



interim report 2003

**“Excellent focus
and commitment with
a ‘can do’ attitude”**

- Boehringer Ingelheim Ltd

CUSTOMER SYSTEMS PLC

CHAIRMAN'S STATEMENT FOR THE CONSOLIDATED UNAUDITED GROUP RESULTS FOR THE HALF YEAR ENDED 31ST JULY 2003

I am happy to be able to announce another successful result for Customer Systems in what remains a challenging market.

My thanks to all our staff, business partners and strategic suppliers for making this possible.

As with our most recent final results at the end of the last financial year, we recorded a growth in revenues, albeit a modest growth compared to the heady days of the IT boom of a few years ago. This is the climate to which we must continually strive to become accustomed. Nowadays, it is necessary to run hard to stand still, and then to run a little harder in order to record a small growth.

At the profit level, we have recorded a very healthy increase over the equivalent period from last year. This demonstrates our better acclimatisation to the current market. We have been careful to match our staffing as closely as possible to the level of demand which can be profitably sustained, and we have become more efficient across almost all areas of overhead expenditure.

The achievement involved in this should not be underrated. Many IT organisations achieved small profits in the boom, only to see these turn to losses when the recession arrived. Many IT organisations did not even manage to turn a profit during the boom and have very restricted room for manoeuvre now.

The level of pre-tax margin we continue to achieve is very rare in the industry. The few other IT organisations with this sort of margin often tend to be ones with significant degrees of monopoly power. We have no monopoly power at all and achieve this purely through the quality of services we provide and the way that we manage the business.

Results in Brief

Revenues for the period grew 2.15% to £2.57m (2002: £2.51m). Profit before tax for the period grew 15.04% to £0.99m (2002: £0.86m) giving a pre-tax margin of 38.7% (2002: 34.4%). Earnings per share increased 14.1% to 6.17 pence (2002: 5.40 pence).

The comparisons above are against the first half of the last financial year. It is only fair to note that revenues and profits for this latest 6 month period were slightly lower than those for the second half of the last financial year, but, even in the context of that comparison, the pre-tax margin has increased.

Our balance sheet remains very strong with a cash balance at the end of the period of £1.44m even after the payment of a substantial dividend, and with net assets of £1.58m and a surplus of current assets over current liabilities of £1.51m.

Dividends

The company paid an interim dividend of 5.5 pence net per share in July 2003. During the corresponding period last year, the company paid two interim dividends: one of 4.5 pence net in April 2002, and one of 2.7 pence net in July 2002. However, this comparison is complicated somewhat by the change in dividend timetable last year as we moved to being a publicly traded company, and the resulting insertion of the extra "transition" dividend.

Business Progress

Our US operation continues to progress successfully, and has provided 27.7% of our revenues in the period. It will continue to be an area of considerable interest to us. Mainland Europe remains a far from lucrative area and, in spite of the occasional gratifying order in return for our efforts, the region does not appear to be about to suddenly turn the corner. The UK is still the largest single market for us.

CUSTOMER SYSTEMS PLC

CHAIRMAN'S STATEMENT (continued)

Our business continues to be primarily in the supply of implementation services, especially technical consulting, associated with the application software of Siebel Systems, Inc. : the world's dominant supplier of Customer Relationship Management (CRM) systems. Whilst the market for new CRM implementations has been somewhat subdued in the last 2 years, especially when compared with the preceding boom years, we have still been able to find a healthy and profitable business in the implementation "after-market".

The quality of customer organisations gathered by Siebel Systems, Inc. has been reflected in the extremely high-quality customer base which we have built. Our recent analysis shows that 19% of Siebel's worldwide customers have now made use of our services, and this is a testament to the uniquely high-quality and differentiated services we provide.

Sales of our own software products have been a little lower than we would have ideally liked, with pure software revenue representing a fraction under 3% of our revenue for the period. This perhaps demonstrates a slight lack of emphasis in this area on our part. It may also perhaps reflect a greater willingness on the part of buyers to continue implementation of the software they have already purchased than to make further software investments.

Outlook

Whilst the current state of the IT market requires great energy and imagination from us, we feel that the company's highly differentiated services will continue to be in demand. The USA represents a valuable potential area of growth for us. Mainland Europe will eventually come back into the frame.

Many IT services organisations operate constantly with a small number of huge projects which last for several years. We, by contrast, have always operated with a large number of clients, a short order backlog and a constant need to go out into the market and find new challenges. Both approaches have their risks and both approaches have arguments in their favour. However, I am happy to report that, even as I write this, we continue to win new projects in customer organisations with whom we have a long term relationship, and we continue to win new-name customers both in Europe and the USA.

Given that growth cannot be guaranteed in the current market climate, we will continue to ensure that sufficient attention is paid to control of costs.

We continue to research potential acquisition targets, as opportunities for organic growth remain constrained and company valuations are at a much more acceptable level than they were during the IT boom. Moreover, we believe that our proven ability to produce a high level of profitability even during a depressed level of business activity is an attribute which could be usefully extended over other businesses to the benefit of all parties.

