communisis plc
The leading print partner

16 September 2005

INTERIM RESULTS FOR THE HALF YEAR TO 1 JULY 2005 AND ANNOUNCEMENT OF HSBC OUTSOURCING DEAL

- Turnover up 3% at £134.9 million (2004: £131.6 million)
- Adjusted profit from operations up 8% at £8.1 million (2004: £7.5 million) before restructuring costs of £6.1 million (2004: £5.1 million). Profit from operations £2.0 million (2004: £2.4 million)
- Adjusted profit before tax £6.5 million (2004: £6.5 million)
- Agreement to 10 year outsourcing contract with HSBC and acquisition of its UK statement production business
- Five year HBOS deal including c-store
- Other contract wins of £25 million annualised in the first half
- First major European print management contract
- Interim dividend increased by 10% to 1.953p (2004: 1.775p)

Commenting on the results David Jones, Chief Executive of Communisis plc, said:

"We are very encouraged by the HSBC 10 year outsourcing and five year HBOS deals together with the existing Barclays contract. These relationships are unrivalled in our industry and underpin Communisis' strategy for growth.

Traditionally weak demand in the summer months in Print and Direct Mail has been worse this year compared to previous years and we do not expect that performance in the fourth quarter will be sufficient to offset the weak trading in July and August."

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Interim Statement 2005

Introduction

First half turnover from ongoing operations was up 3% at £134.9 million (2004: £131.6 million); this against the backdrop of continuing selling price erosion and weak demand in our Print and Direct Mail markets.

Adjusted profit from operations was up 8% at £8.1m (2004: £7.5 million). Communisis continued its investment in people and IT to grow its solutions-based contracts.

We have reached agreement with HSBC to acquire their UK statement production business which handles the production and despatch of the majority of HSBC's UK paper-based customer communications, including statements. This contract is estimated to be worth £250 million over 10 years. We will transfer 255 staff to Communisis of which 174 are permanent HSBC staff and 81 are temporary staff. We will pay £3 million to acquire the assets relating to the operations to be transferred. We anticipate that the effective date of the transfer will be January 2006. Additionally we are committed to build a world-class statementing facility over the next 18 months. We see encouraging growth in this sector.

We have further agreed a five year £60 million deal with HBOS plc for the provision of all direct mail and security printing services for a number of its brands. The deal includes the implementation of Communisis' proprietary document management software, c-store.

The HSBC, Barclays and HBOS relationships are unrivalled in our industry and underpin Communisis' strategy for growth.

Financial Review

This is the first set of results for the Group presented in accordance with International Financial Reporting Standards (IFRS). Note 2 to the interim accounts, provides a reconciliation between the results previously reported under UK GAAP and the comparative information presented here. The following table summarises the impact of the application of IFRS on the 2005 results.

	2005 £m	2004 £m
Operating profit before goodwill amortisation and exceptional items under UK GAAP	9.3	8.5
IFRS Accounting changes:		
- Intangible amortisation	(0.2)	-
- Options expense	(0.1)	(0.1)
- Change in pension expense	(0.9)	(0.9)
Adjusted profit from operations	8.1	7.5

The commentary that follows is based on the results as reported under IFRS.

In the half year to 1 July 2005, turnover from continuing operations was £134.9 million (2004: £131.6 million). Profit from operations was £2.0 million (2004: £2.4 million) reflecting the impact of the loss on the sale of our European forms business (Datadocs), sold in May 2005, and the reorganisation costs incurred in conjunction with the restructuring of our sales organisation and the restructuring of our Transactional Print Services business. The 2004 restructuring costs relate to our European forms business.

The following table summarises the impact of these items on the 2005 and 2004 results:

	2005 £m	2004 £m
Adjusted profit from operations	8.1	7.5
Loss on sale of Datadocs	(4.9)	-
Other restructuring costs	(1.2)	(5.1)
Profit from operations	2.0	2.4

Net finance costs (including the non-cash pension finance charge) increased to £1.6 million (2004: £1.0 million), reflecting the higher debt levels following the Dataform acquisition and the additional £10.0 million cash contribution paid into the pension fund during the first half. Profit for the period of £0.1 million (2004: loss £7.1 million) reflects the gain on sale of the property associated with a business discontinued in 2004.

An increased interim dividend of 1.953 pence per share, up 10% (2004: 1.775 pence per share) is declared. This will be payable on 28 October 2005 to shareholders on the register at the close of business on 30 September 2005. The dividend is payable out of adjusted earnings per share of 3.68 pence (2004 4.79 pence) and is covered 1.9 times (2004: 2.7 times).

Cash generated from operations in the period was an outflow of £4.8 million (2004: Inflow of £3.7 million) reflecting the significant additional pension contribution of £10 million in the first half. The net working capital change was an increase of £8.1 million (2004: £7.6 million) since December and reflects the working capital profile of the business. Net debt ended the period at £38.2 million (December 2004: £27.6 million).

