Announcement to the ASX

iSOFT Group Limited

Sydney – Friday 25th February 2011 – iSOFT Group Limited (ASX: ISF) announces its results for the half year ending December 2010.

Please find attached:

- Appendix 4D Half yearly Report
- ASX release
- First half FY2011 results Information pack

End of release

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About iSOFT Group

iSOFT Group Limited (ASX: ISF) is a health information technology company listed on the Australian Securities Exchange.

iSOFT works with healthcare professionals to design and build software applications that answer all of the difficult questions posed by today's healthcare delivery challenges. Our solutions act as a catalyst for change, supporting free exchange of critical information across diverse care settings and participating organizations.

Today, more than 13,000 provider organisations in 38 countries use iSOFT's solutions to manage patient information and drive improvements in their core processes. The Group's sustainable development is delivered through careful planning, in-depth analysis of the market, and anticipation of our clients' evolving requirements. Our business is driven by the collective talent, experience and commitment of more than 3,300 specialists in 17 locations worldwide.
A global network of iSOFT subsidiaries, supported by an extensive partner network, provides substantial experience of national healthcare markets. As a result, we offer our clients comprehensive knowledge of local market requirements in terms of culture, language, working practices, regulation and organisational structure.

www.isofthealth.com

Appendix 4D

Half yearly Report

Name of Entity	iSOFT GROUP LIMITED
ABN	66 063 539 702
Financial Period Ended	31 December 2010
Previous Corresponding Reporting Period	31 December 2009

Results for Announcement to the Market

	Half year ended 31 December 2010 ($'000)	**Half year ended 31 December 2009 ($'000)**	**Percentage increase/(decrease) over previous corresponding period**
Revenue from ordinary activities	161,645	220,174	-27%
Net profit after tax for the period	(84,104)	4,822	-1,844%
Net profit for the period attributable to members	(84,104)	5,253	-1,701%
EBITDA	(5,628)	35,457	-116%
Dividends (distributions)	Amount per security		Franked amount per security
Final Dividend	-		-
Interim Dividend	-		-
Previous corresponding period	-		-
Record date for determining entitlements to the dividends (if any)	Not applicable		

Brief explanation of any of the figures reported above necessary to enable the figures to be understood:

Refer to attached Interim Financial Report and separate ASX announcement on the results presentation.

Dividends

Date the dividend is payable	Not applicable
Record date to determine entitlement to the dividend	Not applicable
Amount per security (cent)	Not applicable
Total dividend ($'000)	Not applicable
Amount per security of foreign sourced dividend or distribution	Not applicable
Details of any dividend reinvestment plans in operation	Not applicable
The last date for receipt of an election notice for participation in any dividend reinvestment plans	Not applicable

NTA Backing

	Current Period 31 December 2010	**Previous corresponding period 31 December 2009**
Net tangible asset backing per ordinary security	(0.23) cents	(0.23) cents
Net assets per ordinary security	0.16 cents	0.67 cents

Control Gained Over Entities Having Material Effect

Name of entity (or group of entities)	Not applicable
Date control gained	Not applicable
Consolidated profit from ordinary activities since the date in the current period on which control was acquired, before amortization and inter company charges	Not applicable
Profit / (loss) from ordinary activities of the controlled entity (or group of entities) for the whole of the previous corresponding period	Not applicable

Loss of Control Over Entities Having Material Effect

Name of entity (or group of entities)	iSOFT Business Solutions
Date control lost	13 December 2010
Consolidated profit / (loss) from ordinary activities for the current period to the date of loss of control	$198,000
Profit / (loss) from ordinary activities of the controlled entity (or group of entities) while controlled for the whole of the previous corresponding period	$6,467,000

Details of Associates and Joint Venture Entities

Name of Entity	**Percentage Held**		**Share of Net Loss**	
	Current Period %	**Previous Period %**	**Current Period $'000**	**Previous Period $'000**
Aggregate Share of Net Loss			-	-

Audit/Review Status

This report is based on accounts to which one of the following applies: (Tick one)			
The accounts have been audited		The accounts have been subject to review	✓
The accounts are in the process of being audited or subject to review		The accounts have not yet been audited or reviewed	
If the accounts have not yet been audited or subject to review and are likely to be subject to dispute or qualification, a description of the likely dispute or qualification: Not applicable			
If the accounts have been audited or subject to review and are subject to dispute or qualification, a description of the dispute or qualification: Not applicable			

Attachments Forming Part of Appendix 4D

Attachment #	Details
1	ASX Announcement
2	Interim Financial Report

Signed by Director/Company Secretary	
Print Name	**Robert Moran**
Date	**24 February 2011**

Financial report
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

Contents

General information

This interim financial report covers the consolidated financial statements of the Consolidated Entity consisting of iSOFT Group Limited, its controlled entities and interests in associates and jointly controlled entities for the half year ended 31 December 2010. The financial report is presented in Australian dollars.

iSOFT Group Limited is an ASX listed public company (ASX code: ISF) limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Darling Park, Tower 2
Level 27
201 Sussex Street
Sydney NSW 2000

A description of the nature of the Consolidated Entity's operations and its principal activities is included in the Directors' Report on pages 2-3, which does not form part of this interim financial report.

The financial report was authorised for issue by the Directors on 24 February 2011. The Directors have the power to amend and reissue the interim financial report.

Through the use of internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial reports and other information are available at our Investor Relations centre on our website: www.isofthealth.com.

Directors' report

FOR THE HALF YEAR ENDED 31 DECEMBER 2010

The Directors present their interim financial report of the Consolidated Entity, comprising iSOFT Group Limited ("the Company" or "iSOFT") and its controlled entities (together "the Consolidated Entity" or "the Group") and jointly controlled entities for the half year ended 31 December 2010 and the auditor's review report thereon.

Directors
The Directors of the Company at any time during or since the end of the half year are:

Non-Executive Directors

Robert Moran	Non-Executive Chairman
Peter Housden	Independent, Non-Executive Director (appointed 30 November 2010)
Anthony Sherlock	Independent, Non-Executive Director
Ian Tsicalas	Non-Executive Director

Executive Directors

Andrea Fiumicelli	Chief Executive Officer and Executive Director (appointed 30 November 2010)
Ronald Series	Executive Director (appointed 24 September 2010)

Former Directors

Gary Cohen	Executive Chairman and Chief Executive Officer (resigned 30 September 2010)
Claire Jackson	Independent, Non-Executive Director (resigned 31 December 2010)
Lachlan MacGregor	Non-Executive Director, alternate Director to Robert Moran and Ian Tsicalas (resigned 12 November 2010)
Peter Wise	Independent, Non-Executive Director (resigned 31 December 2010)

Principal Activities
The principal activity of the Consolidated Entity during the course of the current and prior periods was the development and licensing of computer software and the supply of services to the health industry. There were no significant changes in the nature of the Consolidated Entity's principal activities during the financial period.

Operating and Financial Review
The operating loss after tax for the half year was $84,104,000 (31 December 2009: Profit $4,822,000). Further details of the operations for the Consolidated Entity during the half year are set out in the attached ASX announcement.

Going concern

During the period the Company has continued carrying out a strategic business review of its operations. The review has focused on key products and geographies to improve cash generation and profitability.

As part of the arrangements with the senior lenders, the Company is undertaking a cash management and cost mitigation exercise. This has led to significant restructuring in the period as the Company seeks to reduce its cost base and return to profitability. The Company has achieved $19 million cost reductions in the first half of the 2011 financial year (compared to the cost base for the first half of the 2010 financial year) and is on track to achieve the $30 million cost reduction target set for the full 2011 financial year.

The Company is also actively pursuing strategic options with the aim of reducing its indebtedness. The result could involve an equity injection, sale options or a combination of both.

The Company completed documentation of its revised debt facility on 20 October 2010 including term loans amounting to GBP 82.5 million and a revolver of GBP 30.0 million. Further, additional borrowings in the form of a new senior revolving bridge debt facility of GBP 40 million (AUD 65.6 million) with a maturity of 31 December 2011 was obtained. This removed the short term financial uncertainly and brought enhanced stability to the Company. The terms of this new facility included certain conditions subsequent, which if not met by 15 November 2010 would bring forward the maturity of term loan A amounting to GBP 52.5 million and the revolving credit facility amounting to GBP 30 million from 23 June 2013 to 15 March 2012 ("Bring Forward Trigger"). These conditions were not met and as a result the Bring Forward Trigger was exercised. The company completed the sale of iSOFT Business Solutions on 13 December 2010. The consideration of $31.5 million was used to partly pay down this bridge facility. The facility is drawn to GBP 13.9 million ($21.3 million) at balance date.

The Company has continued to meet the terms of its covenants as amended form time to time and at 31 December 2010 and up to date of issuance of this interim financial report, no breach had occurred.

The Directors have considered the company's debt obligations, the anticipated results of the strategic and cost reviews and the progress of the strategic options review and concluded that these activities will lead to the partial or whole repayment of the senior secured borrowings. The Directors believe that the Company will be able to pay its debts as and when they fall due and that the

Company will be able to repay those facilities which fall due within twelve months from operating cash flows and certain cash management initiatives. Accordingly, the financial report is prepared on a going concern basis.

Dividends

There have been no dividends paid during the reporting period. No dividend has been declared for the half year ended 31 December 2010.

Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 4 and forms part of the Directors' Report for the half year ended 31 December 2010.

Rounding-off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information is presented in Australian Dollars in the interim financial report and Directors' Report and has been rounded to the nearest thousand dollars, unless otherwise stated.

This report is made in accordance with a resolution of the Directors.

....	....
Robert Moran	Anthony Sherlock
Non-Executive Chairman	Non-Executive Director

Dated at Sydney, 24 February 2011

Chartered Accountants
& Business Advisers

Auditors' Independence Declaration

As lead auditor for the review of iSOFT Group Limited for the half year ended 31 December 2010, I declare that to the best of my knowledge and belief there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of iSOFT Group Limited and the entities it controlled during the half year.

