

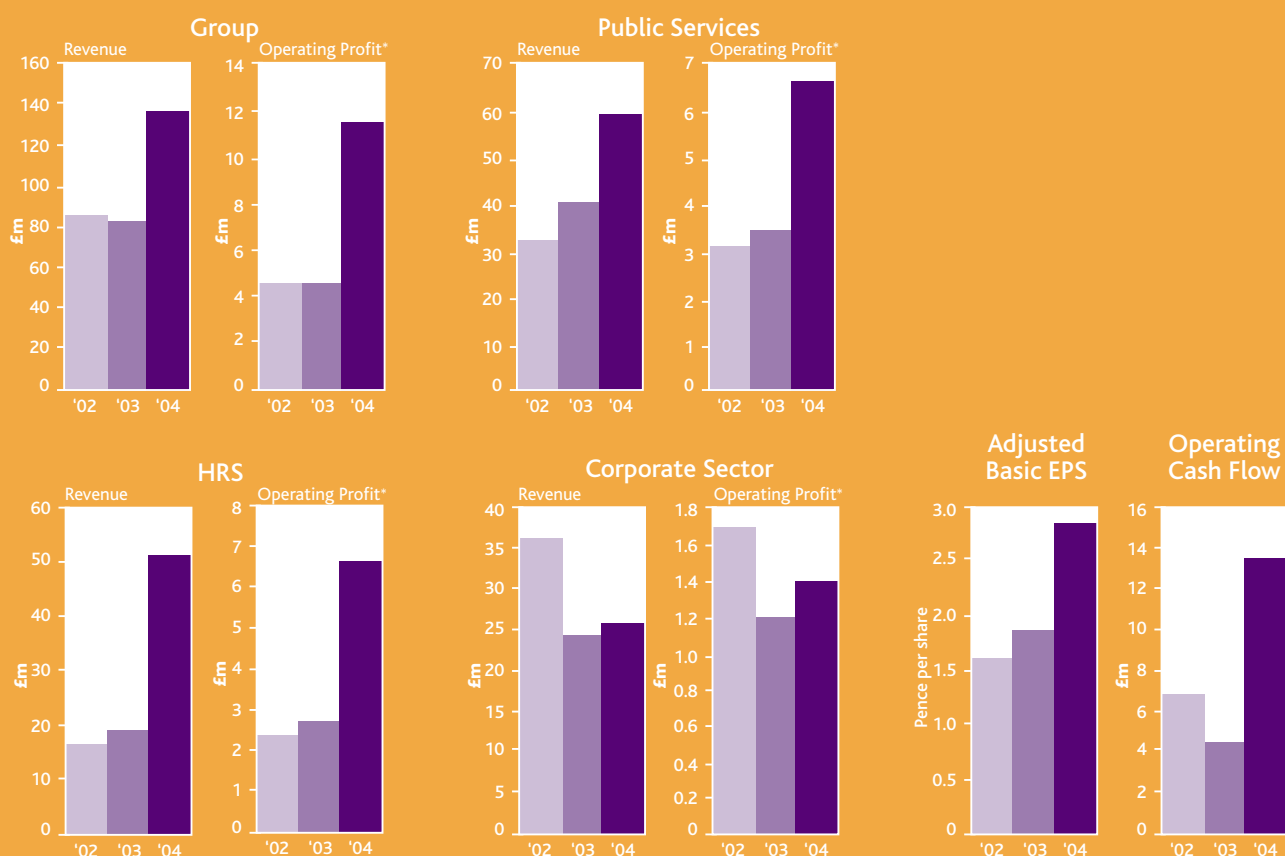


 **northgate**  
INFORMATION SOLUTIONS

Annual Review &  
Summary Financial Statement 2003/2004

*Northgate Information Solutions is a major supplier of software applications and outsourcing solutions to the public sector, human resources and corporate markets and one of the leading suppliers of HR software in the UK. The company works closely with all of the UK's regional police forces, 30% of UK local authorities and with many corporate organisations including more than 50% of FTSE 100 companies.*

## I NORTHGATE INFORMATION SOLUTIONS AT A GLANCE



\* Operating profit is stated before exceptional items and goodwill amortisation

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### **Important Note:**

This Annual Review & Summary Financial Statement does not contain sufficient information to allow an understanding of the results of the Group and state of affairs of the Company or the Group and of their policies and arrangements concerning Directors' remuneration as would be provided by the full Annual Report & Accounts. Members requiring more detailed information have the right to obtain, free of charge, a copy of the Company's last full Annual Report & Accounts.

Members who wish to receive, free of charge, a copy of the full Annual Report & Accounts for the year ended 30 April 2004 or who wish to receive the full Annual Report & Accounts in place of the Annual Review & Summary Financial Statement for all future years should write to the Company's registrars at the address shown on page 21, stating their requirements.

	<b>Year ended 30 April 2004</b>	Year ended 30 April 2003	% increase
<b>Revenue:</b>	<b>£136.5m</b>	£85.2m	+60%
<b>Operating profit:</b>			
<b>From continuing operations, before exceptional items and goodwill amortisation</b>	<b>£11.6m</b>	£4.5m	+158%
Discontinued operations, exceptional items and goodwill amortisation	<b>£(20.1)m</b>	£(5.7)m	
Group operating loss	<b>£(8.5)m</b>	£(1.2)m	
<b>Adjusted basic earnings per share:</b>	<b>2.81p</b>	1.83p	+54%
<b>Basic (loss)/earnings per share:</b>	<b>(2.96)p</b>	10.45p	

- Adjusted basic earnings per share up 54%
- Acquisitions successfully integrated
- Continued improvement of the business mix:
  - Public Services turnover\* up 47%
  - Public Services profit\* up 92%
- Human Resources Systems turnover\* up 173%
- Human Resources Systems profit\* up 157%
- Strong cash generation: £13.7m cash generated from £11.6m EBITA

\* for continuing operations, including acquisitions, before exceptional items and goodwill amortisation



“ This has been a transformational year for Northgate and we are now a leader in our chosen markets ”

### Strong financial performance

This has been a transformational year for Northgate Information Solutions, during which it has achieved very strong results. Since the acquisition of RebusHR in January, Northgate has improved its competitive position and is now a leader in all its chosen markets. Turnover from continuing operations has increased by 64% to £136.5 million (2003: £83.3 million) and trading has been and continues to be strong across the Group.

