



Interim Report & Accounts 2003



1 Company profile

Overview

Northgate Information Solutions is a leading supplier of software applications and outsourcing solutions to the public sector, human resources and corporate markets. Headquartered in Hemel Hempstead, Northgate employs more than 1,300 staff operating across the UK.

Northgate focuses on understanding application specific processes, enabling organisations to increase their business process efficiency. We manage customers' key systems, providing a broad range of outsourced solutions available at client sites or hosted at our own secure data centre.

Our application and IT outsourcing solutions have attracted a wide and established client base. With approximately 1,800 customers, we work closely with many corporate organisations, as well as approximately 30% of the UK's local authorities and all of its police forces.

Northgate's philosophy is built around fully understanding our clients' business objectives, the challenges they face and the expectations of their customers and users. Only then can we design and implement a technology solution that truly delivers value-added benefits.

Market Leading Applications

All of our applications are designed and built to deliver functionality that enables our customers to manage their businesses more efficiently:

- Building on our strong record of delivery, we are continuing to develop applications that help the criminal justice community improve the way it solves crimes, enforces speed limits and tackles anti-social behaviour.
- We are helping local government transform public services and improve their value to the citizen. Assert, our benefit assessment application, is unique in the UK while Front Office, our market leading e-government application, has won two industry awards.
- ResourceLink, our market leading HR and payroll application, is fully web-enabled for easy access, simple to operate and secure, providing users with unrivalled functionality.
- Our PROIV and Reality software products help organisations rapidly develop robust, future-proof and cost-effective business applications.

Flexible and Cost-effective Outsourcing

Northgate can create a flexible offering that enables companies to benefit from performance improvements whilst maintaining or reducing running costs. Northgate is a long-standing supplier of outsourced IT solutions enabling organisations to hand over confidently all or part of their IT requirement to Northgate.

For more than 30 years, we have worked with many major corporations and public organisations to change fundamentally their use of IT and enhance business performance.

Specialist Business Process Outsourcing

Because Northgate designs, builds and installs applications, we can apply our in-depth understanding of application specific processes to enable our customers to benefit from business process outsourcing. Our focus is on adding value to IT-intensive processes supported by Northgate's own software. Northgate's ability to adapt our software where we see the opportunity to make a process more efficient differentiates us from other outsourcers.

Northgate's outsourcing services extend from single functions such as payroll, recruitment or local government services, to the outsourcing of complete business processes.

Future development

We expect strong organic growth from our software portfolio where our products are in high growth markets, responding to current market issues. In local government, the e-government agenda will drive demand for Front Office and Assert. In criminal justice, the Government's focus on anti-social behaviour will drive sales of our Penalty Notice for Disorder product.

In the outsourcing markets, we anticipate increasing demand for HR BPO services, building on our ResourceLink product, our strong position in payroll outsourcing and on our HR administration skills. In the local government and criminal justice markets, we expect that we will increasingly supply outcome-based services running on our own software.

In the half year ending 31 October 2003 we have completed three acquisitions, with one further acquisition in November. Our strategy is to pursue organic growth as above and to continue growth by acquisition in our chosen markets.

Highlights

- *Turnover up 28% to £50.6 million (2002: £39.6 million), including £7.4 million contribution from acquisitions*
- *Operating profit from continuing operations, before exceptional items and amortisation of goodwill, up from £1.2 million to £2.4 million*
- *Adjusted basic earnings per share up 66% to 0.73p (2002: 0.44p)*

I am pleased to report excellent results for the Group for the first half of this financial year. During this period we have strengthened further our overall market position in both the HR and public sectors. Particularly pleasing is the successful integration of our acquisitions, already contributing to the Group results.

During the last six months, Northgate has made good progress in all markets with turnover from continuing operations increasing to £50.6 million (2002: £39.6 million). During the closing weeks of the period, a number of significant contracts were signed earlier than expected. These included ten new contract wins for our Front Office solution, which brings the total number of Front Office customers to seventeen and makes Northgate a leading supplier of citizen relationship management solutions to Local Government. The increase in revenues, coupled with the continuing control on costs and the contribution from acquisitions, leads to operating margins across the Group before exceptional items and goodwill amortisation improving from 2.9% to 4.7%.

