Interim Report 2008

Communicate more profitably with

communisis

CONTENTS

HIGHLIGHTS

Financial

- **Profit from operations** (before exceptional gains) up by 92% to £7.6m (H1 2007: £4.0m)
- **Profit after tax** of £4.6m up 110% (H1 2007: £2.2m)
- **Working capital** improvements of 2007 maintained
- **Net debt** reduced to £15.0m (£26.3m at the end of 2007)
- **Earnings per share** up 110% to 3.30p (H1 2007: 1.57p)
- **Interim dividend** increased to 0.860p per ordinary share (H1 2007: 0.818p)

Operational

- **Profitability** across all operations improved again through focus on value-added services
- **Operational improvements** from 2007 continued into the period, with strong profit run-rate and continuing efficiency gains
- **26 of top 100 customers** now buy more than one service, up from 24 at the year end
- **New customers and better relationships** improve Print Sourcing profits by 126% to £1.3m (H2 2007: £0.6m)
- **Bath Business Forms business sold** in the period bringing additional focus to the Group's value-added strategy
- **Second phase of three-phase plan now concluded:** strong account management disciplines and an integrated portfolio of value-added services provide a platform for future profitable growth

CHAIRMAN'S STATEMENT

The interim results for Communisis plc reflect the continuation of the recovery in the Company's performance through the focus on value-added products and the reduction in factory inefficiencies. Profit after tax was £4.6 million compared with £2.2 million for the first half of 2007. Earnings per share increased to 3.3p from 1.6p for the same period last year.

Trading in the first half of the year demonstrated the effect of operational improvements with better quality business generated from our strong customer relationships. We also sold our Business Forms activities based in Bath which will further improve the quality of earnings in future years. Under Communisis' ownership, there were limited growth prospects in the Bath business, and we can now concentrate on higher value-added activities. The disposal, which produced an exceptional profit of £1.4 million, was for £12.8 million of which £8.2 million was received on 30 June.

Good balance sheet management meant that Group debt was further reduced to £15.0 million from £26.3 million last December; debt a year ago was £39.1 million. The cash performance, which benefited from the proceeds of the Bath disposal, also reflected the Company's continuing strong control over capital expenditure and working capital.

We shall be paying an interim dividend of 0.86p per share which is 5% above last year. This is possible because of our continued improvement in profitability and demonstrates our view that prospects are good for the rest of the year. Whilst we are operating against an uncertain economic background, we are confident that Communisis can continue to deliver profitable services to our high quality customers.

Peter Hickson
Chairman

BUSINESS REVIEW

I am pleased to report that Communisis has met all of its financial and strategic objectives for the first half of 2008. Profit from operations before exceptional items of £7.6m shows the benefits of a strong run-rate from operational improvements. This marks the end of the second phase of our three-phase plan, outlined at the start of 2007. Business quality is improved, with more high-value services and developments in key customer relationships. Our balance sheet has improved considerably, with net debt significantly reduced to £15.0m by strong operating cash flow and the cash inflow from the disposal of the Business Forms business. Following this disposal, the Group comprises four main components – Direct Mail, Print Sourcing, Transactional Services (including statements, bills and cheques) and Technology & Services.

Direct Mail & Business Forms

This segment involves the production of direct mail items and business forms stationery. One of the major events during the half was the sale of the Bath Business Forms business to its management team. The consideration for this transaction, completed on 30 June 2008, was £12.8m. Our exit of this business brings two key benefits. The first is to improve focus on our strategy of helping customers improve customer communication. Our Bath Business Forms operations focused on manufacturing in high volume but at low margin, contrasting sharply with the Group's value-added strategy. Under our ownership, Bath profits were in long-term decline because value-added services could not be brought into this business. The second benefit of the sale is a considerable cash inflow, initially of £8.2m, with £4.6m in future years. This will allow us to accelerate investment plans elsewhere.

The Direct Mail business has shown good improvement from the positive effects of the turnaround actions taken last year. Profit in the segment has increased to £3.6m, an improvement of 640% from the first half last year, and this is all due to Direct Mail. A recurring run-rate is now established after a year of remedial activity and focus on growing better customer relationships. Investment in higher value services continues. The digital print business, started from nothing in October 2007 is now turning over in excess of £1m per annum, and is recognised by Hewlett Packard as the fastest growing business of its type in the world. Data management and response handling are also showing excellent rates of growth. Volumes in the factory are good, although there is still spare capacity. Waste reduction has delivered the potential that we spoke of at the full-year results. Yield on paper used has increased by 6 percentage points to 72%, making a big impression on the £5m of paper that was being wasted each year.

