

Northgate  
Information Solutions plc

INTERIM

REPORT & ACCOUNTS

2007



### Introduction

This has been a great period of activity for Northgate. The Group completed the acquisition of ARINSO, its largest and most significant to date, during the half year, which has transformed the Group into a global provider of HR software and services, with operations in 46 countries. This acquisition is already delivering substantial benefits, with the Group winning a number of significant new orders and the integration process running ahead of our expectations. Our Public Services division meanwhile has continued to deliver critical systems to both local and national Government and delivered good organic growth whilst our Managed Services division has built on the strong position it has secured in the Government's Building Schools for the Future Programme. Overall, we have built strong foundations for future growth, both in the second half of the year and beyond.

### Financial

The Group has delivered strong organic growth of 6.6% for the first half excluding third party product sales and has benefited from the incremental impact of the ARINSO acquisition. The order book continues to be strong, increasing by 82% year-on-year (11% organically) to £642m.

Adjusted operating margins<sup>1</sup> in the period were 12.8%, compared to 15.5% in the prior period. This decline is due to the integration of ARINSO into the business. Margins at ARINSO have already begun to rise from their pre-acquisition level and the Group remains confident it will deliver further improvement.

Following the ARINSO acquisition, completed 15 June 2007, Northgate is now a significantly larger international Group which affords greater scope for effective tax planning. Northgate currently anticipates an effective tax charge for the Group reducing to around 15% (excluding deferred tax) for the current year, growing to 26% over the next three years.

The Group's strong cash flow has continued and is being used to reduce debt and invest in the business. At 31 October 2007 net debt stood at £416.4m. Interest exposure on this is hedged with 73% of the drawn debt being secured with fixed interest agreements averaging 4.8%, and a further 13% of drawn debt being capped at 5.5% plus any margin the Group pays over LIBOR and EURIBOR to its banking partners. 46% of drawn debt is denominated in Euro, which provides a natural currency hedge against the underlying investment in, and cash-flows generated from ARINSO.

Group defined benefit pension liabilities have declined by £17.6m in the period to £31.8m mainly due to higher interest rates reducing the present value of scheme liabilities. As previously announced, as part of the ARINSO transaction, Northgate intends to make a one off contribution to its defined benefit pension schemes of £15.0m in the second half of the current financial year in support of a restructuring of the schemes to be better aligned with our operating businesses. This will be charged against current pension provisions and has no impact on reported trading results.

<sup>1</sup> Adjusted operating margins are stated before significant restructuring provisions and one-off items, amortisation of acquired intangibles and option costs

## Chairman's Statement

(continued)

### Financial (continued)

As previously disclosed at the time of the ARINSO acquisition, the Group expects to incur exceptional costs of £11m for integration and deal costs in this financial year. £6m of this relates to funding costs incurred to support the ARINSO acquisition with the balance relating to integration activities. In line with IFRS, £8.1m of these costs have been recorded in the first half of this financial year.

On a statutory basis, profit before tax was £0.5m, after £8.1m of significant restructuring provisions and one-off items, £7.3m of amortisation of acquired intangibles and £1.8m of option costs.

### Strategy

Northgate's strategy is to be a leading player in providing software, outsourcing and IT services to the human resources, local government and public safety markets, supplementing organic growth with appropriate acquisitions that complement the existing business and product portfolio, and expanding overseas judiciously where market leading businesses can be built.

### Dividend

The Board has recommended the payment of an interim dividend of 0.29p on 21 January 2008 to shareholders on the register as at 4 January 2008. This represents a 20.8% increase on the prior year and demonstrates the Board's considerable confidence in the Group's prospects and its commitment towards delivering value to shareholders.

### New Board Member

Jos Sluys, the founder of ARINSO, was appointed Executive Director on 26 July 2007. Mr Sluys previously worked as SAP HR implementation consultant then as SAP HR sales manager for SAP Belgium. Prior to working for SAP, Mr Sluys worked for Unilever. He holds a degree in Civil Engineering from the University of Brussels and an MBA from the Vlerick School of Management. On behalf of all the directors, I would like to welcome him to the Board and look forward to his considerable contribution.

### Conclusion

The Board would like to thank management and staff throughout the Group for their tremendous work during this busy period. Northgate now employs over 6,490 staff in 46 countries and we value their contribution highly. We would also like to thank all our customers, existing and new, for their support. We will continue to work to deliver excellent value and service to them and to our shareholders.



Ron Mackintosh  
Chairman  
10 December 2007

**Overview**

The figures for this half year demonstrate both the strength of the Northgate Group and its enormous potential. During the half year, all three of our divisions delivered organic growth, strong cash flow, and strong order intake. All three have strengthened their positions in their key markets. In addition, the acquisition of ARINSO is proving to be even more promising than we had envisaged; it has enabled the HR division to win a number of significant long-term contracts and accelerated the evolution of our business from a software and services supplier into a true global outsourcing group. In terms of outsourcing, HR stands today where the IT industry was 15 years ago. The opportunities for growth are substantial and we now have the breadth and scale to capitalise on them.

