

10 September 2004

INTERIM RESULTS FOR THE HALF YEAR TO 2 JULY 2004

Transformation nearing completion

- Turnover from ongoing operations £131.0 million (2003: £133.8 million)
- Operating profit¹ from ongoing operations £8.5 million (2003: £11.4 million)
- Profit before tax¹ from ongoing operations £8.0 million (2003: £10.5 million)
- Exceptional costs of £13.0 million including goodwill write off £5.1 million for reorganisation of Document Services and exiting Color Solutions
- Acquisition of Dataform for £22 million strengthens Print Management
- Barclays contract grows 20%, endorses savings and c-store
- Confidence growing over new business wins
- Interim dividend 1.775p (10% increase)

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

“With the disposals and reorganisations announced and underway, communisis’ transformation is nearing completion.

The acquisition of Dataform confirms our position as the leading print management services group in Europe.”

¹ After amortisation of contract premium payment, before goodwill amortisation and exceptional items.

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Interim Statement 2004

Introduction

First half turnover from ongoing businesses was £131.0 million (2003: £133.8 million). This was against a backdrop of continuing price deflation and weak demand in the print sector.

communis has continued its commitment to contractual growth in the UK and Continental Europe. We are investing some £3 million annually in people and IT, including the capability to install our document management software, c-store, in solutions based contracts.

In the period, as part of exiting non-core activities, we sold the Colour Cards businesses. This, together with reorganisations announced and underway, bring communis' transformation towards completion.

The acquisition of Dataform Group Ltd ("Dataform") further strengthens our leading print management offering in the areas of operational print and logistics.

Financial Review

In the half year to 2 July 2004, turnover from ongoing businesses was £131.0 million (2003: £133.8 million). Operating Profit for ongoing businesses before goodwill amortisation and exceptional items was £8.5 million (2003: £11.4 million) which, when adjusted for amortisation of contract premium, gives £9.0 million (2003: £11.9 million). Loss before tax was £9.9 million (2003: profit £5.4 million) with earnings per share at (6.94p) (2003: 1.72p) and adjusted earnings per share at 3.97p (2003:5.67p).

An increased interim dividend of 1.775p per share is declared payable on 20 October 2004 to shareholders on the register at close of business on 24 September 2004. This 10% increase on last year represents the Board's confidence in the strategy going forward.

Exceptional costs in the period include £5.1 million of restructuring costs principally in our Continental Europe documents business. The full year charge for restructuring costs is anticipated to be £6.5 million. During the half year the disposal of the colour cards businesses was completed which gave rise to a loss of £7.2 million including £4.7 million relating to the write off of unamortised goodwill. After the half year end date the possible closure of our labels manufacturing business based at Gateshead was announced. In these accounts an exceptional charge of £0.7 million is included relating to impairment provisions, the need for which arose as a consequence of the announcement. In the second half of the year closure of the business would give rise to further exceptional charge of some £3.7 million.

Operating cash flow generation was £6.4 million in the half year to 2 July 2004 before other outflows of £2.7 million in respect of current and prior period exceptional charges. After proceeds from business disposals of £7.1 million and outflows of £0.5 million for interest, £2.8 million for net capital expenditure, £2.4 million for taxation, £4.6 million for dividends and £0.3 million for other outflows, net debt reduced to £12.0 million compared to £12.2 million at the start of the year.

Pension Plan

The group continues to account for its pension arrangements in accordance with SSAP24.

The FRS17 disclosures at 31 December 2003 showed a deficit of £27.2 million (2002: £20.7 million) after allowing for deferred taxation. The requirements of FRS17 include valuing assets and liabilities on a different basis to that which is used either for the accounting or the determination of funding requirements.

The group's funding for the communisis pension plan ("The Pension Plan") is largely derived from triennial actuarial valuations. An update to the last triennial valuation to reflect market conditions as at 31 December 2003 showed a deficit of £19.0 million.

In respect of 2004 the company plan an additional cash contribution of £1,500,000 to the Pension Plan.

Operational Review

Our Print Management business maintained the same level of turnover as last year while Barclays' business in the period grew by 20% with the addition of operational print and cheque books to the contract.