Print Sourcing

Print Sourcing involves the procurement of print and related items for customers, often on long-term contracts. The first half has seen continued changes to this business. We have already announced that our contract with Sainsbury's was not renewed. In many ways, this illustrates the trends in print sourcing that have caused us to adjust our business model over the past 18 months to make better margins. Customers want more than just very cheap print. Expertise in campaign effectiveness is also needed, and technology and expertise to manage the marketing communications process better. Where a customer requires specialised expertise that we do not have, it is very difficult to renew the business and make a sensible margin.

With other customers, where our skills are relevant and well developed, we have had numerous successes. Our largest sector, Financial Services, has continued to produce strong results, as customers concentrate more on sophisticated below-the-line marketing to protect their own market share. Our skills in efficient campaign management, especially where direct mail is involved, make us a formidable competitor. Our skills allow us to complement our specialised manufacturing with a good supply chain and creative ideas for customer interaction. Our major focus has been continuing to expand existing customer relationships – for example with Royal Bank of Scotland, where business has more than tripled year-on-year, including business in all of our segments. Of our top 100 customers, 26 now buy more than one service, up from 24 at the end of 2007.

Smaller print sourcing contracts have also developed strongly, especially those managed by the Print Sourcing team in Newcastle. This part of the business is shrugging off a few years of poor performance. Following changes in management and cost base, a new energy has begun to transform results. The team have won contracts with new customers, including a three-year deal with Starbucks and operational print for Anglian Water. Small relationships with customers are being nurtured, as an incubator for potential future large accounts. The financial performance of our Print Sourcing segment shows the benefits – with profits of £1.3m, up 126% in the first half compared to the second half of 2007.

Transactional Print

Transactional Print includes the production of cheques, statements, bills and other security items, usually on long-term contracts. Our cheques business has once again performed well. Volume erosion in cheque books is running at about 10% per annum. However, careful attention to cost control has always been at the heart of this business. We have developed a number of new service lines, drawing on considerable experience in security printing and handling of sensitive customer data. These new service lines now make up about 40% of work in the cheques business. They include payroll printing services for several large customers, and secure printing for public bodies. Growth in some of these new markets will, in time, provide a future beyond cheque books. In the meantime, our margins are strong and efficiencies offset reductions in volume.

Our business in statements and bills has had a good first half. Production has begun on our third contract, for Cooperative Financial Services. Efficiency improvements are under way in the Speke factory and volumes have held up well across our three contracts. This progress is tempered by our disappointment in not closing a potential fourth contract, where the customer has decided to keep the business in-house.

We must be careful to develop profit streams that do not rely solely on continued production of paper statements. As online statements and bills grow, and our customers take up the possibilities of adding marketing messages to statements, our business model must evolve. It is therefore very significant that during the first half we have secured two separate contracts to manage workflow and document composition for our customers.

We view document composition as a key part of future transactional mailing. Statement formats are hard-coded into customer computer systems, making them very difficult to alter. This causes our clients problems when they want to adapt rapidly and evolve communications with their customers. Use of the statement to deliver marketing messages is not possible with such inflexible systems. Our document composition offering overcomes this problem. Our partnership with HP-Exstream, the leader in document composition software, enables us to provide a service for customers to change statement formats quickly and easily without the need to amend their computer systems. Document content can be changed daily, if needed – a tremendous advance in reaction time. Our solution also provides a single source of statement composition whichever output method is used – email, website or paper. This helps regulatory compliance and continuity of customer message. For Communisis, our source of profit is expanded beyond the production of paper statements to a more value-adding and profitable part of the business process.

Technology & Services

Technology & Services is a cluster of products and services that show our highest margin and deliver most value to the customer. They include digital asset management services, consultancy on marketing process and a range of IT tools.

Profits in this segment rose again by 21% compared to the first half of 2007 to £2.4m, and the margin is now 48%. Our technology products are differentiating our offering and customers are noticing. We have expanded our sales of the IQ product to cover Procter and Gamble North

America. Xerox has bought our Connect web-based asset management tool. Our technology was at the heart of our proposition to Starbucks. Our general technology capability allows us to make the document composition propositions in our transactional business. These services lines are becoming more pervasive through our business and in many customer engagements, and providing a growing profit stream as a result. In addition, much of this profit is underpinned by long-term contracts, in contrast to the shorter consultancy-type revenues of a year ago.

Outlook

In planning the future of the business, we have not ignored the general economic climate and the potential threat posed to our business. To date we have not seen any significant change in the level of our customers' spending. There are changes in the pattern of demand – for example to more targeted mailing campaigns – but these have been long anticipated regardless of the economic climate. Indeed, the current uncertainty may serve as a catalyst to accelerate these trends, to our benefit. We remain on the lookout for any spend reduction, and steps are in hand to ensure we can be resilient if this happens.