PKF

Bruce Gordon

Partner

24 February 2011.

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Consolidated income statement

FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Notes	Half year to 31 December 2010 $'000	Half year to 31 December 2009 $'000
Sales revenue		161,645	220,174
Other revenue		1,057	2,027
Revenue	4	162,702	222,201
Expenses excluding finance costs, depreciation, amortisation and impairment	5	(168,330)	(186,744)
EBITDA	**7**	**(5,628)**	**35,457**
Depreciation		(2,557)	(2,755)
Amortisation of intangible assets	9	(10,182)	(19,645)
Impairment of intangibles	9	(36,995)	-
Finance costs	6	(24,340)	(12,067)
Earnings before income tax expense		**(79,702)**	**990**
Income tax expense		(1,423)	(2,635)
Loss for the period from continuing operations		**(81,125)**	**(1,645)**
(Loss)/profit for the period from discontinued operations	**17**	(2,979)	6,467
Net (loss)/profit recognised in the period		**(84,104)**	**4,822**
Attributable to:			
Equity holders of the parent entity		(84,104)	5,253
Minority interest		-	(431)
Net (loss)/profit recognised in the period		**(84,104)**	**4,822**
		Cents	Cents
Basic earnings per share attributable to ordinary equity holders		(8.32)	0.56
Diluted earnings per share attributable to ordinary equity holders		(8.32)	0.55

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated statement of comprehensive income

FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Notes	Half year to 31 December 2010 $'000	Half year to 31 December 2009 $'000
Net (loss)/profit recognised in the period		**(84,104)**	**4,822**
Other comprehensive income/(expense):			
Changes in the fair value of cash flow hedges	14	308	198
Defined benefit plan actuarial gains/(losses)	14	3,953	(3,325)
Irrecoverable element of minimum funding requirement	14	-	2,865
Tax effects	14	59	1,615
Share based payments	14	(5)	1,018
Foreign currency translation differences	14	(18,221)	(60,652)
Total other comprehensive expense for the period		(13,906)	(58,281)
Total comprehensive expense for the period		**(98,010)**	**(53,459)**
Total comprehensive expense for the period is attributable to:			
Equity holders of the parent entity		(98,010)	(53,028)
Minority interest		-	(431)
Total comprehensive expense for the period		**(98,010)**	**(53,459)**

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Notes	As at 31 December 2010 $'000	As at 30 June 2010 $'000
Current assets			
Cash and cash equivalents	8	29,428	31,577
Trade and other receivables		67,528	71,949
Inventories		510	564
Income tax receivable		1,570	1,590
Accrued revenue		52,830	56,120
Other current assets		11,476	16,316
Total Current Assets		**163,342**	**178,116**
Non-Current Assets			
Property, plant and equipment		21,539	25,146
Intangible assets	9	369,429	480,687
Deferred tax assets		44,552	53,450
Accrued revenue		8,285	20,127
Total Non-Current Assets		**443,805**	**579,410**
Total Assets		**607,147**	**757,526**
Current Liabilities			
Trade and other payables		60,326	88,204
Borrowings	10	33,291	34,978
Derivative financial instruments		541	996
Income tax liabilities		4,544	3,374
Provisions		4,149	7,877
Deferred income		41,558	58,938
Total Current Liabilities		**144,409**	**194,367**
Non-Current Liabilities			
Trade and other payables		11,825	8,342
Borrowings	11	203,293	191,265
Derivative financial instruments		303	378
Deferred tax liabilities		58,275	71,251
Provisions		2,191	2,469
Retirement benefit obligations	12	16,575	24,996
Total Non-Current Liabilities		**292,462**	**298,701**
Total Liabilities		**436,871**	**493,068**
Net Assets		**170,276**	**264,458**
Equity			
Contributed equity	13	751,201	747,441
Reserves	14	(120,365)	(106,527)
Accumulated losses	14	(459,511)	(375,407)
Total equity attributable to equity holders of the parent entity		**171,325**	**265,507**
Minority interest	14	(1,049)	(1,049)
Total Equity		**170,276**	**264,458**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Notes	Half year to 31 December 2010 $'000	Half year to 31 December 2009 $'000
Total equity at the beginning of the period		**264,458**	**741,538**
Total comprehensive expense for the period		(98,010)	(53,459)
Transactions with equity holders in their capacity as equity holders:			
Contributions of equity	14	4,188	18,846
Cost of raising capital	14	(428)	(365)
Dividends - ordinary shares	14, 16	-	(10,138)
Dividends - convertible notes	14, 16	-	(460)
Other equity movements:			
Net issue of treasury shares	14	68	(3,259)
Total equity at the end of the period		**170,276**	**692,703**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes
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Consolidated statement of cash flows

FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Notes	Half year to 31 December 2010 $'000	Half year to 31 December 2009 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		179,399	229,686
Payments to suppliers and employees (inclusive of GST)		(221,144)	(238,935)
Interest received		-	954
Income tax paid		(3,517)	(3,771)
Net cash from operating activities		**(45,262)**	**(12,066)**
Cash flows from investing activities			
Payment for purchase of property, plant and equipment		(3,484)	(4,933)
Proceeds from an operating lease incentive		4,236	-
Payment for acquisition of business entity, net of cash		-	(4,973)
Payment for development expenditure		(8,836)	(12,981)
Proceeds from sales of property, plant and equipment		-	413
Proceeds on sale of subsidiary, net of cash disposed of		29,239	-
Net cash from investing activities		**21,155**	**(22,474)**
Cash flows from financing activities			
Proceeds from issue of shares		4,188	12,343
Share issue costs		(428)	(365)
Proceeds from borrowings	10,11	240,171	27,529
Debt establishment fees paid		(8,725)	(3,750)
Repayment of borrowings	10,11	(204,858)	-
Finance costs paid		(6,334)	(6,076)
Repayment of contract funding and other funding		(2,381)	(4,371)
Finance lease principal repayments		(615)	(163)
Dividends paid - ordinary shares		-	(8,520)
Dividends paid - convertible notes		-	(460)
Net cash from financing activities		**21,018**	**16,167**
Net decrease in cash and cash equivalents		(3,089)	(18,373)
Cash and cash equivalents held at the beginning of the period	8	31,577	85,737
Effect of exchange rate changes on cash and cash equivalents		940	(5,775)
Cash and cash equivalents held at 31 December	**8**	**29,428**	**61,589**

The above consolidated statement of cash flows should be read in conjunction with the accompanying note

Notes to the consolidated financial statements CONTINUED

Contents

Notes to the consolidated financial statements CONTINUED

Note 1. Summary of significant accounting policies

(a) Basis of preparation

(i) Statement of compliance
This interim financial report is a general purpose financial report for the half year ended 31 December 2010 which has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting.*

This interim financial report comprises the consolidated financial statements of iSOFT Group Limited, its controlled entities (together referred to as the "Consolidated Entity" or "Group") and interests in jointly controlled entities for the half year ended 31 December 2010.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual financial report for the year ended 30 June 2010 and any public announcements made by the Consolidated Entity during the half year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

The principal accounting policies adopted in the preparation of the interim financial report are the same as applied by the Consolidated Entity in its 30 June 2010 consolidated financial report and corresponding interim report.

These policies have been consistently applied by the Consolidated Entity to all the periods presented, unless otherwise stated.

Discontinued operations
A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

As a result of disposing of IBS (refer Note 17), IBS has been classified as a discontinued operation. Its results have been re-presented accordingly in the comparative statement of comprehensive income for the current and comparative period. The amount disclosed on the consolidated income statement relating to discontinued operations includes the operating results and the loss on disposal.

(ii) Going concern
During the period the Company has continued carrying out a strategic business review of its operations. The review has focused on key products and geographies to improve cash generation and profitability.

As part of the arrangements with the senior lenders, the Company is undertaking a cash management and cost mitigation exercise. This has led to significant restructuring in the period as the Company seeks to reduce its cost base and return to profitability. The Company has achieved $19 million cost reductions in the first half of the 2011 financial year (compared to the cost base for the first half of the 2010 financial year) and is on track to achieve the $30 million cost reduction target set for the full 2011 financial year.

The Company is also actively pursuing strategic options with the aim of reducing its indebtedness. The result could involve an equity injection, sale options or a combination of both.

The Company completed documentation of its revised debt facility on 20 October 2010 including term loans amounting to GBP 82.5 million and a revolver of GBP 30.0 million. Further, additional borrowings in the form of a new senior revolving bridge debt facility of GBP 40 million (AUD 65.6 million) with a maturity of 31 December 2011 was obtained. This removed the short term financial uncertainly and brought enhanced stability to the Company. The terms of this new facility included certain conditions subsequent, which if not met by 15 November 2010 would bring forward the maturity of term loan A amounting to GBP 52.5 million and the revolving credit facility amounting to GBP 30 million from 23 June 2013 to 15 March 2012 ("Bring Forward Trigger"). These conditions were not met and as a result the Bring Forward Trigger was exercised. The company completed the sale of iSOFT Business Solutions on 13 December 2010. The consideration of $31.5 million was used to partly pay down this bridge facility. The facility is drawn to GBP 13.9 million ($21.3 million) at balance date.

The Company has continued to meet the terms of its covenants as amended form time to time and at 31 December 2010 and up to date of issuance of this interim financial report, no breach had occurred.

The Directors have considered the company's debt obligations, the anticipated results of the strategic and cost reviews and the progress of the strategic options review and concluded that these activities will lead to the partial or whole repayment of the senior secured borrowings. The Directors believe that the Company will be able to pay its debts as and when they fall due and that the

Notes to the consolidated financial statements CONTINUED

Company will be able to repay those facilities which fall due within twelve months from operating cash flows and certain cash management initiatives. Accordingly, the financial report is prepared on a going concern basis.

(iii) Rounding of amounts
The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian Dollars in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

(iv) Adoption of new Standards and Interpretations, reclassifications and corrections of errors
The Consolidated Entity and the Company have applied the pronouncements to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors.* The following items have resulted in restated equity at 31 December 2009 as a result of the application of this standard:

The statement of financial position and equity at 31 December 2009 have been restated for an adjustment relating to recognition of a defined benefit pension scheme in the Netherlands in accordance with AASB 119 Employee Benefits. This adjustment was reflected in the prior annual report at 30 June 2010 and caused an increase of $3.2 million, net of tax.

The Consolidated Entity has made reclassifications in prior year comparatives in order to align with the presentation in this financial report.

As a result of the adoption AASB 8 *Operating Segments* for the 30 June 2010 Annual Report, the comparatives within Note 3 Segment Reporting have been restated in line with this standard. There have no changes to the operating segments since the last annual report.

Note 2. Critical accounting estimates and judgments

The preparation of a financial report in conformity with Australian Accounting Standards requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors, including expectations of future events that may have a financial impact on the Consolidated Entity and that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

The Consolidated Entity makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. In preparing this consolidated financial report of the Consolidated Entity, the significant judgments made by Management in applying accounting policies were the same as those that applied to the financial report for the comparative period.