Barclays have publicly endorsed the communisis contract, including print savings in excess of 20% and an additional £3 million cost savings since the implementation of c-store in January 2003. Following this we set up a Group Business Development team to extend our offering to the market place.

Whilst we have taken the decision to exit low profit contracts, new contract wins have recently been achieved with The Caudwell Group, Diageo, The Gillette Company and Eurotunnel plc worth approximately £15 million annually.

The annual development costs of £3 million which we continue to carry not only support UK Business Development (including new contracts) and IT, but also our commitment to Europe. We are developing our European Print Management business which we believe offers opportunities to grow with existing UK based customers and new international customers. We have opened offices in France, Spain and Germany to add to the existing offices in the Benelux. Each office has expert local nationals and group wide co-ordinated IT. We are already carrying out audits with large potential clients and can expect revenue streams in the second half of 2004. However, this is a long-term commitment to future growth.

In Personalised Products, direct marketing volumes increased but lower prices reduced profits even during the traditionally strong months of April/May. Nevertheless the return on sales at 9.7% held up well against industry norms.

Our strategy continues to increase the proportion of contractually based business and to drive for improved levels of efficiency. We are targeting contracts where customers can most benefit from our direct mail and personalisation facilities thereby achieving long term, sustained cost savings as opposed to short term capacity pricing. In addition customers will benefit from our specialist global procurement that can deliver best in class savings in bought-in goods and services.

Our Security Products business experienced a reduction in profits, as had been expected, due to lower prices and start up costs to secure new contracts. In 2003 we won 100% of RBS/Natwest cheques. This has been followed in the first half of 2004 by securing 100% of Barclays cheques and the remaining part of the HSBC cheque book business bringing that contract to 100%.

In Document Services the market has continued to be difficult in the UK and the Continent. The reorganisation in the Benelux is well advanced, with the closure of the Luxembourg plant and concentration of manufacturing in Holland. The acquisition of Dataform is also expected to benefit our activities in this sector and deliver increased levels of contractual business to UK manufacturing.

Dataform

Dataform was acquired on 9 September 2004 for £22 million. With turnover of £27 million in 2003 and strong growth expected in 2004, Dataform is a leading print management company specialising in operational print, business forms and corporate stationery, and logistics.

The business complements Centurion, whose specialisation is marketing print, and shares the same growth and contract characteristics. Dataform contracts include Aegon UK, The Post Office and Pitney Bowes.

The acquisition brings communisis' turnover in print management contracts to over £150 million.

In addition to supporting communisis' strategy for growth, Dataform will provide attractive synergies with communisis' Document Services and Logistics businesses.

The acquisition is expected to be earnings enhancing in 2005.

Discontinued – Color Solutions

communisis Colour Cards businesses, with facilities in Europe and North America, were sold during the first half year to Colwell Industries Inc. The businesses were sold for a consideration of £12.6 million of which £3.9 million is deferred and receivable in instalments over a period to 2007. The disposal gave rise to a loss of £7.2 million including the write off of £4.7 million of unamortised goodwill.

In addition we carried out a strategic review of our UK Labels business and concluded that the operation is unlikely to return to profitability and therefore faces possible closure. This would result in a full year loss of some £4.4 million including a goodwill write-off of £0.4 million. Of this amount £0.7 million has been charged as an exceptional item at the half year.

Board Changes

Since the end of the half year we have appointed our Business Development Director, Denise Moran, to the Board.

Further to the announcement in August of Aidan Hughes' resignation from his position of Finance Director, we are well advanced in the recruitment of his successor. In the interim period Jeremy Harrison, Group Financial Controller and member of the Executive Management Team, will be responsible for the Group's finances. We would like to thank Aidan for his contribution to communisis and wish him well for the future.

Trading and Outlook

We experienced improved trading over the traditionally quiet summer months which should help us deliver a better performance compared with the second half 2003. Weak demand and over-capacity continue to be issues for our industry and we therefore remain cautious on the outcome for 2004, and in particular the fourth quarter.

Non-core activities are being fully exited and the transformation of communisis should be completed by the end of 2004.

