b>Current assets</b>				
Inventories	6	2,926	4,043	2,920
Trade and other receivables	7	46,195	50,031	55,376
Current tax assets		2,058	331	334
Cash and cash equivalents		22,747	25,598	36,263
		73,926	80,003	94,893
Assets classified as held for sale	3(b)	327	–	473
		74,253	80,003	95,366
<b>Total assets</b>		<b>130,206</b>	<b>132,901</b>	<b>149,610</b>
<b>Current liabilities</b>				
Trade and other payables	8	(51,943)	(57,998)	(66,623)
Current tax payable		(13,981)	(15,003)	(12,974)
Obligations under finance leases		–	(50)	–
Provisions		(2,502)	(4,246)	(14,649)
		(68,426)	(77,297)	(94,246)
Liabilities directly associated with assets classified as held for sale	3(b)	(455)	–	(519)
		(68,881)	(77,297)	(94,765)
<b>Non-current liabilities</b>				
Other payables		(38)	(148)	(150)
Provisions		(8,563)	(12,840)	(10,730)
		(8,601)	(12,988)	(10,880)
<b>Total liabilities</b>		<b>(77,482)</b>	<b>(90,285)</b>	<b>(105,645)</b>
<b>Net assets</b>		<b>52,724</b>	<b>42,616</b>	<b>43,965</b>
<b>Equity</b>				
Issued share capital	9	35,186	34,773	35,186
Share premium account		24,496	23,611	24,303
Own shares		(898)	(569)	(715)
Merger reserve		6,538	6,538	6,538
Capital redemption reserve		859	773	773
Retained earnings		(13,457)	(22,510)	(22,120)
<b>Total equity</b>		<b>52,724</b>	<b>42,616</b>	<b>43,965</b>

The accompanying notes are an integral part of this condensed consolidated balance sheet.

# Condensed consolidated statement of changes in equity

for the six months ended 31 October 2006

	Share capital £000	Share premium account £000	Own shares £000	Merger reserve £000	Capital redemption reserve £000	Retained earnings £000	Total £000
<b>Balance at 1 May 2005</b>	<b>35,446</b>	<b>23,390</b>	<b>–</b>	<b>6,538</b>	<b>–</b>	<b>(27,253)</b>	<b>38,121</b>
<b>Changes in equity for the period to 31 October 2005</b>							
Exchange differences arising on translation of foreign operations	–	–	–	–	–	72	72
Net income recognised directly in equity	–	–	–	–	–	72	72
Profit for the period						9,182	9,182
<b>Total recognised income and expense for the period</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>9,254</b>	<b>9,254</b>
Issue of share capital	100	221	–	–	–	–	321
Purchase of own shares	–	–	(569)	–	–	–	(569)
Share buy back	(773)	–	–	–	773	(5,026)	(5,026)
Recognition of share-based payments	–	–	–	–	–	515	515
<b>Balance at 31 October 2005</b>	<b>34,773</b>	<b>23,611</b>	<b>(569)</b>	<b>6,538</b>	<b>773</b>	<b>(22,510)</b>	<b>42,616</b>
<b>Balance at 1 May 2006</b>	<b>35,186</b>	<b>24,303</b>	<b>(715)</b>	<b>6,538</b>	<b>773</b>	<b>(22,120)</b>	<b>43,965</b>
<b>Changes in equity for the period to 31 October 2006</b>							
Exchange differences arising on translation of foreign operations	–	–	–	–	–	164	164
Net income recognised directly in equity	–	–	–	–	–	164	164
Profit for the period						8,330	8,330
<b>Total recognised income and expense for the period</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>8,494</b>	<b>8,494</b>
Issue of share capital	86	193	–	–	–	–	279
Purchase of own shares	–	–	(183)	–	–	–	(183)
Share buy back	(86)	–	–	–	86	(613)	(613)
Recognition of share-based payments	–	–	–	–	–	782	782
<b>Balance at 31 October 2006</b>	<b>35,186</b>	<b>24,496</b>	<b>(898)</b>	<b>6,538</b>	<b>859</b>	<b>(13,457)</b>	<b>52,724</b>

