

CHARTERIS PLC
("Charteris" or "the Company" or "the Group")

PRELIMINARY RESULTS

Charteris plc, the business and IT consultancy, announces its preliminary results for the year ended 31 July 2010.

Key points

- Revenue of £15.4m (2009: £20.3m)
- Loss before taxation and exceptional charges was £840k (2009: £438k profit)
- Diluted loss per share before exceptional charges of 2.03p (2009: 1.18p earnings)
- Restructuring and cost saving measures implemented, reducing costs by 19% year on year - a key factor in the Group's return to break-even performance before exceptional costs in Q4
- Work for local authorities based on Citizen Centric Business Change model developed significantly
- Microsoft Dynamics business performed strongly, particularly benefiting from existing and new contracts in the manufacturing, distribution and commercial sectors

Commenting on the results, Cliff Preddy, Chairman, said:

"The continuing effects of the recent recession in several of the consulting markets in which we operate meant that trading conditions for Charteris were challenging throughout the financial year ended 31 July 2010. Sales and revenues improved progressively through the second half, leading to an underlying break-even performance for the business in the last quarter before exceptional costs.

Following the improving trend in the final quarter of FY10, performance in the first quarter of FY11 has been encouraging with stronger utilisation of professional staff and a building sales pipeline. The trend should give progressive improvement in business performance from our lower cost base, assuming that markets maintain reasonable resilience to any further economic pressure."

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Charteris plc

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CHAIRMAN'S STATEMENT

The continuing effects of the recent recession in several of the consulting markets in which we operate meant that trading conditions for Charteris were challenging throughout the financial year ended 31 July 2010 (FY10). Efforts were largely concentrated on achieving key sales, whilst adjusting and constraining costs in line with forecasts for near and medium term revenue.

In the interim report for the year, released at the end of March, the Directors' expectation was that the second half financial performance would show an improvement on the first half but that overall business volumes were unlikely to rise appreciably until the fourth quarter. This proved to be the case, and whilst longer than expected client decision timescales meant slower improvement, sales and revenues improved progressively through the second half, leading to an underlying break-even performance for the business in the final quarter before exceptional costs.

Results

Revenue in the year ended 31 July 2010 was £15.4m (2009: £20.3m).

Loss before taxation and exceptional items was £0.8m. (2009: profit £0.4m). Exceptional charges consisted of redundancy costs of £0.2m (2009: redundancy costs £0.6m; impairment of goodwill of £1.0m and share-based payment charge of £0.04m). Loss before taxation was £1.0m (2009: £1.2m). Fully diluted loss per share was 2.49p (2009: 2.85p loss).

The cash balance at 31 July 2010 was £0.9m (31 July 2009: £1.5m; 31 January 2010: £0.8m). Net debt on 31 July 2010 was £1.4m (31 July 2009: £0.7m).

Dividend

In order to conserve cash during less certain trading, the directors have decided not to recommend an annual dividend (2009: 0.2p per share).

Business Overview

The Company's strategy is to concentrate on those activities that the Board believes have the greatest potential for the building of long-term client relationships, delivery of reliable margins and improvement of shareholder value.

The chosen service specialisations, delivered in selected market sectors, are:

Business Change Consulting: change and transformation programmes driven by the needs of our clients' customers and users of services (Customer Centric Business Change), supported by deep experience in the Charteris professional team of organisational change consultancy and major programme management. Business consulting revenues in the Public Sector made a solid contribution over the year. We continued to support a number of organisations engaged in homeland security. Our work for local authorities based on our Citizen Centric Business Change model developed significantly. In the Retail Sector, though overall revenues were lower this year, towards the end of the period new business based on Customer Centric Business Change was secured.

Microsoft Dynamics: maximising business efficiency, productivity and flexibility through the design and implementation of Enterprise Resource Planning (ERP) and Customer Relationship Management (CRM) business systems, based upon the Microsoft Dynamics range of application software products. The Microsoft Dynamics business performed strongly, particularly benefiting from existing and new contracts in the manufacturing, distribution and commercial sectors.

Microsoft Technologies: the provision of Advanced Microsoft Consulting skills for the design and implementation of IT systems and infrastructure based on Microsoft's "classic stack" technology, and Cloud Computing. Revenues for infrastructure services held up well during the year and, in the second half, there was encouraging renewal of demand for our Advanced Microsoft Consulting services in the financial services sector.

Outlook

Despite the challenges of the past year, the Company retains a clear direction which will position the business for improved performance as market conditions stabilise.