The acquisition of Dataform enhances our print management offering, particularly in the areas of operational print and logistics. In addition, there are attractive synergies between Dataform and communisis' Document Services and Logistics businesses.

The new business development team is confident of success, supported by Barclays endorsement of our contract, including savings and c-store.

We are looking to 2005 with growing confidence.

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Consolidated Profit and Loss Account

for the half year ended 2 July 2004

		Half year ended 2 July 2004 £000	As restated (Note 7) Half year ended 30 June 2003 £000	As restated (Note 7) Year ended 31 December 2003 £000
Turnover	Note 1			
Ongoing operations		131,017	133,838	267,242
Operation to be discontinued		5,397	5,634	11,048
		<hr/>	<hr/>	<hr/>
Continuing operations		136,414	139,472	278,290
Discontinued operations		5,605	10,946	22,390
		<hr/>	<hr/>	<hr/>
		142,019	150,418	300,680
Costs and overheads		(143,929)	(144,105)	(290,111)
		<hr/>	<hr/>	<hr/>
Operating (loss) profit	Note 1			
Ongoing operations ¹		9,005	11,907	21,020
Amortisation of contract premium payment		(500)	(500)	(1,000)
		<hr/>	<hr/>	<hr/>
Ongoing operations ²		8,505	11,407	20,020
Operation to be discontinued ²		(534)	147	130
		<hr/>	<hr/>	<hr/>
Continuing operations ²		7,971	11,554	20,150
Discontinued operations ²		424	687	1,620
		<hr/>	<hr/>	<hr/>
		8,395	12,241	21,770
Goodwill amortisation – continuing operations		(4,724)	(4,845)	(9,643)
Goodwill amortisation – discontinued operations		-	(145)	(290)
Exceptional items – continuing operations	Note 2	(5,082)	(938)	(1,268)
Exceptional items – discontinued operations	Note 2	(499)	-	-
		<hr/>	<hr/>	<hr/>
Operating (loss) profit		(1,910)	6,313	10,569
Non-operating exceptional items				
Continuing operations – operation to be discontinued				
Provisions for loss on termination of an operation	Note 2	(730)	-	-
Discontinued operations				
Loss on sale of discontinued operations	Note 2	(6,749)	-	-
		<hr/>	<hr/>	<hr/>
(Loss) profit before interest		(9,389)	6,313	10,569
Net interest payable	Note 3	(474)	(933)	(1,737)
		<hr/>	<hr/>	<hr/>

(Loss) profit before taxation		(9,863)	5,380	8,832
Taxation	Note 4	(103)	(2,902)	(5,170)
		<hr/>	<hr/>	<hr/>
(Loss) profit attributable to shareholders		(9,966)	2,478	3,662
Ordinary dividends		(2,554)	(2,322)	(6,933)
		<hr/>	<hr/>	<hr/>
(Loss) profit retained		<u>(12,520)</u>	<u>156</u>	<u>(3,271)</u>

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Consolidated Profit and Loss Account (continued)

for the half year ended 2 July 2004

		As restated (Note 7) Half year ended 30 June 2003	As restated (Note 7) Year ended 31 December 2003
Earnings per ordinary share	Note 5		
Basic		(6.94)p	2.55p
Diluted		(6.93)p	2.54p
Adjusted earnings per ordinary share			
- before goodwill amortisation and exceptional items (operating and non-operating)			
Basic		3.97p	10.09p
Diluted		3.96p	10.05p
Dividend per ordinary share		1.775p	4.84p

¹ Before amortisation of contract premium payment, goodwill amortisation and exceptional items.

