

Interim Report & Accounts 2002

company profile

Overview

Northgate Information Solutions is a leading supplier of applications and outsourcing solutions to the public sector, human resources (HR) and corporate markets, with over 1,000 clients and 30 years' experience. Headquartered in Hemel Hempstead, Northgate has over 1,000 staff operating throughout the UK and in California, USA. It focuses on developing software for application-specific processes, enabling organisations to increase their business process efficiency. Northgate manages clients' key systems, providing a broad range of outsourced solutions – available at client sites or hosted at its own secure data centre.

Market Leading Applications

Northgate's strategy is to build a strong business based on its own applications. All the applications are designed and built to deliver functionality that allows customers to transact their business more efficiently.

In the local government market, our Front Office application leads the way for implementing e-Government. Northgate's ResourceLink is one of the most highly functional HR, payroll, personnel and pensions administration software products in the UK and it is actively being developed. Within the police sector and enforcement market, we continue to find new markets for our successful Vehicle Procedures software.

Outsourcing

Northgate's outsourcing solutions help reduce the cost of IT ownership, managed under service level agreements structured to provide improved service within the defined budget. When the service is provided in conjunction with Northgate's own software, significant process improvements can be achieved which deliver additional client value. Northgate offers its clients a greater breadth and depth of IT skills and resources, in addition to actively developing staff taken on through the TUPE process, creating a culture of continuous improvement in IT performance.

Northgate has over 30 years' experience in the delivery and management of key systems, which focus on performance improvement, rather than simply cost reduction, encompassing:

- *Full outsourcing of the IT department – enabling management to focus on core business issues whilst maintaining control over IT at a known cost*
- *Single outsourcing services around the desktop, network, data centre or application management, aimed at improving performance and offering access to new skills or technology*
- *Integration of the application and the outsource solution.*

Business Process Outsourcing

Northgate focuses on adding value to IT-intensive processes. We already provide IT outsourcing, and in the HR market we deliver recruitment outsourcing and payroll outsourcing services. It is our intention to develop our service offering into full Business Process Outsourcing (BPO).

Future development

To date, the local government and corporate markets have embraced the trend towards outsourcing and Northgate is actively pursuing opportunities in these areas. In the HR market, Northgate is well positioned to benefit as the market evolves from the current outsourcing of single functions, e.g. payroll outsourcing, to complete BPO. Similarly, we expect to benefit from the growth opportunities in outsourcing within the police market as the benefits to other public services are realised.



Highlights

- **Operating profit from continuing operations, before exceptional items, up from £0.1 million to £1.1 million**
- **Pre-tax profit £29.8 million, including profit on disposal of health business (2001: £4.1 million)**
- **Adjusted basic earnings per share up to 0.42p (2001: 0.08p)**
- **Positive cash flow, excluding health business disposal, £1.8 million**
- **£45.1 million in cash and liquid assets**

Overview

I am pleased to report creditable results from the Group, following its return to profitability in 2001. During a period where we achieved the successful divestment of our health business, the performance of our remaining business endorses the strategy of focusing on selected market segments where we can build leading positions. The acquisition of Prolog Business Solutions in November augments our HR applications and outsourcing capability and is consistent with this strategy.

As expected, following the decision to reduce exposure to the low margin reselling of third party products, turnover in the six months for continuing operations of £39.6 million is down from £40.5 million.

Pre-exceptional operating profit of £1.7 million is up from £1.3 million with continuing business improved to £1.1 million from £0.1 million, reflecting the tight focus on cost control and resulting improvement in margins. Post exceptional operating profit is down to £1.4 million from £4.0 million, primarily as a result of our accounting treatment of the employee share option scheme, which is a non-cash item.

During the period we sold the health business. As was said at the time, our decision to dispose of this business was driven by the realisation that we would not be able to grow it to a market leadership position without considerable investment. The fundamentals of this business were strong and this was reflected in the price that we achieved in the sale. I would like to take this opportunity to thank the employees of our health business and wish them well at their new company.

