intelligent operations management

eg solutions plc

Interim Report 2009

Stock exchange code: EGS

Contents

41,000
users of **eg** software worldwide

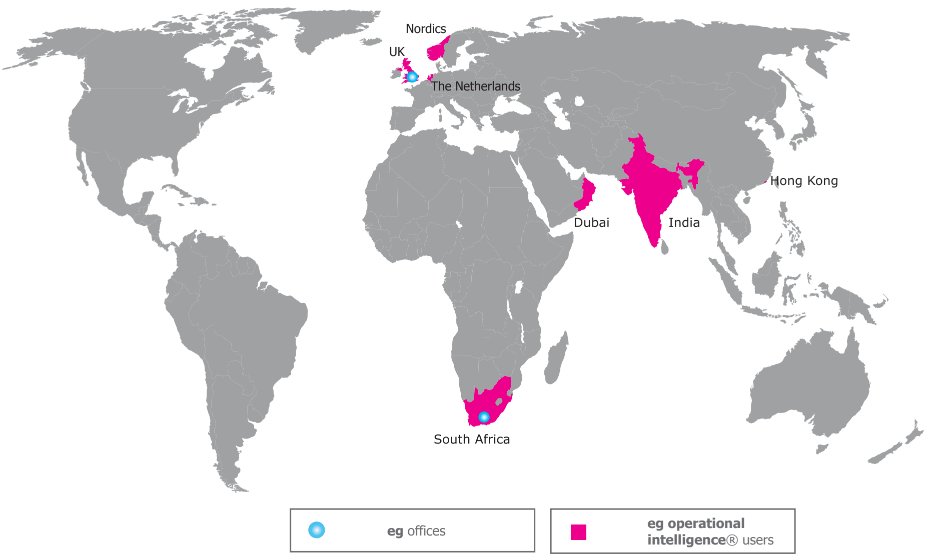
Highlights

what we do

eg solutions plc is an operations management software applications vendor delivering guaranteed improvements in operations management. We use our leading operations management software and methodology to deliver measurable improvements in operations functions throughout the world.

The Company currently has more than 41,000 licensed users of the **eg operational intelligence**® software suite across blue-chip companies throughout the world.

Where we operate



"Assisted by a number of contract wins during the first half of the year, the Board's expectations for the year as a whole are underpinned by having over 80% of anticipated revenues for the year to 31 January 2010 already under contract."

Highlights:

- Revenue was £2.09m (H1, 2008: £2.27m).
- Gross margins improved to 63.1% in the first half, up from 50.6% for the year to 31 January 2009.
- Profit before tax was £56,000 (H1, 2008: £53,000), representing a turn round after a pre-tax loss of £0.81m in the second half of last year.
- Tight cash management resulted in cash balances of £0.59m at 31 July 2009, up from £0.26m as at 31 January 2009.
- Contract wins with key clients in UK and international markets included Nationwide Building Society, a major UK life and pensions company and one of the largest bancassurance groups in the Nordic region.

Chairman's Statement

Introduction

Over the past twelve months trading conditions within our core market, the financial services sector, have been exceptionally difficult. Against this background we are pleased to report that the Company has returned to profitability in the first half of the current year, having incurred losses during the second half of last year.

Although, at face value, the results look little changed from the comparable period last year, these have been achieved in a declining economy and in the sector worst affected by the credit crunch.

Financials

Revenue for the six months ended 31 July 2009 was £2.09m. Whilst 8% below the £2.27m recorded for the comparable period last year, it represented a significant improvement over the £1.40m for the second half of last year. Our South African business also achieved a 125% increase in first half revenue. During the half year software licences, maintenance and software services contributed 72% of revenues (61% for the comparable period last year and 66% for the full year to 31 January 2009). The balance of 28% was contributed by implementation and training services.

Gross margins improved to 63.1% in the half year, up from 50.6% for the year to 31 January 2009. Reflecting tight control of costs operating profit for the period increased to £55,000, compared to £31,000 in the same period last year on higher revenues, and a turn round from an operating loss of £0.82m in the second half of last year. The profit before tax was £56,000, up from £53,000 in the first half of last year and a loss of £0.81m by the second half of last year.

Tight cash management has resulted in a cash inflow of £0.33m during the first half year with cash balances of £0.59m as at 31 July 2009 (£0.26m as at 31 January 2009).

