



 northgate  
INFORMATION SOLUTIONS

Interim Report & Accounts 2004

## Overview

Northgate Information Solutions is a major supplier of software applications and outsourcing solutions to the public services, human resources and corporate markets and also the largest HR and payroll application supplier 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 more than 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: Northgate HR, 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 Northgate HR, ResourceLink is a highly scalable, 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, as do the majority of police speed cameras across the UK.

## 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 small to medium enterprises (SMEs).

## Highlights

- Strong organic growth achieved across the Group: 11.8% in Public Services and 14.4% in Northgate HR
- Turnover increased by 91% to £96.8 million (2003: £50.6 million)
- EBITA increased to £13.2 million from £2.4 million (459%)
- EBITA margins improved from 4.7% to 13.6%
- The Group's increased scale and enhanced product range enables it to compete more strongly for new contracts:
  - 36 new name clients for Northgate HR – more than the total for full year 2003/04 (H1 2003/04: 23). 13 of these took software and outsourcing solutions
  - 12 new Front Office contract wins for Public Services division (H1 2003/04: 10)
- Net debt reduced from £64.0 million to £51.2 million since completion of the RebusHR acquisition

I am pleased to report excellent results for the Group for the first half of this financial year. In this period, Northgate has delivered a strong performance across all divisions while successfully integrating our recent acquisitions. Northgate has consolidated its leadership positions and is now focused on the public safety, local government and human resources sectors.

During the last six months, we have made good progress in all our markets. Turnover from continuing operations increased to £96.8 million (2003: £50.6 million), and Operating Profit (EBITA), grew 459% to £13.2 million. Adjusted basic earnings per share increased by 119% to 1.60p. Net debt has been reduced since the completion of the RebusHR deal from £64.0 million to £51.2 million. This improvement is due to strong trading across the group and focused working capital management.

Also encouraging was the underlying performance of the business, aided by the successful contribution of businesses that we acquired during the prior year. Revenue grew organically by 11% across the Group, with strong growth in all our key markets.

We have now achieved leadership positions in our chosen market segments. This is highly significant for our future as it will allow us to maximise the impact of our marketing to customers, whilst taking advantage of economies of scale to run the business more efficiently. We are, for example, being asked to pitch for larger scale contracts for which we would not have been considered prior to our recent acquisitions.

Northgate continues to invest in our chosen markets where we expect to deliver good growth and will continue to seek opportunities to use its funds in bolt-on investments that will create further value for shareholders. Consequently, the Directors have decided that a dividend would not be appropriate at present.

This has been a period of continued strategic progress for the Group and the Board remains confident in Northgate's ability to achieve current expectations for the full financial year.

Nick Irens

*Chairman*

*6 December 2004*

This has been a great first half for the Group. We have accelerated our strategic development, successfully integrating recent acquisitions into the Group, whilst increasing our operating margins across all divisions. As well as benefiting from enhanced size and scale, the Group has also enjoyed a significantly increased mix of recurring revenues. Operating margins have also improved from 4.7% to 13.6%. The momentum of our business is evidenced by the growth in our pipeline of opportunities across all parts of our business.

### **Northgate Public Services**

Northgate's public services revenues from continuing operations, at £32.5 million, grew by 32% against the same period last year. Revenue grew organically by 11.8% in the period and was supplemented by contributions from acquisitions completed in the prior year. Operating profit was up by 36% to £2.2 million. Our Public Services division has seen considerable growth across the board for the six months and continues to offer substantial opportunities for the future. Our continued focus is on developing new products that respond to our customers' current and anticipated requirements.

The performance of our front office solution has been strong; in the period we have had 12 new contract wins, including the Cornish consortium of councils and our first London borough. Northgate now provides Front Office solutions to 49 local authorities across the UK, with all tiers of authority represented. We are now recognised as the market leader in providing Front Office software solutions to local government. From this point we are beginning to see opportunities in complex data integration solutions. Most notably, the £4.0 million mandate to develop, maintain, supply and support Derbyshire County Council's Multi-Agency Customer Contact Index (MACCI) exemplifies Northgate's work in this emerging area. The Group's ability to win such complex contracts has significantly improved as it has enriched its solutions capabilities through the integration of technologies we have acquired and the scale we now enjoy.