Operating profit from continuing operations before exceptional items and amortisation of goodwill increased by 104% to £2.4 million (2002: £1.2 million). £0.7 million of this additional profit came from organic growth.

During the half we made three acquisitions in the HR and public sectors. Since then, the recent acquisition of the PWA Group complements Northgate's acquisition of Prolog Business Solutions in 2002, which brought us a strong position in the small to medium enterprise (SME) payroll market and which has already been integrated successfully within Northgate's HR division. It will also further strengthen the position created by the acquisition of Carapeople.

In our public sector division, the acquisitions of blue 8 and Hays CSG significantly enhance Northgate's capabilities in the criminal justice arena.

In light of our recent acquisition strategy and our aggressive focus on growing the business, the Directors have decided that a dividend would not be appropriate at present.

Northgate finished the period with £6.8 million of cash, and an agreed loan facility of £12 million following the recently completed purchase of the freehold of Boundary Way, our headquarters. This acquisition removes the exposure to the uncertainties of future rent increases and has immediately reduced the Group's operational cost base.

It has been a period of continued strategic progress for the Group. The businesses we have acquired are being successfully integrated, significantly enhancing our positions in our chosen market segments and improving our opportunities to deliver value to our shareholders.

The Board remains confident in the prospects for the Group. With a continuing focus on cost control, Northgate is positioned well for the future.

Nick Irens
Chairman
10 December 2003

3 Chief Executive's review

This has been a good first half for the Group. We have accelerated our strategic development, successfully integrating our recent acquisitions into our business, whilst increasing our operating margins across all divisions both organically and by acquisition. The progress we have made in the public sector and HR markets has been particularly encouraging with double-digit revenue growth, whilst our corporate sector activities have improved their margins.

Public Sector

Northgate's public sector revenues from continuing operations grew by 26% against the same period last year. Our public sector offer has seen considerable growth across the board for the six months and continues to offer substantial opportunities for the future. Our Front Office solutions performance has been particularly satisfying, signing ten new contracts earlier than expected in Northumberland and Somerset, bringing the total number of Front Office customers to seventeen, making Northgate a leading supplier of citizen relationship management solutions to Local Government.

We have signed a third contract for our Assert product, a decision support tool for the administration of means tested benefits, with Cornish Key, a partnership which comprises Cornwall County Council and six district councils. We continue to have great hopes for the future success of this innovative, rules-based product.

The acquisitions of the blue 8 and Hays CSG businesses have significantly enhanced the Group's capability in the criminal justice arena. The integration of these products has enabled Northgate to offer an extensive range of innovative data and performance management solutions and brings further opportunities for growth.

The successful roll out of the London Congestion Charging Scheme with Northgate's Penalty Notice enforcement software and administration services continues to operate well and we are monitoring other potential opportunities that may arise. Northgate's software for the Home Office's trial of the Penalty Notice for Disorder scheme has been successful and is currently being rolled out to a number of police forces in the UK. We believe there are excellent prospects in this market where we can achieve a leading position.

Overall, Northgate has considerably strengthened its position as a leading provider of IT solutions to the criminal justice and local government markets.

Human Resources Systems

Prolog Business Solutions and Carapeople have helped to increase HR revenues by 70% compared with the same period last year, and operating profit before exceptional items and goodwill amortisation by over 90%. The recent acquisition of the PWA Group, under the brand Empower, has further strengthened Northgate's overall market position, widening the offer into the SME market. The PWA Group is a welcome addition to our already comprehensive Human Resource offer and is an excellent fit within our existing HR business. Together Empower and ResourceLink complement the earlier acquisitions of Prolog and Carapeople, enabling Northgate to offer a comprehensive HR software and payroll proposition to the market.

Overall Northgate now provides HR software and services to more than 1,500 UK and Irish clients with recent acquisitions adding to our already strong customer base generating additional growth opportunities for Northgate.

Corporate sector

Northgate's corporate sector division has performed satisfactorily in what continue to be uncertain market conditions with little sign of improvement in IT expenditure. We have seen some growth in revenues compared with the same period last year. This together with the continued success of our established software products has led to an increase in operating profit before exceptional items and goodwill amortisation of over 8%.