Operating profit from continuing operations before exceptional items and goodwill amortisation has more than doubled to £11.6 million (2003: £4.5 million) including organic profit of £7.1 million (2003: £4.5 million) and a pleasing first contribution of £4.5 million from the businesses acquired during the year. Removing the effect of exceptional items, profit before tax in 2004 was £4.1 million (2003: £5.7 million). After exceptional items of £14.2 million, net interest charges of £1.7 million and amortisation of goodwill of £5.9 million (2003: £0.3 million), Northgate reported a loss before tax, in line with expectations, of £10.1 million. The prior year profit before tax of £28.1 million was supported by an exceptional profit of £28.5 million relating to the sale of the health business in July 2002.

Net debt has been reduced since the completion of the RebusHR deal from £64.0 million to £57.1 million. This is due to strong trading across the Group and focused working capital management. Exceptional items of £14.2 million include £5.0 million of Employee Share Option Scheme charges and £11.2 million of restructuring costs. The restructuring costs mainly arose through redundancy programmes to integrate acquired businesses into the Group, and the associated rationalisation of the Group's property portfolio.

### Strategic transformation

During the year, Northgate has made several successful acquisitions, in line with its strategy to become a significant player in each of its chosen markets, most recently with the acquisition of RebusHR in January. In the first half of the year, the Group acquired Carapeople, blue8 and Hays CSG, and in November PWA was added. These businesses have now been successfully integrated and have significantly strengthened Northgate's capabilities in the small to medium enterprise (SME) payroll and public safety markets. This combination of products gives the Group an impressive competitive position in its chosen markets. The acquisition of RebusHR has transformed the Human Resources division: the customer base is strengthened and the business has increased in scale. The integration of RebusHR is ahead of schedule and largely complete; the business has also performed better during the integration period than was originally forecast, making a welcome profit contribution before exceptional items and goodwill amortisation of £1.7 million to this financial year.



### Employees

This strong set of results is a reflection of the commitment and hard work of all our employees. Their performance has been particularly impressive given the change the Group has undergone during the year. I would like to thank all our employees personally for their ongoing dedication to the business.

At the Board level, we have been delighted to welcome five new Directors this year: Sir Stephen Lander, Nick Starritt and David Hodgson have joined the Group as Non-Executive Directors; David Meaden and Malcolm Aldis, the current Managing Directors of our Public Services and Human Resources Systems (HRS) divisions, have been appointed to the Board as Executive Directors. I know their experience will be invaluable to Northgate as the business goes forward.

### Outlook

The Group has been focused on ensuring that RebusHR integrates smoothly and this has now been largely completed. As a result, we are now well positioned to deliver on the targets we set ourselves at the time of the acquisition. In addition to this, as the Board continues to seek opportunities to create value for shareholders, it will consider further bolt-on acquisitions when they arise and on a case by case basis. Your Board remains confident that there are significant growth opportunities available to the company in its chosen markets.

The utilisation of resources in the implementation of this growth strategy will deliver substantial shareholder value and, accordingly, the Directors have decided that the payment of a dividend is not appropriate at this time.

### Nick Irens

Chairman  
28 June 2004



“ Northgate can  
now compete for,  
and win, far broader  
contracts ”



### Overview

This year has marked a real step change for the Group and has seen Northgate Information Solutions take a significant step toward realising its strategy to become the leading player in providing software and IT services to the human resources, local government and public safety markets. Northgate has successfully completed its integration of Carapeople, blue8, Hays CSG and PWA, and the integration of RebusHR is well ahead of the Group's original expectations. The Group has now achieved market-leading positions in each of its chosen growth markets.

The increased scale of the business as a whole brings the Group greater visibility. Northgate can now compete for, and win, far broader contracts and it has become the strategic partner of choice for many of its customers. Its enlarged suite of software products brings greater opportunities for delivering value to customers and strengthening its relationship with them. These key partner relationships are particularly important as they give greater insight into future product development opportunities. One example of this is Northgate's work in the emerging area of complex data integration solutions for public sector agencies.

### Public Services

Northgate's Public Services division has shown significant growth throughout the year, with revenues up 47% from £40.8 million to £60.0 million, which includes a 13% increase in turnover at an organic level. Operating profit from existing operations before exceptional items and amortisation of goodwill was £5.1 million (2003: £3.4 million). This represents organic growth of 47%.

Our Front Office solutions product has been a significant growth driver, with 30 new clients won during the year, bringing the total number of Front Office customers to 37. Front Office is a product which Northgate developed: the company identified the market opportunity and made a significant investment to design and build this product. Last year, Northgate won more than 50% of all the contract opportunities in the market, demonstrating the success of its development strategy. Looking ahead, there is a healthy pipeline of contracts for which Northgate is bidding and the outlook for Front Office is excellent. Since the year end, we have achieved preferred supplier status with eight further Local Authorities. The Group is positive about the opportunities for similar progress with the new Assert product which addresses the market need for simplified benefits assessment.

The blue8 and Hays CSG businesses continue to enhance Northgate's leadership position in the criminal justice and public safety sectors, as the product range available positions the Group as a key strategic partner and gives Northgate better traction in maintaining its customer relationships. Northgate has made excellent progress in combining the technologies acquired with blue8 and Hays CSG, which were primarily targeted at the criminal justice sector prior to acquisition, to create improved solutions for its enlarged customer base. This progress is exemplified by recent wins in the area of complex data management for local authorities.

The Home Office's Penalty Notice for Disorder scheme has now been successfully rolled out and implemented with 42 police forces. The strength of the Northgate brand has also increased the number of customers for the NMIS product. Under Hays' ownership, 20 forces committed to using the product over a five-year period. Since Northgate acquired it last August, it has increased the number of contracts to 38.

The corporate sector division, in addition to its stand alone business, continues to add value to other Northgate divisions through the outsourcing expertise it brings to them

### Human Resources

Northgate is now the market leader in the UK HR software sector. Total revenue increased by 173% from £18.9 million to £51.5 million, with revenues growing organically by 19% to £22.5 million (2003: £18.9 million) and the businesses acquired over the past year contributing an additional £29.0 million of turnover. Operating profit before exceptional items and amortisation of goodwill was £6.7 million; of this, underlying organic growth increased by 43% from £2.6 million in 2003 to £3.7 million and Northgate's acquisitions over the period contributed an extra £3.0 million of profit.

