



Interim Report

2009

**“All of them were great to work with.
Great communication skills and
approach to their customers. Quick to
understand the situation and resolve
issues. ”**

- Abbott Laboratories, Chicago.

CUSTOMER SYSTEMS PLC

BUSINESS PROFILE

Customer Systems plc was founded in February 1998 and our core business is as a high-quality, specialised supplier of IT consulting services. Our first major focus is on the implementation of the market-leading Siebel CRM software now available from Oracle Corporation subsequent to their acquisition of Siebel Systems.

CRM or Customer Relationship Management refers to a style of packaged software which started to become very popular around the 1998 period in Europe and, perhaps, a year earlier in the USA, having been little heard of before that.

This style of software deals with the interactions that organisations have with their customers and prospects, and is sometimes alternatively known as “front-office” software. It embraces the software used by operatives in a call-centre, systems designed to optimise and automate the marketing process, and systems by which large organisations achieve enterprise-wide control of their sales operations. It can also encompass field service and other areas of customer support. The Siebel software suite has been the most successful and is the gold-standard by which other CRM packages are judged.

Our role is to implement this software and to customise it to fit the needs of individual clients. We can handle full implementation projects from requirements definition through to delivery and testing, or smaller sub-projects involving the application of very intense technical expertise to particular areas, or rescue missions where other consultancies’ attempts to implement Siebel have gone wrong. Additionally, we have extended this to the provision of our own training courses which embody the highly advanced techniques we have developed through our consulting work. For some clients, we provide a support service whereby a copy of their special customised software is kept in our office, after the implementation phase is over, and they can call us for telephone response and bug-fixing for any problems that arise.

Our second major area of focus is on business intelligence, data warehousing and reporting software where we have developed rare skills in advanced tools such as Oracle Business Intelligence Enterprise Edition. This product is manifested in the Siebel world as a product called Siebel Analytics, but we do not confine ourselves purely to working with Siebel-based data. Business intelligence can be tackled on an enterprise-wide multi-source basis using these tools. We have also developed skills and techniques in the use of Oracle BI Publisher and the Actuate information delivery tool.

CUSTOMER SYSTEMS PLC

BUSINESS PROFILE

We have always aimed to be at the high-quality end of the market, providing successful results to clients who place a high value on guaranteed success. Our customers generally include nearly all of the largest players in each market sector.

We have made it a speciality to take in new employees with no experience of the software products with which we work, selecting instead for intelligence, determination and the ability to learn new software products and tools very fast.

What we do is not easy. We have made a significant differentiator out of bringing truly effective skills to bear on the missions we tackle.

Our offices are in Chertsey in the UK and Iselin, New Jersey in the USA. We have delivered our services to customers in 30 countries across Europe, North America, Asia, Africa and Australasia.

Siebel and Oracle are trademarks of Oracle Corporation
Actuate is a trademark of Actuate Corporation

CUSTOMER SYSTEMS PLC

CHAIRMAN'S STATEMENT FOR THE CONSOLIDATED UNAUDITED GROUP RESULTS FOR THE HALF YEAR ENDED 31ST JULY 2009

I am very happy to be able to announce a successful performance for the half-year ending on 31st July 09.

Whilst this will not compare favourably with the equivalent period from the previous year, the profile of results we have seen, coupled with our current order book, does indicate a significant turnaround in the decline in revenues which I reported in the last annual report, and which continued into the early part of this period.

Results in Brief

Revenues for the six-month period were 19.83% lower at £2.35m: (2008: £2.93m). Profit before tax was 31.38% lower at £0.89m (2008: £1.30m). The pre-tax margin was 37.9% compared with 44.3% for the first half of last year.

Basic earnings per share were 29.59% down at 5.70 pence (2008: 8.10 pence).

Our balance sheet remains strong, in spite of the payment of £0.81m in dividends during the half-year. At 31st July 2009, the cash balance was £0.81m. Net assets at the balance sheet date were £0.96m and net current assets were £0.93m.

Dividends

A first interim dividend for the year of 7 pence net per share was paid in April 2009, and this compares with a figure of 8 pence net per share for the equivalent period last year.

In the past, it has been our policy to take surplus cash out of the company and pay it to shareholders, with the caveat that dividends would be missed or reduced if an investment opportunity, such as a potential acquisition, presented itself. In recent times, this has involved two interim dividends per annum, paid in April and October.

The increase in the top rate of UK income tax which has been announced for the tax year commencing on 6th April 2010 causes us to stop and think about this policy and, almost certainly, to revise it.