**Human Resources**

The Human Resources division signed a number of new contracts during the period allowing the order book to grow by 221% year-on-year (18.1% organically) to £403.6m. The division is benefiting from Northgate's increased global footprint which now sees Northgate operating in 46 countries across 5 continents. Organic growth for the enlarged Human Resources division was 7.5% driven by continued strong demand for ResourceLink and world-wide HR solutions through our euHReka platform. Exposure to the global market place is expected to accelerate growth further, with our rapidly expanding sales pipeline reflecting the broader service capabilities of the division.

In aggregate, the Total Contract Value for all major contract wins in the first half exceeds £120m.

During the half year these included:

- A seven-year contract with Cadbury Schweppes to deliver HR systems and related services for its confectionery business in 68 countries across 5 continents, one of ARINSO's largest ever global HRO deals.
- A £21m, seven-year partnership signed with a major European electrical retailer to outsource their human resources, employee relations and payroll services for UK employees. It will provide an integrated database across 27 countries for their European employees on a ResourceLink platform.
- A £16m, seven-year HR outsourcing contract with Pfizer, a global pharmaceutical company. Under the terms of this contract, ARINSO will provide several thousand employees of Pfizer with outsourced HR services in a number of European countries.
- A £14m contract signed with a major European chemical and pharmaceutical group to provide HR and payroll systems and supporting services to 24,000 employees across 19 countries.
- A ten-year contract with Agilent, the world's premier measurement company, to provide HR and payroll systems and services to its US employees.

## Chief Executive's Review

(continued)

### Human Resources (continued)

In addition, since the end of the half year we have signed a 5-year contract with Scotiabank in which ARINSO will implement a Canadian Payroll Solution for 48,000 of its employees and pensioners.

Adjusted operating margins declined to 16.3% as a result of the acquisition of ARINSO. We are focusing on continuing the successful integration of ARINSO and on driving the business forward.

During the period ARINSO saw organic growth of 11.2% whilst operating margins improved from 8.5% to 9.5% in spite of some inevitable disruption during the acquisition and integration period. Going forward, we anticipate further margin expansion.

Opportunities to cross sell through both organisations are materialising. Examples include the Northgate team helping to close our transaction with Cadbury Schweppes, and the launch of ResourceLink, our core HR product, in the USA in early October.

The Human Resources division has a strong and growing order book and a good pipeline of new deals.

### Public Services

The Public Services division has made good progress and the improvement in trading conditions within our Criminal Justice business seen in the first quarter has continued. Organic growth in the first half was 5.0%, continuing the accelerating trend established in the second half of 2006/07. Order book growth has been strong, with a year-on-year increase of 31.0% (5.6% organically) to £105.7m.

During the period, we secured a number of notable contracts including:

- A new five-year contract, valued at £8.8m with the Government of New South Wales ("NSW") Australia to provide a broad range of information management and customer-focused services for public housing. The deal will provide Northgate's world class housing solution to manage the State's entire housing stock comprising 140,000 properties.
- A contract signed with Wycombe District Council for over £4m for Northgate to deliver hosting and management services.
- In a contract to run over five years, Northgate will provide Leeds City Council with a new master data management service, providing a unified real-time view of the customer, gathered from data held across a range of other council systems.
- A number of new wins for our Intelligent Mobile solution that aggregate to a value in excess of £1m.
- In excess of 50 clients now use eBenefits solution to improve the efficiency of benefits processing.
- The support of the criminal justice reform programme with the complete roll out of the CJMIS management information solution for the Office for Criminal Justice Reform in partnership with LogicaCMG.
- Continuing wins for our CallTouch control room software outside our core police market, including a contract worth over £600,000 at National Grid with our partners Damovo UK.

The new business pipeline is promising and is expected to continue growth into the second half of the year.

**Managed Services**

The Managed Services division has continued to trade well overall with growth in revenues driven by significant education contracts won last year. The performance of the division in the first half is in line with expectations. The division has a good pipeline of orders in the education sector to continue growing the business, although the timescale for closing these deals has extended.

Highlights include:

- The Lot 6 Teacher Laptop Service. As an extension to the original Lot 6 Primary School contract, Northgate are delivering a Managed Service for over 25,000 laptops that are being provided to schools throughout Northern Ireland's educational sectors – nursery, primary, special needs and post primary – resulting in every teacher having round the clock access to their work and resources.
- In addition, the division saw a further extension to its strategic partnership with Reading Borough Council designed to support the Council in delivering greater efficiencies and responsive services. The two-year contract, worth £4.5m, extends the existing Desktop Services Agreement with Reading to 2011. The new contract will see a renewed focus on cost-savings in line with the council's corporate objectives and will develop the existing partnership between Reading Borough Council and Northgate.

**Outlook**

All three divisions of the business have performed extremely well in the year to date and the pipeline looks promising for the remainder of the year. Based on the Group's performance to date, the Board expects performance for the year to be in line with its expectations. We have witnessed very strong organic growth in the period and expect it to accelerate during the rest of the year, driven by our HR division.

Our early experience of ARINSO suggests that the benefits of the acquisition will if anything exceed our original expectations. The opportunities for further margin growth are substantial as the integration continues, as are the prospects for winning further global outsourcing contracts of the type agreed with Cadbury Schweppes plc during this half. The potential for outsourcing in the HR industry is significant and market penetration is, as yet, still modest. We have the systems, scale and reputation to build significantly on our position in this growth market and we look forward to the future with great confidence.