The public safety area has also performed well in the last six months. Northgate continues to supply the software and services in support of the penalty notice for disorder scheme for the Home Office, a national programme which is used by all the police forces in England. There continues to be significant interest in the NMIS solution which police forces are committing to on a five year basis. We are seeing continued significant investment by both central government and local customers in this area.

Overall, Northgate has continued to strengthen its position as a leading provider of IT solutions to the public safety and local government markets.

### **Northgate HR**

Northgate continues to consolidate its position as the UK's largest HR/Payroll supplier. We have successfully integrated all of our recent acquisitions, including RebusHR, and are now benefiting from enhanced scale and product range. Revenues from continuing operations grew by 274% against the same period last year and organically by 14.4%. Operating profit was up by 691% to £11.6 million.

We have won 36 new name clients in the first half of this year, more than our total for the whole of last year, and we continue to win 1 of 3 qualified opportunities – taking advantage of the combination of our software with the capabilities that we acquired from RebusHR. All 36 wins were for our software, and of these, 13 were outsourced contracts, typically for a five-year term. This effect has increased the balance of recurring revenues at the top line.

The combination of Northgate and RebusHR's software and services offering has significantly increased the Group's opportunities to win contracts and, due to its increased scale, Northgate is now seeing far more opportunities than ever before and our pipeline has grown as a result. As an example, the Group has signed a multi-million pound payroll and outsourcing contract with HM Customs and Excise. Northgate now provides HR software and services to more than 2,500 organisations employing more than 1,000 people in the UK and Ireland, including over 50% of the FTSE 100. We also have 5,000 SME customers across the UK and Ireland. Overall, approximately eight million people are now paid using Northgate's products.

We are beginning to market ResourceLink through our distribution channels internationally, and have secured sales in South Africa, Canada, Denmark, Switzerland and Holland. We are also developing distribution channels in the Asia Pacific region.

### Corporate Sector

Northgate's Corporate division has performed satisfactorily in a competitive market place, with revenues growing by 3% in the period. We have seen some growth in revenues compared with the same period last year. This, together with strong cost management, has led to increases in operating profit to £1.3 million. The business remains profitable and cash generative.

### Outlook

Northgate has seen good organic growth in its HR and Public Services divisions over the last six months and anticipates this will continue, as it continues to develop its solutions to reflect its customers' needs. In addition to its enhanced size and scale, Northgate has improved the quality and consistency of its revenue streams and we are confident we will achieve our year-end targets. The Group remains highly cash generative. We will continue to focus on our strategic markets and build on organic growth, and continue to seek further opportunities, through bolt-on acquisitions, to deliver value to shareholders.

Chris Stone  
*Chief Executive*  
6 December 2004

	<i>6 months ended</i> <b>31 October 2004</b> £000	<i>6 months ended</i> <b>31 October 2003</b> £000
<b>Group turnover</b>	<b>96,816</b>	50,564
Operating costs (including exceptional items)	<b>(90,251)</b>	(50,094)
<b>Group operating profit</b>	<b>6,565</b>	470
<b>Continuing operations:</b>		
Operating profit before exceptional items and amortisation of goodwill	<b>13,185</b>	2,357
Exceptional items (Note 4)	<b>400</b>	(523)
Amortisation of goodwill	<b>(7,020)</b>	(1,364)
<b>Group operating profit</b>	<b>6,565</b>	470
Share of operating profit of associate	<b>103</b>	-
<b>Group operating profit, including associate</b>	<b>6,668</b>	470
<b>Profit on ordinary activities before interest</b>	<b>6,668</b>	470
Interest receivable	<b>23</b>	301
Interest payable and similar charges	<b>(2,810)</b>	(369)
<b>Profit on ordinary activities before taxation</b>	<b>3,881</b>	402
Taxation on profit on ordinary activities	<b>(2,631)</b>	(96)
<b>Retained profit for the financial period</b>	<b>1,250</b>	306
<b>Earnings per ordinary share (Note 5)</b>		
- basic	<b>0.25p</b>	0.11p
- diluted	<b>0.24p</b>	0.10p
- adjusted basic	<b>1.60p</b>	0.73p
- adjusted diluted	<b>1.54p</b>	0.71p

8 | CONSOLIDATED BALANCE SHEET (unaudited)