Dividend

The Board will not be declaring a dividend at the half year stage.

Operating review — UK markets

In the aftermath of the financial crisis of last autumn, decision making at the Company's clients in the financial services sector had lengthened. This impacted sales in the latter part of our last financial year and during the early months of the current year. Our clients have also increased their focus on managing costs. On the one hand this has benefited the 'spend to save' nature of the Company's products and services; on the other hand, the Company has had to work hard to achieve sales where customer budgets have been under severe pressure.

During the period under review, a succession of new orders from Nationwide Building Society has extended the Company's reach into the Cheshire and Derbyshire regional brand businesses and the acquired elements of the Dunfermline Building Society as well as into other parts of Nationwide's business. As a result, the total number of users of **eg**'s software within Nationwide has now increased to 1,650.

Towards the end of the half year, the Company received further evidence of the potential for additional sales into our existing client base. An additional contract was signed for software and services with a major UK life and pensions company, adding a further 400 'seats' to take their total to 1,600 across four operating divisions. Our first implementation for this customer was in 2008.

Other client projects have been undertaken to integrate **eg operational intelligence**® with Xerox ECM and Tibco BPM work management solutions. These projects have further demonstrated the additional value **eg**'s software can bring to incumbent IT platforms.

"After the turmoil of past months, there is evidence that our financial services client basis is gradually returning to 'business as usual' in operational terms."

Rodney Baker-Bates
Non-executive Chairman

Chairman's Statement continued

Operating review — international markets

In April 2009, the Company was pleased to announce a contract with a new customer valued at a minimum of £1.6m from one of the largest bancassurance groups in the Nordic region. This will be our first implementation within this client and the contract will contribute to revenue this year and for the following four years.

Shortly before the end of the Company's last financial year a new order was announced with Resolution Health in South Africa. This implementation enabled them to increase their client handling capacity without increasing operating costs. The project was completed successfully during the half year.

Products

Progressive development of the Company's software has resulted in upgrades to two existing products which are now ready for general release: **eg work manager**® v5.1 and **eg operational intelligence**® v2.1. These new versions incorporate a number of functional enhancements to improve the ability to deliver rapid performance improvements in customer service operations.

People

Without doubt, the past year has been difficult. On behalf of the Board, I would like to thank all of the Company's staff for their exceptional commitment and effort.

Current trading and outlook

After the turmoil of past months, there is evidence that our financial services client base is gradually returning to 'business as usual' in operational terms. Assisted by a number of contract wins during the first half of the year, the Board's expectations for the year as a whole are underpinned by having over 80% of anticipated revenues for the year to 31 January 2010 already under contract.

We have recently completed some detailed market studies which confirm the potential for growth in our market. Our main task for the remainder of the year is to build on the achievements of the half year and create a platform for a return to growth next year and beyond.

Rodney Baker-Bates
Non-executive Chairman
17 September 2009

"Towards the end of the half year, the Company received further evidence of the potential for additional sales into our existing client base."

Condensed Consolidated Statement of Comprehensive Income

for the six months ended 31 July 2009

	Unaudited six months ended 31 July 2009 £'000	Unaudited six months ended 31 July 2008 £'000	Audited twelve months ended 31 January 2009 £'000
Revenue	**2,090**	2,269	3,666
Cost of sales	**(771)**	(929)	(1,812)
Gross profit	**1,319**	1,340	1,854
Administrative expenses	**(1,264)**	(1,309)	(2,646)
Operating profit/(loss)	**55**	31	(792)
Finance income	**1**	22	39
Profit/(loss) before tax	**56**	53	(753)
Income tax (charge)/credit	**(6)**	1	33
Profit/(loss) for the period	**50**	54	(720)
Profit/(loss) attributable to equity shareholders of the Parent Company and total comprehensive income	**50**	54	(720)
Earnings per share			
Basic	**0.4p**	0.4p	(5.5)p
Fully diluted	**0.3p**	0.4p	—