Chris Stone  
Chief Executive  
10 December 2007

## Condensed consolidated income statement (unaudited) for the six months ended 31 October 2007

	Notes	Before significant and one-off items 2007 £'000	Significant and one-off items 2007 £'000	After significant and one-off items 2007 £'000	Before significant and one-off items 2006 £'000	Significant and one-off items 2006 £'000	After significant and one-off items 2006 £'000
Revenue	2	246,265	-	246,265	165,180	-	165,180
Operating costs		(223,894)	(6,075)	(229,969)	(144,735)	(3,049)	(147,784)
Other operating income		-	2,000	2,000	-	3,018	3,018
<b>Group operating profit</b>	2	<b>22,371</b>	(4,075)	<b>18,296</b>	20,445	(31)	20,414
<b>Operating profit before significant re-structuring provisions and one-off items, amortisation of acquired intangibles and option costs</b>							
	2	31,532	-	31,532	25,640	-	25,640
Significant restructuring provisions and one-off items	5	-	(4,075)	(4,075)	-	(31)	(31)
Amortisation of acquired intangibles		(7,348)	-	(7,348)	(3,767)	-	(3,767)
Option costs		(1,813)	-	(1,813)	(1,428)	-	(1,428)
<b>Group operating profit</b>		<b>22,371</b>	(4,075)	<b>18,296</b>	20,445	(31)	20,414
Financial income	6	564	-	564	279	-	279
Financial expenses	6	(14,302)	(4,034)	(18,336)	(6,877)	-	(6,877)
<b>Net financing costs</b>		<b>(13,738)</b>	(4,034)	<b>(17,772)</b>	(6,598)	-	(6,598)
Share of profit of associate		-	-	-	38	-	38
<b>Profit before tax</b>		<b>8,633</b>	(8,109)	<b>524</b>	13,885	(31)	13,854
Tax expense	7	(1,611)	1,516	(95)	(3,681)	-	(3,681)
<b>Profit for the period</b>		<b>7,022</b>	(6,593)	<b>429</b>	10,204	(31)	10,173
<b>Attributable to:</b>							
Equity holders of the parent		6,993	(6,593)	400	10,190	(31)	10,159
Minority interest		29	-	29	14	-	14
		<b>7,022</b>	(6,593)	<b>429</b>	10,204	(31)	10,173
<b>Earnings per ordinary share</b>				<b>2007</b>	<b>2006</b>		
Basic	8			<b>0.07p</b>			1.91p
Diluted	8			<b>0.07p</b>			1.83p

## Condensed consolidated statement of recognised income and expense (unaudited) for the six months ended 31 October 2007

	2007 £'000	2006 £'000
Foreign exchange translation differences	865	(275)
Net gain/(loss) on actuarial valuation of pension liability	14,978	(6,267)
Deferred tax on actuarial gains and losses on defined benefit pension schemes	(4,493)	1,881
Net loss on hedge of net investment in foreign subsidiary	(24)	-
Effective portion of changes in fair value on hedges	(1,144)	-
<b>Net income/(expense) recognised directly in equity</b>	<b>10,182</b>	<b>(4,661)</b>
<b>Profit for the period</b>	<b>429</b>	<b>10,173</b>
<b>Total recognised income and expense for the period</b>	<b>10,611</b>	<b>5,512</b>
<b>Attributable to:</b>		
Equity holders of the parent	10,582	5,498
Minority interest	29	14
<b>Total recognised income and expense for the period</b>	<b>10,611</b>	<b>5,512</b>

## Condensed consolidated balance sheet (unaudited) as at 31 October 2007

	Notes	31 October 2007 £'000	30 April 2007 £'000	31 October 2006 £'000
<b>Non-current assets</b>				
Goodwill	4	585,530	389,542	365,131
Other intangible assets	9	168,808	95,297	84,001
<b>Total intangible assets</b>		<b>754,338</b>	484,839	449,132
Property, plant and equipment	9	51,350	37,549	34,254
Other receivables		17,529	16,500	14,928
Deferred tax asset		-	619	5,100
<b>Total non-current assets</b>		<b>823,217</b>	539,507	503,414
<b>Current assets</b>				
Inventories - goods for resale		2,520	3,586	2,440
Trade and other receivables	9	160,979	111,645	92,992
Other financial assets		1,727	1,221	696
Cash and cash equivalents	11	70,837	42,145	27,242
<b>Total current assets</b>		<b>236,063</b>	158,597	123,370
<b>Total assets</b>		<b>1,059,280</b>	698,104	626,784
<b>Non-current liabilities</b>				
Interest-bearing loans and borrowings	10	229,234	89,914	103,341
Employee benefits	9	31,757	49,411	57,844
Deferred tax liability	9	23,597	-	-
Provisions	9	9,823	7,141	4,192
<b>Total non-current liabilities</b>		<b>294,411</b>	146,466	165,377
<b>Current liabilities</b>				
Interest-bearing loans and borrowings	10	257,956	136,234	95,506
Provisions	9	12,389	7,954	7,910
Taxation	9	9,248	2,644	6,533
Trade and other payables	9	214,856	181,006	146,118
Other financial liabilities		1,785	18	83
<b>Total current liabilities</b>		<b>496,234</b>	327,856	256,150
<b>Total liabilities</b>		<b>790,645</b>	474,322	421,527
<b>Net assets</b>		<b>268,635</b>	223,782	205,257
<b>Equity</b>				
Issued share capital	12	58,244	53,675	53,586
Share premium	12	94,544	94,306	93,642
Merger reserve	12	99,802	68,401	68,401
Translation reserve	12	653	(212)	(212)
Hedging reserve	12	(1,168)	-	-
Retained earnings	12	16,437	7,518	(10,250)
<b>Equity shareholders' funds</b>		<b>268,512</b>	223,688	205,167
<b>Minority interest</b>		<b>123</b>	94	90
<b>Total equity</b>		<b>268,635</b>	223,782	205,257