We have seen a change in the competitive landscape that confronts us. A few big players are concentrating on the very largest deals with the few big customers that want them. These require a wider range of services than Communisis can deliver, and often commit the successful bidder to considerable investment before any reward can be expected. We do not aim to participate in this space, except perhaps as a delivery partner. Conversely, low-value-added players are chasing prices ever lower as their only differentiator. This has long been the case for conventional printing, and we predicted a similar trend in print management some time ago. We will not follow this 'nil value-add' model. A gap in the market is opening between these mega-deals and the lowest price approach. Communisis, with its mid-size and well-matched range of services, is well-placed to exploit this space. There are numerous customers, from the very largest to smaller companies, and large areas of the public sector, who are becoming more receptive to our approach.

These interim results mark the end of the second phase of our three-phase plan, outlined at the start of 2007. The progress made has seen operational performance, profits and cash flows much improved. Our balance sheet is improved considerably and net debt reduced to £15.0m (£26.3m at the end of 2007).

The key to continued strong performance, economic conditions notwithstanding, is to ensure that our range of capabilities expands upwards into the value chain. Our balance sheet gives us the chance to consider small acquisitions and other investments to complement our capabilities. For a good fit, these acquisitions need to improve our value-added services in areas such as campaign effectiveness, data management and creative services. In the meantime, the established profitable run-rate throughout the business, strong sales performance and continued opportunities for efficiency gains means we are positioned to continue to perform in line with management expectations for both profit and cash generation.

Steve Vaughan
Chief Executive

FINANCIAL REVIEW

With profit from operations before exceptional items up 92% at £7.6m (2007: £4.0m) and net debt levels reduced by a further £11.3m to £15.0m (31 December 2007: £26.3m), Communisis' financial recovery continued strongly in the first half of 2008.

The successful disposal of the high-volume low-margin Bath Business Forms operation was significant to the Group. This transaction, which we have treated as exceptional, completed on 30 June and contributed an additional £1.4m to Group operating profit and £8.2m of the £11.3m reduction in debt.

Profitability

As we begin Stage 3 of our strategic plan for the Group, the benefits of Stages 1 and 2 are now showing strongly in our reported results. These results are summarised, by business segment, in the table below:

£m	Half year ended 30 June 2008	Half year ended 30 June 2007	Year ended 31 Dec 2007
Revenue			
Technology & Services	**5.0**	6.6	12.4
Print Sourcing	**55.3**	52.2	107.4
Direct Mail & Business Forms	**61.4**	58.9	115.7
Transactional	**26.4**	28.3	55.1
	148.1	146.0	290.6
Profit			
Technology & Services	**2.4**	2.0	4.0
Print Sourcing	**1.3**	0.3	0.9
Direct Mail & Business Forms	**3.6**	0.5	3.5
Transactional	**5.5**	5.2	11.1
Central costs	**(5.2)**	(4.0)	(9.0)
Profit from operations before exceptional items	**7.6**	4.0	10.5
Exceptional gains on disposal of Business Forms	**1.4**	–	–
Profit from operations	**9.0**	4.0	10.5
Net finance cost	**(1.0)**	(1.4)	(2.6)
Tax	**(3.4)**	(0.4)	(1.3)
Profit for the period	**4.6**	2.2	6.6

Compared with the equivalent period in 2007, profits grew in each of our four business segments. Operational restructuring costs, which reduced from £13m in 2006, to £3m in 2007 have been further reduced in the first half of 2008 to the point where they are not sufficiently material to merit disclosure. They have accordingly been absorbed in the segments to which they relate.

Our Technology & Services business, which doubled its profits in 2007, continued to grow strongly in the first half of 2008. One-off profits made from consulting opportunities have settled to more sustainable levels from the peaks in 2006 and the first half of 2007. These profits have been more than replaced by 3 to 5 year contracts for our technology solutions. Income and profit on contracts with Procter & Gamble, Xerox, and other key customer accounts are recognised evenly over the life of these deals.

Under new management, the recovery in our Print Sourcing business continues. Profits have improved to £1.3m in the first half of 2008, more than the £0.9m we reported in total for 2007. We are seeing the benefit of efficiency improvements first delivered in 2007 and, more significantly, these are now being supplemented by new business wins.

The turnaround in our Leeds based Direct Mail business, first evidenced in the second half of 2007, is more than sustained in 2008. The business is now growing, both in its core activity, and rapidly in new higher value services. With the upheaval of the 2007 recovery programme in the past and the business now stable, we have been able to invest selectively. This investment will continue to drive growth and efficiency gains. Such has been the success in the Direct Mail operation that declines in both revenue and profit from Business Forms have been absorbed in the overall reported performance of this segment.