² Before goodwill amortisation and exceptional items

communisis plc**Consolidated Balance Sheet**

as at 2 July 2004

	At 2 July 2004 £000	As restated (Note 7) At 30 June 2003 £000	As restated (Note 7) At 31 December 2003 £000
Fixed assets			
Goodwill	151,716	166,703	161,576
Tangible assets	46,010	57,367	54,169
	<hr/>	<hr/>	<hr/>
	197,726	224,070	215,745
	<hr/>	<hr/>	<hr/>
Current assets			
Stocks	13,695	19,394	19,225
Debtors	47,601	63,425	51,608
Cash at bank and in hand	5,347	2,165	18,139
	<hr/>	<hr/>	<hr/>
	66,643	84,984	88,972
	<hr/>	<hr/>	<hr/>
Creditors (amounts due within one year)			
Borrowings	(7,337)	(21,453)	(15,296)
Other creditors	(60,802)	(69,791)	(77,173)
	<hr/>	<hr/>	<hr/>
	(68,139)	(91,244)	(92,469)
	<hr/>	<hr/>	<hr/>
Net current liabilities	(1,496)	(6,260)	(3,497)
	<hr/>	<hr/>	<hr/>
Total assets less current	196,230	217,810	212,248
	<hr/>	<hr/>	<hr/>
Creditors (amounts due after one			
Borrowings	(10,000)	(15,000)	(15,000)
	<hr/>	<hr/>	<hr/>
Provisions for liabilities and	(11,002)	(10,497)	(8,597)
	<hr/>	<hr/>	<hr/>
Net assets	175,228	192,313	188,651
	<hr/>	<hr/>	<hr/>
Capital and reserves			
Called up share capital	35,977	35,977	35,977
Share premium account	152,256	152,256	152,256
Merger reserve	11,365	11,365	11,365
Other reserve	(374)	(374)	(374)
Profit and loss account	(23,996)	(6,911)	(10,573)
	<hr/>	<hr/>	<hr/>
Equity shareholders' funds	175,228	192,313	188,651
	<hr/>	<hr/>	<hr/>

communisis plc**Consolidated Statement of Total Recognised Gains and Losses**

for the half year ended 2 July 2004

	Half year ended 2 July 2004 £000	As restated (Note 7) Half year ended 30 June 2003 £000	As restated (Note 7) Year Ended 31 December 2003 £000
(Loss) profit attributable to shareholders	(9,966)	2,478	3,662
Currency translation differences	(903)	1,351	1,116
Total gains and losses relating to the period	(10,869)	3,829	4,778
Prior period adjustment for UITF Abstract 38 (Note 7)	(256)	-	-
Total gains and losses recognised since last annual report	(11,125)	3,829	4,778

Reconciliation of Movements in Shareholders' Funds

for the half year ended 2 July 2004

(Loss) profit attributable to shareholders	(9,966)	2,478	3,662
Ordinary dividends	(2,554)	(2,322)	(6,933)
Currency translation differences	(903)	1,351	1,116
	(13,423)	1,507	(2,155)

Equity shareholders' funds at start of period as previously reported	188,907	191,150	191,150
Prior period adjustment for UITF Abstract 38	(256)	(344)	(344)

Equity shareholders' funds at start of period as restated	188,651	190,806	190,806
Equity shareholders' funds at end of period as restated	175,228	192,313	188,651

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Consolidated Cash Flow Statement

for the half year ended 2 July 2004

		As restated (Note 7) Half year ended 30 June 2003 £000	As restated (Note 7) Year ended 31 December 2003 £000
Net cash inflow from operating activities	Note 6	3,660	34,103
Returns on investments and servicing of finance			
Net interest paid		(544)	(1,612)
Taxation paid		(2,415)	(5,715)
Capital expenditure (net)		(2,815)	(4,295)
Disposals		7,065	-
Equity dividends paid		(4,634)	(6,520)
Financing			
Repayment of loans		(12,500)	(2,854)
(Decrease) increase in cash		(12,183)	13,107
Reconciliation to net debt			
(Decrease) increase in cash in period		(12,183)	13,107
Decrease in debt in period		12,500	2,854
Change in net debt from cash flow		317	15,961
Currency translation differences		(150)	37
Movement in net debt in period		167	15,998
Net debt at start of period		(12,157)	(28,155)
Net debt at end of period		(11,990)	(12,157)