The acquisition of RebusHR has transformed the HR division into a business of substantial scale in human resources services and has nearly doubled its total number of customers. It can now compete with global suppliers of enterprise software to even the largest application customers and is well placed to take advantage of opportunities to offer its HR applications and outsourcing services across international markets where the opportunities arise. A number of Northgate's UK-based customers with international operations have asked the Group to provide software into their other markets. In addition, the newly acquired PWA business has a European distributor network to which the Group now has access. Northgate has the most comprehensive range of software and service offerings of any HR focused vendor and is able to address the needs of the smallest up to the largest company, employing from 5 to over 300,000 employees.

Northgate's ResourceLink product continues to consolidate its position as a leading integrated payroll, personnel and pensions administration software product in the UK, winning over 33 new clients over the past year. RebusHR's established product range continues to perform well and ahead of the expectations set for the business at the time of acquisition. The Group won a recent three-year payroll outsourcing contract with Customs and Excise, worth £3.0 million. This contract combined RebusHR's payroll processing capability with the ResourceLink product, demonstrating the combined strength of the enlarged HR business.

### Corporate Sector

Following the completion of our planned withdrawal from low-margin hardware reselling, and the consequent reduction in revenues over the previous two years, our corporate sector division has achieved better than expected revenue growth of 6% during the year. New name business has included a contract to provide Sun support for Cable & Wireless, as a partner with Hewlett Packard.

The division has also continued to reduce costs and to improve profitability, with operating profit before exceptional items and amortisation of goodwill growing by 20% to £1.4 million (2003: £1.2 million). Whilst it is a small player in this market, the business remains profitable and cash generative, and Northgate continues to manage this business to maintain its profitability. In particular, this business continues to add value to the other Northgate divisions through the outsourcing expertise that corporate brings to non-corporate clients, in addition to the corporate sector's stand alone business.

### The Future

I would like to thank our shareholders and customers for their support during a period of change. I would also like to thank all our employees for their dedication and professionalism – this is a very good set of results and they should be proud of what they have achieved.

Northgate developed market-leading positions in its chosen markets in line with its stated strategy. Its acquisition programme has delivered the opportunity to create sustained growth. With strong recurring revenues from the high quality and growing customer list, an exceptionally high client retention rate and generally improving IT market conditions, the Group is well positioned to build the next phase of Northgate's future. Consequently, I am confident that the company will achieve another excellent result in 2005.

The outlook for Northgate is very positive as the Group continues to deliver value to its customers and to create value for its shareholders. Strong levels of growth, both organic and acquisitive, are expected to continue as the Group leverages its leading UK positions in the human resources and public safety markets.

### Chris Stone

Chief Executive  
28 June 2004

### Overview

The year to 30 April 2004 has been a period of transformation and growth for Northgate Information Solutions. During the year we completed 5 acquisitions and continued to enjoy strong growth from the local government, emergency services and human resources markets.

Cash flow has been strong, with the Group generating £13.7 million of cash from an operating profit before exceptional items and amortisation of goodwill of £11.6 million. This has helped to support our acquisition programme.

We have continued to increase the work carried out under long-term contracts, helping to underpin future earnings.

### Operating Results

Group turnover of £136.5 million (2003: £85.2 million) increased by £51.3 million, driven by strong organic growth and acquisitions. Turnover from existing operations grew by £10.3 million to £93.6 million (2003: £83.3 million) through strong demand for our Front Office, Penalty Notice for Disorder and ResourceLink products. Acquisitions contributed a further £42.9 million.

Group operating profit, before exceptional items and goodwill amortisation, of £11.6 million grew by 129% (2003: £5.1 million). Organic revenue growth increased operating profit before exceptional items and goodwill amortisation by 56% to £7.1 million (2003: £4.5 million) whilst acquisitions contributed £4.5 million. 2003 trading was supported by a £0.5 million contribution from our health business which was sold in July 2002. After goodwill amortisation of £5.9 million (2003: £0.3 million) and exceptional items of £14.2 million (2003: £6.0 million), the Group recorded an operating loss of £8.5 million (2003: £1.2 million).

Our order book grew substantially during the year to £185.8 million (2003: £101.5 million). It grew organically by 7.3% to £108.9 million and was boosted by our acquisition programme. At any point in time, our contracted and run rate revenue now underpins over 60% of the Group's income for the following 12 months.

Results by market sector (including acquisitions) were:

- **Public Services** turnover of £60.0 million (2003: £40.8 million) grew 47%, with an accompanying increase in operating profit before exceptional items and goodwill amortisation of £3.2 million to £6.6 million (2003: £3.4 million). Organic growth accounted for £5.4 million of the turnover increase and £1.6 million of the profit increase, primarily driven by demand for our Front Office application and the national roll out of our Penalty Notice for Disorder software to the UK police forces.



There were two acquisitions in the year: Hays CSG was acquired on 8 August 2003 and blue8 was acquired on 16 July 2003 for a total net consideration of £16.0 million. These contributed £13.8 million of turnover and £1.5 million of operating profit before exceptional items and goodwill amortisation.

- **Human Resources** also enjoyed strong organic growth whilst gaining a market leading position from our acquisition programme. Turnover of £51.5 million increased by £32.6 million (2003: £18.9 million) whilst operating profit before exceptional items and goodwill amortisation grew £4.1 million to £6.7 million (2003: £2.6 million).

Organic revenue growth was 19%, increasing turnover to £22.5 million. This increased operating profit before exceptional items and goodwill amortisation by 43% to £3.7 million.

During the year we acquired Carapeople, PWA and RebusHR for a total consideration of £193.2 million. This has allowed the business to develop critical mass and a strong product offering, positioning it well for further growth. HR acquisitions generated £29.0 million of turnover and an operating profit before exceptional items and goodwill amortisation of £3.0 million.

- **Corporate Sector** sales of £25.8 million increased by 6% (2003: £24.3 million), leading to a higher operating profit before exceptional items and goodwill amortisation of £1.4 million (2003: £1.2 million), an increase of 20%. This was generated through demand for IT outsourcing, supported by firm cost management.

### Exceptional Items

An exceptional charge of £14.2 million (2003: £6.0 million) was recorded in the year, predominantly through restructuring businesses acquired (2004: £11.2 million, 2003: £1.2 million). A £5.0 million charge (2003: credit of £0.2 million) was also recorded for our employee share option scheme and reflects a significant change in our share price. This rose by 196% to 68 pence during the year.