The Consolidated Entity assesses impairment at each reporting date by evaluating conditions specific to the Consolidated Entity that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Fair Value less Costs to Sell calculations performed in assessing recoverable amounts incorporate a number of key estimates. Should the projected turnover figures differ significantly from the budgeted figures incorporated in the Fair Value less Costs to Sell calculations then an impairment loss would be recognised, up to the maximum carrying value of goodwill and intangibles at 31 December 2010.

Accrued revenue represents earned revenue which has been calculated on a percentage of completion basis and which has not yet been invoiced. The calculation of revenue recognised on a percentage of completion basis over the period of installation, implementation and provision of services requires accurate forecasts of costs to completion which are generally difficult to ascertain and are therefore subject to judgment.

The Consolidated Entity's largest customer contract is with Computer Sciences Corporation (CSC) in relation to the deployment of the National Programme for IT (NPfIT) for the National Health Service (NHS) in England. The contract with CSC consists of a product development contract with additional development services, implementation and maintenance services. Revenue for product development is booked as earned and on a percentage of completion basis, as licence revenue. Revenue for additional development services and implementation is booked as earned and maintenance services will be booked on a straight line basis over the life of the maintenance and support component of the contract. The CSC Contract contributed approximately 14.7% (31 December 2009: 20.7%) to the Consolidated Entity's total revenue in the six month period to 31 December 2010. The CSC Contract is primarily a time and materials contract with a set of arrangements regarding the timing and delivery of Lorenzo modules. The revenue recognised is based on estimation of future cost to expected completion and inflation rates have been assumed for the relevant period. If CSC were to terminate the CSC Contract for failure of the Consolidated Entity to meet material obligations under the CSC Contract or if there were material disputes regarding obligations, including scope of delivery or payments, these could have an adverse effect on the Consolidated Entity's operating and financial performance.

Notes to the consolidated financial statements CONTINUED

Apart from CSC, the largest customer of the Consolidated Entity, the Consolidated Entity does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Consolidated Entity defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk related to CSC did not exceed 20% of gross monetary assets at any time during the year.

Note 3. Segment reporting

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the entity which are regularly reviewed by the 'chief operating decision maker' (determined by iSOFT to be the Board of Directors) in order to allocate resources to the segments and to assess their performance. The Consolidated Entity operates in various geographical regions and for the purposes of risk management procedures and internal reporting to the CODM, reports the various geographical countries together into segments according to their location and economic characteristics.

Each operating segment has a segment manager who reports into the CODM and is responsible for the reporting the financial results.

There have been no changes in operating segments since the last annual report.

Each reportable segment below includes earnings derived from development and licensing of computer software and the supply of services to the health industry.

UKI – United Kingdom and Ireland
CE – Central Europe
SELA – Southern Europe and Latin America
ANZ – Australia and New Zealand
Other - The remaining operations of the Consolidated Entity are aggregated and included within the 'Other' category to reconcile to the consolidated results. This also includes intersegment and eliminations not allocated to other operating segments.

During the period the Consolidated Entity disposed of a material subsidiary, iSOFT Business Solutions ("IBS" - refer Note 17). IBS is an operating segment for the purposes of AASB 8 but is not reportable. IBS is required to be disclosed as a discontinued operation within this financial report and has therefore been separated out of "Other" and disclosed beneath the amounts relating to continuing activities.

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an arm's length basis and are eliminated on consolidation. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Performance is measured based on EBITDA which is defined as the operating profit or loss before depreciation, amortisation, net finance expense and taxation. EBITDA is considered to be a useful measure of the operating performance of the different segments because it reflects the underlying cash by eliminating depreciation and amortisation.

Amortisation is recognised and allocated on the basis of the location of where future economic benefits are expected to flow. Finance costs are not allocated to the reportable segments as this cost is managed by the treasury function which manages the overall net debt position of the group. Similarly, tax expense is not allocated as this is managed by the Group Tax function centrally.

Group costs are allocated in proportion to the amount of external revenue they generate as this most accurately matches the cash flows which are generated in each operating segment. Group R&D costs are allocated on the basis of direct effort expended on each product according to where those products earn revenue. During the period the internal method of controlling R&D costs has changed and all R&D costs for local and global products are managed centrally (previously only global product costs were managed centrally). There is now currently no distinction between local and global R&D costs. Total R&D costs are now allocated separately beneath RBU contribution in the current period to 31 December 2010. As a result of the adoption of AASB 8 at 30 June 2010 the comparative period is required to be restated and is now aligned to the 30 June 2010 position in this financial report.

Notes to the consolidated financial statements CONTINUED

Half year to 31 December 2010	United Kingdom and Ireland $'000	Central Europe $'000	Australia and New Zealand $'000	Southern Europe and Latin America $'000	Other $'000	Consolidated $'000
Sales to external customers	71,386	45,198	31,856	12,703	502	161,645
Other Income		5	53			1,057
Total segment revenue	**72,381**	**45,203**	**31,909**	**12,704**	**505**	**162,702**
% of total revenue	**44%**	**28%**	**20%**	**8%**	**0%**	
RBU contribution	39,527	20,334	16,163	7,735	(5,581)	78,178
R&D allocated [1]	(15,740)	(15,591)	(7,690)	(2,697)	(2,398)	(44,116)
Group Costs allocated [2]	(10,281)	(6,509)	(4,588)	(1,830)	(72)	(23,280)
Adjusted segment EBITDA pre exceptional items	**13,506**	**(1,766)**	**3,885**	**3,208**	**(8,051)**	**10,782**
Restructuring	(1,977)	(566)	(1,998)	(127)	(502)	(5,170)
Other [3]	(7,259)	-	(3,343)	-	(638)	(11,240)
Segment EBITDA	**4,270**	**(2,332)**	**(1,456)**	**3,081**	**(9,191)**	**(5,628)**
EBITDA margin %	**6%**	**-5%**	**-5%**	**24%**	**-1820%**	**-3%**
Depreciation	(891)	(409)	(759)	(67)	(431)	(2,557)
Amortisation [4]	(3,988)	(2,937)	(2,184)	(706)	(366)	(10,181)
Intangible impairment	-	-	-	(36,995)	-	(36,995)
Segment result	**(609)**	**(5,678)**	**(4,399)**	**(34,687)**	**(9,988)**	**(55,361)**
Finance costs						(24,341)
Income tax expense						(1,423)
Loss for the period related to continuing operations						**(81,125)**
Loss for the period relating to discontinued operations						(2,979)
Net loss in the period						**(84,104)**
Segments assets at 31 December 2010	**255,444**	**163,303**	**105,079**	**58,873**	**24,448**	**607,147**

1. Total research and development costs expensed in the period.
2. Group costs include Corporate Head Office and other global costs.
3. Other includes one off non-recurring expenditure incurred in operating segments UKI and ANZ which does not meet the definition of restructuring per AASB 137. These are recognised in Expenses in the Income Statement and disclosed in Note 5 according to their underlying nature. The $638,000 in "Other " segments relates to a one off bad debt expense.
4. Amortisation includes acquired intangibles amortisation arising from acquisitions and other intangibles.

Notes to the consolidated financial statements CONTINUED

Half year to 31 December 2009	United Kingdom and Ireland $'000	Central Europe $'000	Australia and New Zealand $'000	Southern Europe and Latin America $'000	Other $'000	Consolidated $'000
Sales to external customers	112,116	58,011	29,960	10,760	9,327	220,174
Other income	1,873	13	84	15	42	2,027
Total segment revenue	**113,989**	**58,024**	**30,044**	**10,775**	**9,369**	**222,201**
% of total revenue	**51%**	**26%**	**14%**	**5%**	**4%**	
RBU contribution	71,574	18,122	9,615	3,241	1,055	103,607
Group R&D allocated [1]	(16,464)	(4,821)	(4,821)	(838)	(5,337)	(32,281)
Group Costs allocated [2]	(18,163)	(9,398)	(4,854)	(1,743)	(1,511)	(35,669)
Adjusted segment EBITDA pre exceptional items	**36,947**	**3,903**	**(60)**	**660**	**(5,793)**	**35,657**
Restructuring	-	-	-	-	(200)	(200)
Segment EBITDA	**36,947**	**3,903**	**(60)**	**660**	**(5,993)**	**35,457**
EBITDA margin %	**32%**	**7%**	**0%**	**6%**	**-62%**	**16%**
Depreciation	(755)	(399)	(972)	(76)	(553)	(2,755)
Amortisation [3]	(9,886)	(4,257)	(3,059)	(805)	(1,638)	(19,645)
Segment result	**26,306**	**(753)**	**(4,091)**	**(221)**	**(8,184)**	**13,057**
Finance costs						(12,067)
Income tax expense						(2,635)
Profit for the period related to continuing operations						**(1,645)**
Profit for the period relating to discontinued operations						6,467
Net profit for the period						**4,822**
Segment assets as at 31 December 2009 [4]	**454,042**	**247,537**	**193,287**	**102,801**	**198,308**	**1,195,975**

1. Research and development costs expensed in the period have been aligned to the allocation methodology presented at 30 June 2010. The amount of local R&D included within RBU contribution is as follows; UKI $4.1 million, CE $12.0 million, ANZ $4.2 million, SELA $1.7 million, Other $0.4 million.
2. Group costs include Corporate Head Office and other global costs.
3. Amortisation includes acquired intangibles amortisation arising from acquisitions and other intangibles.
4. Central Europe's assets have been restated by a decrease in deferred tax assets of $622,000 due to the Netherlands Pension Scheme adjustment (refer Note 1).

Notes to the consolidated financial statements CONTINUED

Note 4. Revenue

	Half year to 31 December 2010 $'000	Half year to 31 December 2009 $'000
Sales Revenue		
Licences	52,732	77,367
Implementation	24,249	44,186
Maintenance and Support	74,952	88,185
Third party hardware	3,915	5,490
Third party software	4,803	4,401
Other	994	545
	161,645	**220,174**
Other Revenue		
Interest received	1,057	2,027
	1,057	**2,027**
Total Revenue	**162,702**	**222,201**

Note 5. Expenses

	Half year to 31 December 2010 $'000	Half year to 31 December 2009 $'000
Expenses excluding finance costs, amortisation, depreciation and impairment is comprised as follows:		
Consultancy, insurance and professional fees [1]	17,942	10,362
Consumables	21,334	27,257
Doubtful debts [2]	1,620	(527)
Employee benefits expense	98,745	114,997
Marketing	2,001	5,955
Occupancy	8,917	9,437
Telecommunications	2,871	4,178
Travel	4,600	9,569
Other	5,130	5,316
Restructuring costs	5,170	200
	168,330	**186,744**
Employee benefits expenses		
Salaries and bonuses	92,812	106,844
Termination benefits [3]	649	1,204
Associated personnel expenses	2,202	1,861
Defined contribution superannuation contributions	2,987	3,487
Defined benefit superannuation contributions	90	351
Share-based payments expense	5	1,250
	98,745	**114,997**
Rental expense relating to operating leases		
Minimum lease payments	**4,893**	**5,904**

1. Current period costs include $9,953,000 which are classified as one off non-recurring costs in the Segment Reporting note (refer Note 3).
2. Current period costs include $638,000 which are classified as one off non-recurring costs in the Segment Reporting note (refer Note 3).
3. Current period costs of $649,000 are classified as one off non-recurring costs in the Segment Reporting note (refer Note 3).