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Notes to the interim results

for the half year ended 2 July 2004

	Half year ended 2 July 2004 £000	As restated (Note 7) Half year ended 30 June 2003 £000	As restated (Note 7) Year ended 31 December 2003 £000
Note 1			
Turnover			
Continuing operations			
Print Management	61,562	61,576	127,508
Personalised Products	60,576	58,896	117,959
Document Services Europe	29,740	32,621	63,977
	<hr/>	<hr/>	<hr/>
	151,878	153,093	309,444
Less inter group sales	(20,861)	(19,255)	(42,202)
	<hr/>	<hr/>	<hr/>
Ongoing operations	131,017	133,838	267,242
Operation to be discontinued	5,397	5,634	11,048
	<hr/>	<hr/>	<hr/>
Continuing operations	136,414	139,472	278,290
Discontinued operations:			
Color Cards	5,605	10,946	22,390
	<hr/>	<hr/>	<hr/>
	142,019	150,418	300,680
	<hr/>	<hr/>	<hr/>
Operating profit before goodwill amortisation and exceptional items			
Continuing operations			
Print Management	2,804	3,589	6,639
Personalised Products	6,522	8,678	15,350
Document Services Europe	1,061	1,620	2,073
Central costs	(1,382)	(1,980)	(3,042)

	9,005	11,907	21,020
Amortisation of contract premium payment	(500)	(500)	(1,000)
Ongoing operations	8,505	11,407	20,020
Operation to be discontinued	(534)	147	130
Continuing operations	7,971	11,554	20,150
Discontinued operations:			
Color Cards	424	687	1,620
	8,395	12,241	21,770

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Notes to the interim results (continued)

for the half year ended 2 July 2004

	Half year ended 2 July 2004 £000	As restated (Note 7) Half year ended 30 June 2003 £000	As restated (Note 7) Year ended 31 December 2003 £000
Note 1 (continued)			
Return on sales			
Ongoing operations			
Print Management	4.6%	5.8%	5.2%
Personalised Products	10.8%	14.7%	13.0%
Document Services Europe	3.6%	5.0%	3.2%
Operation to be discontinued	(9.9%)	2.6%	1.2%
Discontinued operations			
Color Cards	7.6%	6.3%	7.2%
Total	5.9%	8.1%	7.2%

Notes

- * The above segment information shows operating profit before goodwill amortisation of £4,724,000 (30 June 2003 £4,990,000; 31 December 2003 £9,933,000) which cannot be allocated by segment and operating exceptional items of £5,581,000 (30 June 2003 £938,000; 31 December 2003 £1,268,000).
- * The operating exceptional items relate to costs in the following segments: Document Services Europe £5,082,000 (30 June 2003 £578,000; 31 December 2003 £908,000), Print Management £Nil (30 June 2003 £127,000; 31 December 2003 £127,000), Central £Nil (30 June 2003 £233,000; 31 December 2003 £233,000) and color cards £499,000 (30 June 2003 and 31 December 2003 £Nil)
- * The contract premium payment to Barclays Bank PLC is being amortised over the life of the contract. The directors consider that this will benefit all the ongoing operations of the business.

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Notes to the interim results (continued)

for the half year ended 2 July 2004

	Half year ended 2 July 2004 £000	Half year ended 30 June 2003 £000	Year ended 31 December 2003 £000
Note 2			
Exceptional items			
(a) Operating (loss) profit is arrived at after charging the following exceptional items:			
Continuing operations			
Reorganisation and restructuring costs	(5,082)	(705)	(1,035)
Long term incentive plan	-	(233)	(233)
	<u>(5,082)</u>	<u>(938)</u>	<u>(1,268)</u>
Discontinued operations			
Stock loss from flood damage	(499)	-	-
	<u>(5,581)</u>	<u>(938)</u>	<u>(1,268)</u>
(b) Loss before tax is arrived at after charging the following exceptional items:			
Continuing operations			
Operation to be discontinued – provision for loss on termination of an operation	(730)	-	-
	<u>(730)</u>	<u>-</u>	<u>-</u>
Discontinued operations			
Loss on sale of discontinued operations	(2,003)	-	-
Write off of unamortised goodwill relating to discontinued operations	(4,746)	-	-
	<u>(6,749)</u>	<u>-</u>	<u>-</u>

On 7 September 2004 the possible closure of our Label printing operation was announced. In these accounts provision has been made for the impairment in the carrying value of tangible fixed assets of £340,000 and of goodwill of £390,000 which arose as a consequence of our announcement. In the second half of the year closure would give rise to a further exceptional charge of some £3,700,000 in respect of redundancy costs and operating losses.