	31 October 2004 £000	Audited 30 April 2004 £000 (as restated)	31 October 2003 £000 (as restated)
<b>Fixed assets</b>			
Intangible assets	227,558	231,727	34,921
Tangible assets	29,600	29,446	22,679
Investment in associate	1,189	1,093	-
	<b>258,347</b>	262,266	57,600
<b>Current assets</b>			
Stocks	368	353	516
Debtors - due within one year	46,619	51,835	34,426
- due after one year	16,514	16,711	12,990
Cash at bank and in hand	2,098	2,447	6,802
	<b>65,599</b>	71,346	54,734
<b>Creditors:</b> amounts falling due within one year	<b>(72,007)</b>	(68,160)	(17,912)
	<b>Net current (liabilities) / assets</b>	3,186	36,822
	<b>(6,408)</b>		
<b>Total assets less current liabilities</b>	<b>251,939</b>	265,452	94,422
<b>Creditors:</b> amounts falling due after more than one year	<b>(7,664)</b>	(14,183)	(10,736)
<b>Provisions for liabilities and charges</b>	<b>(26,442)</b>	(29,923)	(5,006)
<b>Accruals and deferred income</b>	<b>(55,849)</b>	(60,294)	(31,931)
<b>Net assets</b>	<b>161,984</b>	161,052	46,749
<b>Capital and reserves</b>			
Called up share capital	49,517	49,507	28,727
Share premium account	71,438	71,386	38,156
Merger reserve	68,401	68,401	162
Profit and loss account (Note 6)	<b>(27,372)</b>	(28,242)	(20,296)
<b>Shareholders' funds – equity</b>	<b>161,984</b>	161,052	46,749

	<i>6 months ended</i> <b>31 October 2004</b> £000	<i>6 months ended</i> <b>31 October 2003</b> £000
<b>Operating profit</b>	<b>6,565</b>	470
Depreciation and amortisation	<b>9,285</b>	2,906
Loss on disposal of tangible fixed assets	<b>100</b>	3
Decrease in provisions	<b>(3,277)</b>	(2,121)
Exceptional operating items	<b>(400)</b>	1,605
Decrease / (Increase) in debtors	<b>5,892</b>	(1,667)
Increase in stocks	<b>(15)</b>	(69)
(Decrease) / Increase in creditors	<b>(5,760)</b>	3,118
<b>Net cash inflow from operating activities</b>	<b>12,390</b>	4,245
Returns on investments and servicing of finance	<b>(2,342)</b>	198
Taxation	<b>20</b>	(299)
Capital expenditure	<b>(2,658)</b>	(18,079)
Acquisitions and disposals	<b>(1,253)</b>	(30,433)
	<b>6,157</b>	(44,368)
Financing	<b>(6,506)</b>	11,859
<b>Decrease in cash and cash equivalents</b>	<b>(349)</b>	(32,509)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
AND MOVEMENTS IN SHAREHOLDERS' FUNDS (unaudited)

	<i>6 months ended</i> <b>31 October 2004</b> £000	<i>6 months ended</i> <b>31 October 2003</b> £000
Profit for the financial period	<b>1,250</b>	306
Currency translation differences	<b>(162)</b>	156
<b>Total recognised gains and losses for the period</b>	<b>1,088</b>	462
(Charge) / Credit in respect of share related awards	<b>(257)</b>	1,223
New share capital subscribed (net of expenses)	<b>62</b>	47
Adjustment in respect of owned shares (Note 6)	<b>39</b>	39
<b>Increase in shareholders' funds</b>	<b>932</b>	1,771
<b>Opening shareholders' funds</b>	<b>161,052</b>	44,978
<b>Closing shareholders' funds</b>	<b>161,984</b>	46,749

## 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 2004 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 2004 have been prepared using the same accounting policies as were used in the preparation of the Annual Report for the year ended 30 April 2004 except for the restatement of own shares required by UITF 38 which is described in note 6.

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 6 December 2004.

## 2. Acquisitions

During the period, the Group acquired the entire issued share capital of CIM Systems Limited.

The total cash paid for the acquisition amounted to £1.7m (of which £0.5m is deferred), which includes a total of £0.5m paid in settlement of loans, overdrafts and other liabilities of the acquired business.

The fair value of the net liabilities acquired, after settlement of the above liabilities, amounts to £1.4m. The resultant goodwill arising on these acquisitions of £2.6m has been capitalised and will be written off over a period of 10 years in line with the Directors' estimate of its useful economic life.