Approved by the Board of Directors on 10 December 2007 and signed on its behalf by

**C M R Stone**  
Director

**J R Stier**  
Director

## Condensed consolidated cash flow statement (unaudited) for the six months ended 31 October 2007

	2007 £'000	2006 £'000
<b>Cash flows from operating activities</b>		
Profit for the period	429	10,173
<i>Adjustments for:</i>		
Amortisation of acquired intangibles	7,348	3,767
Amortisation of other intangibles	4,618	2,823
(Reversal of impairment) – land and buildings	(2,000)	-
Depreciation	7,082	7,568
Loss/(profit) on sale of fixtures and fittings, property, equipment and intangibles	178	(1)
Share based payment expense	1,813	1,428
Foreign exchange movements	192	-
Financial income	(564)	(279)
Financial expenses	18,336	6,877
Share of profit of associate	-	(38)
Dividend from associate	-	521
Tax expense	95	3,681
<b>Operating profit before changes in working capital and provisions</b>	<b>37,527</b>	<b>36,520</b>
Decrease in trade and other receivables	7,617	20,314
Decrease/(increase) in inventories	1,066	(241)
Decrease in trade and other payables	(12,671)	(18,522)
Decrease in provisions and employee benefits	(869)	(6,232)
<b>Cash generated from operations</b>	<b>32,670</b>	<b>31,839</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of property, fixtures and fittings, equipment and intangibles	-	9
Interest received	58	93
Acquisition of subsidiaries, net of cash acquired	(216,323)	(19,527)
Acquisition of intangible assets	(9,339)	(6,516)
Acquisition of property, plant and equipment	(12,725)	(8,537)
<b>Net cash from investing activities</b>	<b>(238,329)</b>	<b>(34,478)</b>
<b>Cash (absorbed) from operations after investing activities</b>	<b>(205,659)</b>	<b>(2,639)</b>
Taxes received/(paid)	5,854	(193)
<b>Cash (absorbed) from operations before financing activities</b>	<b>(199,805)</b>	<b>(2,832)</b>
<b>Cash flows from financing activities</b>		
Interest paid	(12,612)	(5,995)
Increase in borrowings	256,561	7,500
Repayment of borrowings	(14,580)	-
Equity dividends paid	-	(3,204)
Payment of finance lease liabilities	(790)	(35)
<b>Net cash from financing activities</b>	<b>228,579</b>	<b>(1,734)</b>
Net increase/(decrease) in cash and cash equivalents	28,774	(4,566)
Effect of foreign exchange rate movements on cash held	(82)	-
Cash and cash equivalents at 1 May	42,145	31,808
<b>Cash and cash equivalents at 31 October</b>	<b>70,837</b>	<b>27,242</b>

Non cash movements within cash flows from financing activities are disclosed in note 11.

Acquisition of intangible assets includes £4,737,000 (2006: £3,605,000) of capitalised development costs. Amortisation of other intangibles includes £2,925,000 (2006: £2,320,000) of amortisation of capitalised development costs.

## Notes to the report

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Northgate Information Solutions plc (the 'Company') is a Company incorporated in the United Kingdom. The condensed consolidated interim financial statements of the Company for the six months ended 31 October 2007 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interests in associates.

#### Statement of compliance

These condensed consolidated interim financial statements for the six months ended 31 October 2007 have been prepared in accordance with International Financial Reporting Standards (IFRS) IAS 34 Interim Financial Reporting as adopted by the EU. They do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 30 April 2007 which is available upon request from the Company's registered office at Peoplebuilding 2, Peoplebuilding Estate, Maylands Avenue, Hemel Hempstead, Hertfordshire, HP2 4NW or at [www.northgate-is.com](http://www.northgate-is.com).

The interim financial statements were authorised for issue by the directors on 10 December 2007.

#### Significant accounting policies

The accounting policies applied by the Group in these condensed financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 30 April 2007.

In these accounts, the following new standards have been adopted for the first time:

- IFRIC 10 'Interim financial reporting and impairment'
- IFRIC 11 'IFRS 2 Group and treasury share transactions'

The adoption of these standards has not had a material impact on these accounts.

#### Risks and uncertainties

The principal risks and uncertainties affecting the business activities of the Group remain those detailed on page 28 of the 2007 Annual Report and Accounts.