Condensed Consolidated Statement of Financial Position

as at 31 July 2009

	Unaudited as at 31 July 2009 £'000	Unaudited as at 31 July 2008 £'000	Audited as at 31 January 2009 £'000
Assets			
Non-current assets			
Intangible assets	**1,563**	1,111	1,434
Property, plant and equipment	**63**	90	74
	1,626	1,201	1,508
Current assets			
Trade and other receivables	**813**	943	539
Inventories	**17**	—	17
Current tax receivable	**150**	157	258
Cash and cash equivalents	**592**	1,151	262
	1,572	2,251	1,076
Total assets	**3,198**	3,452	2,584
Liabilities			
Current liabilities			
Trade and other payables	**668**	589	615
Deferred revenue	**901**	851	448
	1,569	1,440	1,063
Non-current liabilities			
Deferred tax	**252**	85	215
	252	85	215
Total liabilities	**1,821**	1,525	1,278
Net assets	**1,377**	1,927	1,306
Equity			
Issued capital	**143**	143	143
Share premium	**2,910**	2,910	2,910
Share-based payment reserve	**239**	216	218
Own shares held	**(1,000)**	(1,000)	(1,000)
Retained earnings	**(915)**	(342)	(965)
Total equity	**1,377**	1,927	1,306

Consolidated Interim Cash Flow Statement

for the six months ended 31 July 2009

	Unaudited six months ended 31 July 2009 £'000	Unaudited six months ended 31 July 2008 £'000	Audited twelve months ended 31 January 2009 £'000
Operating activities			
Profit/(loss) before tax	**56**	53	(753)
Adjustments:			
Depreciation of property, plant and equipment	**25**	62	62
(Profit)/loss on disposal of property, plant and equipment	**(1)**	—	31
Amortisation of intangible assets	**145**	104	236
Share option charge	**21**	25	27
Exchange rate difference	**—**	(13)	—
Working capital adjustments:			
(Increase)/decrease in receivables	**(276)**	(94)	258
Increase in inventories	**—**	—	7
Increase in payables	**507**	475	94
Net cash generated from/(used in) operations	**477**	612	(38)
Investing activities			
Purchases of other intangible assets	**(272)**	(304)	(528)
Purchases of property, plant and equipment	**(13)**	(35)	(54)
Proceeds from sale of property, plant and equipment	**—**	—	4
Income tax repayment	**138**	—	—
Net cash (used in)/generated from investing activities	**(147)**	(339)	(578)
Net increase/(decrease) in cash and cash equivalents	**330**	273	(616)
Cash and cash equivalents at beginning of the period	**262**	878	878
Cash and cash equivalents at end of the period	**592**	1,151	262

Condensed Consolidated Statement of Changes in Equity

for the six months ended 31 July 2009

	Share capital £'000	Share premium £'000	Retained earnings £'000	Own shares held £'000	Share-based payment reserve £'000	Total £'000
Balance at 1 February 2008	143	2,910	(217)	(1,000)	191	2,027
Total comprehensive income	—	—	54	—	—	54
Share-based payments	—	—	—	—	68	68
Foreign exchange difference	—	—	(13)	—	—	(13)
Balance at 31 July 2008	143	2,910	(176)	(1,000)	259	2,136
Balance at 1 August 2008	143	2,910	(176)	(1,000)	259	2,136
Total comprehensive income	—	—	(774)	—	—	(774)
Share-based payments	—	—	—	—	(41)	(41)
Foreign exchange difference	—	—	(15)	—	—	(15)
Balance at 31 January 2009	143	2,910	(965)	(1,000)	218	1,306
Balance at 1 February 2009	143	2,910	(965)	(1,000)	218	1,306
Total comprehensive income	—	—	50	—	—	50
Share-based payments	—	—	—	—	21	21
At 31 July 2009	**143**	**2,910**	**(915)**	**(1,000)**	**239**	**1,377**

This statement is unaudited.

Notes to the Condensed Consolidated Interim Financial Statements
for the six months ended 31 July 2009

1 Basis of Preparation

The interim financial information consolidates the results of the Company and its subsidiary undertakings made up to 31 July 2009. The Company is a limited liability company incorporated and domiciled in England & Wales and whose shares are listed on the Alternative Investment Market.

The financial information contained in this interim report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. It does not therefore include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 January 2009.

The financial information for the six months ended 31 July 2009 is unaudited. The Group has not applied IAS 34, Interim Financial Reporting, which is not mandatory for UK Groups, in the preparation of these interim financial statements.

Full accounts of **eg** solutions plc for the year ended 31 January 2009 have been delivered to the Registrar of Companies. The report of the Auditors on these accounts was unqualified and did not contain a statement under Section 498(2–4) of the Companies Act 2006.