Charteris enters the new business year with a better balance of business across our market sectors. Our three core service areas are well aligned to the needs of clients operating in a cost constrained, yet competitive economic environment. Whilst there is still likely to be a tendency for clients to proceed cautiously in this environment, the need for timely business change is increasing. Our track record in delivering reliable IT-enabled change and carefully targeted services will progressively differentiate Charteris in this evolving market.

Following the improving trend in the final quarter of FY10, performance in the first quarter of FY11 has been encouraging with stronger utilisation of professional staff and a building sales pipeline. The trend should give

progressive improvement in business performance from our lower cost base, assuming that markets maintain reasonable resilience to any further economic pressure.

The fundamentals of Charteris remain strong with a quality client base and a high calibre team.

Cliff Preddy

Non-Executive Chairman

3 December 2010

CHIEF EXECUTIVE'S STATEMENT

In difficult trading conditions the imperative over the period has been to take the steps necessary to ensure that the business is on course for recovery from the effects of the recession. These steps have concentrated on maximising effectiveness in the market positioning and sales of our services, as well as further improving operational cost efficiency.

Although a number of our markets remained sluggish for much of the year, concerted efforts in the promotion and targeting of our services have led to a growing sales pipeline through the second half and an increased rate of sales closures. Remaining highly client focussed has enabled us to build upon both existing and new account relationships that have the potential to develop considerably over the coming year.

We have taken the necessary actions to keep the Company's cost base aligned with currently projected business volumes. In taking these steps we have preserved the core strengths of the business, which will be vital to the anticipated future growth of Charteris as market conditions improve.

Government & Legal

Our work in the Public Sector has been an important contributor to the business throughout the year. In homeland security we continued to provide advisory and programme management services to some of the most significant long-term change programmes in this domain.

Over several years we have built a demonstrable track record in delivering operational efficiency improvements in Local and Regional Government using our Customer (Citizen) Centric Business Change (CCBC) techniques. Demand for this proposition has increased in a market where tight budgetary constraints make cost control with efficient service delivery the top priority.

Following our successful CCBC projects at Wiltshire Council - reducing cost while improving services in Adult Social Care - we have successfully engaged in a number of new projects for the council. Helping people to live longer at home while maintaining sustainable budgets is a key focus of change. The CCBC approach has also been used in other council service areas including Waste Management, Highways, Amenities and Transport. These activities are leading to close partnership working to meet the challenge of budgetary constraints while protecting vital customer services.

Building on this success we have engaged in new projects to deliver similar benefits to a number of new local authority clients during the period. These include the South West Regional Improvement and Efficiency Partnership (RIEP), a partnership of sixteen local authorities in the South West that supports those authorities in delivering efficiency savings and in improving their ability to provide services to their citizens. We have also worked with Plymouth CC, Cornwall CC, Warrington CC, Worcestershire CC, Surrey CC and a number of other local councils and Health Services.

The drive for greater efficiencies and reduced operating costs throughout the public sector also continued to create demand for our Advanced Microsoft Consulting services. This was also stimulated by Microsoft's wave of new product releases in desktop, collaboration and communication technologies. Towards the end of the period, the growth in clients' interest in 'Cloud' or Software-as-a-Service solutions strengthened the pipeline of opportunity for our combined skills in IT-enabled business change. Our work in this area included consolidation of the corporate and education IT infrastructure at Perth and Kinross Council and the implementation of a cloud based collaboration platform for a public sector body in Scotland.

In the legal sector, during the year, our experts have again acted in some of the highest profile IT cases before the English and Irish courts. The most significant IT/legal event of the year was the handing down of the judgment in Sky v. EDS, a landmark ruling in the Technology and Construction Court. A team of Charteris experts acted for the defendants in the case. Charteris experts also acted in two significant intellectual property cases and other cases in the High Courts in London and Dublin. We have also provided expert mediators who helped the parties resolve their disputes without resorting to litigation.

Retail & Services

On-line and multi-channel retail continues to be an important area for Charteris. Through the year we worked with a number of major retailers, helping them gain advantage from new multi-channel retail opportunities.

Prevailing economic conditions meant that the traditionally quieter period for the supply of services to the Retail sector through the winter was strongly pronounced this year – leading to lower revenues in this business area through the second and third quarters.

Our experience in multi-channel retail led in Q4 to Charteris being selected as an IT services partner by a leading high street retailer. This has resulted in the initiation of several new projects in the online retailing area over recent months. Also during the second half we were appointed to apply our retail and change management skills in the strategic review of the online operations of a value retailer. The result was a three-year roadmap for change in support of their e-Business growth plans.

The combination of our retail experience and Business Solutions offerings have also led to a new contract to implement an ERP solution, based on Dynamics AX, for a mail order clothing retailer.