We finished the period with £45.1 million of cash and liquid investments, up from £11.9 million at the full year and from £9.8 million at the same time last year. Cash inflow, before the disposal of the health business, was £1.8 million. The balance was made up from the sale of the health business, net of transaction costs.

As a result of the disposal of the health business we have further strengthened our balance sheet. This positions us well for the future and will allow us to fund strategic acquisitions where we find appropriate companies which are reasonably priced and that will fit well with the stated Group strategy.

In light of our aggressive acquisition strategy, the Directors have decided that a dividend would not be appropriate at present.

Nick Irens
Chairman
10 December 2002



Our client base remains strong and despite the difficult corporate climate we have significantly improved our performance during the period. We have made good progress with our strategic goals to grow our applications led solutions business in the Local Government, Police and HR markets. The improvement in margins reflects our tight control on costs, as we have reacted rapidly to market conditions.

Public Sector

Northgate's public sector revenues for continuing operations grew by over 29% compared with the same period last year. The public sector offers us substantial growth opportunities. Our proprietary 'Front Office' software helps our local authority clients to achieve their targets of improved service delivery to citizens, as set out under the e-government initiative by Central Government. In June, with Northgate's help, Halton Borough Council was presented with the Government Computing award for the 'project that has done most to advance e-government'. We continue to grow our IT outsourcing business within the local government sector and we are pleased that the London Borough of Camden is outsourcing the management of a new benefits system to Northgate.

Our Penalty Notice enforcement software continues to support police forces in traffic management and we have been able to create new applications for this technology, including working in partnership to provide the software and administration services for the London Congestion Charging Scheme. We are also the software provider for the Home Office's trial of the Penalty Notice for Disorder scheme. This, together with our new Single View Policing product, gives us good growth prospects in a market where we believe we can achieve a leading position.

The ratification process for the Dacorum Borough Council contract is taking longer than expected, although negotiations on price and service levels are substantially completed.

Human Resource Systems

Our revenues have grown organically within the HR market, increasing by 8% compared with the same period last year. We have a strong and established base of over 300 clients for our Human Resources software and have seen particular demand for ResourceLink which provides fully integrated and web-enabled Personnel, Payroll and HR solutions. We have also made good progress within our HR outsource

offering including recent agreements with Bourne Leisure and Société Générale.

Our acquisition of Prolog Business Solutions, which operates in both the software and outsource services sectors of this market, is an excellent fit with our existing business, adding scale and helping us build towards a leadership position in this market.

Corporate sector

The corporate market remains challenging, with a continued reduction in IT expenditure in all sectors. However, by concentrating on core competency, we have been able to trade profitably in this market. We believe that there is still significant potential for Northgate in this area as we further refine our strategy. I am also pleased to announce the launch of version 5.5 of our ProIV rapid application development tool.

Outlook

The outlook for the full year result remains dependent on the successful negotiation of public sector business contracts that typically fall in the second half of the year. The group is currently well advanced on a number of these contracts and Northgate's current trading is broadly in line with management expectations.

Northgate continues to make real progress in its business, retaining a tight focus on markets in which we can develop leadership positions whilst maintaining strong controls on costs. We are firmly committed to delivering solutions that create significant value for our clients and, looking ahead, expect to continue to build on the progress in the first half of 2002.

Chris Stone
Chief Executive
10 December 2002

consolidated profit and loss account (unaudited)

	<i>6 months ended</i> 31 October 2002 <i>£000</i>	<i>6 months ended</i> 31 October 2001 <i>£000</i>
Turnover		
Continuing operations	39,616	40,493
Discontinued operations	1,918	4,135
Group turnover	41,534	44,628
Operating costs (including exceptional items)	(40,161)	(40,669)
Operating profit		
Continuing operations before exceptional items	1,112	91
Discontinued operations before exceptional items	542	1,221
Group operating profit before exceptional items	1,654	1,312
Exceptional items (Note 3)	(281)	2,647
Group operating profit	1,373	3,959
Profit on sale of operations (Note 4)	28,114	-
Interest receivable	546	155
Interest payable and similar charges	(226)	(12)
Profit on ordinary activities before taxation	29,807	4,102
Taxation on profit on ordinary activities (Note 4)	(3,460)	-
Retained profit for the financial period	26,347	4,102
Earnings per ordinary share (Note 5)		
- basic	9.27p	1.45p
- diluted	8.99p	1.39p
- adjusted basic	0.42p	0.08p *
- adjusted diluted	0.41p	0.08p *