### 2. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business segments and is based on the Group's management and internal reporting structure.

All business segments are continuing operations.

Six months ended 31 October 2007

	Public Services £'000	Human Resources £'000	Managed Services £'000	Central/ Eliminations £'000	Total £'000
<b>Total revenue from external customers</b>	<b>54,961</b>	<b>133,070</b>	<b>58,234</b>	-	<b>246,265</b>
<b>Divisional operating profit</b>	<b>8,491</b>	<b>21,655</b>	<b>4,394</b>	<b>(3,008)</b>	<b>31,532</b>
Significant restructuring provisions and one off items	-	(5,033)	-	958	<b>(4,075)</b>
Amortisation of acquired intangibles	(1,472)	(3,665)	(2,211)	-	<b>(7,348)</b>
Share option costs	(673)	(681)	(185)	(274)	<b>(1,813)</b>
<b>Group operating profit</b>	<b>6,346</b>	<b>12,276</b>	<b>1,998</b>	<b>(2,324)</b>	<b>18,296</b>

## Notes to the report

(continued)

**2. SEGMENT INFORMATION (continued)**

Six months ended 31 October 2006

	Public Services £'000	Human Resources £'000	Managed Services £'000	Central/ Eliminations £'000	Total £'000
<b>Total revenue from external customers</b>	<b>50,073</b>	<b>60,483</b>	<b>54,624</b>	-	<b>165,180</b>
<b>Divisional operating profit</b>	<b>7,856</b>	<b>16,196</b>	<b>4,130</b>	<b>(2,542)</b>	<b>25,640</b>
Significant restructuring provisions and one off items	-	-	-	(31)	(31)
Amortisation of acquired intangibles	(1,427)	(129)	(2,211)	-	(3,767)
Share option costs	(567)	(483)	(164)	(214)	(1,428)
<b>Group operating profit</b>	<b>5,862</b>	<b>15,584</b>	<b>1,755</b>	<b>(2,787)</b>	<b>20,414</b>

During the period certain Local Government business previously classified within Managed Services has been re-classified within Public Services, comparative numbers have been adjusted accordingly.

**By geographical segment**

Six months ended 31 October 2007

	United Kingdom £'000	Rest of Europe £'000	North America £'000	Other regions £'000	Total £'000
Revenue from external customers	180,448	41,120	10,554	14,143	<b>246,265</b>
Divisional operating profit	23,590	4,150	1,254	2,538	<b>31,532</b>

Six months ended 31 October 2006

Revenue from external customers	160,309	1,695	2,158	1,018	<b>165,180</b>
Divisional operating profit	24,060	432	1,285	(137)	<b>25,640</b>

**3. DIVIDENDS PAID AND PROPOSED**

The interim dividend of 0.29p (2006: 0.24p) per share (not recognised as a liability at 31 October 2007) will be payable on 21 January 2008 to ordinary shareholders on the register at the close of business on 4 January 2008.

## Notes to the report

(continued)

### 4. ACQUISITION OF SUBSIDIARIES

During the period, the Group has acquired 100% of the shares in ARINSO International NV. The transaction was approved by shareholders at an EGM on 15 June 2007.

#### Acquiree's net assets at the acquisition date

	<i>Book value £'000</i>	<i>Fair value adjustments £'000</i>	<i>Provisional fair value £'000</i>
Intangible fixed assets	6,973	58,042	65,015
Property, plant and equipment	5,570	-	5,570
Trade and other receivables	56,600	(780)	55,820
Cash and cash equivalents	20,303	-	20,303
Interest-bearing loans and borrowings	(6,047)	-	(6,047)
Deferred tax liabilities	2,636	(19,265)	(16,629)
Trade and other payables	(35,341)	(4,568)	(39,909)
Provisions	(166)	(4,609)	(4,775)
Net identifiable assets and liabilities	50,528	28,820	79,348
Goodwill on acquisition			180,321
Consideration paid			215,999
- satisfied in cash			35,936
- satisfied in equity			7,734
- transaction costs			
Total Consideration			259,669
Less:			
Consideration satisfied in equity			(35,936)
Cash (net of overdraft acquired)			(20,303)
Net cash outflow			203,430

Identifiable intangibles relate to the value of ARINSO's customer contracts, customer relationships, intellectual property and trade name and are being amortised over their useful lives of between 3 and 10 years.

Fair value adjustments of £28,820,000 principally relate to the following:

	<i>£'000</i>
Elimination of existing acquired goodwill	(6,541)
Acquired Intangibles (not previously recognised)	64,583
Employee provisions (including employer taxes)	(3,097)
Contract provisions	(4,134)
Other provisions, mainly alignment of accounting policies	(2,726)
Deferred tax	(19,265)
	28,820

During the period to 31 October 2007 a total of £275,000 of costs relating to loss making contracts has been utilised and released to the Income Statement.

#### 4. ACQUISITION OF SUBSIDIARIES (continued)

Goodwill and acquired intangibles are stated above at the historical rate at acquisition. Both are retranslated at the closing rate existing at the balance sheet date. This resulted in an increase in goodwill and acquired intangibles of £6,662,000 and £2,127,000 respectively. This has been taken to the hedging reserve and offset against the increase in associated debt.