Steve Austen

10 September 2003

CUSTOMER SYSTEMS PLC**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

For the half year ended 31 July 2003

	Unaudited 6 Months ended 31 July 2003	Unaudited 6 Months ended 31 July 2002	Audited 12 Months ended 31 January 2003
Note	£	£	£
Turnover	2,567,748	2,513,584	5,213,752
Administrative expenses	<u>(1,591,465)</u>	<u>(1,670,639)</u>	<u>(3,374,956)</u>
Operating profit	976,283	842,945	1,838,796
Other interest receivable and similar income	<u>17,891</u>	<u>21,262</u>	<u>40,113</u>
Profit on ordinary activities before taxation	994,174	864,207	1,878,909
Tax on profit on ordinary activities	<u>2 (293,752)</u>	<u>(253,340)</u>	<u>(563,673)</u>
Profit for the period	700,422	610,867	1,315,236
Dividends paid	<u>(624,874)</u>	<u>(813,797)</u>	<u>(1,268,082)</u>
Transferred to / (from) reserves	<u>5 75,548</u>	<u>(202,930)</u>	<u>47,154</u>
Earnings per ordinary share – basic (pence)	<u>3 6.17</u>	<u>5.40</u>	<u>11.61</u>
Earnings per ordinary share – diluted (pence)	<u>3 6.08</u>	<u>5.31</u>	<u>11.44</u>
Weighted average number of ordinary shares in issue	11,358,717	11,307,042	11,325,646

CUSTOMER SYSTEMS PLC

CONSOLIDATED BALANCE SHEET

At 31 July 2003

	Unaudited as at 31 July 2003	Unaudited as at 31 July 2002	Audited as at 31 January 2003
Note	£	£	£
Fixed Assets			
Tangible assets	73,170	123,256	91,397
	<u>73,170</u>	<u>123,256</u>	<u>91,397</u>
Current assets			
Debtors	785,698	1,272,057	873,714
Cash at bank and in hand	1,438,540	1,077,168	1,307,430
	<u>2,224,238</u>	<u>2,349,225</u>	<u>2,181,144</u>
Creditors: amount falling due within one year	<u>(717,965)</u>	<u>(1,229,577)</u>	<u>(772,202)</u>
Net current assets	<u>1,506,273</u>	<u>1,119,648</u>	<u>1,408,942</u>
Total assets less current liabilities	<u>1,579,443</u>	<u>1,242,904</u>	<u>1,500,339</u>
Capital and reserves			
Called up share capital	113,653	113,229	113,572
Share premium account	31,826	21,405	28,413
Profit and loss account	5 1,433,964	1,108,270	1,358,354
Shareholders' funds	<u>1,579,443</u>	<u>1,242,904</u>	<u>1,500,339</u>

CUSTOMER SYSTEMS PLC**CONSOLIDATED CASH FLOW STATEMENT**

For the half year ended 31 July 2003

	Unaudited 6 Months ended 31 July 2003 £	Unaudited 6 Months ended 31 July 2002 £	Audited 12 Months ended 31 January 2003 £
Net cash inflow from operating activities	996,197	438,231	1,963,614
Returns on investments and servicing of finance			
Interest received	17,891	21,262	40,113
Taxation	(245,440)	0	(865,427)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(17,857)	(16,039)	(28,520)
Sale of tangible fixed assets	1699	0	10,870
Equity dividends paid	(624,874)	(813,797)	(1,268,082)
Financing			
Issue of shares	3,494	21,832	29,183
Increase / (decrease) in cash	<u>131,110</u>	<u>(348,511)</u>	<u>(118,249)</u>

CUSTOMER SYSTEMS PLC

NOTES TO THE INTERIM REPORT 2003

1. BASIS OF PREPARATION

The accounting policies used for the audited financial statements at 31 January 2003 have been used in the preparation of this interim report.

The interim report is unaudited and does not comprise full financial statements. The results for the year to 31 January 2003 are an abridged statement of the financial statements for that year which have been delivered to the Registrar of Companies, and on which the auditors' report was unqualified.

2. TAX CHARGE

The tax charge relating to the current half year is based on the current estimate of the effective tax rate for the full year.

3. EARNINGS PER SHARE

The weighted average number of shares in issue has been restated where necessary to take account of the bonus issue and share split that occurred in May 2002.

4. FOREIGN CURRENCY

Trading results of foreign subsidiaries are included in the Group's results using the closing exchange rate. Gains and losses arising from the re-translation of the opening net investment in foreign subsidiaries at the closing exchange rate are taken directly to reserves. All other foreign exchange gains and losses are reflected in the profit and loss account.

5. PROFIT AND LOSS ACCOUNT - NOTE

	Unaudited 6 Months ended 31 July 2003 £	Unaudited 6 Months ended 31 July 2002 £	Audited 12 Months ended 31 January 2003 £
Profit and loss account at the start of the period	1,358,354	1,322,609	1,322,609
Retained profit for the period	75,548	(202,930)	47,154
Foreign currency translation	62	-	-
Capitalisation of reserves	0	(11,409)	(11,409)
Profit and loss account at the end of the period	<u>1,433,964</u>	<u>1,108,270</u>	<u>1,358,354</u>

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