During the year we were appointed one of just four UK-based Microsoft go-to-market partners for their new Dynamics AX Retail product. We anticipate that this product will stimulate further demand for our multi-channel retail and Dynamics skills.

In the services sector we worked on a variety of projects including the migration of an organisation providing psychometric testing services to a cloud-based infrastructure, and re-platforming of the core systems of a pension services provider. We also won a project with a utility services regulator to help them specify and procure a regulatory system and subsequently were appointed to undertake an IT strategy review.

During the second half we saw a resurgence in demand in the financial services market. We are now engaged on major new programmes within a Tier 1 bank, using our Advance Microsoft Consulting skills, in the enhancement of the systems which underpin their wholesale banking credit risk management and reporting processes.

Charteris Business Solutions

This business area, which is centred on business and IT solutions based on Microsoft Dynamics, performed strongly throughout the year. High levels of project activity were maintained – particularly related to ERP solutions based on Dynamics AX.

For leading animal feeds manufacturer, AB Agri, we successfully delivered one of the most complex and sophisticated Dynamics AX solutions in the UK. This provides an integrated solution to support the entire business processes of the organisation (including sales, purchasing, finance and manufacturing functions).

In May we were selected by Southern Cross, the UK's largest Care homes provider, to implement a Dynamics AX system to replace their core payroll and Human Resources systems, serving over 44,000 employees.

We also continued the development of our CRM business, based on Microsoft Dynamics CRM. With customer retention a top-priority issue for business in current markets, effective customer relationship management is critical. We successfully implemented Dynamics CRM at Moodys, one of the leading Oil and Gas professional services companies worldwide.

As a result of progress this year, Charteris achieved membership of Microsoft's President's Club for Microsoft Dynamics which recognizes the top Microsoft Dynamics partners globally.

Charteris Team

The reputation of Charteris is built on the high calibre of its team and the quality of delivery of our services to our clients. By its nature, our work entails delivering strategic advisory services and the implementation of solutions that operate at the heart of our clients' businesses. The benefits and success that these services have enabled again this year are a great credit to the Charteris team.

I would like to thank everyone in the team, whether in front-line delivery or in support functions, for their dedication and hard work over the year. The importance of this commitment is truly seen when considered in the context of the value delivered to our clients.

David Pickering

Chief Executive
3 December 2010

FINANCE DIRECTOR'S REPORT

Overview

The FY10 results reflect the continuing challenging economic climate and business environment for consulting services. The Group returned to an underlying break-even position before exceptional items in Q4 but, due to losses in the preceding two quarters, recorded an overall loss before tax and exceptional charges of £0.84m (2009: £0.44m profit). Set out below is an explanation of the key financial elements of the Group's performance.

Trading

The year has seen a decline in overall Group revenues of 24% as a result of lower business volumes, especially in the retail sector, mitigated by the positive contribution from our Dynamics AX practice acquired in 2008. The business has accordingly taken action to keep its costs aligned to forecast revenues and continues to do so. Consulting resources have been adjusted in line with projected demand for our services and overhead staff and costs also reduced proportionally. Dependence on associates has been kept to a minimum.

The business has seen a steady increase in business through the second half and into FY11 and selective recruitment is now being undertaken in specific growth markets as we try to meet growing demand for our services.

Key performance indicators

The key performance indicators used by the Group are utilisation and fee rates. As a professional services business, where staffing is the principal cost, it is vital to ensure that the available resource is matched with workload. This is primarily done through close monitoring of the historic and forecast utilisation of consultants and taking action accordingly. Fee rates have come under pressure in some areas during the year due to increased competition in certain markets.

Cash flow and Borrowings

There was a cash outflow of £0.7m (2009: £1.4m outflow) primarily relating to trading performance in FY10. The Group's trade receivable days at year end has risen to 62 (2009: 56) due to debt owed by one significant customer, which has subsequently been settled. Cash at 31 July was £0.9m compared with £1.5m last year. During the year, the Group received a net corporation tax refund of £0.08m (2009: £0.5m payment) and paid a dividend of £0.08m (2009: £0.20m).

Capital expenditure was kept to a minimum at £0.10m (2009: £0.02m) reflecting essential IT asset renewals. Additionally, the Group took advantage of a capital repayment holiday on its mortgage loan (2009: £0.59m repayment).

As at the year end the Group had an agreed overdraft facility with Natwest Bank plc of £1.5m (2009: £1.5m) and a £2.3m (2009: £2.3m) loan facility with Natwest Bank plc secured against the value of the Group's property.