“ The Home Office's  
Penalty Notice for Disorder  
scheme has now been  
successfully rolled out  
and implemented with  
42 police forces ”

Finally, a £2.0 million vacant space provision was released. This was recorded in 2003 with our head office at Hemel Hempstead being under utilised. In September 2003 we acquired the property, reducing ongoing rental costs by £2.0 million per annum. We have also substantially improved the Group's occupancy of this property as we have grown.

### Cash and Financing

During the year, the Group experienced strong cash flow from operations, generating £13.7 million. This has been used along with debt facilities and the issue of shares (£122.3 million) to fund our acquisition programme. We invested £210.2 million in acquisitions in the year, the most substantial being RebusHR (£176.1 million). This left the Group with £57.1 million of net debt at 30 April 2004 (2003: net funds £39.3 million).

In December 2003, Northgate put in place an £88.0 million five-year syndicated loan facility. This, combined with our strong cash flow, will provide funds for further growth.

### Accounting Policies

The Group has applied accounting principles in the year to 30 April 2004 consistent with the prior year. No new accounting standards have been adopted.

Northgate will adopt International Financial Reporting Standards (IFRS) with effect from 1 May 2005. The implementation of IFRS is a major change process for which we have established a project team and to which we are dedicating a considerable resource. We expect that the Group will be fully prepared for the transition in 2005, though the implementation plan is dependent upon the completion of the standard-setting process by the International Accounting Standards Board (IASB) and the endorsement of such standards by the Council of the European Union.

The impact of the transition to IFRS on our reported results is being assessed. As we move to the new standards, we will ensure that we maintain transparency in our reporting so that our underlying performance remains visible.

### Taxation (FRS19)

The Group has £33.7 million of UK trading and £52.1 million of UK non-trading losses at 30 April 2004 which will help to support our strong cash flow over the next few years.

The non-trading tax losses arose from the acquisition of RebusHR. A deferred tax asset of £7.1 million (2003: £4.7 million) has been recognised in line with FRS19.

### Pensions

The Group has two defined benefit pension schemes, one of which originates from the RebusHR business acquired in January 2004. Both are now closed to new members.

The Northgate pension scheme had a SSAP24 funding review carried out at 31 March 2002 which showed a deficit of £3.2 million. The RebusHR pension scheme had a SSAP24 funding review carried out during November 2003 which showed a funding shortfall of £18.0 million. The Group is contributing approximately £2.1 million per annum to these deficits.

Applying FRS17 rules to these schemes shows a deficit of £40.3 million after tax at 30 April 2004 (2003: £52.3 million, including the RebusHR scheme as at 23 January 2004). This has declined by 23% during the year through investment performance and Northgate's funding programme. The funding of both schemes is currently deemed reasonable but will remain under review along with the Group's overall pension provision to its employees.

### Risk Management

We have continued to identify and evaluate operational and other risks faced by the Group, implementing changes where required to reduce risk to manageable levels. We believe that this, together with our culture of financial control, underpins the quality of earnings.

### Earnings per Share

Adjusted basic earnings per share, which is calculated on profit before exceptional items, discontinued activities and deferred tax, is 2.81 pence, up 53.6% on the prior year (2003: 1.83 pence). Basic earnings per share, which includes goodwill amortisation and exceptional costs, showed a loss of 2.96 pence. This compares to a profit of 10.45 pence in 2003. 2003 was supported by an exceptional profit of £28.5 million from the disposal of our health business.

### Dividend Policy

The Board has reviewed its dividend policy. The Board does not feel that a dividend would be appropriate at this time.

### Shareholders' Funds

Shareholders' Funds, at 30 April 2004, of £162.1 million show a significant increase over the funds of £46.1 million at 30 April 2003, driven by strong trading and the issue of £122.3 million of shares to fund our acquisition programme.

### John Stier

Group Finance Director  
28 June 2004

ENQUIRIES

“ Our Front Office solutions product has been a significant growth driver, with 30 new clients won during the year ”

### Overview

Northgate Information Solutions is a major supplier of software applications and outsourcing solutions to the public sector, human resources and corporate markets and one of the leading suppliers of HR software in the UK. The company works closely with all of the UK's regional police forces, 30% of UK local authorities and with many corporate organisations including more than 50% of FTSE 100 companies.

The company was originally founded in 1969. Today Northgate employs approximately 2,200 staff and has 2,500 large/medium customers and almost 5,000 small/medium customers across the UK and Ireland. Headquartered in Hemel Hempstead, Northgate has 21 major offices across the UK with six further international offices. Northgate Information Solutions has three divisions focused on the company's core business areas: Human Resources Systems (HRS), Public Services (encompassing both the Local Government and Criminal Justice/Public Safety markets), and Corporate Services.

Northgate's customer centric approach is based on fully understanding application-specific business processes. This enables organisations in both the public and private sectors to increase their business process efficiency when deploying Northgate applications and their associated services or when utilising the company's wide range of high quality IT services. Furthermore, Northgate manages many customers' key systems, providing a broad range of flexible and cost-effective outsourced solutions available either at client sites or hosted at its own BS7799 accredited data centre.

### Market Leading Applications

- Within HRS Northgate's ResourceLink is a highly scaleable, flexible and web-enabled integrated suite of HR, payroll and pension modules. Including business intelligence and workflow functions, it is designed to increase administration efficiencies, improve management information and reduce the total operating costs in HR departments. Our EmpowerHR suite provides an integrated solution for the management of personnel, recruitment and training; whilst its web-based Internet recruitment and Intranet solutions offer advanced e-HR capabilities. When integrated with Easipay, EmpowerHR provides HR professionals with the accurate information required to fully develop value enhancing people strategies.

- Through the use of innovative IT in local government, Northgate is helping local authorities to transform the delivery of public services with Front Office, our market leading and award winning citizen relationship management system and Assert, our new and innovative benefit assessment tool. In criminal justice and public safety, Northgate is also delivering public sector value through our Notice Enforcement Systems and National Management Information System (NMIS) solutions. The London Congestion Charging scheme uses Northgate software to track offenders, as do the majority of police speed cameras across the UK.
- Northgate's ProIV product, a rapid application development tool and Reality, our multi-value database, are proven software solutions that enable Northgate's customers to develop fast, robust, future-proof and cost-effective business applications.

### Outsourcing

Using a wide range of IT skills, Northgate can create a flexible service offering that enables companies to benefit from performance improvements whilst still maintaining or reducing running costs. Northgate is a long-standing supplier of outsourced IT solutions enabling organisations in both the public and private sectors to hand over confidently all or part of their IT requirement to Northgate.