Early in 2008 we implemented further efficiency improvements in our cheques business. This, coupled with our growth in markets where we can exploit our security printing skills, enabled our cheque business to match its very strong 2007 result. Our statement and billing business benefited from the new contract with Cooperative Financial Services which came on-stream in January 2008. In addition to this growth, there are emerging efficiency gains linked to investment. Together, these delivered profit growth in our Transactional segment despite the absence of the additional service transition activity associated with the move to Speke enjoyed in 2006 and 2007.

Central costs, at £5.2m, are running at similar levels to the second half of 2007 (£5.0m) reflecting investment in our account management and marketing skills.

The overall tax charge for the period at £3.4m represents an effective rate of 42%. In fact this is distorted by the very high effective rate of tax associated with the disposal of the Bath Business Forms operation (99%). This is explained in the following section and again in Note 3. Excluding this exceptional transaction reveals an underlying effective tax rate of 30% which is in line with management expectations. The effective rate in 2007 was low at 17% following the release of certain contingent provisions which have not repeated in 2008.

Overall, our robust first half performance results in profit after tax more than doubling to £4.6m (2007: £2.2m) and earnings per share increasing to 3.3 pence per share (2007: 1.6 pence per share).

Bath Business Forms

We completed the disposal of our Bath Business Forms operation on 30 June 2008. The financial effect of the transaction itself is shown in detail in Note 7 to these accounts. Aspects of the transaction merit some explanation, in particular the tax treatment, and the pension curtailment gain.

Net tangible assets valued at £8.25m were sold for £12.8m. After accounting for disposal costs of £0.4m, this gives rise to a taxable profit on disposal of £4.15m. The Group also carried a goodwill asset of £3.52m in respect of Bath. Whilst this asset is written off against the profit on disposal, it is not eligible for tax relief. The result is a transaction profit of £0.63m but a tax charge of £1.16m. It is our intention that the taxable gain is rolled over against eligible past and future acquisitions such that no tax is payable in the immediate future, although under IFRS we have made a deferred tax charge.

The reportable profit on disposal is enhanced by the impact of the disposal on the Group pension deficit. Our deficit is reduced by an actuarially estimated £0.75m because the Bath employees, on leaving the Group, become deferred members of the Communisis pension scheme. This deficit reduction, described as a ‘curtailment gain’, is required to be disclosed in profit from operations.

Overall, the transaction has resulted in an exceptional profit from operations on disposal of £1.38m, offset by a tax charge, all of which is deferred and so has no cash effect, of £1.37m. Accordingly, exceptional items have no material impact on Group reported earnings.

The impact on future earnings, both for the remainder of 2008 and also 2009, of the disposal of our Business Forms operation, is also expected to be earnings neutral. We will avoid the annual charge for restructuring associated with this declining business, we are able to make savings in central costs, and we have negotiated a volume-related incentive arrangement with the Bath management team. Overall, the impact of these actions is to limit the decline in profit from operations such that the reduction is fully offset by interest receivable on the proceeds from the disposal.

Cash Flow and Net Debt

The table below summarises the Group's key cash flows.

Our cash management performance continues to be strong. In the first half of 2007, our operating cash inflow of £12.5m included a £9.1m one-off benefit from our working capital improvement project. In the first half of 2008, we have delivered an operating cash inflow of £8.3m. This is driven by much stronger profit performance, lower interest charges following from lower levels of Group debt and the reduced impact of payments to the pension scheme. The seasonally driven first half working capital outflow has been limited to £0.7m, helped by a further reduction to 10% of debt overdue from our customers (31 December 2007: 13%).

We are on target to invest the £10m of capital expenditure we forecast for 2008. In the first half of 2008, the net cash outflow associated with

£m	Half year ended 30 June 2008	Half year ended 30 June 2007	Year ended 31 Dec 2007
Profit from operations before exceptional items	**7.6**	4.0	10.5
Depreciation and other non-cash items	**4.3**	4.9	9.3
Reduction / (increase) in working capital	**(0.7)**	9.1	16.2
Additional pension scheme contributions	**(1.2)**	(3.1)	(3.1)
Interest and tax	**(1.7)**	(2.4)	(5.0)
Net cash inflow from operating activities	**8.3**	12.5	27.9
Business disposal	**8.2**	–	1.2
Net capital expenditure	**(2.9)**	(6.0)	(8.5)
Dividends	**(2.3)**	(0.7)	(1.8)
Exchange rate movements	**–**	–	(0.2)
Reduction in net debt	**11.3**	5.8	18.6
Opening net debt	**(26.3)**	(44.9)	(44.9)
Closing net debt	**(15.0)**	(39.1)	(26.3)

capital expenditure has been limited to £2.9m. This reflects proceeds from asset disposals (£0.7m) and delayed payment profiles negotiated with suppliers on investments in new equipment.