Subsequent to the year end, the Group has renegotiated its banking facilities and repaid an additional £350,000 of its loan with Natwest Bank plc with a further instalment of £100,000 due at the end of July 2011. In addition, also following the year end, the Group refinanced the overdraft with a £1.5m invoice discounting facility. The nature of the Group's business is such that there is inherent uncertainty over the commencement of major projects and timing of cash flows arising from clients thereafter (see note 2). However, the Directors believe that the Group will continue to operate within the agreed facilities.

Patrick Carter

Finance Director
3 December 2010

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 JULY 2010**

	<i>Notes</i>	2010 £'000	2009 £'000
Continuing operations			
Revenue		15,423	20,253
Other external charges		(2,872)	(4,314)
Staff costs		(11,423)	(14,065)
Other administrative expenses		(2,099)	(3,040)
		<u>(16,394)</u>	<u>(21,419)</u>
Operating (loss)/profit before exceptional items		(783)	486
Redundancy costs		(188)	(617)
Impairment of goodwill		-	(1,000)
Share-based payment charge		-	(35)
Operating loss		(971)	(1,166)
Finance income		-	36
Finance costs		(57)	(84)
(Loss)/profit before taxation and exceptional items		(840)	438
Redundancy costs		(188)	(617)
Impairment of goodwill		-	(1,000)
Share-based payment charge		-	(35)
Loss before taxation		(1,028)	(1,214)
Taxation		10	49
Loss for the financial year attributable to owners of the parent		<u>(1,018)</u>	<u>(1,165)</u>
Loss per share			
Basic	4	(2.49)p	(2.85)p
Diluted	4	(2.49)p	(2.85)p

A dividend of 0.2p per ordinary share totalling £82,000 was declared and paid in the year ended 31 July 2010 in respect of the financial year ended 31 July 2009. No dividend is proposed in respect of the financial year ended 31 July 2009.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2010 £'000	2009 £'000
Loss for the financial year	(1,018)	(1,165)
Deferred tax being income recognised directly in equity	5	50
Total comprehensive income for the year attributable to owners of the parent	<u>(1,013)</u>	<u>(1,115)</u>

CONSOLIDATED BALANCE SHEET
31 JULY 2010

	<i>Notes</i>	2010 £'000	2009 £'000
Non-current assets			
Goodwill		6,079	6,179
Other intangible assets		77	11
Property, plant and equipment		3,143	3,208
Investments		-	1
Deferred tax asset		29	33
		<u>9,328</u>	<u>9,432</u>
Current assets			
Trade and other receivables		3,958	4,759
Current tax credit		16	83
Cash and cash equivalents		864	1,539
		<u>4,838</u>	<u>6,381</u>
Total assets		<u>14,166</u>	<u>15,813</u>
Current liabilities			
Trade and other payables		(3,868)	(4,343)
Borrowings		(185)	(86)
Provisions		(33)	(8)
Deferred consideration		(100)	-
		<u>(4,186)</u>	<u>(4,437)</u>
Total assets less current liabilities		<u>9,980</u>	<u>11,376</u>
Non-current liabilities			
Borrowings		(2,126)	(2,199)
Deferred consideration		-	(200)
Deferred tax liability		(152)	(155)
Provisions		-	(25)
		<u>(2,278)</u>	<u>(2,579)</u>
Net assets		<u>7,702</u>	<u>8,797</u>
Equity			
Called up share capital		432	432
Share premium account		2,568	2,568
Merger reserve		2,573	2,573
ESOP reserve		(194)	(194)
Other reserve		26	26
Retained earnings		2,297	3,392
Total equity attributable to owners of the parent	<i>5</i>	<u>7,702</u>	<u>8,797</u>

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 JULY 2010**

	2010 £'000	2009 £'000
Loss before taxation	(1,028)	(1,214)
Adjustments for:		
Depreciation of property, plant and equipment	88	154
Amortisation of intangible assets	12	1,032
Share-based payments	-	35
Net interest expense	55	48
Operating cash flows before movements in working capital	<u>(873)</u>	<u>55</u>
Decrease in receivables	801	1,706
Decrease in payables	(473)	(2,236)
Cash generated by operations	<u>(545)</u>	<u>(475)</u>
Income taxes repaid/(paid)	83	(509)
Interest paid	(55)	(84)
Net cash from operating activities	<u>(517)</u>	<u>(1,068)</u>
Investing activities		
Interest received	-	36
Purchase of property, plant, equipment and software	(101)	(17)
Acquisition of SIG Consulting Limited (net of cash)	-	(1,992)
Cash used in investing activities	<u>(101)</u>	<u>(1,973)</u>
Financing activities		
Dividends paid	(82)	(204)
Drawdown of loan (net of fees)	25	2,465
Repayment of borrowings	-	(593)
Net cash from financing activities	<u>(57)</u>	<u>1,668</u>
Decrease in cash and cash equivalents	<u>(675)</u>	<u>(1,373)</u>
Cash and cash equivalents at the beginning of the year	<u>1,539</u>	<u>2,912</u>
Cash and cash equivalents at the end of the year	<u><u>864</u></u>	<u><u>1,539</u></u>