* The comparative figures for adjusted basic and adjusted diluted earnings per share have been restated to reflect discontinued activities

consolidated balance sheet (unaudited)

	31 October 2002	<i>Audited</i> 30 April 2002	31 October 2001
	£000	£000	£000
Fixed assets			
Intangible assets	1,959	2,395	1,886
Tangible assets	4,264	4,161	4,285
Investments	1,137	1,156	1,156
	7,360	7,712	7,327
Current assets			
Stocks	386	755	1,010
Debtors - due within one year	19,657	26,048	22,072
- due after one year	6,036	7,905	8,830
Investments (Note 6)	20,085	-	-
Cash at bank and in hand	25,051	11,887	9,777
	71,215	46,595	41,689
Creditors: amounts falling due within one year	(32,420)	(33,443)	(31,013)
Net current assets	38,795	13,152	10,676
Total assets less current liabilities	46,155	20,864	18,003
Creditors: amounts falling due after more than one year	(292)	(690)	(823)
Provisions for liabilities and charges	(2,981)	(3,822)	(5,075)
Net assets	42,882	16,352	12,105
Capital and reserves			
Called up share capital	28,708	28,643	28,611
Share premium account	38,114	38,024	37,919
Merger reserve	162	162	162
Shares to be issued	-	200	200
Profit and loss account	(24,102)	(50,677)	(54,787)
Shareholders' funds – equity	42,882	16,352	12,105

cash flow statement (unaudited)

	<i>6 months ended</i> 31 October 2002 <i>£000</i>	<i>6 months ended</i> 31 October 2001 <i>£000</i>
Operating Profit	1,373	3,959
Depreciation and Amortisation	1,371	1,050
Decrease in provisions	(854)	(1,106)
Exceptional operating items	81	(3,262)
Decrease in debtors	3,164	5,872
Decrease in stocks	367	893
Decrease in creditors	(2,139)	(4,212)
Net cash inflow from Operating Activities	3,363	3,194
Returns on investments and servicing of finance	432	143
Taxation	-	(200)
Capital expenditure	(1,619)	(1,705)
Acquisitions and disposals	31,451	-
	33,627	1,432
Financing	(381)	233
Increase in cash and cash equivalents	33,246	1,665

The tax paid in the period to 31 October 2001 primarily relates to overseas taxation.

statement of total recognised gains and losses and movements in shareholders' funds (unaudited)

	<i>6 months ended</i> 31 October 2002 <i>£000</i>	<i>6 months ended</i> 31 October 2001 <i>£000</i>
Profit for the financial period	26,347	4,102
Currency translation differences	183	28
Total recognised gains and losses for the period	26,530	4,130
Credit / (Charge) in respect of share related award charges	44	(1,150)
New share capital subscribed (net of expenses)	156	433
Reduction in shares to be issued	(200)	-
Increase in Shareholders' funds	26,530	3,413
Opening Shareholders' funds	16,352	8,692
Closing Shareholders' funds	42,882	12,105

notes to the report

1. Interim Report

The information given here does not constitute statutory accounts within the meaning of section 235 of the Companies Act 1985. Statutory accounts in respect of the year ended 30 April 2002 have been reported on by the Company's auditors and delivered to the Registrar of Companies. The audit report thereon did not contain a qualified audit opinion under section 237 (2) or (3) of the Companies Act 1985. The results for the six months to 31 October 2002 have been prepared using the same accounting policies as were used in the preparation of the Annual Report for the year ended 30 April 2002.

The interim report will be sent to shareholders and copies will be available to the public at the registered office of the Company at Boundary Way, Hemel Hempstead, Hertfordshire HP2 7HU.

This interim financial information was approved by the Board of Directors on 10 December 2002.