The one-off timing benefit to the Group from the new dividend policy announced with the 2006 results unwound fully in 2007 such that 2008 dividend payments are expected to settle at normal levels. The Group expects to remain within its self-imposed cover ratio target of 2-2.5 times profit before exceptional items. Accordingly, the Board are delighted to declare an increase of 5% in the interim dividend. An interim dividend of 0.86 pence per share is payable on 17 October 2008 to shareholders on the register at the close of business on 19 September 2008.

Committed loan facilities totalled £46.1m at the end of 2007. During the first quarter of 2008, we completed the process to extend our facilities by a further £10m thus ensuring we have adequate funds necessary to continue progress with the strategy. Scheduled amortisation in 2008 of £12.5m will leave us with committed loan facilities of £43.6m by the end of 2008.

Pensions

There have been no significant changes in the Group's pension position. The gross deficit reported under IFRS has increased to £18.6m (31 December 2007: £14.7m). The increase reflects the trend experienced by the majority of UK schemes as downsides from reduced investment returns and higher anticipated levels of inflation outstrip upsides from improved gilt yields. Both the Company and Trustees of the Communisis scheme have the situation under active consideration in the run-up to the 30 September 2008 triennial valuation.

Risks and uncertainties

The principal risks and uncertainties relating to the business at 31 December 2007 were set out in the Business Review on page 15 of the Annual Report. With the exception of changes in the competitive landscape discussed in the Business Review, and the deterioration in credit markets, the view of the Board of Directors is that the nature of these risks has not changed since 27 February 2008 and that they represent our current best understanding of the situation faced by the Company. In terms of risk mitigation, management will continue to be vigilant to anticipate and respond to any problems caused or exacerbated by the current economic uncertainty.

Peter King
Finance Director

Directors' Responsibility Statement

The directors are responsible for preparing the condensed set of financial statements, in accordance with applicable law and regulations. The directors confirm, to the best of their knowledge:

- the condensed set of financial statements on pages 14 to 26 has been prepared in accordance with IAS 34 – Interim Financial Reporting, as adopted by the European Union; and
- the condensed set of financial statements on pages 14 to 26 includes a fair review of the information required by Sections DTR 4.2.7R and DTR 4.2.8R of the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

The Business and Finance Reviews on pages 3 to 12 refer to important events which have taken place during the period.

There were no related party transactions during the period which require disclosure.

Consolidated Income Statement
for the half year ended 30 June 2008: unaudited

	Note	Half year ended 30 June 2008 £000	Half year ended 30 June 2007 £000	Year ended 31 Dec 2007 £000
Revenue	1	**148,054**	145,937	290,590
Changes in inventories of finished goods and work in progress		**277**	92	(246)
Raw materials and consumables used		**(81,785)**	(80,507)	(157,968)
Employee benefits expense		**(36,662)**	(39,918)	(77,999)
Other operating expenses		**(18,985)**	(18,451)	(37,169)
Depreciation and amortisation expense		**(3,290)**	(3,195)	(6,700)
Gains arising on disposal of Bath business	7	**1,380**	–	–
Profit from operations	1	**8,989**	3,958	10,508
Analysed as:				
Profit from operations before exceptional items		**7,609**	3,958	10,508
Gains arising on disposal of Bath business	7	**1,380**	–	–
Profit from operations		**8,989**	3,958	10,508
Finance revenue		**237**	424	894
Finance costs		**(1,274)**	(1,751)	(3,531)
	2	**(1,037)**	(1,327)	(2,637)
Profit before taxation		**7,952**	2,631	7,871
Income tax expense	3	**(3,351)**	(444)	(1,320)
Profit for the period attributable to equity holders of the parent		**4,601**	2,187	6,551

Consolidated Income Statement continued
for the half year ended 30 June 2008: unaudited

	Note	Half year ended 30 June 2008 £000	Half year ended 30 June 2007 £000	Year ended 31 Dec 2007 £000
Earnings per share	4			
On profit for the period attributable to equity holders and from continuing operations				
– basic		**3.33p**	1.58p	4.74p
– diluted		**3.30p**	1.57p	4.69p
Dividend per share	5			
– paid		**1.635p**	0.500p	1.318p
– proposed		**0.860p**	0.818p	1.635p

Dividends paid and proposed during the period were £2.3 million and £1.2 million respectively (30 June 2007: £0.7 million and £1.1 million respectively, 31 December 2007: £1.8 million and £2.3 million respectively).

The accompanying notes are an integral part of these Consolidated Financial Statements.

All income and expenses relate to continuing operations.

