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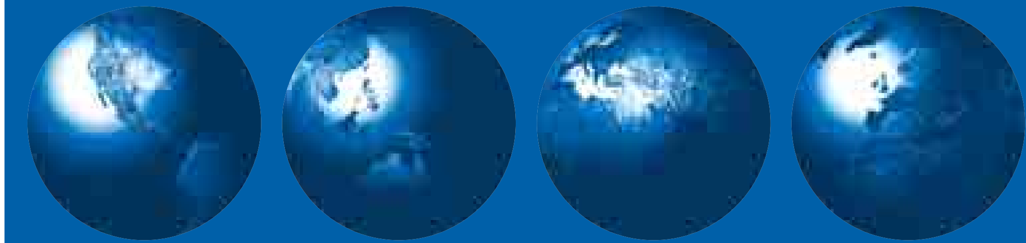
Systems Union Group plc

INTERIM STATEMENT 2004



Systems
Union

Systems Union has global reach

45 offices in 19 countries; 500 reseller partners in 73 countries; customer sites in 194 countries

■ Systems Union Group offices

Interim Statement

Systems Union has grown significantly compared to the same period last year.

Highlights are:

- Successful acquisition strategy has driven considerable growth
- Revenue up **50%** to **£51.0 million** (2003: £34.0 million)
- EBITDA* up **57%** to **£6.3 million** (2003: £4.0 million)
- Operating cash flow up **35%** to **£5.0 million** (2003: £3.7 million)
- PBT* up **37%** to **£2.7 million** (2003: £2.0 million)
- Adjusted EPS* up **32%** to **4.9p** (2003 restated: 3.7p)
- First interim dividend of **0.5p** per share (2003: nil)
- Business Intelligence Division enhanced with acquisition of Lasata

* before restructuring charge of £1.3 million

Interim Statement

History and strategy

The Company has seen considerable change over the past four years. Initially the task was one of significant turnaround, with the focus being the prompt return to profitability for all companies within the Group. Since mid-2000 profits have continued to improve each year despite a general lack of growth in the accounting and financial management (FM) marketplace following the Millennium.

In 2003, having delivered consistent and improving levels of profitability and put each business on to a solid trading and financial footing, we implemented an acquisition strategy that focussed on both the existing FM sector, to process transactional data and report historical information, and on the analytics and business intelligence (BI) area. BI is expected to produce higher growth rates by adding important value to all customers' finance and commercial departments by the provision of enhanced reporting, analytical, consolidating and forecasting software solutions.

Both the FM and BI marketplaces are consolidating. In the past twelve months there have been several mergers and acquisitions vertically within each sector. These have been with a view to increasing corporate market share, whilst maximising global synergies and removing duplication of infrastructure and research & development.

We have adopted a more far-reaching and better balanced approach than the competition by establishing two separate divisions within a single corporate entity, Systems Union Group plc. Customers can now select our BI and/or our FM solutions irrespective of whether they currently use software provided by the other division or a competitor. The divisions are not exclusive to each other and the solutions of each division can now interface with software, report and analyse live or static data, from many sources and multi-disciplines. We expect to improve our corporate market share by delivering a wide-ranging and comprehensive set of business software products and services to our worldwide customer base in an 'Open' environment.

The Group's strategy continues to be global as to reach, product offering and scale.

Several companies have now joined the Group. The most significant acquisition was that of MIS, a leading BI provider based in Germany, in late 2003. This acquisition facilitated the creation of the BI Division and is considered fundamentally important for the future development of the Group. More recently, on 30 June 2004, the BI Division was further strengthened by the acquisition of Australian software author, Lasata.

With MIS and Lasata as key components of the Group, we now have a comprehensive, compelling and unrivalled portfolio of financial management, business reporting and performance evaluation products. We are of the firm belief that our objectives are sound and the prospects for future growth are good.

Half year review

We are pleased to report 50 per cent growth in both revenue and EBITDA (before restructuring charge) for the half year, primarily as a result of the acquisition strategy. The post acquisition review of MIS was completed in H1 and a restructuring charge of £1.3 million taken in order to lower the cost base and enhance future profitability.