Notes to the consolidated financial statements CONTINUED

Note 6. Finance costs

	Half year to 31 December 2010 $'000	Half year to 31 December 2009 $'000
Interest and finance charges paid/payable;		
Senior secured borrowings	12,102	5,879
Convertible notes	1,481	1,434
Contract funding	122	1,000
Finance lease interest	432	33
Derecognition of deferred loan fees [1]	8,460	-
Other [2]	1,307	1,031
	23,904	9,377
Net foreign exchange (gains)/losses – realised	381	457
Net foreign exchange (gains)/losses – unrealised	56	2,233
	24,341	**12,067**

1. Refer Note 10.
2. Includes the interest cost of defined benefit obligations.

Note 7. EBITDA Calculation

The Consolidated Entity has reported EBITDA, calculated as follows:

	Half year to 31 December 2010 $'000	Half year to 31 December 2009 $'000
(Loss)/profit before tax	(79,702)	990
Amortisation of intangible assets (Note 9)	10,181	19,645
Impairment of intangible assets (Note 9)	36,995	-
Depreciation	2,557	2,755
Finance costs (Note 6)	24,341	12,067
	(5,628)	**35,457**

EBITDA is earnings before income tax, finance costs, depreciation, amortisation and impairment expense.

Notes to the consolidated financial statements CONTINUED

Note 8. Cash and cash equivalents

	As at 31 December 2010 $'000	As at 30 June 2010 $'000
Cash at bank	29,172	30,979
Cash on deposit	256	598
	29,428	**31,577**
Included in the above is the following restricted cash ;		
Blocked cash from the sale of IBS	5,233	-
Cash collateral for bank guarantees	1,365	2,100
	6,598	**2,100**

Notes to the consolidated financial statements CONTINUED

Note 9. Intangible assets

Intangible assets include goodwill, capitalised software development, intellectual property (including in process R&D acquired), customer contracts and patents and trademarks. Goodwill and intangibles are recognised in different functional currencies of the Consolidated Entity's subsidiaries and cash generating units (CGUs) they have been allocated to. The movement in these currencies against the Australian Dollar can be significant and is recognised in the Foreign Currency Translation Reserve in equity (refer Note 14).

Intangible assets other than goodwill have finite useful lives. The current amortisation charge in respect of intangible assets is included under amortisation expense in the consolidated income statement. There is impairment during the reporting period. Information on impairment testing for CGUs containing goodwill is contained further in this Note.

	Goodwill $'000	Capitalised Development $'000	Intellectual Property $'000	Customer Contracts $'000	Patents & Trademarks $'000	Total $'000
Balance at 1 July 2009						
Cost	531,869	54,283	222,187	154,577	54,495	1,017,411
Accumulated amortisation and impairment	-	(24,534)	(28,311)	(38,857)	(4,815)	(96,517)
Accumulated currency translation adjustments	(126)	11	(152)	(98)	(45)	(410)
Net carrying amount	**531,743**	**29,760**	**193,724**	**115,622**	**49,635**	**920,484**
Movement during the year ended 30 June 2010						
Additions	-	22,380	-	-	-	22,380
Fair value recognised from business combinations	23,280	-	8,018	-	-	31,298
Amortisation	-	(4,090)	(11,782)	(19,202)	(2,079)	(37,153)
Impairment	(286,672)	(16,867)	(22,249)	(14,533)	(71)	(340,392)
Effect of foreign exchange movements	(63,054)	(4,431)	(20,397)	(18,039)	(10,009)	(115,930)
	(326,446)	**(3,008)**	**(46,410)**	**(51,774)**	**(12,159)**	**(439,797)**
Balance at 1 July 2010						
Cost	556,109	76,663	229,434	140,319	54,637	1,057,162
Accumulated amortisation and impairment	(286,672)	(45,491)	(62,342)	(58,059)	(6,894)	(459,458)
Accumulated currency translation adjustments	(64,140)	(4,420)	(19,778)	(18,412)	(10,267)	(117,017)
Net carrying amount	**205,297**	**26,752**	**147,314**	**63,848**	**37,476**	**480,687**
Movement during the 6 months ended 31 December 2010						
Additions	-	8,087	-	-	-	8,087
Disposals – Cost relating to discontinued operations	(26,602)	(3,033)	(1,900)	(26,300)	(3,300)	(61,135)
Disposals - Amortisation and impairment relating to discontinued operations	10,656	631	467	5,459	800	18,013
Disposals – FX relating to discontinued operations	6,651	(644)	451	6,429	786	13,673
Amortisation[1]	-	(1,514)	(5,091)	(3,532)	(963)	(11,100)
Impairment	(36,995)	-	-	-	-	(36,995)
Effect of foreign exchange movements	(17,430)	(1,837)	(12,208)	(5,890)	(4,436)	(41,801)
	(63,720)	**1,690**	**(18,281)**	**(23,834)**	**(7,113)**	**(111,258)**
Balance at 31 December 2010						
Cost	529,507	81,717	227,534	114,019	51,337	1,004,114
Accumulated amortisation and impairment	(313,011)	(46,374)	(66,966)	(56,132)	(7,057)	(489,540)
Accumulated currency translation adjustments	(74,919)	(6,901)	(31,535)	(17,873)	(13,917)	(145,145)
Net carrying amount	**141,577**	**28,442**	**129,033**	**40,014**	**30,363**	**369,429**

1. The amortisation charge for the period of $11.1 million includes $0.9 million in respect of discontinued operations not shown on the face of consolidated income statement.

Notes to the consolidated financial statements CONTINUED

Impairment testing for cash-generated units containing goodwill:
For the purposes of impairment testing, goodwill is allocated to the Consolidated Entity's operating divisions which represent the lowest level within the Consolidated Entity at which the goodwill is monitored for internal management purposes. The aggregate carrying amounts of goodwill allocated to each unit are as follows;

Goodwill is allocated to the following cash generating units:	As at 31 December 2010 $'000	As at 30 June 2010 $'000
Asia, Middle East and Africa	-	-
Australia and New Zealand	25,760	25,926
United Kingdom and Ireland	37,522	43,396
IBS (iSOFT Business Solutions)	-	10,120
Southern Europe, South and North America	16,443	58,324
Central Europe	61,852	67,531
	141,577	**205,297**

The recoverable amount of each cash-generating unit above is determined based on a fair value less cost to sell calculation in the functional currency of the respective CGU. In the absence of observable market price for each CGU, fair value less cost to sell is calculated based on the present value of cash flow projections over a five year period using a p.a. estimated growth rate applicable to each CGU. These are based on management's estimates taking into account past historical performance and expected long-term operating conditions. Terminal growth rates applicable to each CGU are between 2% to 3%. The cash flows are discounted using the weighted average cost of capital calculated for each CGU, being in the range of 11.2% to 15.4%. Details are set out in the table on key assumptions below. The cash flows are based on budgets and forecasts for each CGU for a five year period. A five year period was justified due to uncertainty associated with forecasting for longer periods. These budgets use estimated growth rates to project revenue. Costs are calculated taking into account historical gross margins as well as estimated weighted average inflation rates over the periods which are consistent with inflation rates applicable to the locations in which the CGU's operate. Discount rates are pre-tax and reflect management's estimate of the time value of money for the CGU using the Capital Asset Pricing Model approach.

A summary of key assumptions used to value the carrying value of each CGU:

	Discount rates		Per annum growth rates		Terminal value growth rates	
	31 Dec 2010	30 June 2010	31 Dec 2010	30 June 2010	31 Dec 2010	30 June 2010
Asia, Middle East and Africa	15.40%	15.40%	16.90%	25.40%	3.00%	3.00%
Australia and New Zealand	13.80%	13.80%	7.00%	7.10%	2.50%	2.50%
United Kingdom and Ireland	11.90%	11.90%	-1.70%	0.60%	2.00%	2.00%
Southern Europe, South and North America	12.80%	12.80%	23.50%	30.00%	2.00%	2.00%
Central Europe	11.20%	11.20%	4.90%	5.40%	2.00%	2.00%

Average per annum growth rates have not been determined on a compound basis. The revision in per annum growth rates primarily relates to a downward revision in North America.

Notes to the consolidated financial statements CONTINUED

The carrying value of goodwill is most sensitive to the following assumptions and the potential impact has been determined when both sensitivities are applied simultaneously:

	31 December 2010			30 June 2010		
Sensitivity assumption Increase/decrease	Discount rates	Terminal value growth rates	$'000	Discount rates	Terminal value growth rates	$'000
Low						
Asia, Middle East and Africa	1%	-0.50%	-	1%	-0.50%	(8)
Australia and New Zealand	1%	-0.50%	(3,898)	1%	-0.50%	(5,693)
United Kingdom and Ireland	1%	-0.50%	(11,399)	1%	-0.50%	(14,639)
Southern Europe, South and North America	1%	-0.50%	(5,900)	1%	-0.50%	(10,110)
Central Europe	1%	-0.50%	(1,210)	1%	-0.50%	(18,315)
High						
Asia, Middle East and Africa	-1%	0.50%	-	-1%	0.50%	131
Australia and New Zealand	-1%	0.50%	-	-1%	0.50%	5,631
United Kingdom and Ireland	-1%	0.50%	-	-1%	0.50%	18,501
Southern Europe, South and North America	-1%	0.50%	6,789	-1%	0.50%	-
Central Europe	-1%	0.50%	-	-1%	0.50%	26,007

The zero balances in the above table in the high case scenario reflect that there would be no change to the value of intangibles in these regions from such sensitivities applied as goodwill impairment from previous periods may not be reversed subsequently.