Consolidated Balance Sheet
30 June 2008: unaudited

	Half year ended 30 June 2008 £000	Half year ended 30 June 2007 £000	Year ended 31 Dec 2007 £000
ASSETS			
Non-current assets			
Property, plant and equipment	**22,839**	27,797	27,473
Intangible assets	**148,357**	151,601	151,022
Trade and other receivables	**5,465**	2,365	1,865
Deferred tax assets	**2,874**	3,016	2,521
	179,535	184,779	182,881
Current assets			
Inventories	**7,950**	12,724	10,970
Trade and other receivables	**38,767**	46,957	40,977
Cash and cash equivalents	**18,489**	6,949	13,628
	65,206	66,630	65,575
Non-current assets classified as held for sale	**–**	350	350
TOTAL ASSETS	**244,741**	251,759	248,806

Consolidated Balance Sheet continued
for the half year ended 30 June 2008: unaudited

	Half year ended 30 June 2008 £000	Half year ended 30 June 2007 £000	Year ended 31 Dec 2007 £000
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the parent			
Equity share capital	**34,638**	34,633	34,636
Share premium	**5**	–	4
Merger reserve	**11,427**	11,427	11,427
Capital redemption reserve	**1,375**	1,375	1,375
ESOP reserve	**(338)**	(338)	(338)
Cumulative translation adjustment	**(147)**	(25)	(76)
Retained earnings	**79,845**	81,184	81,470
Total equity	**126,805**	128,256	128,498
Non-current liabilities			
Interest-bearing loans and borrowings	**21,000**	39,517	22,000
Retirement benefit obligations	**18,600**	10,354	14,730
Provisions	**641**	196	68
	40,241	50,067	36,798
Current liabilities			
Interest-bearing loans and borrowings	**12,500**	6,536	17,907
Trade and other payables	**58,463**	60,770	60,548
Income tax payable	**5,048**	5,248	3,568
Provisions	**1,684**	882	1,487
	77,695	73,436	83,510
Total liabilities	**117,936**	123,503	120,308
TOTAL EQUITY AND LIABILITIES	**244,741**	251,759	248,806

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Cash Flow Statement
for the half year ended 30 June 2008: unaudited

	Note	Half year ended 30 June 2008 £000	Half year ended 30 June 2007 £000	Year ended 31 Dec 2007 £000
Cash flows from operating activities				
Cash generated from operations	6	**10,044**	14,854	32,937
Interest paid		**(1,317)**	(1,797)	(3,696)
Interest received		**111**	89	266
Income tax paid		**(582)**	(680)	(1,584)
Net cash flows from operating activities		**8,256**	12,466	27,923
Cash flows from investing activities				
Receipt of consideration from the sale of Bath business		**8,200**	–	–
Receipt of deferred consideration from the sale of subsidiary undertakings		**–**	–	1,164
Purchases of property, plant and equipment		**(2,296)**	(5,285)	(7,667)
Proceeds from the sale of property, plant and equipment		**693**	58	260
Purchase of intangible assets		**(1,258)**	(716)	(1,074)
Net cash flows from investing activities		**5,339**	(5,943)	(7,317)
Cash flows from financing activities				
Receipt from sharesave options exercised		**5**	–	7
New borrowings		**–**	2,000	6,000
Repayment of borrowings		**(1,000)**	(6,000)	(18,500)
Dividends paid	5	**(2,261)**	(691)	(1,822)
Net cash flows from financing activities		**(3,256)**	(4,691)	(14,315)
Net increase in cash and cash equivalents		**10,339**	1,832	6,291
Cash and cash equivalents at 1 January		**8,221**	2,085	2,085
Exchange rate effects		**(71)**	(4)	(155)
Cash and cash equivalents at end of period		**18,489**	3,913	8,221
Cash and cash equivalents consist of:				
Cash and cash equivalents		**18,489**	6,949	13,628
Overdrafts		**–**	(3,036)	(5,407)
		18,489	3,913	8,221

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Recognised Income and Expense
for the half year ended 30 June 2008: unaudited

	Half year ended 30 June 2008 £000	Half year ended 30 June 2007 £000	Year ended 31 Dec 2007 £000
Exchange losses on translation of foreign operations	**(71)**	8	(43)
Actuarial (losses)/gains on defined benefit pension plans	**(5,866)**	4,615	511
Tax on items taken directly to equity	**1,642**	(1,638)	(489)
Net (loss)/profit recognised directly in equity	**(4,295)**	2,985	(21)
Profit for the period	**4,601**	2,187	6,551
Total recognised income and expense for the period	**306**	5,172	6,530
Attributable to:			
Equity holders of the parent	**306**	5,172	6,530

The accompanying notes are an integral part of these Consolidated Financial Statements.

Notes to the Financial Statements continued
for the half year ended 30 June 2008: unaudited

1 Segmental information

At 30 June 2008, the Group is organised into four main business segments: Technology & Services, Print Sourcing, Direct Mail & Business Forms, and Transactional. As operational restructuring costs have been reduced to immaterial levels they are deducted from the operating profit of the relevant segment, and no longer shown separately.