The upturn in trading conditions was slower than predicted by industry analysts and overall revenues for the combined businesses were consistent with last year. Growth in revenues was achieved in a number of markets, notably the Asia Pacific region. However, Group revenues were impacted by currency fluctuations.

In the first half of 2004, the Group won new contracts from existing customers that combine FM and BI solutions including: a major global hotel chain, which is successfully installing SunSystems HPM (Hospitality Performance Management) across 27 American hotels; one of the largest regional newspaper publishers in the UK; a leading European coffee specialist and a major UK housing association. Additionally business has been won from new customers in a diverse spectrum of market sectors and industries, including one of the world's leading providers of personnel assessment products; the world's premier supplier of IT solutions to the banking and financial services industry; a leading provider of medical imaging services; the UK's most visited estate agency website; a global automotive services corporation and one of the largest and most well known theatres in the UK.

Management

As the result of acquisitions, the Systems Union global management team has been further strengthened and enhanced. The Company has already initiated successful transfers between divisions and made several senior executive appointments both globally and regionally.

In combining the exciting range of skills and knowledge possessed by the companies of the enlarged Group and by adopting a co-ordinated approach, the management and staff will continue to deliver its agenda as one of the world's most successful global software companies.

Dividend

The Board is paying an inaugural interim dividend of 0.5p per share. Payment will be made on 12 October to shareholders on the register on 10 September 2004.

Outlook

Through acquisitions, alliances and investment in R&D, Systems Union has built a comprehensive portfolio of financial management and business intelligence software solutions. The Board remains confident about future income and profitability.

Bob Morton
Chairman
16 August 2004

Paul Coleman
Chief Executive Officer

Consolidated Profit & Loss Account *for the six months ended 30 June 2004*

	Six months ended 30 June 2004 (unaudited) £000	Six months ended 30 June 2003 (unaudited) £000	Year ended 31 Dec 2003 (audited) £000
Turnover (Note 2)	51,016	34,016	78,427
Total operating expenses	(49,470)	(32,361)	(73,365)
EBITDA before restructuring charge	6,337	4,038	10,369
Restructuring charge	(1,265)	—	—
EBITDA	5,072	4,038	10,369
Depreciation	(975)	(525)	(1,304)
Amortisation of intangibles	(2,551)	(1,858)	(4,003)
Operating profit	1,546	1,655	5,062
Net interest	(82)	334	562
Profit on sale of fixed asset investment	—	—	500
Profit on ordinary activities before taxation	1,464	1,989	6,124
Taxation	(289)	(201)	(452)
Profit on ordinary activities after taxation	1,175	1,788	5,672
Dividends	(411)	—	(1,054)
Retained profit	764	1,788	4,618
Adjusted earnings (Note 3)	4,932	3,556	9,027
Earnings per share (Note 3)			
– basic	1.2p	1.9p	6.0p
– diluted	1.2p	1.9p	5.8p
Adjusted earnings per share (Note 3)			
– basic	5.1p	3.8p	9.5p
– diluted	4.9p	3.7p	9.3p

There is no difference between the retained profit for the period and its historical cost equivalent.

The 2003 earnings per share figures have been restated (Note 3).

Consolidated Balance Sheet *as at 30 June 2004*

	30 June 2004 (unaudited) £000	31 Dec 2003 (audited) £000
Fixed assets		
Intangible assets	95,573	86,356
Tangible assets	6,545	5,979
	102,118	92,335
Current assets		
Debtors	27,913	26,948
Cash at bank and in hand	14,868	19,646
	42,781	46,594
Creditors: amounts falling due within 1 year	(24,338)	(22,828)
Net current assets	18,443	23,766
Total assets less current liabilities	120,561	116,101
Creditors: amounts falling due after more than 1 year	(15,000)	(15,000)
Provisions for liabilities & charges	(2,131)	(1,601)
Deferred income	(21,912)	(19,761)
Net assets	81,518	79,739
Capital & reserves		
Called up share capital	5,305	5,248
Share premium	10,603	10,013
Interest in own shares	(5,896)	(6,300)
Merger reserve	45,278	47,046
Warrant reserve	1,218	1,239
Profit & loss account	24,731	22,096
Equity shareholders' funds	81,239	79,342
Equity minority interests	279	397
Capital employed	81,518	79,739

