

highly personal

interim report 2001

communisis plc

Chairman's Statement

Delivery ahead of expectations

Your group demonstrated the inherent strengths of its core businesses by delivering a performance ahead of expectations at the half year.

Operating profits in the six months to 30 June 2001 were £13.0m (2000 £6.8m) on sales of £125.5m (2000 £74.3m) with return on sales of 10.4% against 9.1% at this stage last year and 9.3% for 2000 as a whole.

Rising margins represent a notable achievement in very competitive markets which reinforces the strategy of focusing on market leading positions with the UK financial sector to deliver growth combined with continuing reductions in operating costs.

Outlook

We continue to see significant opportunities for growth from the cross selling of products, and indeed some customers in the financial services sector are now trading with four of our five divisions.

Outsourcing has also emerged as a real opportunity as financial institutions look to focus on their core business and reduce their own investment in peripheral activities. This is an attractive fit with the communisis strategy as current printed products logically migrate towards electronic form in the medium term.

We have invested £5m to date in the e-comms division to build those products and extend the range of offering to our customers.

Strong cash flows through 2001

Borrowings at the half year were in line with budget at £14.5m. This is higher than the year end 2000 because our planned capital expenditure was very much first half-year loaded and working capital peaked at mid year.

Ongoing, the group is forecast to have nil borrowings by 31 December 2001.

Planned reorganisations on schedule

At the commencement of our acquisition strategy it was planned that several significant reorganisations would be undertaken at an anticipated cost of £12m. Accounting standards dictated that the last of these projects with total costs of around £5m could not be provided for in the 2000 accounts. With all these projects now underway the charge arising in the second half of this year will complete the rationalisation programme.

Dividend Policy

It was indicated in the 2000 annual report that a dividend would be declared for 2001 and confirmation of the dividend policy will be announced with the declaration of the full year results.

Stuart Wallis

CHAIRMAN

29 August 2001

Chief Executive's Review of Operations

Half Year 2001

Fundamental to communisis's development is the degree of cross divisional trading with key customers which we believe offers significant opportunities for growth. A table is attached which demonstrates our strength across divisions with some of our key accounts historically.

e-comms

The result for the e-comms division was encouraging. Sales for the half year were 50.6% up on last year, although the comparison was with only five months. Compared with the second half 2000 the improvement was 26.5%. Last year's figures were boosted by the Bradford & Bingley conversion project.

Return on Sales (ROS) after development costs of £0.3m in the half year in IT hardware, software and people was 14.8%.

communisis one's extension is all but complete and communisis two in Brussels will be operational during September. CRM/personalisation products are being offered, especially through the use of intelligent variable colour digital print. IT investment is being focused on developing products such as c-store (digital document management), e-statementing and e-billing to fit and extend existing key customer relationships.

Direct Marketing & Direct Mail

Weakness in the traditional commercial print market has brought decreased prices and increased competition at the lower personalisation, less demanding end of the direct mail market. Nevertheless communisis continues to supply higher added value, database products. Sales were 9.3% up on the second half of last year with ROS an equivalent 10.2%.

Document Services

Both businesses in the UK and continental Europe progressed ahead of expectations for the first half year. Sales were at a similar level to the second half 2000 but costs were lower and product mix and pricing better. ROS improved steadily to 9.1% compared with 7.6% last year as a whole.

In the UK the Shepton Mallet facility was relocated to the main operations site at Midsomer Norton. During the second half year further productivity improvements in both the UK and continental Europe will underpin ROS improvement for 2002.

Security Products

Sales increased by 2.6% compared with the second half last year and combined with significant productivity improvement, ROS improved sharply to 13.8%.

The North London facility at Acton was closed during the period and the workload transferred to the remaining three locations in the UK and Northern Ireland.

This division has the strongest strategic links with communisis's key UK financial institution customers.

Color Solutions

Sales increased by 3.6% against the second half last year, although part of this is seasonal. However the improvement in ROS to 11.3% compares favourably with full year 2000 at 10.2%.

Improvements in North America are expected to continue in the second half and in Europe the French and German plants are working increasingly closely together.

The UK labels business is strategically working to develop litho and flexo alternative colour cards initially for the European market and eventually for the USA. This will extend our overall product offering for the key global customers of the color solutions division.