# Condensed consolidated cash flow statement

for the six months ended 31 October 2006

	Six months ended 31 October 2006 (unaudited) £000	Six months ended 31 October 2005 (unaudited) £000	Year ended 30 April 2006 (audited) £000
<b>Profit for period</b>			
Continuing	7,702	7,735	3,570
Discontinued	628	1,447	5,299
	<b>8,330</b>	9,182	8,869
Adjustments for:			
Income tax expense	1,827	2,374	3,628
Loss/(profit) on disposal of discontinued operations	100	(1,490)	(2,383)
Investment income (net)	(209)	(457)	(604)
Depreciation of property, plant and equipment	2,223	2,354	5,212
Amortisation of intangible assets	151	222	556
Amortisation of internally generated assets	1,197	675	1,568
Goodwill impairment	–	–	500
Loss/(profit) on disposal of property, plant and equipment	170	(91)	112
Share-based payments	693	596	1,208
(Decrease)/increase in provisions	(14,523)	(3,093)	5,587
<b>Operating cash flows before movements in working capital</b>	<b>(41)</b>	10,272	24,253
(Increase)/decrease in inventories	(110)	(164)	959
Decrease/(increase) in receivables	9,322	(409)	(6,253)
Decrease in payables	(13,991)	(13,345)	(3,235)
Movements in working capital	(4,779)	(13,918)	(8,529)
<b>Cash generated from operations before exceptional cash payments</b>	<b>8,637</b>	(3,646)	15,724
<b>Cash payments – SoV contract and onerous property lease (note 1 below)</b>	<b>(13,457)</b>	–	–
<b>Cash (used in)/generated from operations</b>	<b>(4,820)</b>	(3,646)	15,724
Interest received	437	381	781
Interest paid	(117)	–	–
Interest element of finance lease rental payments	–	(7)	(8)
Income taxes paid	(2,219)	(1,777)	(4,916)
<b>Net cash (used in)/generated from operating activities</b>	<b>(6,719)</b>	(5,049)	11,581
<b>Cash flow from investing activities</b>			
Proceeds from disposal of subsidiary undertakings (net of cash disposed)	–	1,381	1,368
Proceeds from previously closed businesses	–	31	430
Purchase of property, plant and equipment	(2,129)	(2,020)	(5,667)
Proceeds on disposal of property, plant and equipment	–	87	(17)
Purchase of software licences	(311)	(200)	(600)
Expenditure on capitalised product development	(3,187)	(1,469)	(3,621)
<b>Net cash used in investing activities</b>	<b>(5,627)</b>	(2,190)	(8,107)
<b>Cash flow from financing activities</b>			
Issue of ordinary share capital	279	321	1,426
Share buy back	(606)	(5,019)	(5,018)
Purchase of own shares	(183)	–	(715)
Capital element of finance lease rental payments	–	(105)	(155)
Redemption of vendor loan note instruments	(478)	(28)	(482)
<b>Net cash used in financing activities</b>	<b>(988)</b>	(4,831)	(4,944)
<b>Net decrease in cash and cash equivalents</b>	<b>(13,334)</b>	(12,070)	(1,470)
<b>Effect of exchange rate changes</b>	<b>(182)</b>	225	290
Cash and cash equivalents at 1 May	36,263	37,443	37,443
<b>Cash and cash equivalents at 31 October and 30 April</b>	<b>22,747</b>	25,598	36,263

## Note 1:

The exceptional cash payments of £13.5m relate to closure of SoV contract (£11.3m) and settlement of an onerous property lease contract (£2.2m). The cash flow above includes GMO Management Consulting, which is held for sale at 31 October 2006. This business generated net cash outflow from operating activities of £0.7m and has cash and cash equivalents of £0.2m.

# Notes to the accounts (unaudited)

## 1 Basis of preparation and accounting policies

### a) Basis of preparation

The condensed consolidated financial statements for the six months ended 31 October 2006 have been prepared in accordance with the requirements of the Listing Rules.

The financial information contained in this Interim Report does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. No statutory accounts for the period have been delivered to the Registrar of Companies. The financial information contained in this Interim Report has been reviewed by the auditors but not audited.

The figures for the year ended 30 April 2006 are based upon the Group's audited accounts prepared under IFRS. The statutory accounts for the year ended 30 April 2006 have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain a statement under Section 237(2) or 237(3) of the Companies Act 1985.

This Interim Financial Report was approved for issue by the Board of Directors on 11 December 2006.