Northgate manages major IT outsourcing contracts with local government, police and corporate clients. We provide hosted applications from our state of the art data centre and manage clients' IT infrastructure and desktop services on site.

For clients in the HR market, Northgate is a leading supplier of payroll outsourcing services which range from a fully managed service to hosting the application. Our client base ranges from FTSE 100 companies right through to SMEs.



**1. Nick Irens, aged 57,  
Non-Executive Chairman \***

Mr Irens joined the Board as Non-Executive Chairman on 7 January 2000. He was previously Chairman of Cannons Group plc. He is a Non-Executive Director of Urbium plc and the Evolution Group plc, and a Director of a number of other unlisted companies.

**4. Malcolm Aldis, aged 50,  
Divisional Managing Director,  
Human Resources Systems Division**

Mr Aldis was promoted to the Board on 27 May 2004. He has been Managing Director of Northgate's Human Resources Systems (HRS) division since 1998 and has overseen the rapid growth of this division and the integration of RebusHR into the Group.

**7. David Hodgson, aged 47,  
Non-Executive Director**

Mr Hodgson was appointed a Non-Executive Director on 27 May 2004. He is a Partner at General Atlantic Partners, the IT investment firm which has an approximately 14% stake in Northgate. He serves as a Director of a number of public and private information technology companies.

**2. Chris Stone, aged 41,  
Chief Executive**

Mr Stone was appointed a Director and Chief Executive on 31 October 1999. He was formerly with Accenture where he was an associate partner. He previously held senior management positions with Digital Equipment Corporation UK and EDS.

**5. David Meaden, aged 42,  
Divisional Managing Director,  
Public Services Division**

Mr Meaden was promoted to the Board on 27 May 2004. He has been Managing Director of Northgate's Public Services division since May 2001, with overall responsibility for Northgate's development in the local government, criminal justice and public safety markets.

**8. Sir Stephen Lander, aged 56,  
Non-Executive Director \***

Sir Stephen was appointed a Non-Executive Director on 29 January 2004. He was previously Director-General of the Security Service from 1996 until 2002. He also sits on the Board of HM Customs & Excise, and is an adviser to Detica Limited and De La Rue Limited.

**3. John Stier, aged 38,  
Group Finance Director and Company  
Secretary**

Mr Stier was promoted to Group Finance Director on 15 May 2003. Prior to joining Northgate, he held senior financial positions with Thames Water plc and Shanks plc.

**6. Jack Fryer, aged 65,  
Non-Executive Director \***

Mr Fryer was appointed a Non-Executive Director on 15 December 1999. He was previously with Marconi, Lucas Industries, Rank Xerox and Rolls Royce. He is also Chairman of Celoxica Limited.

**9. Nick Starritt, aged 50,  
Non-Executive Director \*\***

Mr Starritt was appointed a Non-Executive Director on 27 May 2004. His experience includes four years as the Group Vice-President of Human Resources for BP plc; he was also a Non-Executive Director of RebusHR before its acquisition by Northgate. He is European Managing Director of Sirota Consulting Limited.

\* Member of the Audit Committee, Remuneration Committee and Nomination Committee. \*\* Member of the Remuneration Committee and Nomination Committee

STATEMENT OF THE INDEPENDENT AUDITORS | 13

TO THE MEMBERS OF NORTHGATE INFORMATION SOLUTIONS PLC  
PURSUANT TO SECTION 251 OF THE COMPANIES ACT 1985

We have examined the Summary Financial Statement set out on pages 14 to 18.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

***Respective Responsibilities of Directors and Auditors***

The Directors are responsible for preparing the Annual Review and Summary Financial Statement in accordance with applicable United Kingdom law. Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement within the Annual Review and Summary Financial Statement with the full annual accounts and Directors' Report and the Directors' Remuneration Report, and its compliance with the relevant requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the Annual Review and Summary Financial Statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement.

***Basis of Opinion***

We conducted our work in accordance with Bulletin 1999/6 'The Auditors' Statement on the Summary Financial Statement' issued by the Auditing Practices Board for use in the United Kingdom. Our report on the Group's full annual accounts describes the basis of our audit opinion on those accounts.

***Opinion***

In our opinion the Summary Financial Statement is consistent with the full annual accounts, the Directors' Report and the Directors' Remuneration Report of Northgate Information Solutions Plc for the year ended 30 April 2004 and complies with the applicable requirements of Section 251 of the Companies Act 1985, and the regulations made thereunder.

***KPMG Audit Plc***  
***Chartered Accountants***  
***Registered Auditor***  
***London***  
***28 June 2004***

## 14 | SUMMARY GROUP PROFIT AND LOSS ACCOUNT

for the year ended 30 April 2004

	Notes	Year ended 30 April 2004 £'000	Year ended 30 April 2003 £'000
<b>Turnover</b>			
Existing operations		93,611	83,297
Acquisitions		42,853	-
Continuing operations		136,464	83,297
Discontinued operations		-	1,918
<b>Group turnover</b>	1	<b>136,464</b>	85,215
Operating costs		<b>(144,953)</b>	(86,456)
<b>Operating profit before exceptional items and amortisation of goodwill :</b>			
Continuing operations	1	11,593	4,525
Discontinued operations	1	-	542
		<b>11,593</b>	5,067
Exceptional items	2	<b>(14,166)</b>	(5,995)
Amortisation of goodwill	1	<b>(5,916)</b>	(313)
<b>Group Operating Loss</b>		<b>(8,489)</b>	(1,241)
<b>Existing operations (after goodwill amortisation and exceptional items of £3,972,000 (2003: £6,308,000))</b>			
Existing operations (after goodwill amortisation and exceptional items of £3,972,000 (2003: £6,308,000))		<b>3,106</b>	(1,783)
Acquisitions (after goodwill amortisation and exceptional items of £16,110,000)		<b>(11,595)</b>	-
Continuing operations		<b>(8,489)</b>	(1,783)
Discontinued operations		-	542
Operating loss		<b>(8,489)</b>	(1,241)
Share of operating profit of associates		<b>59</b>	-
Group operating loss, including associates		<b>(8,430)</b>	(1,241)
Profit on sale or termination of operations			
- Discontinued operations		-	28,451
<b>(Loss)/Profit on ordinary activities before interest</b>		<b>(8,430)</b>	27,210
Interest receivable		<b>295</b>	1,227
Interest payable and similar charges		<b>(1,951)</b>	(328)
<b>(Loss)/Profit on ordinary activities before taxation</b>		<b>(10,086)</b>	28,109
Taxation (charge)/credit on profit on ordinary activities		<b>(7)</b>	1,637
<b>Retained (loss)/profit for the financial year</b>		<b>(10,093)</b>	29,746
<b>(LOSS)/EARNINGS PER ORDINARY SHARE</b>			
Basic		<b>(2.96)p</b>	10.45p
Diluted		<b>(2.86)p</b>	10.33p
Adjusted basic		<b>2.81p</b>	1.83p
Adjusted diluted		<b>2.71p</b>	1.81p

Directors' total emoluments for the year ended 30 April 2004 were £1,013,000 (2003: £905,000).