During the year, the Group also purchased 100% of the ordinary shares of three additional companies, for a total consideration (including debt and cash acquired) of £16,420,000 (including legal and professional fees).

<i>Date of acquisition</i>	<i>Acquiree</i>	<i>Consideration</i>	<i>Goodwill</i>	<i>Nature of business</i>
19 May 2007	First Business Support Limited	£12,588,000	£7,273,000	Payroll outsourcing and database management
20 July 2007	The Association for Payroll Services	£1,197,000	£664,000	Payroll outsourcing
20 July 2007	Australian Payroll Services	£1,197,000	£884,000	Payroll outsourcing

In addition, the Group purchased the payroll business and customer base from BDO Stoy Hayward for a total consideration, settled in cash, of £1,309,000 (including legal and professional fees), which led to goodwill of £322,000 being recognised. In addition, a reduction of goodwill of £138,000 has been recognised in relation to previous acquisitions.

The book and provisional fair values of the assets of these acquisitions are disclosed in aggregate in the table below.

#### Acquiree's net assets at the acquisition date

	<i>Book value</i> £'000	<i>Fair value adjustments</i> £'000	<i>Provisional fair value</i> £'000
Intangible fixed assets	62	7,670	7,732
Property, plant and equipment	578	(450)	128
Trade and other receivables	2,705	(516)	2,189
Cash and cash equivalents	3,527	-	3,527
Deferred tax liabilities	116	(1,948)	(1,832)
Trade and other payables	(3,801)	(528)	(4,329)
Net identifiable assets and liabilities	3,187	4,228	7,415
Goodwill on acquisition			9,005
Consideration paid, satisfied in cash (including legal and professional fees)			16,420
Cash (net of overdraft acquired)			(3,527)
Net cash outflow			12,893

Fair value adjustments of £4,228,000 principally relate to the capitalisation of acquired intangibles and deferred tax, employee provisions and adjustments to bring in line with Group accounting policies.

Goodwill has arisen on Group acquisitions and represents future economic benefits arising from assets that cannot be identified individually and recognised separately and therefore is measured as a residual. Goodwill includes items such as the value of employees, development costs that cannot be identified separately, technical knowledge and the synergies expected from integrating the businesses into the Group.

#### 5. ONE-OFF ITEMS

During the period, the Group recorded a one-off cost of £4.1m (2006: £nil). A charge of £5.0m was recorded as the cost of integrating ARINSO International NV into the business. This was offset by a credit of £2.0m less costs of £1.1m, being the net position recorded for the Group's ongoing insurance claim following the loss of its head office in December 2005. It is anticipated that the insurance claim net credit will eliminate in the second half of 2008 as the Group continues to incur additional property costs.

## Notes to the report

(continued)

### 6. NET FINANCING COSTS

	2007 £'000	2006 £'000
Interest income - bank and other interest receivable	564	279
<b>Financial income</b>	<b>564</b>	279
Interest expense - bank loans and overdrafts	(13,196)	(6,521)
- finance charges payable under finance leases	(55)	(1)
Net foreign exchange loss	(516)	-
Net pension finance expense	(535)	(355)
<b>Financial expenses</b>	<b>(14,302)</b>	(6,877)
	<b>2007 £'000</b>	<b>2006 £'000</b>
One-off finance expenses – refinancing of loan and hedging arrangement fees	(4,034)	-

During the period the Group renegotiated its banking facility and has recorded a cost of £1.2m (2006: £nil) relating to the write off of legacy loan arrangement fees previously carried forward. The costs (£0.6m) of arranging new cash-flow hedging instruments have also been written off in the period. In addition, an amortisation charge of £2.2m relating to the arrangement fees for the new facility has been recorded in the period. The full arrangement fee (£4.5m) is expected to be fully amortised by April 2008.

### 7. TAX EXPENSE

The tax charge for the six months ended 31 October 2007 has been based on the estimated effective tax rate for the full year of 18% (six months ended 31 October 2006: 27%). This includes an estimated charge of 3% for deferred tax (2006: 3%).

### 8. EARNINGS PER ORDINARY SHARE

Basic and diluted earnings per share are calculated by dividing the profit for the period by the weighted average number of ordinary shares at the end of the period, 569,460,598 (2006: 532,242,949) and the weighted average number of ordinary shares (diluted) at the end of the period, 604,232,883 (2006: 556,779,079) respectively. In order to better demonstrate the performance of the Group, an adjusted earnings per share calculation has been presented which adds back items typically adjusted for by users of the accounts, using adjusted profit for the period. The calculations for basic, diluted, adjusted basic and adjusted diluted earnings per share at the end of the period are presented below.