## 3. Segmental Analysis

	Turnover		Operating Profit	
	6 months ended 31 October 2004 £000	6 months ended 31 October 2003 £000	6 months ended 31 October 2004 £000	6 months ended 31 October 2003 £000
Public Services	<b>32,507</b>	24,644	<b>2,171</b>	1,597
Northgate HR	<b>51,864</b>	13,885	<b>11,647</b>	1,472
Corporate Sector	<b>12,445</b>	12,035	<b>1,331</b>	699
Administration costs	-	-	<b>(1,964)</b>	(1,411)
<b>Total continuing operations</b>	<b>96,816</b>	50,564	<b>13,185</b>	2,357
Operating profit before exceptional items and goodwill amortisation			<b>13,185</b>	2,357
Exceptional items			<b>400</b>	(523)
Amortisation of goodwill			<b>(7,020)</b>	(1,364)
<b>Group operating profit</b>			<b>6,565</b>	470

In the above analysis, all overhead costs have been allocated to continuing operations. In addition, certain administration costs relating to the Group's central activities have been separated.

#### 4. Operating Exceptional Items

	<b>6 months ended 31 October 2004</b>	<i>6 months ended 31 October 2003</i>
	<b>£000</b>	<i>£000</i>
Exceptional operating items during the period represent :		
Re-organisation costs	-	(893)
Property provisions	-	1,975
Employee share option scheme	<b>400</b>	(1,605)
	<b>400</b>	(523)

#### 5. Earnings Per Share

Basic earnings per share has been calculated based on the profit for the period of £1,250,000 (2003: £306,000) and by reference to 492,721,413 (2003: 284,801,956) 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 £1,250,000 (2003: £306,000) and after including the effect of all dilutive potential ordinary shares, which increases the average number of shares to 511,384,011 (2003: 292,783,373).

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

	<b>6 months ended 31 October 2004</b>	<i>6 months ended 31 October 2003</i>
	<b>£000</b>	<i>£000</i>
Profit for the financial period	<b>1,250</b>	306
Amortisation of goodwill	<b>7,020</b>	1,364
Exceptional items, net of attributable taxation	<b>(400)</b>	421
<b>Adjusted profit for the financial period</b>	<b>7,870</b>	2,091

#### 6. Profit and Loss Account

The adoption of UITF 38 has resulted in a change in the presentation of shares in the ESOP trust controlled by Northgate Information Solutions Plc as a deduction in arriving in shareholders' funds and has led to a decrease in shareholders' funds of £981,000 (April 2004: £1,020,000, October 2003: £1,059,000). The shares were acquired at an average price of 48.18p and had a cost of £1,156,000 and a carrying value of £1,020,000 at 30 April 2004 (as previously reported).

The re-presentation of the ESOP shares as a deduction from the profit and loss reserve in accordance with UITF 38 is not a recognised gain or loss.

## Introduction

We have been engaged by the Company to review the financial information set out on pages 7 to 11 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.

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 Listing Rules of the Financial Services Authority. 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 interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules which 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 is substantially less in scope than an audit performed in accordance with 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 2004.

KPMG Audit Plc  
Chartered Accountants  
London  
6 December 2004

**Directors**

Nicholas J Irens \* (Chairman)  
 Christopher M R Stone (Chief Executive)  
 John R Stier  
 Malcolm S Aldis \*\*  
 David J Meaden \*\*  
 Sir Stephen J Lander \*  
 Jack R Fryer \*  
 J Nicholas Starritt \*\*\*  
 David Hodgson \*\*\*

\* Non-executive

\*\* Appointed 27 May 2004

\*\*\* Non-executive appointed on 27 May 2004

**Registered Office**

Boundary Way  
 Hemel Hempstead  
 Hertfordshire HP2 7HU

**Auditor**

KPMG Audit Plc  
 8 Salisbury Square  
 London EC4Y 8BB

**Bankers**

Barclays Bank Plc  
 28 George Street  
 Luton LU1 2AE

**Solicitors**

Linklaters  
 One Silk Street  
 London EC2Y 8HQ

**Secretary**

John R Stier, FCA

**Registered Number**

2762332

**Stockbrokers**

Hoare Govett Limited  
 250 Bishopsgate  
 London EC2M 4AA

Evolution Securities Limited  
 100 Wood Street  
 London EC2V 7AN

**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