	<i>Notes</i>	<b>Group 30 April 2004 £'000</b>	<i>Group 30 April 2003 £'000</i>
<b>Fixed assets</b>			
Intangible assets		<b>231,727</b>	6,788
Tangible assets		<b>29,446</b>	5,032
Investments in associate		<b>1,093</b>	-
Other investments		<b>1,020</b>	1,098
		<b>263,286</b>	12,918
<b>Current assets</b>			
Stocks - goods for resale		<b>353</b>	424
Debtors		<b>68,546</b>	34,092
Cash at bank and in hand		<b>2,447</b>	39,377
		<b>71,346</b>	73,893
<b>Creditors: amounts falling due within one year</b>		<b>(68,160)</b>	(11,077)
<b>Net current assets</b>		<b>3,186</b>	62,816
<b>Total assets less current liabilities</b>		<b>266,472</b>	75,734
<b>Creditors: amounts falling due after more than one year</b>		<b>(14,183)</b>	(48)
<b>Provisions for liabilities and charges</b>	3	<b>(29,923)</b>	(6,792)
<b>Accruals and deferred income</b>		<b>(60,294)</b>	(22,818)
<b>Net assets</b>		<b>162,072</b>	46,076
<b>Shareholders' funds – equity</b>		<b>162,072</b>	46,076

The Auditors' report on the Annual Report & Accounts was unqualified and did not contain any statement under s237(2) or s237(3) of the Companies Act 1985.

Approved by the Board of Directors on 28 June 2004 and signed on its behalf by

**C M R Stone**

Director

**J R Stier**

Director

## 1. TURNOVER AND SEGMENTAL ANALYSIS

Turnover represents the amounts derived from the provision of goods and services to third party customers stated net of value added tax, and includes interest arising on sales of equipment and software licenses on deferred payment terms.

### Turnover and operating profit

#### By market sector:

	Year ended 30 April 2004		Year ended 30 April 2003	
	Turnover	Operating profit/(loss)*	Turnover	Operating profit/(loss)*
	£'000	£'000	£'000	£'000
Existing operations:				
Public Services	46,193	5,057	40,816	3,445
Human Resources	22,468	3,707	18,889	2,597
Corporate Sector	25,801	1,401	24,310	1,170
Acquisitions:				
Public Services	13,809	1,544	-	-
Human Resources	29,044	2,971	-	-
Less: intersegment turnover	(851)	-	(718)	-
Administration costs	-	(3,087)	-	(2,687)
Continuing operations	136,464	11,593	83,297	4,525
Discontinued operations	-	-	1,918	542
	136,464	11,593	85,215	5,067

\* Operating profit/(loss) is stated before exceptional items and goodwill amortisation.

	Year ended 30 April 2004	Year ended 30 April 2003
	Profit/(Loss)	Profit/(Loss)
	£'000	£'000
<b>Amortisation of goodwill</b>		
Existing operations:		
Human Resources	(583)	(296)
Corporate Sector	(69)	(17)
Acquisitions:		
Human Resources	(3,927)	-
Public Services	(1,337)	-
	(5,916)	(313)

### Operating exceptional items

Existing operations:			
Administration	Share Option Scheme	(4,993)	246
	Abortive contract costs	-	(450)
	Property and other provisions	1,971	(4,610)
Reorganisation costs		(298)	(1,181)
Acquisitions:			
Public Services	Reorganisation costs	(794)	-
Human Resources	Reorganisation costs	(7,222)	-
	Property and other provisions	(2,830)	-
		(14,166)	(5,995)

### Profit on sale or termination of operations

Discontinued operations	Sale of health business	-	28,451
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**1. TURNOVER AND SEGMENTAL ANALYSIS** *(continued)*

By geographic origin:		Year ended 30 April 2004		Year ended 30 April 2003	
		Turnover £'000	Operating profit/(loss)* £'000	Turnover £'000	Operating profit/(loss)* £'000
Continuing operations (including acquisitions):					
	United Kingdom	130,532	9,693	80,153	3,687
	Rest of Europe	2,772	579	-	-
	North America	2,629	1,333	3,144	838
	Other	531	(12)	-	-
		136,464	11,593	83,297	4,525
Discontinued operations	United Kingdom	-	-	1,918	542
		136,464	11,593	85,215	5,067

\* The geographic analysis of operating profit is shown before exceptional items and goodwill amortisation. Turnover analysed by geographic destination is not materially different from that analysed by geographic origin.

		Year ended 30 April 2004	Year ended 30 April 2003
		Profit/(Loss) £'000	Profit/(Loss) £'000
<b>Amortisation of goodwill</b>			
Continuing operations (including acquisitions)			
	United Kingdom	(5,360)	(313)
	Rest of Europe	(556)	-
		(5,916)	(313)
<b>Operating exceptional items</b>			
Continuing operations (including acquisitions)			
	United Kingdom	(13,625)	(5,976)
	Rest of Europe	(334)	-
	North America	(207)	(19)
		(14,166)	(5,995)
<b>Profit on sale or termination of operations</b>			
Discontinued operations	United Kingdom	-	28,451

## 2. EXCEPTIONAL ITEMS

Exceptional (charges)/income recognised in operating costs comprise the following:

	<b>Year ended 30 April 2004 £'000</b>	<i>Year ended 30 April 2003 £'000</i>
Continuing operations:		
Other operating charges		
- reorganisation costs	<b>(8,314)</b>	(1,181)
- abortive contract costs	-	(450)
- property and other costs	<b>(859)</b>	(4,610)
Wages and salaries		
- provision for NI contribution on unapproved share option scheme	<b>(1,266)</b>	34
- UITF17 provision for discount on share options	<b>(3,727)</b>	212
	<b>(14,166)</b>	(5,995)

The tax effect of the exceptional items primarily augments the Group's available tax losses, which will be relieved in subsequent periods.