Pension Plan

Under IFRS the Group now recognises on its balance sheet the gross retirement benefit obligation of £38.7 million (December 2004: £42.7 million) within non-current liabilities on its balance sheet. The associated deferred tax asset of £11.6 million (December 2004: £12.8 million) is included separately within the non-current assets.

Since December 2004, the gross deficit has decreased as follows:

	£m
Gross deficit – December 2004	42.7
Current service cost	2.9
Other financial charges	0.5
Contributions	(12.1)
Change in assumptions	4.7
	38.7

At June 2005, the pension assets were invested in equities 59%, gilts/bonds 32% and cash 9%.

At December 2004, the Group's estimated actuarial deficit was £21.2 million. This deficit will have been reduced following the Group's additional £10 million cash contribution in the first half and the better than expected stock market performance over this period. However, the overall position can only be determined in conjunction with a review of all assumptions to be used in the actuarial calculation which is to be conducted at the end of September 2005. We would anticipate that following the completion of the actuarial work, we would seek to reach agreement with the Trustees on the revised contribution schedule in early 2006.

Operational Review

Print Management turnover grew 15% in the first half to £70.8 million, benefiting from the Dataform acquisition. Dataform's operational print and logistics capabilities secured the recent contract win with the Department of Work and Pensions, a new customer with substantial growth opportunities.

New business contracts have been won with the Royal Bank of Scotland and Lloyds TSB, and significant contract renewals have been achieved with Sainsbury's, Coors and Britvic.

The Barclays contract continues to run above the initial £50 million per annum threshold with growth expected in 2006 to include potential in Europe, the USA and South Africa. This is the most advanced document management contract in Europe and is a significant reference point; instrumental in the prestigious HSBC outsourcing deal, which is covered in Transactional Print Services.

In Europe we are entering discussions with some of the major financial institutions backed by the successes with Barclays and HSBC . Business wins in the first half include Axa and Disney, both initially 'local' French contracts but both with significant pan European potential. We see Europe as vital to the development of existing customers as well as having untapped potential, particularly in the financial services sector. We are already supplying Barclays in France and Spain and will be extending this to other European countries.

We are committed to providing leading edge solutions for our customers. As part of the commitment we have launched a consolidation program of our UK Print Management Services business to enable us to serve all our customers from a single operational platform, based out of Communisis' North East facility. This program will include the migration to a single Enterprise Resource Planning solution which will be integrated into our customer front-end applications and will enable us to consolidate support functions in one location. We expect that the program will take approximately 12 months to complete. It will involve a capital cost of approximately £0.6 million and restructuring costs of £1.3 million. These outflows will occur primarily in 2006 and will produce a cash payback in under one year.

Our procurement business is key to our future, benefiting both our customers and our own profitability. We have extended our supply base into Central and Eastern Europe and the Far East. We are deploying e-procurement tools to extract maximum value from the European print supply base and we are engaging directly with paper mills, leveraging our considerable purchasing power.

The Transactional Print Services business has to date comprised our cheque book business where we have 100% share with the top five banks. This business is now to be extended into statement production with the HSBC outsourcing deal, effective January 2006. We expect a healthy growth in the statementing business to follow, supported by our existing facilities and capabilities but also through our new purpose-built centre of excellence to be fully functional first quarter 2007. This business fits the profile of our document management strategy to partner major European financial institutions. We will manage their end-to-end document process; marketing campaigns through our c-store software, operational print and logistics; and data-critical regulatory customer communications.

Our Print and Direct Mail business continued to suffer from extreme price pressure and reduced volumes. Profitability was supported by continuous improvement in each of our facilities and substantial inter-company sales.

In the first half we took the decision to exit our European forms manufacturing business leaving us with one, well-invested facility in the UK which was formed from the six manufacturing sites originally acquired by Communisis in 2000. This is a reflection of much needed consolidation and continuous reorganisation.

In Direct Mail we have the two best facilities in Europe and these have been responding to reducing volumes, particularly from the credit card banks, and price reductions. These facilities remain exposed to spot pricing despite the increased level of contract business that has been achieved.

In May 2005, we disposed of the remaining European manufacturing business for nominal consideration. This led to the write-off of the net assets of that business (£2.3 million) and the write-back of goodwill previously written off to reserves (£2.4 million) and the write-back of the change in net assets due to exchange movements previously taken directly to reserves (£0.2 million). These amounts are included in the current year's profit from operations. As part of the sale, Communisis has retained certain tax receivables totalling £0.5 million which are expected to be received within the next 18 months.

Trading and Outlook

We are very encouraged by the HSBC 10 year outsourcing and five year HBOS deals. We can also be confident that the Barclays, HSBC and HBOS strategic relationships will be the bedrock of further European document management wins.

Communisis' exposure remains the over-capacity and price erosion in the Print and Direct Mail businesses, tempered by the degree of inter-company trading, but nevertheless vulnerable to the continuing level of spot business. Traditionally weak demand in the summer months has been worse this year compared to previous years and we do not expect that performance in the fourth quarter will be sufficient to offset the weak trading in July and August.