### b) Significant accounting policies

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in preparation of the Group's annual financial statements for the year ended 30 April 2006.

## 2 Revenue and segmental information

### 2.1 Analysis of Group's revenue

	2006 £000	2005 £000
IT consultancy	1,617	1,778
Own product software licences	16,105	14,839
Bespoke services, systems integration and implementation of software products	18,493	21,570
Managed services (includes software maintenance and support)	27,910	26,516
Originating from third party	13,917	16,181
Revenue from continuing operations (excluding SoV)	78,042	80,884
State of Victoria (SoV)	–	1,283
Revenue from continuing operations	78,042	82,167
Investment income	430	608
	78,472	82,775
Revenue from discontinued operations	685	1,399
	79,157	84,174

## 2.2 Business segments – primary basis

At 31 October 2006, the Group is organised into four business segments: Wireless, Public Sector, Travel and International. These four business segments are the Group's primary reporting format for segment information.

Part of the International operation was sold in the previous year. In the current year, GMO Management Consulting, within the International operation, has been classified as held for sale and its results are included as a discontinued operation. Details are disclosed in note 3.

Segment information under the primary reporting format is as disclosed in the table below:

	Wireless		Public Sector		Travel		International		Total	
	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000
<b>Revenue – continuing operations</b>										
Total sales	26,412	24,830	31,085	36,598	14,907	14,980	6,031	6,260	78,435	82,668
Inter-segment sales <sup>1</sup>	–	–	(49)	(75)	(344)	(426)	–	–	(393)	(501)
	26,412	24,830	31,036	36,523	14,563	14,554	6,031	6,260	78,042	82,167
<b>Revenue – discontinued operations</b>										
	–	–	–	–	–	–	685	1,399	685	1,399
<b>Total revenue</b>	<b>26,412</b>	<b>24,830</b>	<b>31,036</b>	<b>36,523</b>	<b>14,563</b>	<b>14,554</b>	<b>6,716</b>	<b>7,659</b>	<b>78,727</b>	<b>83,566</b>
<b>Continuing operations</b>										
<b>Operating profit</b>										
before share-based payments	7,256	6,325	1,209	930	3,008	3,193	458	589	11,931	11,037
Share-based payments	(104)	(115)	(66)	(129)	(73)	(110)	13	(14)	(230)	(368)
<b>Segment profit</b>	<b>7,152</b>	<b>6,210</b>	<b>1,143</b>	<b>801</b>	<b>2,935</b>	<b>3,083</b>	<b>471</b>	<b>575</b>	<b>11,701</b>	<b>10,669</b>
Unallocated corporate costs (after recharges)									(1,642)	(1,010)
<b>Operating profit for continuing operations</b>									<b>10,059</b>	<b>9,659</b>
Investment income (net)									203	450
<b>Profit from continuing operations before tax</b>									<b>10,262</b>	<b>10,109</b>
Income tax expense									(2,560)	(2,374)
<b>Profit from continuing operations</b>									<b>7,702</b>	<b>7,735</b>
<b>Discontinued operations</b>										
<b>Operating loss from discontinued operations (note 3(a))</b>							(11)	(50)	(11)	(50)
(Loss)/profit on disposal of businesses							(100)	1,490	(100)	1,490
Investment income							6	7	6	7
Income tax credit							733	–	733	–
<b>Profit from discontinued operations</b>							<b>628</b>	<b>1,447</b>	<b>628</b>	<b>1,447</b>
<b>Profit for the period</b>									<b>8,330</b>	<b>9,182</b>
Profit for the period is stated after:										
Capitalisation of internally-generated intangible assets (IGIA)	1,733	861	1,450	608	–	–	–	–	3,183	1,469
Amortisation of IGIA	(825)	(669)	(372)	(6)	–	–	–	–	(1,197)	(675)
<b>Net capitalisation of IGIA</b>	<b>908</b>	<b>192</b>	<b>1,078</b>	<b>602</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,986</b>	<b>794</b>

1 inter-segment sales are charged at prevailing market rates.