Outlook

Northgate has seen strong levels of organic and acquisitive growth for the six months and anticipates this to continue through to the full year. The Group now has an impressive portfolio of products and services, and is focused on managing our businesses effectively and leveraging the benefits of the recent deals. We are pleased with the growth being achieved as a result of the strategic focus of the Group, and will continue to seek further opportunities to deliver value to our shareholders going forward. Since the period end we have signed one more new Front Office contract and are currently preferred supplier with a further eight local authorities.

Chris Stone
Chief Executive
10 December 2003

Consolidated Profit and Loss Account (unaudited) 4

6 months ended	6 months ended
31 October 2003	31 October 2002
£000	£000

Turnover		
Continuing operations	43,138	39,616
Acquisitions	7,426	-
Discontinued operations	-	1,918
Group turnover	50,564	41,534
Operating costs (including exceptional items)	(50,094)	(40,161)
Group operating profit	470	1,373
Continuing operations:		
Operating profit before exceptional items and amortisation of goodwill	2,357	1,158
Exceptional items (Note 4)	(523)	(281)
Amortisation of goodwill	(1,364)	(46)
Operating profit from continuing operations	470	831
Discontinued operations:		
Operating profit	-	542
Group Operating Profit	470	1,373
Profit on sale of operations (Note 5)	-	28,114
Interest receivable	301	546
Interest payable and similar charges	(369)	(226)
Profit on ordinary activities before taxation	402	29,807
Taxation on profit on ordinary activities (Note 5)	(96)	(3,460)
Retained profit for the financial period	306	26,347
Earnings per ordinary share (Note 5)		
- basic	0.11p	9.27p
- diluted	0.10p	8.99p
- adjusted basic	0.73p	0.44p *
- adjusted diluted	0.71p	0.43p *

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

5 Consolidated Balance Sheet (unaudited)

	31 October 2003	<i>Audited</i> 30 April 2003	31 October 2002
	£000	£000	£000
Fixed assets			
Intangible assets	34,921	6,788	1,959
Tangible assets	22,679	5,032	4,264
Investments	1,059	1,098	1,137
	58,659	12,918	7,360
Current assets			
Stocks	516	424	386
Debtors - due within one year	34,426	22,212	19,657
- due after one year	12,990	11,880	6,036
Investments (Note 7)	-	-	20,085
Cash at bank and in hand	6,802	39,377	25,051
	54,734	73,893	71,215
Creditors: amounts falling due within one year	(47,724)	(33,699)	(32,420)
Net current assets	7,010	40,194	38,795
Total assets less current liabilities	65,669	53,112	46,155
Creditors: amounts falling due after more than one year	(12,855)	(244)	(292)
Provisions for liabilities and charges	(5,006)	(6,792)	(2,981)
Net assets	47,808	46,076	42,882
Capital and reserves			
Called up share capital	28,727	28,713	28,708
Share premium account	38,156	38,123	38,114
Merger reserve	162	162	162
Profit and loss account	(19,237)	(20,922)	(24,102)
Shareholders' funds – equity	47,808	46,076	42,882

Cash Flow Statement (unaudited) 6

	<i>6 months ended</i> 31 October 2003 £000	<i>6 months ended</i> 31 October 2002 £000
Operating Profit	470	1,373
Depreciation and Amortisation	2,906	1,371
Loss on disposal of tangible fixed assets	3	-
Decrease in provisions	(2,121)	(854)
Exceptional Operating Items	1,605	81
(Increase) / Decrease in debtors	(1,667)	3,164
(Increase) / Decrease in stocks	(69)	367
Increase / (Decrease) in creditors	3,118	(2,139)
Net cash inflow from Operating Activities	4,245	3,363
Returns on investments and servicing of finance	198	432
Taxation	(299)	-
Capital expenditure	(18,079)	(1,619)
Acquisitions and disposals	(30,433)	31,451
	(44,368)	33,627
Financing	11,859	(381)
(Decrease) / Increase in cash and cash equivalents	(32,509)	33,246

Statement of Total Recognised Gains and Losses and Movements in Shareholders' Funds (unaudited)