	2007 £'000	2006 £'000
Profit for the period	400	10,159
One-off restructuring provisions, net of attributable tax	3,164	-
Amortisation of acquired intangibles	7,348	3,767
Option costs	1,813	1,428
Financing expenses – one-off, net of attributable tax	3,429	-
Deferred tax	8	371
<b>Adjusted profit for the period</b>	<b>16,162</b>	15,725
Basic earnings per share (pence)	<b>0.07p</b>	1.91p
Diluted earnings per share (pence)	<b>0.07p</b>	1.83p
Adjusted basic earnings per share (pence)	<b>2.84p</b>	2.96p
Adjusted diluted earnings per share (pence)	<b>2.67p</b>	2.83p

## Notes to the report

(continued)

### 9. SIGNIFICANT BALANCE SHEET MOVEMENTS

Goodwill, other intangible assets, property plant and equipment, trade and other receivables, provisions, taxation, trade and other payables and deferred tax liabilities have all been materially affected by the acquisition of ARINSO International NV during the period (see note 4).

Interest bearing loans and borrowings increased during the period due mainly to a new bank facility being secured (see note 10).

The liability for employee benefits, which relates to the Group's defined benefit schemes reduced by £26.0m to £31.8m. Pension scheme assets grew to £216.0m (2006: £197.0m) due to asset returns and employer contributions. Scheme liabilities fell to £247.8m (2006: £254.8m) as increases in discount rates produced actuarial gains.

### 10. INTEREST BEARING LOANS AND BORROWINGS

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
<b>Non-current liabilities</b>		
Secured bank loans	<b>229,218</b>	103,295
Finance lease liabilities	<b>16</b>	46
	<b>229,234</b>	103,341
<b>Current liabilities</b>		
Secured bank loans	<b>255,814</b>	94,748
Secured loan notes	<b>90</b>	90
Finance lease liabilities	<b>2,052</b>	668
	<b>257,956</b>	95,506

In June 2007, as part of the ARINSO acquisition, the bank facility was renegotiated and now comprises a £275m revolving credit facility and a €332.5m term loan. The Group's bank loans are secured by a cross guarantee and a fixed and floating charge over the assets of the Company and its material subsidiaries. The interest rate applicable to the bank loans is LIBOR or EURIBOR depending on the currency the debt is drawn in, plus a margin. This varies between 0.60% and 1.45%, depending on the business ratio of net debt to EBITDA.

Group bank loans are subject to the following covenant restrictions:

- Ratio of consolidated net borrowings to consolidated EBITDA
- Ratio of consolidated EBITDA to consolidated net interest

All covenants are based on calculations using UK GAAP accounting policies. Failure to meet the covenant restrictions results in all amounts outstanding becoming immediately due and payable. There have been no breaches in covenants in the period or since the inception of the loans.

## Notes to the report

(continued)

### 10. INTEREST BEARING LOANS AND BORROWINGS (continued)

The Group has put in place the following interest-hedging instruments (disclosed at face value) to manage exposure to movements in interest rates over future years:

	<b>Apr-08</b> £'000	<b>Apr-09</b> £'000	<b>Apr-10</b> £'000	<b>Apr-11</b> £'000	<b>Apr-12</b> £'000
<i>GBP – Revolving Credit Facility</i>					
Fixed 4.75%	42,000	-	-	-	-
Fixed 5.83%	100,000	80,000	80,000	-	-
Cap 5.50%, Floor 4.33%	55,000	55,000	55,000	-	-
Cap 6.60%, Floor 5.70%	-	-	-	86,000	64,000
Cap 6.00%, Floor 4.37%	7,000	5,000	4,000	3,000	2,000
<i>Euro – Term Loan</i>					
Fixed 4.31%	213,000	170,000	106,000	-	-
Cap 5.30%, Floor 4.37%	-	-	-	103,000	87,000
	<b>417,000</b>	<b>310,000</b>	<b>245,000</b>	<b>192,000</b>	<b>153,000</b>

### 11. RECONCILIATION TO MOVEMENT IN NET DEBT

Net debt includes cash and cash equivalents, secured bank loans and loan notes and finance liabilities.

	<b>1 May</b> <b>2007</b> £'000	<b>Cash Flow</b> £'000	<b>Acquisitions</b> £'000	<b>Other non-cash</b> <b>changes</b> £'000	<b>31 October</b> <b>2007</b> £'000
Cash and cash equivalents	42,145	4,944	23,830	(82)	<b>70,837</b>
Secured bank loans and loan notes					
- current	(135,553)	(241,981)	(6,047)	127,677	<b>(255,904)</b>
- non-current	(89,877)	-	-	(139,341)	<b>(229,218)</b>
Finance lease liabilities					
- current	(681)	790	-	(2,161)	<b>(2,052)</b>
- non-current	(37)	-	-	21	<b>(16)</b>
	<b>(184,003)</b>	<b>(236,247)</b>	<b>17,783</b>	<b>(13,886)</b>	<b>(416,353)</b>

Non-cash changes comprise write-off of issue costs relating to debt issues, increase in finance lease liabilities, the effect of foreign exchange rate movements on cash and loans held and transfers between categories.