CUSTOMER SYSTEMS PLC

CHAIRMAN'S STATEMENT (continued)

Assuming that the company has sufficient cash and distributable reserves, our intention is to continue with a dividend payment in October 2009, and to pay the subsequent dividend in March 2010 before the new tax year starts. We intend to work towards the goal of maximising the payout in March 2010 so as to make use of the relatively benign tax environment which pertains at present.

Beyond March, we will keep our options constantly under review whilst searching for a more tax efficient mechanism by which to pass to shareholders the value which the business creates or to make use of that value within the business. This may involve us accumulating cash within the company rather than distributing it whilst that search continues. It is conceivable that we may become more aggressive about seeking acquisitions.

Business Progress

At the end of the last financial year, we saw revenues reducing and our belief was and is that this was heavily influenced by overall macroeconomic conditions and their effects on business confidence and willingness to invest in IT projects.

If we take a quarterly revenue of about £1.5m as a reasonable guide to our pre-recessionary plateau, since this is approximately representative of our performance for the seven quarters prior to quarter 4 of last year, then quarter 4, at £1.14m, represented a 23.7% drop from the plateau level.

We continued to see depressed levels of spending as this financial year started, and quarter 1, at a revenue level of £1.03m was 31.1% below the pre-recessionary plateau.

Quarter 2 has seen a substantial improvement with a revenue figure of £1.32m which is only 12.2% below the plateau level. The indications are that quarter 3 revenues will exceed those of quarter 2.

It is, yet again, a testament to the robustness of our business that, throughout this period of turbulence in our revenues, we have remained a highly profitable and cash-generative business, with our pre-tax margin never falling below 29.9% in any quarter.

CUSTOMER SYSTEMS PLC

CHAIRMAN'S STATEMENT (continued)

The manager of our US operation has continued to grow our US business both in absolute terms and as a proportion of our revenue. During the period, 39.1% of our business came from the US as compared with 10.5% for the equivalent period last year and 15.6% for the whole of last year. This is a dramatic improvement and a major achievement. Nearly all of the remaining business was UK sourced, with mainland Europe seemingly quite quiet at present.

Our experiment with marketing our services in Australia was not successful and we have brought this experiment to an end.

Recruitment

This summer has seen a successful recruitment drive to replenish our headcount which had run down to a level where there was a danger that we might not be able to service the level of demand. We have been able to make use of the somewhat easier recruitment conditions caused by other employers ramping back or suspending their recruitment plans. To arrive at a truly comfortable position, we would ideally like to find 2-4 more recruits during the second half of the year.

Outlook

As already indicated, we see quarter 3 being better in revenue terms than quarter 2, based on the information available to us. Not all of the increase in revenue will necessarily appear as additional profit because many of the newly recruited employees will still be in their training periods. However, the information available to us suggests that there will, nevertheless, be an increase in profit from quarter 2 to quarter 3.

Looking ahead to quarter 4, the information available points to it being a good quarter for both revenue and profit but it would be unrealistic of us to project it showing an increase over quarter 3, when quarter 4 contains the relatively quiet periods of Christmas and New Year.

It is worth mentioning that the recovery of our business in quarter 2 and the projected good results for the second half of the year are not intended to represent a reliable commentary on macroeconomic conditions in the economy as a whole. We genuinely do not know when the recession will end or how deep it might ultimately go.

CUSTOMER SYSTEMS PLC

CHAIRMAN'S STATEMENT (continued)

We have significant long term involvement with major corporations and government bodies which allow us to project probable revenues from this moment forwards for some months. These clients are high quality, financially sound organisations who are in a position to make investments that they know will pay them back, in spite of the poor state of the economy.

We look forward to working with them to ensure that they achieve their goals.

Steve Austen

21st August 2009

CUSTOMER SYSTEMS PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the half year ended 31 July 2009

| | Unaudited 6 Months ended 31 July 2009 | Unaudited 6 Months ended 31 July 2008 | Audited 12 Months ended 31 January 2009 |
|--|--|---|---|
| Note | £ | £ | £ |
| Turnover | 2,350,418 | 2,931,763 | 5,488,385 |
| Administrative expenses | <u>(1,461,555)</u> | <u>(1,652,626)</u> | <u>(3,071,353)</u> |
| Operating profit | 888,863 | 1,279,137 | 2,417,032 |
| Interest receivable | <u>2,002</u> | <u>19,064</u> | <u>32,185</u> |
| Profit on ordinary activities before taxation | 890,865 | 1,298,201 | 2,449,217 |
| Tax on profit on ordinary activities | 2 <u>(232,989)</u> | <u>(368,705)</u> | <u>(677,727)</u> |
| Profit for the period | <u>657,876</u> | <u>929,496</u> | <u>1,771,490</u> |
| Earnings per ordinary share – basic (pence) | <u>5.70</u> | <u>8.10</u> | <u>15.40</u> |
| Earnings per ordinary share – diluted (pence) | 3 <u>5.70</u> | <u>8.06</u> | <u>15.36</u> |
| Weighted average number of ordinary shares in issue | 11,541,150 | 11,481,150 | 11,506,150 |