David Jones

CHIEF EXECUTIVE

29 August 2001

Selected key customers – divisional cross-trading profile

	e-comms	Direct Marketing and Direct Mail	Security Products	Document Services	Color Solutions
Abbey National		•	•	•	
Akzo Nobel					•
Alliance & Leicester		•	•	•	
Amex		•			
Asda	•			•	
B&Q				•	•
Bradford & Bingley	•	•		•	
British Airways	•	•		•	
Capital One	•	•		•	
Halifax plc	•	•	•	•	
HSBC		•	•	•	
Lloyds TSB		•	•	•	
MBNA	•	•	•	•	
Nationwide		•		•	
Providian		•	•	•	
RBS/Natwest		•	•	•	
Weightwatchers	•	•		•	
Tesco Personal Finance		•		•	

These selected key customers represent £90m of communitis's turnover

Interim statement of unaudited results

for the half year ended 30 June 2001

		Half year ended 30 June 2001 £000	Half year ended 30 June 2000 £000	Year ended 31 December 2000 £000
Turnover	Note 1			
Continuing operations		125,548	74,303	194,008
Discontinued operations		–	5,274	7,044
		125,548	79,577	201,052
Costs and overheads		(116,353)	(75,385)	(189,469)
Operating profit	Note 1			
Before goodwill amortisation				
Continuing operations		13,004	6,767	18,024
Discontinued operations		–	53	126
Goodwill amortisation		(3,809)	(2,628)	(6,567)
		9,195	4,192	11,583
Exceptional items (net)	Note 2, 6	–	3,326	(2,738)
Profit before interest		9,195	7,518	8,845
Net interest payable	Note 3	(734)	(1,069)	(2,005)
Profit before taxation		8,461	6,449	6,840
Taxation	Note 4	(3,435)	(1,841)	(3,647)
Profit retained		5,026	4,608	3,193
Earnings per ordinary share	Note 5			
Basic		3.74p	4.18p	2.62p
Diluted		3.71p	3.90p	2.61p
Adjusted earnings per ordinary share				
- before goodwill amortisation				
Basic		6.57p	6.57p	8.02p
Diluted		6.52p	6.12p	7.99p
- before goodwill amortisation and exceptional items				
Basic		6.57p	3.55p	9.37p
Diluted		6.52p	3.31p	9.34p

Consolidated balance sheets

as at 30 June 2001

	At 30 June 2001 £000	At 30 June 2000 £000	At 31 December 2000 £000
Fixed assets			
Goodwill	142,006	144,782	145,815
Tangible assets	67,038	75,837	68,068
	209,044	220,619	213,883
Current assets			
Stocks	17,622	20,336	17,792
Debtors	44,819	41,720	43,902
Assets held for disposal	–	191,703	–
Cash at bank and in hand	4,676	5,000	9,243
	67,117	258,759	70,937
Creditors (amounts due within one year)			
Borrowings	(18,403)	(14,212)	(3,526)
Other creditors	(59,080)	(66,195)	(71,021)
	(77,483)	(80,407)	(74,547)
Net current (liabilities) assets	(10,366)	178,352	(3,610)
Total assets less current liabilities	198,678	398,971	210,273
Creditors (amounts due after one year)			
Borrowings	(819)	(210,794)	(12,384)
Provisions for liabilities and charges	(12,318)	(8,761)	(19,795)
Net assets	185,541	179,416	178,094
Capital and reserves			
Called up share capital	33,831	33,232	33,326
Share premium account	150,884	148,585	148,768
Merger reserve	519	519	519
Profit and loss account	307	(2,920)	(4,519)
Equity shareholders' funds	185,541	179,416	178,094

Movement in shareholders' funds

for the half year ended 30 June 2001

	Half year ended 30 June 2001 £000	Half year ended 30 June 2000 £000	Year ended 31 December 2000 £000
Profit attributable to shareholders	5,026	4,608	3,193
New share capital issued, net of expenses	2,621	173,759	174,038
Currency translation differences	(200)	805	619
	7,447	179,172	177,850
Shareholders' funds at start of period	178,094	244	244
Shareholders' funds at end of period	185,541	179,416	178,094

Summarised cash flow statements

for the half year ended 30 June 2001

	Half year ended 30 June 2001 £000	Half year ended 30 June 2000 £000	Year ended 31 December 2000 £000
Net cash inflow from operating activities			
Operating profit	13,004	6,820	18,150
Depreciation	5,930	3,504	9,710
Net movement in working capital	(11,196)	8,758	11,560
Cash utilisation of provisions	(7,383)	–	–
	355	19,082	39,420
Returns on investments and servicing of finance			
Net interest payable	(731)	(6,306)	(9,135)
Taxation	(4,521)	(973)	(5,752)
Net capital expenditure	(5,454)	(1,186)	(5,407)
Acquisitions and disposals	–	(163,624)	44,741
Financing			
Issue of ordinary shares (net of expenses)	2,621	–	(918)
(Decrease) increase in debt	(14,667)	237,222	14,005
Repayment of loans assumed on acquisition	–	(68,852)	(68,852)
(Decrease) increase in cash	(22,397)	15,363	8,102
Reconciliation to net debt			
(Decrease) increase in cash in period	(22,397)	15,363	8,102
Decrease (increase) in debt in period	14,667	(237,222)	(14,005)
Change in net debt from cash flow	(7,730)	(221,859)	(5,903)
Currency translation differences	(149)	2,576	(41)
Movement in net debt in period	(7,879)	(219,283)	(5,944)
Net debt at start of period	(6,667)	(723)	(723)
Net debt at end of period	(14,546)	(220,006)	(6,667)