	<i>6 months ended</i> 31 October 2003 £000	<i>6 months ended</i> 31 October 2002 £000
Profit for the financial period	306	26,347
Currency translation differences	156	183
Total recognised gains and losses for the period	462	26,530
Credit in respect of share related award charges	1,223	44
New share capital subscribed (net of expenses)	47	156
Reduction in shares to be issued	-	(200)
Increase in Shareholders' funds	1,732	26,530
Opening Shareholders' funds	46,076	16,352
Closing Shareholders' funds	47,808	42,882

7 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 2003 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 2003 have been prepared using the same accounting policies as were used in the preparation of the Annual Report for the year ended 30 April 2003.

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 2003.

2. ACQUISITIONS

During the period, the Group acquired the entire issued share capital of Cara Payroll Group Limited and blue 8 Technologies Limited. In addition, the Group acquired the entire issued share capital of Hays Redfern Limited, together with the IT enablement Business of the Hays Group.

The total cash paid for these acquisitions amounted to £32.3m, which includes a total of £20.2m paid in settlement of loans, overdrafts and other liabilities of the acquired businesses.

The fair value of the net assets acquired, after settlement of the above liabilities, amounts to £2.9m. The resultant goodwill arising on these acquisitions of £29.4m 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/(Loss)	
	6 months ended	6 months ended	6 months ended	6 months ended
	31 October 2003	31 October 2002	31 October 2003	31 October 2002
	£000	£000	£000	£000
Public Sector	20,477	19,526	1,358	1,157
Human Resources Systems	10,626	8,169	1,213	773
Corporate Sector	12,035	11,921	699	643
Administration costs	-	-	(1,411)	(1,415)
Continuing Operations	43,138	39,616	1,859	1,158
Public Sector	4,167	-	239	-
Human Resources Systems	3,259	-	259	-
Acquisitions	7,426	-	498	-
Total from continuing operations	50,564	39,616	2,357	1,158
Discontinued operations	-	1,918	-	542
Total	50,564	41,534	2,357	1,700
Operating profit before exceptional items and goodwill amortisation			2,357	1,700
Exceptional items			(523)	(281)
Amortisation of goodwill			(1,364)	(46)
Group Operating Profit			470	1,373

In the above analysis, all overhead costs have been allocated to continuing operations. This resulted in overhead costs being reallocated from discontinued operations in the prior period comparatives. In addition, certain administration costs relating to the Group's central activities have been separated, and the basis of allocating other overhead costs has been revised, so as to better reflect the business' operations. The prior period comparatives have been revised accordingly.

4. OPERATING EXCEPTIONAL ITEMS

	<i>6 months ended</i> 31 October 2003 £000	<i>6 months ended</i> 31 October 2002 £000
Exceptional operating items during the period represent :		
Re-organisation costs	(893)	(200)
Property Provisions	1,975	-
Employee share option scheme	(1,605)	(81)
	(523)	(281)

5. 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.

6. EARNINGS PER SHARE

Basic earnings per share has been calculated based on the profit for the period of £306,000 (2002: £26,347,000) and by reference to 284,801,956 (2002: 284,316,830) 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 £306,000 (2002: £26,347,000) and after including the effect of all dilutive potential ordinary shares, which increases the average number of shares to 292,783,373 (2002: 292,972,221).

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

	<i>6 months ended</i> 31 October 2003 £000	<i>6 months ended</i> 31 October 2002 £000
Profit for the financial period	306	26,347
Amortisation of goodwill	1,364	46
Discontinued operations	-	(542)
Profit on sale of operations, net of attributable taxation	-	(24,884)
Exceptional Items, net of attributable taxation	421	281
Adjusted profit for the financial period	2,091	1,248

7. CURRENT ASSET INVESTMENTS

Current asset investments comprise short-term liquid investments.

9 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 4 to 8 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 2003.

KPMG Audit Plc
Chartered Accountants
London

10 December 2003

DIRECTORS

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

* Non-executive

** Resigned 15 May 2003

*** Appointed 15 May 2003

**** Non-executive; resigned 25 September 2003; reappointed 9 December 2003

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