Significant Accounting Policies

The accounting policies used in the preparation of the financial information for the six months ended 31 July 2009 are in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS") as adopted by the European Union and are consistent with those that are expected to be adopted in the annual statutory financial statements for the year ending 31 January 2010. These are not expected to differ significantly from those adopted in the financial statements for the year ended 31 January 2009.

The interim report for the six months ended 31 July 2009 was approved by the Board of Directors on 17 September 2009.

2 Segment Reporting

Business Segments

As of 1 February 2009, the Group has applied the new standard IFRS 8 Operating Segments. The Group's reporting segment is based upon geographic location as this is the most appropriate method to reflect the nature of the Group's operations. The Group has two distinct companies operating in different geographical areas with different economic and political conditions and a different maturity of client and client requirements. These are:

- EGUK — United Kingdom
- EGSA — South Africa

2 Segment Reporting continued

Segment information about these companies is presented below.

Segment Report

	UK			SA		
	Unaudited six months ended 31 July 2009 £'000	Unaudited six months ended 31 July 2008 £'000	Audited twelve months ended 31 Jan 2009 £'000	Unaudited six months ended 31 July 2009 £'000	Unaudited six months ended 31 July 2008 £'000	Audited twelve months ended 31 Jan 2009 £'000
Revenue						
External revenue	**1,914**	2,191	3,465	**176**	78	201
Inter-segment revenue	**—**	—	165	**—**	—	128
Total revenue	**1,914**	2,191	3,630	**176**	78	329
Gross profit	**1,169**	1,302	1,825	**150**	38	92
Administrative expenses	**(1,127)**	(1,160)	(2,302)	**(153)**	(149)	(370)
Inter-segment administrative expenses	**—**	—	(54)	**—**	—	—
Operating profit/(loss)	**42**	142	(531)	**(3)**	(111)	(278)
Finance income	**1**	22	39	**—**	—	—
Profit/(loss) before tax	**43**	164	(492)	**(3)**	(111)	(278)
Income tax credit/(expense)	**(6)**	1	92	**—**	—	(54)
Profit/(loss) after tax	**37**	165	(400)	**(3)**	(111)	(332)

Notes to the Condensed Consolidated Interim Financial Statements
for the six months ended 31 July 2009

2 Segment Reporting continued

	Unaudited six months ended 31 July 2009 £'000	Group Unaudited six months ended 31 July 2008 £'000	Audited twelve months ended 31 Jan 2009 £'000
Revenue			
External revenue	**2,090**	2,269	3,666
Inter-segment revenue	**—**	—	—
Total revenue	**2,090**	2,269	3,666
Gross profit	**1,319**	1,340	1,854
Administrative expenses	**(1,264)**	(1,309)	(2,646)
Inter-segment administrative expenses	**—**	—	—
Operating profit/(loss)	**55**	31	(792)
Finance income	**1**	22	39
Profit/(loss) before tax	**56**	53	(753)
Income tax credit/(expense)	**(6)**	1	33
Profit/(loss) after tax	**50**	54	(720)

2 **Segment Reporting** continued

Other segmental information

	UK Unaudited six months ended 31 July 2009 £'000	UK Unaudited six months ended 31 July 2008 £'000	UK Audited twelve months ended 31 Jan 2009 £'000	SA Unaudited six months ended 31 July 2009 £'000	SA Unaudited six months ended 31 July 2008 £'000	SA Audited twelve months ended 31 Jan 2009 £'000
Segment assets	**3,605**	3,707	3,005	**282**	250	185
Segment liabilities	**(1,753)**	(1,516)	(1,211)	**(757)**	(500)	(683)
Net assets	**1,852**	(2,191)	1,794	**(475)**	(250)	(498)
Capital expenditure						
Property, plant and equipment	**13**	22	51	**7**	9	3
Intangible assets	**272**	304	528	**—**	—	—

	Group Unaudited six months ended 31 July 2009 £'000	Group Unaudited six months ended 31 July 2008 £'000	Group Audited twelve months ended 31 Jan 2009 £'000
Segment assets	**3,198**	3,452	2,584
Segment liabilities	**(1,821)**	(1,525)	(1,278)
Net assets	**1,377**	1,927	1,306
Capital expenditure			
Property, plant and equipment	**20**	31	54
Intangible assets	**272**	304	528

Notes to the Condensed Consolidated Interim Financial Statements
for the six months ended 31 July 2009

2 Segment Reporting continued

The Group had revenue streams from a small number of customers in the UK segment which made up 10% or more of the Group's turnover. The Group has elected not to disclose the identity of the customers.