Due to both the reduced revenue projections in the Southern Europe, South and North America CGU, where iSOFT's capital constraints restrict its ability to grow, and also to refinements in R&D allocations, an impairment is required to be recognised. This impairment of $37.0 million has been allocated solely against the carrying value of goodwill of $53.4 million leading to a closing carrying value of goodwill of $16.4 million. The Consolidated Entity is only required to impair a CGU's assets where the recoverable amount is lower than carrying value. No further impairment within other regions is required to be recognised within the period.

Note 10. Borrowings - current

	As at 31 December 2010 $'000	As at 30 June 2010 $'000
Senior secured borrowings	23,468	22,456
Contract funding	9,697	11,157
Other borrowings	68	157
Finance lease liability	58	1,208
	33,291	**34,978**

Senior secured borrowings:
Short term component of long term funding amounting to $27.0 million is provided by a syndicate of banks, consisting of Barclays, Clydesdale/Yorkshire banks (wholly owned by National Australia Bank), Westpac, Bank of Ireland, KfW Group, and Banco Santander. The amount of $27.0 million (or GBP17.6 million) is presented net of the current portion of unamortised loan setup fees amounting to $3.5 million, equalling the net figure of $23.5 million above.

Notes to the consolidated financial statements CONTINUED

Note 10. Borrowings – current (continued)

At 20 October 2010 the Consolidated Entity restructured the senior debt facilities with its bank syndicate by way of an amendment to the existing banking arrangements dated 23 December 2009. This resulted in the senior lenders agreeing to extend the Consolidated Entity's existing senior debt facilities and advance a new senior debt facility of GBP 40.0m. As a result of the terms of the new facility $8.5 million of loan fees relating to the previous facility were required to be derecognised (refer Note 6). The principle features of the new facilities are as follows.

(1) Term loan of GBP 60.0m amortising at GBP 3.75m per quarter over the facility term, with a bullet at maturity. The facility allows for this amortisation to be deferred to a Deferred Repayment Facility (Tranche B). All repayments from the start of the new facility have been deferred under this mechanism. GBP 3.75m of the Deferred Repayment Facility falls due 31 December 2011. The remainder of the facility is repayable on 15 March 2012 (accelerated from 23 June 2013). The original loan (Tranche A) attracts UK LIBOR plus a margin of 500bps plus PIK of 6.0%. Tranche B attracts UK LIBOR plus a margin of 550bps plus PIK of 6.0%. The PIK increases by 125bps per quarter from 1 January 2011.
(2) Term loan of GBP 30.0m. The repayment date is 15 March 2012, with a bullet at maturity. The loan attracts UK LIBOR plus a margin of 450bps plus PIK of 5.0%.
(3) A Revolving Credit Facility (RCF) of GBP 30.0m. The repayment date is 15 March 2012 (accelerated from 23 June 2013). The facility attracts UK LIBOR plus a margin of 450bps and PIK of 5.0%.
(4) A Bridge Facility of GBP 40.0m. Following the disposal of IBS and subsequent repayment of a component of this bridge facility, the facility limit at 31 December 2010 is £24.4 million ($37.1 million). The repayment date is 31 December 2011. The facility attracts UK LIBOR plus a margin of 550bps and PIK of 14.0%. The PIK increases by 1.25% per quarter from 1 January 2011.

Contract funding:
Money to be earned from some ongoing contracts of the iSOFT Group was previously paid in advance by third party lenders. This practice ceased after the acquisition of iSOFT Group plc. The majority of contract funding is denominated in Euros and GBP. During the period, the Consolidated Entity repaid $2.4 million (2009: $4.4 million) of contract funding.

Finance lease liability:
Finance lease liabilities are secured over specific equipment owned and capitalised by the Consolidated Entity.

Mortgage on property
The Consolidated Entity has a $0.2m (2009: nil) facility secured by a mortgage over land and buildings in Belgium. The short-term component of the facility amounted to $0.07m. The facility has a fixed 4.0% interest rate and expires on 1 February 2014.

Note 11. Borrowings - non-current

	As at 31 December 2010 $'000	As at 30 June 2010 $'000
Senior secured borrowings	161,592	146,721
Contract funding	7,724	9,819
Convertible notes payable	33,682	32,205
Other borrowings	156	522
Finance lease liability	139	1,998
	203,293	**191,265**

Senior secured borrowings and contract funding, refer Note 10.

The non-current portion of long term funding includes nominal debt of $163.0 million (GBP 107.0 million) and unpaid fees of $9.9 million (GBP 6.5 million) and is presented net of the non-current portion of unamortised loan setup fees amounting to $11.3 million, equalling the net figure of $161.6 million above. Subsequent to the reporting date, the Company has agreed with the Syndicate of Lenders that $5.7 million (GBP 3.75 million) of term debt repayment due at 31 December 2011 is to be deferred to 15 March 2012. This amount is included in the current portion of senior secured borrowings.

Convertible notes:
Convertible notes are unsecured. Each note may be converted at the holder's discretion into one ordinary share in the Consolidated Entity at any time till the maturity date. If not converted on the maturity date, the notes must be repaid at face value amounting to $39.7 million. The maturity dates of the notes are 31 October 2012 and 19 November 2012. Interest on the convertible notes represents the discount unwind to maturity at a comparable interest rate of a debt instrument without a conversion option (refer Note 6).

Notes to the consolidated financial statements CONTINUED

Note 11. Borrowings - non-current (continued)

Assets pledged as security
The bank loans are secured by a fixed and floating charge over the assets and undertakings of the Consolidated Entity. Contract funding is secured only to the revenue streams on the contracts that are funded.

The lease liabilities are effectively secured as the rights to the leased assets recognised in the consolidated statement of financial position revert to the lessor in the event of default.

Financing arrangements
Unrestricted access was available at balance date to the following lines of credit:

	As at 31 December 2010 GBP'000	As at 30 June 2010 GBP'000	As at 31 December 2010 $'000	As at 30 June 2010 $'000
Total facilities				
Senior secured term loan	83,420	52,500	126,972	92,332
Senior secured revolver	54,745	60,000	83,310	105,522
	138,165	**112,500**	**210,282**	**197,854**
Used at balance date				
Senior secured term loan	83,420	52,500	126,972	92,332
Senior secured revolver	44,004	54,312	66,963	95,519
	127,424	**106,812**	**193,935**	**187,851**
Unused at balance date				
Senior secured term loan	-	-	-	-
Senior secured revolver	10,741	5,688	16,347	10,003
	10,741	**5,688**	**16,347**	**10,003**

Note 12. Retirement and post-employment benefit obligations – non-current

The table below shows the position at each of the subsequent consolidated statement of financial position dates:

	UK plan		Other plans		Total	
	At 31 December 2010 $'000	At 30 June 2010 $'000	At 31 December 2010 $'000	At 30 June 2010 $'000	At 31 December 2010 $'000	At 30 June 2010 $'000
Present value of the defined benefit obligation	47,814	55,280	4,704	5,360	52,518	60,640
Fair value of the defined benefit plan assets	(34,886)	(34,414)	(1,057)	(1,230)	(35,943)	(35,644)
Net liability	**12,928**	**20,866**	**3,647**	**4,130**	**16,575**	**24,996**
The net liability is presented on the balance sheet as follows:						
Non-current retirement benefit obligations	12,928	20,866	3,647	4,130	16,575	24,996
Net liability	**12,928**	**20,866**	**3,647**	**4,130**	**16,575**	**24,996**

Notes to the consolidated financial statements CONTINUED

Note 13. Contributed equity

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value. Movements in contributed equity are as follows:

Date	Details	Number of shares	Issue price $	Amount $'000
1/07/2009	Opening balance at the beginning of period	1,013,757,888		728,960
3/07/2009	Issued to Share Plan Managers for employee quarterly share allocation	140,775	0.6400	90
6/10/2009	Issued under Dividend Reinvestment Plan to shareholders	1,887,026	0.8300	1,566
15/10/2009	Issued under Share Purchase Plan to shareholders	16,705,644	0.7700	12,863
11/11/2009	Issued on exercise of options from Employee Incentive Plan	100,000	0.7200	72
23/11/2009	Issued under iSoft Group Employee Loan Plan	4,036,500	0.7900	3,189
26/11/2009	Issue in consideration for acquisition of Patient Safety International Pty Limited	1,366,190	0.7800	1,066
	Less: transaction costs arising on non-renounceable rights issue, net of tax			(365)
	Balance at the end of the 31 December 2009 and 30 June 2010	**1,037,994,023**		**747,441**
19/07/2010	Share issue in accordance with the equity line of credit agreement with YA Global	4,473,070	0.1863	833
19/07/2010	Share issue in lieu of payment of activation fee in relation to equity line of credit agreement with YA Global	801,282	0.1863	149
28/07/2010	Share issue in accordance with the equity line of credit agreement with YA Global	7,228,916	0.1660	1,200
17/08/2010	Share issue in accordance with the equity line of credit agreement with YA Global	10,190,217	0.1478	1,506
17/09/2010	Share issue in accordance with the equity line of credit agreement with YA Global	3,912,363	0.1278	500
	Less: Share issue costs			(428)
	Balance at the end of 31 December 2010	**1,064,599,871**		**751,201**

The above number of shares does not include 5,993,003 shares that have been issued to YA Global on 23 August 2010 which have been issued at a subscription price of $0.1455 amounting to $0.9 million which have not been fully paid.