# Notes to the accounts (unaudited)

## 2.3 Additional analysis of Public Sector continuing operations

	Public Sector (excluding Pericles and SoV)		Pericles development		Subtotal Public Sector (excluding SoV)		State of Victoria (SoV)		Total	
	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000
<b>Revenue on continuing operations</b>	<b>28,510</b>	33,822	<b>2,526</b>	1,418	<b>31,036</b>	35,240	–	1,283	<b>31,036</b>	36,523
<b>Operating profit/(loss)<sup>1</sup> – before share based payments</b>	<b>3,141</b>	3,615	<b>(1,932)</b>	(2,685)	<b>1,209</b>	930	–	–	<b>1,209</b>	930
<b>Share based payments</b>	<b>(66)</b>	(129)	–	–	<b>(66)</b>	(129)	–	–	<b>(66)</b>	(129)
<b>Operating profit/(loss)<sup>1</sup></b>	<b>3,075</b>	3,486	<b>(1,932)</b>	(2,685)	<b>1,143</b>	801	–	–	<b>1,143</b>	801

This additional information has been disclosed to give a clearer understanding of the results of the core Public Sector continuing businesses.

1 after utilisation of contract provisions made for the Pericles development and SoV contract.

## 3 Discontinued operations

### a) Discontinued operations

	Six months ended 31 October 2006 £000	Six months ended 31 October 2005 £000	Year ended 30 April 2006 £000
<b>Loss after tax for the period from discontinued operations</b>			
Revenue	<b>685</b>	1,399	2,204
Cost of sales	<b>(460)</b>	(861)	(1,385)
Gross profit	<b>225</b>	538	819
Goodwill impairment	–	–	(500)
Operating expenses	<b>(236)</b>	(588)	(674)
Operating loss before interest	<b>(11)</b>	(50)	(355)
Investment income	<b>6</b>	7	20
Loss before tax	<b>(5)</b>	(43)	(335)
Tax credit	<b>2</b>	–	41
<b>Loss after tax</b>	<b>(3)</b>	(43)	(294)
<b>Profit on sale of discontinued operations</b>			
Profit on disposal of previously discontinued operations	–	1,490	2,316
Net movement in provision in relation to previously discontinued operations	<b>(100)</b>	–	67
<b>Net (loss)/profit before tax on sale of discontinued operations</b>	<b>(100)</b>	1,490	2,383
Current year tax credit relating to sale of discontinued activities	–	–	–
Tax credit relating to activities discontinued in prior years	<b>731</b>	–	3,210
<b>Net profit after tax on sale of discontinued operations</b>	<b>631</b>	1,490	5,593
<b>Total</b>	<b>628</b>	1,447	5,299

### 3 Disposed businesses/discontinued operations continued

#### b) Assets/(liabilities) classified as held for sale

The assets and liabilities of GMO Management Consulting GmbH have been classified as held for sale and are presented separately in the balance sheet at 31 October 2006 and 30 April 2006. This company was subsequently sold on 2 November 2006. The results of this business are included in the International division as discontinued operations for segment reporting purposes (see note 2).

The major classes of assets and liabilities of these discontinued businesses classified as held for sale are as follows:

	31 October 2006 £000	31 October 2005 £000	30 April 2006 £000
Property, plant and equipment	21	–	26
Trade and other receivables	306	–	447
Total assets classified as held for sale	327	–	473
Trade and other payables, and total for liabilities associated with assets classified held for sale	(455)	–	(519)
Net liabilities	(128)	–	(46)

### 4 Income tax expense

	Six months ended 31 October 2006 £000	Six months ended 31 October 2005 £000	Year ended 30 April 2006 £000
<b>Current tax</b>			
UK corporation tax	1,944	1,118	5,120
Foreign tax	450	1,021	1,453
	2,394	2,139	6,573
Adjustments in respect of prior years			
– UK corporation tax	(178)	(91)	(301)
– foreign tax	–	–	68
	(178)	(91)	(233)
<b>Total current tax expense</b>	2,216	2,048	6,340
<b>Deferred tax</b>			
UK	344	326	455
Foreign	–	–	84
<b>Total deferred tax expense</b>	344	326	539
<b>Total income tax expense</b>	2,560	2,374	6,879

In addition to the income tax expense above, there was a corporation tax credit of £2,000 (October 2005: £nil; April 2006: £41,000 credit) on the loss for the period from discontinued operations (see note 3a above).

There was a corporation tax credit of £731,000 (2005: £nil; April 2006: £3,210,000) relating to activities discontinued in prior years.