Customer	Unaudited six months ended 31 July 2009 £'000	% of total revenue	Unaudited six months ended 31 July 2008 £'000	% of total revenue	Audited twelve months ended 31 Jan 2009 £'000	% of total revenue
1	**217**	**10**	416	18	575	16
2	**234**	**11**	—	—	—	—
3	**439**	**21**	—	—	—	—
4	**—**	**—**	494	21	632	17
5	**—**	**—**	—	—	376	10

3 Taxation

	Unaudited six months to 31 July 2009 £'000	Unaudited six months to 31 July 2008 £'000	Audited twelve months to 31 January 2009 £'000
Current tax:			
Domestic	**(31)**	—	(119)
Adjustments in respect of prior periods	**—**	—	17
	(31)	—	(102)
Deferred tax:			
Current tax	**37**	(1)	30
Adjustments in respect of prior periods	**—**	—	39
Tax attributable to the Group and its subsidiaries	**6**	(1)	(33)

Domestic income tax is calculated at 28% (31/07/08 and 31/01/09: 28%) of the estimated assessable profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

3 Taxation continued

	Unaudited six months to 31 July 2009 £'000	Unaudited six months to 31 July 2008 £'000	Audited twelve months to 31 January 2009 £'000
The charge for the year can be reconciled to the profit per the income statement as follows:			
Profit/(loss) before tax	**56**	53	(753)
Tax at the domestic income tax rate 28% (31/07/08 and 31/01/09: 28%)	**16**	15	(211)
Tax effects of expenses that are not deductible in determining taxable profit	**10**	(32)	24
Other temporary timing differences	**—**	20	1
Research and development	**(20)**	(56)	(86)
Tax losses carried forward	**—**	52	—
Marginal rate of tax	**—**	—	105
Prior year adjustments	**—**	—	56
Movement in unprovided deferred tax	**—**	—	78
Tax credit	**6**	(1)	(33)
Effective tax rate for the year	**11%**	2%	4%

4 Dividends

In respect of the current year, the Directors propose that no dividend will be paid to shareholders.

Notes to the Condensed Consolidated Interim Financial Statements
for the six months ended 31 July 2009

5 Earnings/(loss) per Share

From continuing operations	Unaudited six months to 31 July 2009	Unaudited six months to 31 July 2008	Audited twelve months to 31 January 2009
Basic	**0.4p**	0.4p	(5.5)p
Diluted	**0.3p**	0.4p	—

EPS has been calculated using the following methodology:

$$\frac{\text{Profit/(loss) after tax}}{\text{Allotted issued and fully paid shares less shares owned by the Employee Benefit Trust}}$$

Diluted EPS has been calculated using the following methodology:

$$\frac{\text{Profit/(loss) after tax}}{\text{Allotted issued and fully paid shares less shares owned by the Employee Benefit Trust that are not currently allocated as options}}$$

The weighted average number of ordinary shares for calculating the diluted loss per share for the period ended 31 January 2009 is identical to those for the basic loss per share. This is because the outstanding share options would have the effect of reducing the loss per ordinary share and would therefore not be dilutive under the terms of International Accounting Standard ("IAS") 33.

For all periods the number of allotted, issued and fully paid ordinary shares of 1p each was 14,293,849 and the number of shares owned by the Employee Benefit Trust was 1,176,470.

6 Intangible Assets

	Development costs £'000
Cost	
At 1 February 2008	1,177
Additions — internally developed	304
At 1 August 2008	1,481
Additions — internally developed	224
At 1 February 2009	1,705
Additions — internally developed	272
At 31 July 2009	**1,977**
Amortisation and impairment	
At 1 February 2008	35
Amortisation for the period	104
At 1 August 2008	139
Amortisation for the period	132
At 1 February 2009	271
Amortisation for the period	143
At 31 July 2009	**414**
Carrying amount	
At 31 July 2009	**1,563**
At 31 January 2009	1,434

Amortisation of £143k (31/07/08: £104k) has been charged to costs of sales.

Shareholder Notes

Board of Directors

Rodney Baker-Bates
Non-executive Chairman

Elizabeth Gooch
Chief Executive Officer

Andrew McRae
Non-executive Director

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