2. Segmental Analysis

	Turnover		Operating Profit/(Loss)	
	6 months ended 31 October 2002 £000	6 months ended 31 October 2001 £000	6 months ended 31 October 2002 £000	6 months ended 31 October 2001 £000
Public Sector	19,526	15,088	315	(49)
Human Resources Systems	8,169	7,573	554	573
Corporate	11,921	17,832	243	(433)
Continuing Operations	39,616	40,493	1,112	91
Discontinued operations	1,918	4,135	542	1,221
Total	41,534	44,628	1,654	1,312
Operating profit - before exceptional items			1,654	1,312
Exceptional items			(281)	2,647
Profit on ordinary activities before interest			1,373	3,959

In the above analysis all central overheads have been allocated to continuing operations. This results in approximately £1.4m of central overheads being reallocated from discontinued operations in the prior period comparatives. In addition the basis of allocating central overheads across the continuing divisions has been revised so as to better reflect the business' operations and the prior period comparatives have been revised accordingly.

3. Operating Exceptional Items

	<i>6 months ended</i> 31 October 2002 £000	<i>6 months ended</i> 31 October 2001 £000
Exceptional operating items during the period represent :		
Re-organisation costs	(200)	(615)
Employee share option scheme	(81)	3,262
	(281)	2,647

4. Disposal of Health Business

On 31 July 2002 the Group completed the disposal of its Health business. The disposal is analysed as follows:

	£000
Proceeds	33,000
Less: Costs of disposal	(1,549)
Net proceeds	31,451
Assets sold	(3,337)
Profit on sale	28,114

The charge for taxation in the current period includes £3,230,000 in respect of the profit on sale of operations of £28,114,000.

5. Earnings Per Share

Basic earnings per share has been calculated based on the profit for the period of £26,347,000 (2001: £4,102,000) and by reference to 284,316,830 (2001: 283,577,938) ordinary shares being the weighted average number of shares in issue and ranking for dividend during the period, after excluding shares owned by the Northgate Employee Share Ownership Plan.

Diluted earnings per share has been calculated on the profit of £26,347,000 (2001: £4,102,000) and after including the effect of all dilutive potential ordinary shares, which increases the average number of shares to 292,972,221 (2001: 295,204,876).

The adjusted earnings per share figure has been calculated using the following adjusted earnings figures:

	<i>6 months ended</i> 31 October 2002 £000	<i>6 months ended</i> 31 October 2001 £000
Profit for the financial period	26,347	4,102
Discontinued operations	(542)	(1,221)
Profit on sale of operations, net of attributable taxation	(24,884)	-
Exceptional Items	281	(2,647)
Adjusted profit for the financial period	1,202	234

6. Current Asset Investments

Current asset investments comprise short-term liquid investments.

independent review report

to Northgate Information Solutions plc

Introduction

We have been instructed by the Company to review the financial information set out on pages 3 to 7 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

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

Review work performed

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

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 October 2002.

KPMG Audit Plc
Chartered Accountants
London
10 December 2002

Directors

Nicholas J Irens * (Chairman)
Christopher M R Stone (Chief Executive)
Geoffrey J Bicknell
Jack R Fryer*
Dr Duncan Hine*

* Non-executive

Auditor

KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB

Bankers

National Westminster Bank plc
1 Princes Street
London EC2R 8PB

Barclays Bank Plc
28 George Street
Luton LU1 2AE

Solicitors

Linklaters
One Silk Street
London EC2Y 8HQ

Registered office

Boundary Way
Hemel Hempstead
Herts HP2 7HU

Secretary

Geoffrey J Bicknell, FCA

Stockbrokers

Hoare Govett Limited
250 Bishopsgate
London EC2M 4AA

Financial advisers

N M Rothschild & Sons Limited
New Court
St Swithin's Lane
London EC4P 4DU

Registrars and Transfer office

Computershare Investor Services Plc
The Pavilions
Bridgwater Road
Bristol BS99 7NH



Northgate Information Solutions plc

Boundary Way • Hemel Hempstead • Hertfordshire HP2 7HU

Tel: +44(0)1442 232424 • Fax: +44(0)1442 256454

email: solutions@northgate-is.com • www.northgate-is.com