Income tax for the interim period is charged at 24.9% (October 2005: 23.6%), representing the weighted average of the estimated annual effective income tax rate expected for the full year in each jurisdiction and major category of income within continuing operations.

# Notes to the accounts (unaudited)

## 5 Earnings per share

The calculations of profit and adjusted earnings per share are based on the following profit and adjusted profit and number of shares:

	Six months ended 31 October 2006 Pence per share	Six months ended 31 October 2005 Pence per share	Year ended 30 April 2006 Pence per share	Six months ended 31 October 2006 £000	Six months ended 31 October 2005 £000	Year ended 30 April 2006 £000
<b>Profit for the period – basic and diluted</b>	<b>2.4</b>	2.6	2.5	<b>8,330</b>	9,182	8,869
Profit for the period from discontinued operations	<b>(0.2)</b>	(0.4)	(1.5)	<b>(628)</b>	(1,447)	(5,299)
<b>Profit for the period on continuing operations – basic and diluted</b>	<b>2.2</b>	2.2	1.0	<b>7,702</b>	7,735	3,570
<b>Reconciliation to profit on ongoing businesses (excluding SoV):</b>						
Loss on SoV	–	–	4.1	–	–	14,278
<b>Profit on ongoing businesses (excluding SoV)</b>	<b>2.2</b>	2.2	5.1	<b>7,702</b>	7,735	17,848
<b>Number of shares (000)</b>						
Weighted average number of shares in issue used to calculate basic earnings per share				<b>350,066</b>	351,768	349,478
Effect of dilutive ordinary shares – SAYE and share option schemes				<b>4,321</b>	6,115	4,435
Number of shares used to calculate diluted earnings per share				<b>354,387</b>	357,883	353,913

Basic and diluted EPS for discontinued operations are both 0.2p per share (2005: 0.4p per share; April 2006: 1.5p).

## 6 Inventories

	31 October 2006 £000	31 October 2005 £000	30 April 2006 £000
Inventories – components	<b>2,307</b>	3,038	2,674
Work in progress	<b>391</b>	880	127
Finished goods	<b>228</b>	125	119
	<b>2,926</b>	4,043	2,920

## 7 Trade and other receivables

	31 October 2006 £000	31 October 2005 £000	30 April 2006 £000
Trade receivables	<b>33,063</b>	33,118	43,582
Less: provision for doubtful trade receivables	<b>(1,170)</b>	(831)	(1,060)
Trade receivables	<b>31,893</b>	32,287	42,522
Other receivables	<b>2,113</b>	1,520	1,146
Prepayments	<b>5,017</b>	5,779	5,206
Amount due from construction customers	<b>353</b>	1,485	383
Accrued income	<b>6,819</b>	8,960	6,119
	<b>46,195</b>	50,031	55,376

## 8 Trade and other payables

	31 October 2006 £000	31 October 2005 £000	30 April 2006 £000
Vendor loan notes	–	932	478
Trade payables	<b>8,030</b>	9,597	8,714
Other taxes and social security	<b>3,577</b>	3,180	6,540
Other payables	<b>1,361</b>	3,170	2,760
Amount due to contract customers	–	–	81
Payments received on account	<b>5,638</b>	4,769	7,122
Accruals	<b>13,475</b>	18,666	16,419
Deferred income	<b>19,862</b>	17,684	24,509
	<b>51,943</b>	57,998	66,623

## 9 Share capital Issued

	Ordinary shares of 10p each		Deferred redeemable shares of £1 each		Total £000
	Number	£000	Number	£000	
Allotted, issued and fully paid:					
At 1 May 2006	351,361,034	35,136	50,000	50	35,186
Issued during the period	859,945	86	–	–	86
Cancelled during the period	(857,460)	(86)	–	–	(86)
At 31 October 2006	351,363,519	35,136	50,000	50	35,186

The number of shares cancelled during the period was 0.86m shares at an average price of 71.5p, as part of the Group's share buy back programme.

## 10 Contingent liabilities

As reported in Anite's Annual Report and Accounts 2006, Anite is continuing to progressively minimise the risks associated with Pericles. There are two customers in discussion with Anite on exiting their contracts, one of whom has issued formal proceedings. A counter claim is being made and the Directors believe any financial settlement for these claims will be adequately covered by the provisions in the accounts.