Business segments

The segment results for the half year ended 30 June 2008 are as follows:

	Continuing operations					
	Technology & Services £000	Print Sourcing £000	Direct Mail & Business Forms £000	Trans-actional £000	Central Cost £000	Total £000
Revenue	**4,993**	**55,330**	**61,353**	**26,378**	**–**	**148,054**
Profit from operations before exceptional items	**2,372**	**1,279**	**3,663**	**5,515**	**(5,220)**	**7,609**
Gains arising on disposal of Bath business	**–**	**–**	**1,380**	**–**	**–**	**1,380**
Profit from operations	**2,372**	**1,279**	**5,043**	**5,515**	**(5,220)**	**8,989**

The segment results for the half year ended 30 June 2007 were as follows:

	Continuing operations					
	Technology & Services £000	Print Sourcing £000	Direct Mail & Business Forms £000	Trans-actional £000	Central Cost £000	Total £000
Revenue	6,570	52,174	58,894	28,299	–	145,937
Profit from operations	1,959	292	483	5,219	(3,995)	3,958

Notes to the Financial Statements continued
for the half year ended 30 June 2008: unaudited

1 Segmental information (continued)

Business segments (continued)

The segment results for the year ended 31 December 2007 were as follows:

	Continuing operations					
	Technology & Services £000	Print Sourcing £000	Direct Mail & Business Forms £000	Trans-actional £000	Central Cost £000	Total £000
Revenue	12,373	107,457	115,670	55,090	–	290,590
Profit from operations	4,031	859	3,511	11,150	(9,043)	10,508

2 Finance costs and finance income by category of financial instruments

	Half year ended 30 June 2008 £000	Half year ended 30 June 2007 £000	Year ended 31 Dec 2007 £000
Interest on receivables measured at amortised cost	**112**	110	266
Interest expense for borrowings at amortised cost	**(1,250)**	(1,747)	(3,350)
Net interest from financial assets and financial liabilities not at fair value through profit and loss	**(1,138)**	(1,637)	(3,084)
Loss on foreign currency financial liabilities	**(24)**	(4)	(181)
Retirement benefit related income	**125**	314	628
Finance costs	**(1,037)**	(1,327)	(2,637)

3 Income tax

The tax charge for the period on profit before exceptional items is based upon the estimated effective tax rate for the period of 29.96%.

The exceptional gain before tax arising on the disposal of the Bath business is £1,380,000. This gain is calculated after writing off £3,520,000 of non tax-deductible goodwill. As a result, the tax charge arising from this transaction is £1,372,000, producing an effective tax rate on exceptional profits of 99.4%. All of the tax charge arising on the disposal of the Bath business has been treated as deferred.

As a result of the high effective rate of tax on exceptional items, the overall effective rate of tax for the period is 42.14%. This rate is higher that the standard rate of tax at 28.5% primarily due to non deductible goodwill write-off in respect of the sale of the Bath business.

Notes to the Financial Statements continued
for the half year ended 30 June 2008: unaudited

4 Earnings per share

	Half year ended 30 June 2008 £000	Half year ended 30 June 2007 £000	Year ended 31 Dec 2007 £000
Basic and diluted earnings per share are calculated as follows:			
Profit attributable to equity holders of the parent	**4,601**	2,187	6,551

	Half year ended 30 June 2008 000	Half year ended 30 June 2007 000	Year ended 31 Dec 2007 000
Weighted average number of ordinary shares (excluding treasury shares) for basic earnings per share	**138,269**	138,252	138,254
Effect of dilution:			
Share options	**1,341**	456	1,468
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution	**139,610**	138,708	139,722

279,628 (30 June 2007: 279,628, 31 December 2007: 279,628) shares were held in trust at 30 June 2008.

Earnings per share from continuing operations before exceptional items

Net profit from continuing operations before exceptional items and attributable to equity holders of the parent is derived as follows:

	Half year ended 30 June 2008 £000	Half year ended 30 June 2007 £000	Year ended 31 Dec 2007 £000
Profit after taxation from continuing operations	**4,601**	2,187	6,551
Exceptional items:			
Gains arising on disposal of Bath business (Note 7)	**(1,380)**	–	–
Taxation on exceptional items	**1,372**	–	–
Taxation – adjustments in respect of prior years	**–**	(410)	(1,430)
Profit after taxation from continuing operations excluding exceptional items	**4,593**	1,777	5,121
Adjusted earnings per share			
Basic	**3.32p**	1.28p	3.70p
Diluted	**3.29p**	1.28p	3.67p

Adjusted earnings per share uses the same weighted average number of ordinary shares as reported above.