Notes to the interim results

for the half year ended 30 June 2001

	Half year ended 30 June 2001 £000	Half year ended 30 June 2000 £000	Year ended 31 December 2000 £000
Note 1			
Turnover			
Continuing operations			
e-comms	3,014	2,001	4,384
Direct Marketing and Direct Mail	46,057	35,795	77,931
Document Services	44,080	19,494	63,587
Security Products	18,578	5,887	23,996
Color Solutions	20,435	11,126	30,852
	132,164	74,303	200,750
Less inter group sales	(6,616)	–	(6,742)
	125,548	74,303	194,008
Discontinued operations			
	–	5,274	7,044
	125,548	79,577	201,052
Operating profit before goodwill amortisation			
Continuing operations			
e-comms	445	580	1,090
Direct Marketing and Direct Mail	4,690	4,102	8,435
Document Services	4,026	1,539	4,809
Security Products	2,566	481	2,631
Color Solutions	2,310	1,058	3,145
Central costs	(1,033)	(993)	(2,086)
	13,004	6,767	18,024
Discontinued operations			
	–	53	126
	13,004	6,820	18,150
Return on sales (all continuing operations)			
e-comms	14.8%	29.0%	24.9%
Direct Marketing and Direct Mail	10.2%	11.5%	10.8%
Document Services	9.1%	7.9%	7.6%
Security Products	13.8%	8.2%	11.0%
Color Solutions	11.3%	9.5%	10.2%
Total	10.4%	9.1%	9.3%

The comparative results for the half year ended 30 June 2000 include the results of the continuing operations acquired from Waddington PLC and the printing division of Rexam PLC on 1 February 2000 and 28 April 2000 respectively.

Discontinued operations relate to the John Mansfield Timber business which was disposed of in August and September 2000.

Notes to the interim results

for the half year ended 30 June 2001

	Half year ended 30 June 2001 £000	Half year ended 30 June 2000 £000	Year ended 31 December 2000 £000
Note 2			
Exceptional items (net)			
Reorganisation and restructuring of acquired businesses	–	–	(6,791)
Loss on disposal of discontinued operations	–	–	(1,935)
Income received from businesses held for resale	–	3,326	5,988
	–	3,326	(2,738)
Note 3			
Net interest payable			
Net interest payable on bank loans and overdrafts	(734)	(3,918)	(5,405)
Write-off of issue costs of bank loans	–	(2,388)	(4,437)
Unwinding of discounted value of proceeds of assets held for disposal	–	5,237	7,837
	(734)	(1,069)	(2,005)

Note 4

The tax charge for the period is based upon the estimated effective tax rate for the year of 28%.

Note 5

Calculations of basic earnings per share are based on the average number of ordinary shares in issue during the period ranking for dividend of 134,376,627 (31 December 2000 121,720,114) after deducting shares held in trust of 309,628 (31 December 2000 309,628). Diluted earnings per share are calculated after the effect of dilutive share options of 1,423,445 shares (31 December 2000 701,062).

Note 6**The Mansfield 1999 Incentive Plan ("the Plan")**

No provision has been made in these interim accounts for the value of bonus pools accrued to date under the Plan as the Board believes that such a figure is likely to be misleading, given the current volatility of UK equity markets and the nature of the Plan and its maturity dates.

Had the bonus pools been calculated at 30 June 2001 on the basis of the communitis share price at that date of 161p and on the basis that the same market conditions continue to apply until the maturity of the Plan in spring 2003, the total value of the pools, including Employer's National Insurance Contributions, would have been approximately £6.48m. The bonus pools are payable part in March/April 2002 and part in March/April 2003.

When charged to the Profit & Loss Account the value of the bonus pools, if material, together with any related Employer's National Insurance Contributions, will be accounted for as an exceptional item; it is likely that the pools will be paid to the participants in cash.

A summary of the Rules of the Plan was included in the Offer Document sent to Waddington PLC shareholders on 21 December 1999 and in the Listing Particulars relating to the issue of new shares by John Mansfield Group PLC (now communitis plc) in connection with the offer for Waddington PLC. Alternatively, a copy of the Rules of the Plan may be obtained by writing to the Company Secretary at the registered office.

Note 7

The unaudited financial information for the six months to 30 June 2001 has been prepared on the basis of the accounting policies as set out in the annual accounts for the year ended 31 December 2000.

The figures for the year ended 31 December 2000 have been extracted from statutory accounts which have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain any statement under section 237 (2) or (3) of the Companies Act 1985.

Notes

Notes

The logo for Communis PLC, featuring the company name in a blue sans-serif font with a red curved line above the 'i' in 'plc'.

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designed and produced by The logo for CommunisOne, featuring the company name in a blue sans-serif font with a red curved line above the 'e' in 'one'.