Notes to the consolidated financial statements CONTINUED

Note 14. Reconciliation of movement in capital, reserves, accumulated losses and minority interest

	Contributed equity $'000	Treasury shares $'000	Cash Flow hedging reserve $'000	Options/ warrants reserve $'000	Share-based payments reserve $'000	Foreign currency translation $'000	Option premium reserve $'000	Retirement benefits reserve $'000	Total reserves $'000	Accumulated Losses $'000	Parent interest $'000	Minority interest $'000	Consolidated Total equity $'000
Balance at 1 July 2009	**728,960**	**(13,196)**	**-**	**6,430**	**5,357**	**(2,858)**	**10,273**	**(10,484)**	**(4,478)**	**17,061**	**741,543**	**(5)**	**741,538**
Equity issued during the period	18,846	-	-	-	-	-	-	-	-	-	18,846	-	18,846
Costs of raising capital	(365)	-	-	-	-	-	-	-	-	-	(365)	-	(365)
Net movement in treasury shares	-	(3,259)	-	-	-	-	-	-	(3,259)	-	(3,259)		(3,259)
Foreign currency translation	-	-	-	-	-	(60,652)	-	-	(60,652)	-	(60,652)	-	(60,652)
Changes in fair value	-	-	198	-	-	-	-	-	198	-	198	-	198
Actuarial gains/(losses)	-	-	-	-	-	-	-	(3,325)	(3,325)		(3,325)		(3,325)
Irrecoverable element of minimum funding requirement	-	-	-	-	-	-	-	2,865	2,865	-	2,865	-	2,865
Share-based payments	-	-	-	-	1,018	-	-	-	1,018	-	1,018	-	1,018
Tax effects	-	-	-	-	-	1,869	-	(254)	1,615	-	1,615	-	1,615
Dividends paid - ordinary shares	-	-	-	-	-	-	-	-	-	(10,138)	(10,138)	-	(10,138)
Dividends paid - convertible notes	-	-	-	-	-	-	-	-	-	(460)	(460)	-	(460)
Profit/(loss) for the year	-	-	-	-	-	-	-	-	-	5,253	5,253	(431)	4,822
At 31 December 2009	**747,441**	**(16,455)**	**198**	**6,430**	**6,375**	**(61,641)**	**10,273**	**(11,198)**	**(66,018)**	**11,716**	**693,139**	**(436)**	**692,703**
At a 1 January 2009	**747,441**	**(16,455)**	**198**	**6,430**	**6,375**	**(61,641)**	**10,273**	**(11,198)**	**(66,018)**	**11,716**	**693,139**	**(436)**	**692,703**
Net movement in treasury shares	-	91	(1,572)	-	-	-	-	-	(1,481)	-	(1,481)	-	(1,481)
Foreign currency translation	-	-	-	-	-	(42,971)	-		(42,971)	-	(42,971)	-	(42,971)
Actuarial gains/(losses)	-	-	-	-	-	-	-	(235)	(235)		(235)		(235)
Irrecoverable element of minimum funding requirement	-	-	-	-	-	-	-	1,114	1,114	-	1,114	-	1,114
Share-based payments	-	-	-	-	1,489	-	-	-	1,489	-	1,489	-	1,489
Tax effects	-	-	-	-	-	1,575	-	-	1,575	-	1,575	-	1,575
Profit/(loss) for the year	-	-	-	-	-	-	-	-	-	(387,123)	(387,123)	(613)	(387,736)
At 30 June 2010	**747,441**	**(16,364)**	**(1,374)**	**6,430**	**7,864**	**(103,037)**	**10,273**	**(10,319)**	**(106,527)**	**(375,407)**	**265,507**	**(1,049)**	**264,458**
At 1 July 2010	**747,441**	**(16,364)**	**(1,374)**	**6,430**	**7,864**	**(103,037)**	**10,273**	**(10,319)**	**(106,527)**	**(375,407)**	**265,507**	**(1,049)**	**264,458**
Equity issued during the year	4,188	-	-	-	-	-	-	-	-	-	4,188	-	4,188
Costs of raising capital	(428)	-	-	-	-	-	-	-	-	-	(428)	-	(428)
Net movement in treasury shares	-	68	-	-	-	-	-	-	68	-	68	-	68
Foreign currency translation	-	-	-	-	-	(18,221)	-	-	(18,221)	-	(18,221)	-	(18,221)
Changes in fair value	-	-	308	-	-		-	-	308	-	308	-	308
Actuarial gains/(losses)	-	-	-	-	-	-	-	3,953	3,953	-	3,953	-	3,953
Share-based payments	-	-	-	-	(5)	-	-		(5)	-	(5)	-	(5)
Tax effects	-	-	-	-	-	59	-	-	59	-	59	-	59
Profit / (Loss) for the year	-	-	-	-	-	-	-	-	-	(84,104)	(84,104)	-	(84,104)
At 31 December 2010	**751,201**	**(16,296)**	**(1,066)**	**6,430**	**7,859**	**(121,199)**	**10,273**	**(6,366)**	**(120,365)**	**(459,511)**	**171,325**	**(1,049)**	**170,276**

Notes to the consolidated financial statements CONTINUED

Note 15. Financial instruments

The following table summarises the maturity profile of the Consolidated Entity's financial liabilities at 31 December 2010 and 30 June 2010 based on expected contractual undiscounted cash flows:

As at 31 December 2010

	Carrying Amount	Expected cash flows	Up to 1 year	1 - 2 Years	2-5 Years	More than 5 years
	$'000	$'000	$'000	$'000	$'000	$'000
Trade & other payables [1]	72,152	68,180	59,811	3,131	3,458	1,780
Other borrowings	224	238	75	75	88	-
Bank loans [2,3]	185,062	239,271	41,410	197,861	-	-
Contract funding	17,419	17,824	9,781	7,181	862	-
Convertible notes	33,682	39,718	-	39,718	-	-
Derivative financial instruments	844	854	547	307	-	-
Lease liability	196	211	107	104	-	-
Unrecognised loan commitments:						
Letters of credit	-	4,200	4,200	-	-	-
Total	**309,579**	**370,496**	**115,931**	**248,377**	**4,408**	**1,780**

As at 30 June 2010

	$'000	$'000	$'000	$'000	$'000	$'000
Trade & other payables	98,182	94,268	88,599	2,901	2,768	-
Other borrowings	679	1,190	667	90	224	209
Bank loans	169,177	200,202	34,793	33,324	132,085	-
Contract funding	20,976	22,263	11,431	9,759	1,073	-
Convertible notes	32,205	39,718	-	-	39,718	-
Derivative financial instruments	1,374	1,390	681	463	246	-
Lease liability	3,206	3,449	893	1,198	1,358	-
Unrecognised loan commitments:						
Letters of credit	-	8,050	8,050	-	-	-
Total	**325,799**	**370,530**	**145,114**	**47,735**	**177,472**	**209**

1. Carrying value includes an equity settled contingent consideration of $3.9 million which is not reflected in the expected cash flows.
2. Expected cash flows include interest and PIK at the prevailing interest rate, and also include contingent liabilities of $9.1 million in relation to the Consolidated Entity’s debt facility obligations (payable 1-2 years). Although not mandatory, should full repayment not be made by certain key dates prior to 15 March 2012, additional participation fees up to the value of GBP6.0 million ($9.1 million) may be payable at 15 March 2012. As at 31 December 2010 the Consolidated Entity was not contractually liable to pay these fees as they are contingent upon a future event (refer Note 18).
3. Subsequent to the reporting date, the Company has agreed with the Syndicate of Lenders that $5.7 million (GBP 3.75 million) of term debt repayment due at 31 December 2011 is to be deferred to 15 March 2012.This amount is included in the current portion of senior secured borrowings above.

Notes to the consolidated financial statements CONTINUED

Note 16. Dividends

	As at 31 December 2010 $'000	As at 30 June 2010 $'000
Dividends paid		
Dividends paid - ordinary shares	-	8,520
Dividends paid – convertible notes	-	460
	-	8,980
Dividends reinvested in the reporting period - ordinary shares	-	1,617
	-	10,597
Dividends proposed		
Dividends (including convertible notes distributions) not recognised at the end of the year	-	-
Franking credits		
Franking credits available for subsequent financial years based on a tax rate of 30%	186	193
Exempting credits available for subsequent financial years based on a tax rate of 30%	13,498	13,584

Note 17. Discontinued operations

On 13th December 2010, the Consolidated Entity fully disposed of iSOFT Business Solutions (IBS) and its subsidiaries for consideration of $31.5 million. As a result the entire assets and liabilities were derecognised at this point in time. IBS operated predominantly in the UK and Ireland but also traded in Hong Kong via a separate subsidiary.

IBS was an operating segment for the purposes of AASB 8, however was not a reportable segment so was previously disclosed within "Other" segments in the Segment Reporting Note (refer Note 3). IBS has been treated as a discontinued operation within this financial report meaning its operating results have been separately presented from those of continuing activities in the consolidated income statement.

Financial performance and cash flow information

	Half year to 31 December 2010 $'000	Half year to 31 December 2009 $'000
Revenue	11,265	17,085
Expenses	(11,067)	(14,440)
Earnings before income tax expense	**198**	**2,645**
Income tax credit	-	3,822
Profit after income tax from discontinued operations	**198**	**6,467**
Loss on sale before income tax	(3,177)	
Income tax expense	-	
Loss on sale after income tax	(3,177)	
Loss from discontinued operations	**(2,979)**	

The loss from discontinued operations of $2,979,000 is attributable entirely to the owners of the Company.

Earnings per share from discontinued operations	**cents**	**cents**
Basic earnings per share attributable to ordinary equity holders	(0.29)	0.69
Diluted earnings per share attributable to ordinary equity holders	(0.29)	0.68

Notes to the consolidated financial statements CONTINUED

Note 17. Discontinued operations (continued)

Cash flows from discontinued operations		
Net cash flow from ordinary activities	591	866
Net cash flow from investing activities	(457)	(1,704)
Net cash flow from financing activities	(634)	(202)
Net increase in cash generated by the division	**(500)**	**(1,040)**

Effect of disposal on the financial position of the Consolidated Entity

The carrying values of assets and liabilities as at 13 December 2010 were:

Property, plant and equipment	2,578
Intangible assets	28,821
Trade receivables	4,679
Earned income	5,822
Other assets	1,975
Total assets	**43,875**
Trade payables	(505)
Deferred income	(5,265)
Other payables	(4,024)
Finance leases	(2,107)
Other liabilities	(858)
Total liabilities	**(12,759)**
Net assets	**31,116**
Consideration received, satisfied in cash	31,545
Cash and cash equivalents disposed of	(359)
Disposal costs paid in the period	(1,947)
Proceeds on sale, net of cash disposed of [1]	**29,239**

1. Additional disposal costs which are accrued at 31 December 2010 of $1,659,000 are included within the loss on sale of the discontinued operation.

Note 18. Contingent liabilities

Contingent liabilities in respect of claims and potential claims:

The following are material claims that have been raised against the Consolidated Entity:

(a) The proceedings under case number CIV-2006-404-004502 filed in the High Court at Auckland, New Zealand, between I-Health Limited (as plaintiff) and iSOFT NZ Limited and iSOFT Australia Pty Limited (as first and second respondents respectively). The proceedings arose out of a business and asset sale agreement entered into by iSOFT NZ Limited (as purchaser), iSOFT Australia Pty Limited (as the purchaser's guarantor) and I-Health Limited (as vendor), whereby iSOFT NZ Limited acquired the business and assets of I-Health Limited (including I-Health Limited's software known as "healthviews"). Payment for the business included payments based on revenue earned by iSOFT NZ Limited from the healthviews software over a five-year period following settlement of the sale. I-Health Limited claims that iSOFT NZ Limited has breached its obligations under the business and asset sale agreement to, inter alia, promote and develop the healthviews software thus negatively impacting on the earn-out payments due to I-Health Limited. The maximum amount payable for breaching these obligations under the earn-out agreement is $5.0 million, although the issue of whether this includes interest or not is to be reviewed by an appeals court in New Zealand. In the view of the Directors, the outcome is unknown and they cannot estimate the likelihood of an unfavourable decision. As a result, no provision has been made as at 31 December 2010.