NOTES:

1. BASIS OF PREPARATION

The financial information in this announcement does not constitute statutory financial statements as defined in section 434 of the Companies Act 2006. The statutory accounts for the year ended 31 July 2010 form the basis for the financial information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The audit report on these financial statements contained an Emphasis of Matter paragraph as follows:

“Without qualifying our opinion, we draw attention to note 2 which indicates continued uncertainty over the level of demand for the Group's services and the timing of the settlement of outstanding receivables on major projects. In response to this uncertainty, the directors have considered the actions they would take in response to a fall in the anticipated level of revenues and/or timing of settlement of receivable balances. On this basis, the directors believe that the Group will continue to operate within the agreed banking facilities. These conditions, along with other matters as set forth in note 2 indicate the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the Company were unable to continue as a going concern.”

2. SIGNIFICANT ACCOUNTING POLICIES - GOING CONCERN

Subsequent to the year end, Natwest Bank Plc's call for a formal valuation of its property security revealed a decline in the property's market value and a resultant breach of the Loan to Value Covenant on the loan. The breach was waived by the Bank but has led to the Company's facilities being renegotiated and a requirement to repay an additional £350,000 of the loan in November 2010 with a further instalment of £100,000 due at the end of July 2011. The revised loan facility is repayable by instalments with interest being charged at a variable rate of 3.0% to 4.5% over Libor.

The Group has also replaced its Natwest Bank overdraft facility with a £1.5m invoice discounting facility which bears interest at 2.25% over base rate and is secured against a fixed and floating charges over the assets of the Company and its subsidiaries

The Directors have prepared projected cash flow information for the next twelve months taking account of the stabilisation of Company revenues over the past six months and the improvement in the Company's weighted pipeline of sales opportunities. The Directors have taken into consideration actions they could take in response to reasonable cash flow sensitivities arising from adverse movements in trading performance and/or timing of settlement of receivables. On this basis, the Directors believe that the Group will continue to operate within the agreed facilities.

Whilst the Directors believe the going concern basis is appropriate, the nature of the Group's business is such that in the current economic conditions there is inherent uncertainty over the commencement of major projects and timing of cash flows arising from clients thereafter. Formally, these circumstances represent a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

3. DIVIDEND

The Directors do not recommend that a dividend is paid.

4. (LOSS)/EARNINGS PER SHARE

The calculations of (loss)/earnings per share are based on the following profits and numbers of shares.

	2010	2009
	£'000	£'000
(Loss)/profit after tax for the financial year before exceptional charges	(830)	487
Redundancy costs	(188)	(617)
Share-based payment charges	-	(35)
Impairment of goodwill	-	(1,000)
Loss after tax for the financial year	<u>(1,018)</u>	<u>(1,165)</u>

	2010	2009
	No. of shares '000	No. of shares '000
Weighted average number of shares		
For basic earnings per share	40,857	40,838
Dilutive effect of share options	2,367	316
For diluted earnings per share	<u>43,224</u>	<u>41,154</u>

The weighted average number of shares for the purposes of basic and diluted earnings per share excludes those owned by the Group's employee benefit trust.

(Loss)/earnings per share	2010	2009
Basic	(2.49)p	(2.85)p
Diluted	(2.49)p	(2.85)p
Basic before exceptional charges	(2.03)p	1.18p
Diluted before exceptional charges	(2.03)p	1.18p

5. STATEMENT OF CHANGES IN EQUITY

	2010	2009
	£'000	£'000
1 August 2009	8,797	10,055
Loss for the year	(1,018)	(1,165)
Share based payments	-	35
Dividends	(82)	(204)
Deferred tax	5	50
Issue of new shares	-	26
31 July 2010	<u>7,702</u>	<u>8,797</u>

6. This preliminary announcement was approved by the Board on 3 December 2010. Copies of this announcement will be available on the Company's website: www.charteris.com.

7. Copies of the Company's report and financial statements will be sent to shareholders shortly and will be available at the registered office of the Company and on the Company's website www.charteris.com.

8. The AGM will take place at 10:00am on Wednesday, 12 January 2011 at Charteris House, 39/40 Bartholomew Close, London, EC1A 7JN.