## 11 Post balance sheet events

- On 30 November 2006, the Group completed the acquisition, from Elektrobot Group plc ("Elektrobot"), of its Nemo Network Testing business, comprising the entire issued share capital of each of Nemo Technologies Ltd. and Elektrobot Group Pte. Ltd. and certain other related assets ("Nemo") (the "proposed acquisition") for €85m plus an additional amount, capped at €12m, is payable in cash upon achievement of certain financial performance targets.
- On 6 November 2006, Anite Holding GmbH (an indirect wholly-owned subsidiary of Anite) sold its shareholding in GMO Management Consulting GmbH ("GMO MC"), the smallest of its two IT consultancy businesses based in Germany, to Dr K Spiller, the managing director of GMO MC, for a cash consideration of £0.1m. Prior to completion the capital reserve of £0.7m was paid to Anite. In the period ended 31 October 2006, GMO MC reported a loss before tax of £11k. There will be a small loss on disposal.
- The proposed dividend of 0.5p per share approved by the Board was paid on 17 November 2006. The cost has not been included as a liability as at 31 October 2006.

# Independent review report to Anite Group plc

We have been instructed by the Company to review the financial information for the six months ended 31 October 2006 which comprises the condensed consolidated income statement, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the consolidated cash flow statement and related notes 1 to 11. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

## **Directors' responsibilities**

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

## **Review work performed**

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquires of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as test of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

## **Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 October 2006.

## **Deloitte & Touche LLP**

Chartered Accountants  
London  
11 December 2006

Notes: A review does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

# Information for shareholders

## Registered office

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www.anite.com

## Registered number

Anite Group plc's registered number is 1798114

## Shareholder enquiries

Lloyds TSB Registrars maintain the Company's register of members. If any of your details change, or if you have any queries regarding your shareholding, please contact the registrars at:

Lloyds TSB Registrars  
The Causeway  
Worthing  
West Sussex  
BN99 6DA  
T: 0870 600 3970  
T: +44 121 415 7047 (overseas)  
F: 0870 600 3980

Textphone for shareholders with hearing difficulties:  
+44 121 415 7028

Lloyds TSB Registrars also offer a range of shareholder information online at [www.shareview.co.uk](http://www.shareview.co.uk).

## Share dealing service

Shareview Dealing, a telephone and internet share dealing service, is provided through Lloyds TSB Registrars and is a convenient way to sell your Anite Group plc shares or add to your holding. Commission for internet dealing is 0.5% with a minimum charge of £15. Commission for telephone dealing is 1% (up to a value of £50,000) with a minimum charge of £25. For telephone dealing call 0870 850 0852 between 8.30am and 4.30pm, Monday to Friday, and for internet dealing log on to [www.shareview.co.uk/dealing](http://www.shareview.co.uk/dealing). You will need your shareholder reference number as shown on your share certificate if you wish to sell, or your debit card number if you wish to buy.

## Anite Corporate Individual Savings Account (ISA)

A single company ISA is now available to Anite Group plc shareholders through Lloyds TSB Registrars. For further details or to obtain a brochure please contact the ISA helpline on 0870 24 24 244.

## Multiple accounts on the shareholder register

If you have received two or more copies of this document, it may be because there is more than one account in your name on the shareholder register. This may be caused by either your name or address appearing on each account in a slightly different way. For security reasons, the registrars will not amalgamate the accounts without your written consent, so if you would like any multiple accounts combined into one account, please write to Lloyds TSB Registrars at the above address.

## ShareGift

ShareGift is a charity share donation scheme for shareholders, administered by the Orr Mackintosh Foundation. It is especially for those who may wish to dispose of a small parcel of shares, the value of which makes it uneconomic to sell on a commission basis. Further information can be obtained at [www.sharegift.org](http://www.sharegift.org) or from Lloyds TSB Registrars.

## Financial calendar

Preliminary announcement of half-year 2006/07 results:	12 December 2006
Financial year end:	30 April 2007
Preliminary announcement of 2006/07 results:	July 2007
Annual General Meeting:	October 2007

## Dividend payment timetable

Announcement:	12 December 2006
Ex-dividend date:	18 April 2007
Record date:	20 April 2007
Payment date:	16 May 2007

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