Notes to the consolidated financial statements CONTINUED

Note 18. Contingent liabilities (continued)

Contingencies arising from contractual obligations:
The Consolidated Entity from time to time incurs delays in delivery of project implementations. Such delays may trigger penalty clauses under contracts. The contingent liability from such contractual obligations has been estimated at $0.6 million as at 31 December 2010. In the view of the Directors, the likelihood of a payment is remote and as a result, no provision has been made as at 31 December 2010.

Contingent considerations
Acquisition of Hatrix Pty Limited: the total maximum earn out is $13 million over three years commencing from the date of acquisition on 24 April 2009. There is no earn-out payment due in the period ended 31 December 2010.

Contingent liabilities arising from its debt obligations
The Consolidated Entity is bound by certain contractual commitments as part of its debt facility. Although not mandatory, should full repayment not be made by certain key dates prior to 15 March 2012, additional participation fees up to the value of GBP6.0 million ($9.1 million) may be payable at 15 March 2012. As at 31 December 2010 the Consolidated Entity was not contractually liable to pay these fees as they are contingent upon a future event (refer Note 11).

Note 19. Commitments

	As at 31 December 2010 $'000	As at 30 June 2010 $'000
Lease commitments - operating		
Committed at reporting date but not recognised as liabilities, payable:		
Within one year	12,029	13,952
One to five years	26,007	30,314
More than five years	29,435	35,225
	67,471	**79,491**
Lease commitments - finance		
Committed at reporting date and recognised as liabilities, payable:		
Within one year	57	1,213
One to five years	139	2,004
More than five years	-	-
Total commitment [1]	196	3,217
Less: Future finance charges	-	(11)
Net commitment recognised as liabilities	**196**	**3,206**
Representing:		
Lease liability - current	57	1,208
Lease liability - non-current	139	1,998
	196	**3,206**

1. The reduction in finance lease commitment is due to the disposal of IBS (refer Note 17).

Lease commitments are operating leases on plant and equipment. Property leases are non-cancellable with rent payable monthly in advance. Contingent rental provisions within lease agreements generally require minimum lease payments be increased by the consumer price index (CPI) or a percentage factor. Certain agreements have option arrangements to renew the lease for an additional term.

Jointly controlled entities do not have commitments as at 31 December 2010 and 30 June 2010.

The Consolidated Entity has no capital commitments as at 31 December 2010 and 30 June 2010.

Notes to the consolidated financial statements CONTINUED

Note 20. Exchange rates

The Consolidated Entity's financial performance and financial position is significantly influenced by foreign exchange rate fluctuations. The exchange rates of significant operating countries of the Consolidated Entity that applied during the period are as follows:

	Half year to 31 December 2010 Average	Half year to 30 June 2010 Average	Half year to 31 December 2009 Average	As at 31 December 2010 Closing	As at 30 June 2010 Closing	As at 31 December 2009 Closing
AUD to 1 GBP	1.6595	1.7074	1.8794	1.5221	1.7587	1.7832
AUD to 1 Euro	1.3988	1.4805	1.6613	1.3040	1.4247	1.6049
AUD to 1 Malaysian Ringgit	0.3334	0.3462	0.3303	0.3189	0.3589	0.3265
GBP to 1 Indian Rupee	0.0230	0.026	0.0237	0.0216	0.0251	0.0255

The average exchange rates have been calculated by applying a weighted average according to the revenue of the Group.

Note 21. Events occurring after balance date

No other matters or circumstances have arisen since 31 December 2010 that has significantly affected, or may significantly affect the Consolidated Entity's operations in future financial years, the results of those operations in future financial years, or the Consolidated Entity's state of affairs in future financial years.

Notes to the consolidated financial statements CONTINUED

Directors' declaration
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

In the opinion of the Directors of iSOFT Group Limited:

a) the financial statements and notes set out in pages 5 to 30 are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the financial position of the Consolidated Entity as at 31 December 2010 and of its performance represented by the results of its operations and its cash flows for the six month period ended on that date; and

(ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

b) there are reasonable grounds to believe that iSOFT Group Limited will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

....

Robert Moran
Non-Executive Chairman

Anthony Sherlock
Non-Executive Director

Chartered Accountants
& Business Advisers

INDEPENDENT AUDITORS' REVIEW REPORT

Report on the Half-Year Financial Report

We have reviewed the accompanying consolidated half-year financial report of iSOFT Group Limited which comprises the statements of financial position as at 31 December 2010, the income statement. statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity. The consolidated entity comprises iSOFT Group Limited (the company) and the entities it controlled at 31 December 2010 or from time to time during the half-year ended on that date.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of iSOFT Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the review of the half-year financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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& Business Advisers

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the consolidated entity is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

PKF

Bruce Gordon
Partner

Sydney, 24 February 2011

iSOFT Group Limited
Restructuring benefits beginning to appear

Sydney – Friday 25th February 2011 – iSOFT Group Limited (ASX: ISF) announces its results for the half year ending December 2010.

Key points

- iSOFT continues to make progress in restoring profitability with a focus on cash generation.
- Order intake is encouraging, growing at 7% to $69.6 million; revenue backlog (note 1) for second half FY2011 is approximately $150 million.
- Operating expenses reduced by $19 million in the half year compared to H1 FY2010 and iSOFT is on track for $30 million savings by 30 June, 2011.
- EBITDA (before restructuring costs and exceptional items) was $9.8 million compared with -$8.4 million in the half year to June 2010 and $27.5 million in the first half year to December 2009 (in constant currency terms).
- Operating cash outflow of $45 million in first half, but expected to be positive in the second half.
- Full-year revenue in constant currency terms is expected to be slightly lower than FY2010 on an equivalent basis but revenue backlog (note 1) growth is expected to continue.

Overview

Overall in the first half of FY2011, we made good progress towards restoring the financial health of the business. We saw a decline in revenues in comparison with the previous year, mainly driven by the National Programme for IT (NPfIT).This was largely expected and replacing the declining revenues from the National Programme remains a key priority for management. EBITDA (before restructuring and one-off costs) was positive, benefitting by $19 million from the impact of our cost reduction programme.

Operating cash outflows for the first half were substantial at $45 million, reflecting restructuring and refinancing costs, one-off movements in working capital, seasonal factors, and continued investment in R&D. However, operating cashflow turned positive in December and is expected to be positive for the second half.

Chief Executive Officer Andrea Fiumicelli said "we continue to face a difficult operating environment although we have been able to grow market share by winning new business, including the important iSOFT7 contract, and our revenue backlog (note 1) is continuing to increase. In part this reflects a trend where the period between when a customer places an order and the time at which they approve the commencement of projects has lengthened, which delays our ability to begin recognising revenue.

"We are making good progress with Lorenzo Enterprise and Lorenzo Smart Solutions having signed several contracts in Spain and Central Europe.

"The improvement in EBITDA during the half was encouraging evidence that the restructuring initiatives are beginning to deliver. I have a relentless focus on cash generation. The first half was impacted by a number of one-off items associated with the operational turnaround as well as normal seasonality but I expect the second half to deliver positive operating cashflows due to seasonal maintenance cash inflows, forecast higher revenues, and a reduction in one-off outflows."

Revenues

Revenues in the first half were $161.6 million, a decline of 27% compared with the reported equivalent in FY2010 (17% in constant currency terms). The most significant reason for the comparative decline was the anticipated decrease in NPfIT revenues of over $20 million. Excluding the NPfIT, revenues declined 8% compared with the previous corresponding period. One other contributing factor was a $5.6 million one-off licence deal secured in FY10 in Central Europe on retirement of an end of life product, which was absent in FY11. The Australia and New Zealand

and Southern European and Latin America businesses achieved healthy growth as did Central Europe, excluding the absence of the one-off licence deal. Growth in orders and backlog was encouraging. Overall order intake (excluding maintenance renewals and small orders) grew by 7% to $69.6 million. The revenue backlog (see note 1) for second half FY2011 is approximately $150 million, and the total contracted backlog at the end of December 2010 totalled $739 million.

Revenues in the second half will benefit from the recognition of $8 million from a $20 million total contract value 5 year contract extension in the UK for the supply of patient and clinical management systems to iSOFT7, a group of 7 NHS Trusts.

Progress on cost reductions

Given the decline in the National Programme revenues and a continuing challenging operating environment, management has devoted considerable energy to cost reductions, which are progressing well. Total expenses excluding restructuring and one-off costs in the first half were $143.8 million, a reduction of $19.2 million compared with H1FY2010 and $26 million compared with H2FY2010. The biggest area of cost reductions is in headcount with a 28% decline in numbers of full time employees achieved over the 12 months to December 2010. In addition, considerable reductions have been made to discretionary spending, primarily in marketing and travel costs, and product portfolio streamlining continues.

Management considers the previously announced target of $30 million in cost reductions in FY2011 to be achievable. These efficiency savings are being achieved without compromising our ability to deliver on customer commitments, close new sales or deliver innovation to our customers.

Profitability

As a result of the re-alignment of the cost base, iSOFT earned EBITDA (constant currency) of $9.8 million (before restructuring costs and exceptional items), an encouraging improvement on the $8.4 million negative EBITDA reported in H2 FY2010.

However, restructuring and one-off costs were substantial, totalling $15.8 million during the first half and expected to total $13 million in the second half. These relate to redundancy costs, property exit costs, and professional fees relating to restructuring and refinancing. The material part of the restructuring will be completed in FY2011.

Reported net loss for the first half is $84.1 million. iSOFT recorded a $37 million impairment due to reduced revenue projections in certain markets where iSOFT's capital constraints restrict its ability to grow, and due to refinements in R&D allocations.

Update on National Programme for IT in England

National Programme revenues are forecast to be approximately 10% of total revenues in FY2011 compared with 17% in FY2010. The negotiations of the National Programme contract between the NHS and CSC continue with both parties working constructively towards an agreement as soon as is practicable. iSOFT is not involved in these negotiations, nor is it involved in decisions on timings of the implementation of Lorenzo. At its recent quarterly results announcement, CSC stated that the implementation of Lorenzo at the 4th early adopter site, Pennine Care NHS Foundation Trust, is in its retesting stage. The go-live target date of February was not able to be achieved due to a longer testing period than originally planned.