Consolidated Cash Flow Statement *for the six months ended 30 June 2004*

	Six months ended 30 June 2004 (unaudited) £000	Six months ended 30 June 2003 (unaudited) £000	Year ended 31 Dec 2003 (audited) £000
Operating profit	1,546	1,655	5,062
Amortisation	2,551	1,858	4,003
Depreciation	975	525	1,304
Loss on sale of fixed assets	43	—	5
	5,115	4,038	10,374
Movement in working capital	(97)	(335)	(2,480)
Cash inflow from operating activities	5,018	3,703	7,894
Servicing of finance and returns on investments	(86)	334	562
Taxation	(232)	(109)	(185)
Purchase of tangible fixed assets	(1,349)	(888)	(1,965)
Sale of fixed asset investment	—	—	500
Acquisitions	(7,824)	—	(21,090)
Equity dividends paid	(965)	—	—
Cash (outflow)/inflow before financing	(5,438)	3,040	(14,284)
Financing	660	18	15,056
(Decrease)/increase in cash	(4,778)	3,058	772
Cash at beginning of period	19,646	18,874	18,874
Cash at end of period	14,868	21,932	19,646
Bank debt (due October 2006)	(15,000)	—	(15,076)
Net (debt)/cash at end of period	(132)	21,932	4,570

Notes to the Interim Accounts

1 The financial information contained in this document does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. Statutory accounts for the year to 31 December 2003 have been filed with the Registrar of Companies. The auditors have reported on those accounts; their report is unqualified and did not contain a statement under section 237 of the Companies Act 1985.

2 Segmental analysis

a) Revenue by type

	Six months ended 30 June 2004 (unaudited) £000	Six months ended 30 June 2003 (unaudited) £000	Year ended 31 Dec 2003 (audited) £000
Licences	14,160	10,963	23,956
Maintenance	21,539	17,148	35,681
Services	15,317	5,905	18,790
	51,016	34,016	78,427

b) Revenue by Division

	Six months ended 30 June 2004 (unaudited) £000	Six months ended 30 June 2003 (unaudited) £000	Year ended 31 Dec 2003 (audited) £000
Financial Management Division	36,099	34,016	70,597
Business Intelligence Division	14,917	—	7,830
	51,016	34,016	78,427

3 Earnings per share

The calculation of the earnings per share is based on the profit after taxation divided by the weighted average number of shares in issue (excluding the shares in which the Company has an interest) during the period:

a) Adjusted earnings per share is calculated as follows:

	Six months ended 30 June 2004 (unaudited) £000	Six months ended 30 June 2003 (unaudited) £000	Year ended 31 Dec 2003 (audited) £000
Profit after taxation	1,175	1,788	5,672
Amortisation of goodwill	2,492	1,768	3,855
Restructuring charges	1,265	—	—
Profit on sale of fixed asset investment	—	—	(500)
Adjusted earnings	4,932	3,556	9,027

b) Number of shares (in thousands)

	Six months ended 30 June 2004 (unaudited)	Six months ended 30 June 2003 (unaudited)	Year ended 31 Dec 2003 (audited)
Weighted average number of shares – used to calculate basic earnings per share	96,314	94,542	94,740
Effect of dilutive share options	4,533	939	2,218
Number of shares used to calculate diluted earnings per share	100,847	95,481	96,958

The comparative earnings per share figures have been restated to exclude the Company's interest in its own shares. This is consistent with the presentation of the Interest in Own Shares as a deduction from shareholders' equity in accordance with UITF Abstract 37.

Independent Review Report to Systems Union Group plc

Introduction

We have been engaged by the Company to review the financial information set out on pages 4 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.

This report is made solely to the Company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Company those matters that 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.

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 30 June 2004.

KPMG Audit plc
Arlington Business Park
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16 August 2004