## Notes to the report

(continued)

### 12. STATEMENT OF TOTAL EQUITY

Reconciliation of movement in total equity:

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Translation reserve £'000	Hedging reserve £'000	Retained earnings £'000	Equity shareholders' funds £'000	Minority interest £'000	Total equity £'000
Balance at 1 May 2007	53,675	94,306	68,401	(212)	-	7,518	223,688	94	223,782
Profit for the period	-	-	-	-	-	400	400	29	429
Dividends	-	-	-	-	-	(2,788)	(2,788)	-	(2,788)
Foreign exchange translation differences	-	-	-	865	-	-	865	-	865
Effective portion of changes in fair value on cash-flow hedges	-	-	-	-	(1,144)	-	(1,144)	-	(1,144)
Effective portion of changes in fair value on net investment hedge	-	-	-	-	(24)	-	(24)	-	(24)
Net gain on actuarial valuation of pension liability	-	-	-	-	-	10,485	10,485	-	10,485
Arising on issue of shares	4,569	238	31,401	-	-	-	36,208	-	36,208
Credit in respect of share related awards	-	-	-	-	-	1,093	1,093	-	1,093
Share options exercised in the year	-	-	-	-	-	(271)	(271)	-	(271)
<b>Balance at 31 October 2007</b>	<b>58,244</b>	<b>94,544</b>	<b>99,802</b>	<b>653</b>	<b>(1,168)</b>	<b>16,437</b>	<b>268,512</b>	<b>123</b>	<b>268,635</b>

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Translation reserve £'000	Retained earnings £'000	Equity shareholders' funds £'000	Minority interest £'000	Total equity £'000
Balance at 1 May 2006	53,507	93,085	68,401	63	(14,285)	200,771	-	200,771
Profit for the year	-	-	-	-	10,159	10,159	14	10,173
Dividends	-	-	-	-	(3,204)	(3,204)	-	(3,204)
Foreign exchange translation differences	-	-	-	(275)	-	(275)	-	(275)
Net loss on actuarial valuation of pension liability	-	-	-	-	(4,386)	(4,386)	-	(4,386)
Arising on issue of shares	79	557	-	-	-	636	-	636
Credit in respect of share related awards	-	-	-	-	2,102	2,102	-	2,102
Share options issued in the year	-	-	-	-	(636)	(636)	-	(636)
Minority interest share of acquisition	-	-	-	-	-	-	76	76
Balance at 31 October 2006	53,586	93,642	68,401	(212)	(10,250)	205,167	90	205,257

#### Merger Reserve

The merger reserve results from share-for-share purchases of companies whereby the share premium arising from the transactions is taken to the merger reserve as required under S131 of the Companies Act 1985.

#### Translation Reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the accounts of foreign operations.

#### Hedging Reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow and net investment hedging instruments relating to hedged transactions.

## Notes to the report

(continued)

### 13. ACCOUNTING ESTIMATES AND JUDGEMENTS

The following sets out the key assumptions concerning the future and key sources of estimation and uncertainty at the balance sheet date that may cause material adjustment to the carrying amounts of assets or liabilities within the next financial year.

#### Insurance proceeds

The accounts include a cumulative amount of £59.0m (2006: £44.4m) recognised as compensation following the Buncefield explosion. This is a provisional amount based on what is reliably measurable at 31 October 2007 for the recoverability of impaired assets and costs incurred to date. At 31 October 2007, £40.0m (2006: £30.0m) of insurance proceeds had been received. The net balance of £19.0m (2006: £14.4m) is shown in other receivables.

Land and buildings at our head office next to Buncefield had been impaired in full to reflect the market value following the incident. Land originally valued at £6.5m was written down to £nil in the year-ended 30 April 2006. In the year-ended 30 April 2007, there was a reversal of this impairment of £3.0m. There has been a further reversal of the impairment of £2.0m (2006: £nil) recognised in the current period.

### 14. RELATED PARTY TRANSACTIONS

Related party transactions in the half-year ended 31 October 2007 are limited to compensation for key management. Key management compensation for the financial year ended 30 April 2007 is detailed in the 2007 Annual Report and Accounts.

### 15. SECTION 240 STATEMENT

The comparative figures for the financial year ended 30 April 2007 are not the Company's statutory accounts for that financial year. Those accounts, which have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain statements under section 237(2) or (3) of the Companies Act 1985.

Although the interim accounts are unaudited, the auditors have carried out a review and their report to the Group is set out on page 19 to this statement.

## Independent Review Report to Northgate Information Solutions plc

### Introduction

We have been instructed by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 October 2007 which comprises the condensed consolidated income statement, the condensed consolidated balance sheet, the condensed consolidated statement of recognised income and expense, the condensed consolidated cash flow statement and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

### Directors' responsibilities

The half-yearly financial report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

### Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### Review work performed

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information 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 performed in accordance with International Standards on Auditing (UK and Ireland) 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.

### Review conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 October 2007 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

KPMG Audit Plc  
Chartered Accountants  
London

10 December 2007

## Directors' Responsibility statement

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;
- the interim management report includes a fair review of the information required by:
  - (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

**C M R Stone**  
Director

**J R Stier**  
Director

10 December 2007

## Directors and Advisers

### DIRECTORS

Ron W Mackintosh \* (Chairman)  
 Christopher M R Stone (Chief Executive)  
 John R Stier (Finance Director)  
 Malcolm S Aldis  
 David J Meaden  
 Jos M Sluys

Jack R Fryer \*  
 Sir Stephen J Lander \*  
 J Nicholas Starritt \*  
 David C Hodgson \*  
 Andrew M Robb \*

\* *Non-Executive*

### SECRETARY

John D Richardson

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