Outlook

Our stated target at the time of the AGM was for flat revenue in FY2011 in constant currency terms which is equivalent to approximately $370 million. We now expect revenues to be slightly lower than that target due to somewhat weaker than anticipated trading conditions in some of our smaller markets giving us a target for H2 FY2011 revenues of approximately $200 million. Our revenue backlog (note 1) for the second half of FY2011 is approximately $150 million, and our weighted pipeline is approximately $80 million. One risk to achieving our FY2011 revenue target is a slippage in the timing of conversion of pipeline to revenue during second half FY2011. We continue to expect a stronger second half than the first half in terms of EBITDA, and expect EBITDA margins for the full year to be approximately 10-12% before restructuring costs and one-off items. Second half operating cash flow is expected to be significantly positive.

Update on strategic review process

At the time of our AGM, we announced that we had initiated a strategic review with the aim of reducing indebtedness. The result could involve a cash injection, sale options or a combination of both. We are encouraged by initial progress and will update the market appropriately.

Board Renewal

Effective March 1, Bob Ellis will be appointed to the Board as non-Executive Chairman. Robert Moran will step down as Chairman but will remain on the Board. Robert Moran said, “As I explained at our AGM last year, it is appropriate for iSOFT to have a new and UK based Chairman. I remain just as committed to serving iSOFT and look forward to resuming my former role as a non-Executive Director. Bob has considerable experience in helping businesses through periods of difficult operational change. He has already been working with iSOFT as an adviser since June 2010. I am delighted that he has agreed to take on a more formal role and we welcome him to our Board.”

On February 28, 2011, Peter Housden, who was appointed to the Board as non-Executive Director on November 30 last year, will replace Tony Sherlock as Chairman of the Audit and Risk Committee. Tony Sherlock will resign from the Board. iSOFT thanks him for his considerable contribution.

Note 1 Revenue backlog is made up of contracted backlog, new run rate (small orders) and maintenance renewals expected to be signed.

Outlook statement and other forward looking information

This release contains forward looking information and provides indications as to forecast revenue and profitability for the forthcoming half year and the full financial year. This information has been included on a good faith basis and it is based upon information provided by management to the Board and business and commercial judgments and assessments made by management and the Board. The information is provided in response to requests from shareholders at the AGM for indications of this nature on a best endeavours basis. There is no guarantee or representation that the financial outcome will be consistent with the forecast outcomes as described in this release. In fact, the likelihood is that the actual result will differ from that described in this release, perhaps materially so. The cost base of the company is reasonably fixed and evenly spread through the period, whereas revenue can be lumpy and less predictable. Given that the forecast information assumes revenue from contract wins in May and June 2011 and given the possibility of not winning those contracts or there being delay in awarding those contracts, it is difficult for the company to meaningfully update the market as to the likely outcome during the course of the half year. As stated in the text of this release, there exists over coverage of the forecast revenue in the weighted revenue pipeline which provides some protection against adverse movement but the possibility still exists that the actual results may differ from the indications given in this release, possibly materially.

End of release

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About iSOFT Group

iSOFT Group Limited (ASX: ISF) is a health information technology company listed on the Australian Securities Exchange.

iSOFT works with healthcare professionals to design and build software applications that answer all of the difficult questions posed by today’s healthcare delivery challenges. Our solutions act as a catalyst for change, supporting free exchange of critical information across diverse care settings and participating organizations.

Today, more than 13,000 provider organisations in 38 countries use iSOFT’s solutions to manage patient information and drive improvements in their core processes. The Group’s sustainable development is delivered through careful planning, in-depth analysis of the market, and anticipation of our clients’ evolving requirements. Our business is driven by the collective talent, experience and commitment of more than 3,300 specialists in 17 locations worldwide.
A global network of iSOFT subsidiaries, supported by an extensive partner network, provides substantial experience of national healthcare markets. As a result, we offer our clients comprehensive knowledge of local market requirements in terms of culture, language, working practices, regulation and organisational structure.

www.isofthealth.com

iSOFT Group Limited

First half FY2011 results

Information pack

Key points

- iSOFT continues to make progress in restoring profitability with a focus on cash generation.
- Order intake is encouraging, growing at 7% to $69.6 million; revenue backlog for second half FY2011 is approximately $150 million.
- Operating expenses reduced by $19 million in the half year compared to H1 FY2010 and iSOFT is on track for $30 million savings by 30 June, 2011.
- EBITDA (before restructuring costs and exceptional items) was $9.8 million compared with -$8.4 million in the half year to June 2010 and $27.5 million in the first half year to December 2009 (in constant currency terms).
- Operating cash outflow of $45 million in first half, but expected to be positive in the second half
- Full-year revenue in constant currency terms is expected to be slightly lower than FY2010 on an equivalent basis but backlog growth is expected to continue.

Key financials

A$m	H1 FY2011 Actual FX	H1 FY2011 Constant FX	H1 FY2010 Actual FX	H1 FY2010 Constant FX	% chg actual FX	% chg constant FX
Revenue	161.6	163.3	220.2	197.3	-27%	-17%
Reported EBITDA	-5.6	-5.9	35.5	26.8	-116%	-122%
Underlying EBITDA (1)	10.2	9.8	36.1	27.5	-72%	-64%
Reported NPAT	-84.1		4.8			
Adjusted NPAT (2)	-44.1		-1.6			
Operating cash flow	-45.3		-12.1			

All data excludes iBS
Note (1) Underlying EBITDA is EBITDA before exceptional and one off items
Note (2) NPAT adjusted for discontinued operations and impairments

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Revenue (constant currency)

	H1 FY2011	H1 FY2010	% change	H2 FY2010
Revenue ($Am)				
Licences	32.8	41.8	-22%	39.8
National Programme for IT	20.8	43.2	-52%	21.9
Professional Services	24.7	24.2	2%	27.1
Maintenance & support	73.2	77.4	-5%	75.2
Managed services	2.0	1.8	11%	2.6
Third party hardware	3.9	5.0	-22%	3.3
Third party software	4.9	3.9	26%	3.3
Other	1.0	0.1	-	1.4
Total	**163.3**	**197.4**	**-17%**	**174.6**
Non NPfIT total	142.5	154.2	-8%	152.7

FX rates used for constant currency shown in Appendix

Revenues by geographical segment (constant currency)

(A$m)	H1 FY2011	H1 FY2010	% chg. y.o.y	H2 FY2010
iUK	49.7	54.6	-9%	49.4
NPfIT	20.8	43.2	-52%	21.9
Central Europe	47.2	51.0	-7%	46.4
ANZ	31.8	29.8	7%	34.3
SELA*	13.4	9.5	41%	11.2
Other	0.4	9.2	-96%	11.4
Total	**163.3**	**197.4**	**-17%**	**174.6**
Non NPfIT total	142.5	154.2	-8%	152.7

FX rates used for constant currency shown in Appendix
*SELA: Southern Europe Latin America

EBITDA reconciliation

Reconciliation of EBITDA (actual rates) to EBITDA before one-offs (constant currency)

	H1 FY10	H2 FY10	H1 FY11	FY10
	$m	$m	$m	$m
EBITDA (Appendix 4D and Annual Report)	35.5	-16.2	-5.6	19.2
Severance costs	0.2	4.8	5.2	5.0
Other costs of restructuring and refinancing	-	-	10.6	-
One off costs	0.5	3.6	0.1	4.1
FX impact (Actual to constant currency rates)	-8.7	-0.5	-0.4	-9.1
Constant currency EBITDA before restructuring and one off costs	**27.5**	**-8.4**	**9.8**	**19.1**

Expenses analysis (constant currency)

	H1 FY2011	H2 FY2010	H1 FY2010
Staff related costs	-111.0	-120.9	-118.7
Travel	-4.6	-8.4	-8.9
Marketing	-2.0	-6.5	-5.7
Property	-8.5	-9.3	-8.2
Computer services costs	-4.5	-6.0	-3.8
Legal and professional	-6.2	-9.4	-8.5
Admin costs	-1.6	-2.9	-2.7
Telecom costs	-2.9	-3.6	-3.9
Depreciation	-2.6	-2.9	-2.6
Costs before restructuring & one-offs	**-143.8**	**-169.8**	**-163.0**

Expenses reconciliation with Appendix 4D

	H1 FY2011 CCY	H1 FY2011	H1 FY2010 CCY	H1 FY2010
Staff related costs	-111.0	-109.2	-118.7	-128.6
Travel	-4.6	-4.6	-8.9	-9.6
Marketing	-2.0	-2.0	-5.7	-6.0
Property	-8.5	-8.3	-8.2	-8.8
Computer services costs	-4.5	-4.5	-3.8	-4.1
Legal and professional	-6.2	-6.1	-8.5	-9.0
Admin costs	-1.6	-1.6	-2.7	-2.8
Telecom costs	-2.9	-2.9	-3.9	-4.2
Depreciation	-2.6	-2.6	-2.6	-2.8
Costs before restructuring & one-offs	**-143.9**	-141.8	**-163.0**	-175.9
Restructuring costs	-15.6	-15.8	0.2	0.2
Other one-off costs	-0.1	-0.1	-0.6	-0.7
Costs after one-offs	**-159.5**	**157.7**	**-163.6**	**-176.4**
Cost of sales	-21.6	-21.3	-24.0	-27.1
SW capitalisation	8.9	8.8	11.2	12.3
Bad debt	-1.7	-1.6	0.5	0.5
Other income and expenses	0.9	0.9	1.1	1.1
Add back depreciation	2.6	2.6	2.6	2.8
Per App 4D Half year accounts		**168.3**		**186.7**

Cost reductions of $19 million achieved y.o.y.

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Adjusted NPAT

Adjusted NPAT	H1 FY2011	H1 FY2010
Statutory NPAT (App 4D)	**-84.1**	**4.8**
iBS NPAT	-3.0	6.5
NPAT from continuing operations	-81.1	-1.6
Impairment	37.0	0.0
Adjusted NPAT	**-44.1**	**-1.6**

FX rates (against AUD) used for constant currency calculations

GBP	0.6102
EUR	0.6836
INR	41.4051
CNY	6.2858
USD	0.9195
NZD	1.2940
MYR	3.0072
THB	29.8397
SGD	1.2865
HKD	7.1397
AED	3.3781
BND	1.3022
CAD	0.9372
CHF	0.9786
NOK	5.4972
OMR	0.3554
SAR	3.4526
SEK	6.6767
ZAR	6.7975