During the year, the Group granted a number of share options under the Executive Share Option Scheme 1999 to certain employees at the market value of the Company's shares at the date of grant. These shares are exercisable between three and ten years from the date of the grant. Exercise of a proportion of these shares is subject to share price performance criteria.

Discounts on options granted under the Group's Savings Related Share Option Scheme do not attract a profit and loss charge as permitted by UITF17. The Group has provided for the expected National Insurance liability arising on its unapproved 1999 Scheme. It is estimated that, if the share price were to increase by 10%, this would lead to a £204,000 increase, being £200,000 in relation to the increase in share price and £4,000 due to additional share options becoming eligible for exercise. Similarly, if the share price were to decrease by 10%, this would lead to a £200,000 reduction in the provision, being £200,000 in relation to the decrease in the share price and £nil due to share options becoming no longer eligible for exercise.

## 3. PROVISIONS FOR LIABILITIES AND CHARGES

	<i>Pensions and similar obligations £'000</i>	<i>Property provisions £'000</i>	<i>Restructuring provisions £'000</i>	<i>Provisions on share schemes £'000</i>	<i>Total £'000</i>
<b>Group</b>					
At 1 May 2003	-	6,571	202	19	6,792
Acquisitions	18,000	512	-	-	18,512
Profit and loss account	-	859	8,531	1,266	10,656
Utilised in period	(187)	(789)	(5,046)	(15)	(6,037)
<b>At 30 April 2004</b>	<b>17,813</b>	<b>7,153</b>	<b>3,687</b>	<b>1,270</b>	<b>29,923</b>

The Group has recognised a net property provision of £859,000 during the year to 30 April 2004 (2003: £4,361,000), primarily in relation to net lease payments that the Group is committed to make over remaining lease terms in relation to certain properties no longer fully occupied by the Group. With the acquisitions completed in the year the Group has inherited a number of vacant and partly sub-let leasehold properties. Provision has been made for the residual lease commitment, together with other outgoings, after taking into account existing sub-tenant arrangements.

The Group has, in accordance with FRS7, recognised a provision of £18,000,000 representing the deficit in the Northgate HR Limited pension scheme as a fair value adjustment on acquisition. This provision is expected to unwind over the average remaining service lives of the members of the scheme.

In addition, the Group has made provision for the expected costs of rationalisation of the Group's operations following the acquisitions made during the year. These costs are expected to be payable in the forthcoming year.

## Introduction

This summary report is made by the Board on the recommendation of the Remuneration Committee, to whom the Board has formally delegated its authority to establish policy in respect of all terms of employment for the Executive Directors and in accordance with Sch.7(A) of the Companies Act 1985 as amended by the Directors' Remuneration Report Regulations 2002.

The Remuneration Committee, which is chaired by J R Fryer, comprises J R Fryer, N J Irens, N Starritt and Sir Stephen Lander, who are all independent Non-Executive Directors. It is responsible on behalf of the Board as a whole for determining the contract terms, remuneration and other benefits, including performance-related bonus schemes and share option schemes, for the Executive Directors. D Knight, Human Resources Director, provides advice and information to the Committee when required. In addition, Messrs. Linklaters provided advice during the year in respect of performance criteria for share options, having been appointed by the Board. The remuneration of Non-Executive Directors is fixed by the Board. Directors do not participate in decisions regarding their own remuneration.

The Remuneration Committee is consulted in accordance with Section B2 of the Combined Code published by the Hampel Committee. The Remuneration Committee met four times during the year.

## Remuneration policy

### Objectives

The objectives of the remuneration policy for Executive Directors are:

- the total remuneration package should be competitive to attract, motivate and retain Directors of a high calibre;
- remuneration should use a combination of performance driven cash and equity-based rewards in addition to base salary and benefits; and
- the performance driven rewards should potentially form a significant portion of total rewards, to motivate the highest performance and align the interests of the Executives with those of the shareholders.

The remuneration of Executive Directors is set by reference to the market after giving full consideration to Section B of the Combined Code. The overall remuneration package can consist of a base salary, annual bonus, pension rights, share options and car, medical and life assurance benefits. It is the policy of the Committee to review the remuneration package offered to the Directors on an ongoing basis and make recommendations for changes where it is considered appropriate. Performance-related pay represents a significant proportion of the total remuneration package. The fees of the Non-Executive Directors are set in line with market rates.

### Base Salary

In setting the base salary for the Executive Directors, the Remuneration Committee reviews relevant market data and considers the Director's experience, performance and responsibilities both internally and in comparison to similar companies in the IT sector. Each of the Director's base salary is generally reviewed on an annual basis or following a significant change in responsibilities.

### Annual Bonus

Bonuses are determined by reference to base salary, the achievement of the annual operating plan agreed by the full Board each year and the successful completion of specific corporate objectives. It is the policy of the Committee to keep under review the objectives set and the proportions of base salary payable.

Bonuses are not pensionable. The Non-Executive Directors are not entitled to a cash bonus.

### Pension and other benefits

The Executive Directors of Northgate Information Solutions plc are entitled to become members of the Group's pension scheme or to have comparable pension contributions made to a personal pension scheme on their behalf. No pension contributions are made on behalf of the Non-Executive Directors.

Other benefits provided consist of a car or allowance towards vehicle running costs and medical/life assurance benefits. Pension and other benefits provided are subject to regular review by the Company to ensure that they remain attractive and competitive.

### Share Options

Share options are granted on the recommendation of the Committee and are ratified by the Board on a discretionary basis. Under the terms of the 1999 Executive Share Option Scheme, options are awarded to Executive Directors, based on the market price at the time of grant. These options can normally be exercised between the third and tenth anniversaries of the date of grant, subject to the achievement of certain performance conditions.

It is the policy of the Remuneration Committee to consider and approve performance conditions for each eligible employee on an individual basis, taking into account the employee's specific job responsibilities and objectives, together with market and other conditions at the time the award is made. Consistent with Shareholder Approval given on 23 November 1999, exercise of a proportion of the options awarded to eligible employees is not necessarily subject to share price performance conditions. Exercise of the remaining proportion of the options is generally subject to stepped performance conditions, increasing potential reward in line with performance.