Note 3

Net interest payable

Net interest payable on bank loans and overdrafts	(467)	(926)	(1,722)
Amortisation of issue costs of bank loans	(7)	(7)	(15)
	<u>(474)</u>	<u>(933)</u>	<u>(1,737)</u>

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 143,595,378 (30 June 2003 and 31 December 2003 143,595,378) after deducting shares held in trust of 309,628 (30 June 2003 and 31 December 2003 309,628). Diluted earnings per share are calculated after the effect of dilutive share options of 317,479 shares (30 June 2003 5,053; 31 December 2003 472,541).

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Notes to the interim results (continued)

for the half year ended 2 July 2004

	Half year ended 2 July 2004 £000	As restated (Note 7) Half year ended 30 June 2003 £000	As restated (Note 7) Year ended 31 December 2003 £000
Note 6			
Reconciliation of operating (loss) profit to cash inflow from operating activities			
Operating (loss) profit	(1,910)	6,313	10,569
Depreciation	5,324	5,454	10,826
Amortisation of contract premium payment	500	500	1,000
Goodwill amortisation	4,724	4,990	9,933
Exceptional items	5,581	938	1,268
Profit on sale of tangible fixed assets	(33)	(61)	(356)
(Increase) decrease in stocks	(80)	(736)	(557)
Decrease (increase) in debtors	2,123	(10,525)	723
(Decrease) increase in creditors	(9,855)	(2,023)	5,255
Other cash movements	(2,714)	(2,078)	(4,558)
Net cash inflow from operating activities	3,660	2,772	34,103

Other cash movements include the cash effect of: restructuring costs recognised as exceptional items in current and prior years of £1,007,000 (30 June 2003 £478,000; 31 December 2003 £1,505,000), payments in respect of the long term incentive plan of £Nil (30 June 2003 and 31 December 2003 £1,213,000), the cash utilisation of the provision for business disposals of £1,707,000 (30 June 2003 £387,000; 31 December 2003 £1,840,000).

Note 7

Urgent Issues Task Force (UITF) Abstract 38 'Accounting for ESOP trusts' has been adopted for the first time in this interim statement in line with the adoption timescale laid down in the Abstract; the UITF requires that the investment in communis plc shares held by the ESOP trust be reclassified as a deduction from shareholders' funds. Prior to 1 January 2004, the group accounting policy was to include the assets held in the ESOP trust at their market value in Other Debtors. The change in policy has been accounted for as a prior period adjustment and previously reported figures have been restated accordingly.

The effect has been to increase profit after tax by £2,000 (6 months ended 30 June 2003 £4,000; year ended 31 December 2003 £88,000) and to reduce net assets at 2 July 2004 by £254,000 (30 June 2003 £340,000; 31 December 2003 £256,000).

Note 8

The figures for the year ended 31 December 2003 do not constitute the company's statutory accounts for that period but have been extracted from the statutory accounts.

The auditors' report on those accounts, which have been filed with the Registrar of Companies, was unqualified and did not contain any statement under section 237 (2) or (3) of the Companies Act 1985.

The financial information for the half year ended 2 July 2004 and for the equivalent period in 2003 has not been audited or reviewed. It has been prepared on the basis of the accounting policies as set out in the annual accounts

for the year ended 31 December 2003, which have been applied consistently throughout the current and preceding periods with the exception of the policy on accounting for ESOP trusts. UITF Abstract 38 'Accounting for ESOP trusts' has been adopted in the interim statement and the comparative figures have been restated accordingly. The effect on profit after tax is disclosed in Note 7. There is no effect on basic earnings per share for either the current period or the 6 months ended 30 June 2003; the effect for the year ended 31 December 2003 is an increase from 2.49p to 2.55p. There is no effect on diluted earnings per share for either the current period or the 6 months ended 30 June 2003; for the year ended 31 December 2003 diluted earnings per share have increased from 2.48p to 2.54p.