CUSTOMER SYSTEMS PLC

CONSOLIDATED BALANCE SHEET

At 31 July 2009

| | Unaudited as at 31 July 2009 £ | Unaudited as at 31 July 2008 £ | Audited as at 31 January 2009 £ |
|---|---|--|---|
| Fixed Assets | | | |
| Tangible assets | 28,459 | 17,500 | 27,675 |
| | <hr/> 28,459 | <hr/> 17,500 | <hr/> 27,675 |
| Current assets | | | |
| Debtors | 767,189 | 760,657 | 672,324 |
| Cash at bank and in hand | 808,040 | 1,293,026 | 934,378 |
| | <hr/> 1,575,229 | <hr/> 2,053,683 | <hr/> 1,606,702 |
| Creditors: amounts falling due within one year | <hr/> (640,394) | <hr/> (903,128) | <hr/> (521,078) |
| Net current assets | <hr/> 934,835 | <hr/> 1,150,555 | <hr/> 1,085,624 |
| Total assets less current liabilities | <hr/> 963,294 | <hr/> 1,168,055 | <hr/> 1,113,299 |
| Capital and reserves | | | |
| Called up share capital | 115,412 | 114,812 | 115,412 |
| Share premium account | 72,718 | 58,318 | 72,718 |
| Profit and loss account | 775,164 | 994,925 | 925,169 |
| Shareholders' funds | <hr/> 963,294 | <hr/> 1,168,055 | <hr/> 1,113,299 |

CUSTOMER SYSTEMS PLC

CONSOLIDATED CASH FLOW STATEMENT

For the half year ended 31 July 2009

| | Unaudited 6 Months ended 31 July 2009 £ | Unaudited 6 Months ended 31 July 2008 £ | Audited 12 Months ended 31 January 2009 £ |
|--|--|--|--|
| Net cash inflow from operating activities | 787,928 | 1,352,997 | 2,472,797 |
| Returns on investments and servicing of finance | | | |
| Interest received | 2,002 | 19,064 | 32,185 |
| Taxation | (99,053) | (392,531) | (968,649) |
| Capital expenditure and financial investment | | | |
| Purchase of tangible fixed assets | (9,334) | (8,256) | (26,957) |
| Sale of tangible fixed assets | - | 2,182 | 2,182 |
| Equity dividends paid | (807,881) | (918,492) | (1,830,242) |
| Financing | | | |
| Issue of shares | - | - | 15,000 |
| Increase / (decrease) in cash | (126,338) | 54,964 | (303,684) |

CUSTOMER SYSTEMS PLC

NOTES TO THE INTERIM REPORT 2009

1. BASIS OF PREPARATION

The accounting policies used for the audited financial statements at 31 January 2009 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 2009 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.

Full unaudited interim financial statements for the half year ended 31 July 2009 have been sent to the Registrar of Companies.

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 diluted earnings per share are based on the profit for the period of £657,876 and on a diluted weighted average number of shares of 11,541,150.

4. FOREIGN CURRENCY

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

CUSTOMER SYSTEMS PLC

NOTES TO THE INTERIM REPORT 2009

5. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | Unaudited 6 Months ended 31 July 2009 £ | Unaudited 6 Months ended 31 July 2008 £ | Audited 12 Months ended 31 January 2009 £ |
|---|--|--|--|
| Profit for the period | 657,876 | 929,496 | 1,771,490 |
| Dividends | (807,881) | (918,492) | (1,830,242) |
| | (150,005) | 11,004 | (58,752) |
| Issue of shares | - | - | 15,000 |
| Net increase / (decrease) in shareholders' funds | (150,005) | 11,004 | (43,752) |
| Opening shareholders' funds | 1,113,299 | 1,157,051 | 1,157,051 |
| Closing shareholders' funds | 963,294 | 1,168,055 | 1,113,299 |

“The best.”

- Toshiba.

Company registration number: 3509265

Registered office: 1 Guildford Street
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Mr D K Scattergood

Secretary: Mr J J Rutt

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The ISIN code of our shares in the CREST system is IGB0032037870.

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