In line with best practice and guidelines, the Remuneration Committee agreed that, as from 15 December 2003, all options issued will have performance criteria set. After detailed benchmarking and consultation with the Company's advisers, these are currently being set at total shareholder return of RPI plus 8% p.a. over a three-year vesting period. If shareholders get a return less than this over the period then options will lapse. The Group views this as challenging criteria to help align employee and shareholder interests.

ABI guidelines and best practice suggests that a company should be able to issue options up to 10% of its share capital. The Northgate scheme was put in place in 1999 when the Group was in serious financial difficulties and needed to attract high quality management. With the approval of shareholders at the time, the Group secured the services of C M R Stone, the current Chief Executive. Mr Stone was awarded approximately 17 million options at a time when the option scheme did not require performance criteria to be set for all options. This issue in turn led the Company to acquire shareholder approval to issue options up to 15% of its share capital, thereby permitting a number of other senior managers to be incentivised over the medium term. This is seen as being integral to the substantial growth in profitability and share price since 1999.

The mechanics of the option scheme are such that, when options are exercised, the Company issues shares to the value of any gain made rather than issue the number of shares over which options are held. This reduces any dilution of earnings to well below 15%. For example, if 1,000 options are granted at 35p and subsequently exercised at a share price of 70p, 500 shares would be issued rather than 1,000, as below:

$$\frac{(35p \times 1,000)}{70p} \text{ this equates to only 50\% of the options issued.}$$

The Directors have calculated that, if all of the 51,346,244 options in issue at 30 April 2004 were capable of exercise, and had been exercised at that date when the Company's share price was 68 pence, a total of 29,929,947 shares would have been issued as a result. This would mean that the Company's issued share capital at that date would have been increased by 4.4 per cent.

All of the Executive Directors may participate in the Savings Related Share Option Scheme. This scheme is an all-employee scheme, for which performance conditions do not apply.

### Service Contracts

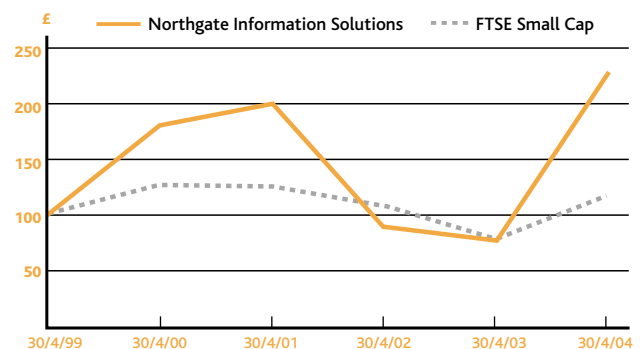
For Executive Directors, it is the policy of the Company that service contracts do not have notice periods by the Company in excess of one year, and by the Executive Director in excess of six months. The contracts are ongoing with no fixed termination date. On early termination, the Company is entitled to make payments to the Executive Director of sums equal to the value of his salary and other benefits in lieu of the required period of notice.

The letters of appointment for the Non-Executive Directors do not have notice periods exceeding six months by either party. They are normally for an initial term of three years and are renewable for three year periods thereafter. The letters of appointment do not contain provisions in relation to payments on early termination.

All Directors are subject to re-election every three years.

### Total Shareholder Return

This graph demonstrates Northgate's Total Shareholder Return ("TSR") in relation to the FTSE Small Cap index. TSR performance is being measured against the FTSE Small Cap index as the Company considers that this group represents the most appropriate peer group against which to measure the Company's performance. The appropriateness of this comparison will be reviewed on a regular basis.



The Directors submit their Summary Directors' Report and Summary Financial Statement of Northgate Information Solutions plc for the year ended 30 April 2004.

#### **Results and Dividends**

Results for the year are shown in the Group Finance Director's Review on pages 7 to 10.

No interim dividend (2003: £nil) was paid during the year. The Directors do not recommend the payment of a final dividend (2003: £nil).

#### **Principal Activity and Review of Business Developments**

The principal activity of the Group is the development and supply of software and related services. This comprises application software including hardware and associated installation and maintenance services, facilities management and software support, together with the development and supply of applications development tools.

A review of the operations of the Group is included in the Chairman's Statement, Chief Executive's Review and Group Finance Director's Review on pages 2 to 10.

#### **Directors**

The Directors of the Company at the date of this report are those listed on page 12.

- G J Bicknell resigned as a Director on 15 May 2003.
- J R Stier was appointed as a Director on 15 May 2003.
- Dr D Hine resigned as a Non-Executive Director on 25 September 2003 and was appointed as a Non-Executive Director on 9 December 2003.
- Sir Stephen Lander was appointed as a Non-Executive Director on 29 January 2004.
- Dr D Hine resigned as a Non-Executive Director on 29 January 2004.
- M S Aldis and D J Meaden were appointed as Directors on 27 May 2004.
- J N Starritt and J Hodgson were appointed as Non-Executive Directors on 27 May 2004.

#### **J R Stier**

Secretary  
28 June 2004

## FINANCIAL CALENDAR |

**30 September 2004**  
**31 October 2004**  
**December 2004**  
**30 April 2005**

**Annual General Meeting**  
**Half year end**  
**Half year results announced**  
**Financial year end**

## INVESTOR INFORMATION |

### **REGISTRAR**

Enquiries about the following administrative matters relating to the holding of Northgate Information Solutions plc shares should be addressed to the Company's registrars at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 7NH, telephone 0870 702 0000:

- dividend payment enquiries
- loss of share certificates/dividend warrants/tax vouchers
- notification of change of address
- transfer of shares to another person

### **AMALGAMATION OF ACCOUNTS**

Shareholders who receive duplicate sets of Company mailings as a result of having more than one shareholder account in their name should write to Computershare Investor Services PLC at the above address to have their accounts amalgamated.

### **ANNUAL REPORT ON THE INTERNET**

The 2003/2004 financial results are available at [www.northgate-is.com](http://www.northgate-is.com)

### **SHAREHOLDER INFORMATION ON THE INTERNET**

Computershare Investor Services PLC, the Company's registrars, has introduced a facility where shareholders are able to access details of their shareholding over the internet subject to passing of an identity check. You can access this service by selecting the investor relations page on our website at [www.northgate-is.com](http://www.northgate-is.com). The site also includes information on electronic proxy voting and recent trends in the Company's share price.