Notes to the Financial Statements continued
for the half year ended 30 June 2008: unaudited

5 Dividends paid and proposed

	Half year ended 30 June 2008 £000	Half year ended 30 June 2007 £000	Year ended 31 Dec 2007 £000
Declared and paid during the period			
Amounts recognised as distributions to equity holders in the period:			
Final dividend of the year ended 31 December 2006 of 0.500p per share	**–**	691	691
Interim dividend of the year ended 31 December 2007 of 0.818p per share	**–**	–	1,131
Final dividend of the year ended 31 December 2007 of 1.635p per share	**2,261**	–	–
	2,261	691	1,822
Proposed for approval by the Board (not recognised as a liability at period end)			
Interim equity dividend on ordinary shares for 2008 of 0.860p (30 June 2007: interim 0.818p, 31 December 2007: final 1.635p) per share	**1,189**	1,128	2,260

Notes to the Financial Statements continued
for the half year ended 30 June 2008: unaudited

6 Cash generated from operations

	Half year ended 30 June 2008 £000	Half year ended 30 June 2007 £000	Year ended 31 Dec 2007 £000
Continuing operations			
Profit before tax	**7,952**	2,631	7,871
Adjustments for:			
– depreciation and amortisation	**3,290**	3,195	6,700
– amortisation of contract premium payment	**500**	500	1,000
– excess of Income Statement pension charge over normal contributions paid	**237**	1,100	1,513
– gains arising on disposal of Bath business	**(1,380)**	–	–
– loss /(profit) on sale of property, plant and equipment	**30**	(28)	(97)
– share-based payment charge	**259**	164	172
– net finance costs	**1,037**	1,319	2,637
Additional contribution to the defined benefit pension plan	**(1,200)**	(3,100)	(3,100)
Changes in working capital:			
– Decrease / (increase) in inventories	**(297)**	547	2,307
– Decrease / (increase) in trade and other receivables	**(4,064)**	4,567	9,412
– Increase / (decrease) in trade and other payables	**3,680**	3,959	4,522
Cash generated from operations	**10,044**	14,854	32,937

Notes to the Financial Statements continued
for the half year ended 30 June 2008: unaudited

7 Disposal of business included within continuing operations

On 30 June 2008, the Group disposed of the Bath operation which comprised Communisis' Bath Business Forms and Economailer businesses, both of which were part of the Direct Mail & Business Forms segment of the Group's divisions. Printing activity in this segment will continue and therefore the disposal of the Bath operation is included within continuing operations. The Purchaser is wholly owned by MCAARP One Limited, which in turn is owned by the former management team of the Bath operation, as notified to shareholders in a circular dated 13 June 2008.

The Bath Business Forms business manufactures business forms stationery for a number of clients from its factory in Midsomer Norton, near Bath, Somerset. The Economailer business is a small sales force for specialised payroll products, largely manufactured at the Bath plant.

The exceptional profit arising on the disposal of the Bath Business Forms operation is calculated as follows:

	30 June 2008	
	£000	£000
Disposal proceeds		
– cash	8,200	
– deferred consideration	4,600	
		12,800
Less tangible net assets disposed		
– property, plant and equipment	(3,670)	
– inventories	(3,320)	
– trade and other receivables	(6,837)	
– trade and other payables	5,577	
		(8,250)
Less disposal costs		(400)
Profit on disposal chargeable to tax		4,150
Less intangible assets written off		(3,520)
Pension related curtailment gain (see note below)		750
Gains arising on disposal (included in profit from operations)		1,380
Tax		
– chargeable against profit on disposal	(1,162)	
– chargeable against curtailment gain	(210)	
		(1,372)
Profit after tax attributable to disposal of Bath Business Forms operation		8

Notes to the Financial Statements continued
for the half year ended 30 June 2008: unaudited

7 Disposal of business included within continuing operations (continued)

	30 June 2008 £000
The deferred consideration is due to Communisis as follows:	
No later than one year	500
After one year but no more than five years	4,100
	4,600

The pension related curtailment gain arises because, on leaving the Group, employees of the Bath operation become deferred members of the Communisis Group pension scheme. This in turn results in a reduction in the Group pension related deficit which is treated as a curtailment gain.

The tax charge arising on the sale of the Bath operation is £1,372,000, all of which is treated as deferred.

8 Provisions

A provision of £500,000 has been recognised in these financial statements in respect of a liability first identified as contingent and disclosed at 31 December 2007. A leasehold property occupied by Jaycare Ltd ('Jaycare'), a business Communisis sold in 2000, was vacated in July 2008, following the failure of Jaycare. At the time of disposal, Communisis had provided the property landlord with a guarantee in respect of rent payable. Annual rent is £225,000 and the first opportunity to exit the lease is in 2012. The Group is actively seeking to dispose of its interest in this property; however, whilst the issue is still at an early stage in its development, the directors consider it appropriate to provide a 40% proportion of the potential full liability.

9 Related party transactions

There were no related party transactions during the period which require disclosure.

10 Additional information

The financial information for the half year ended 30 June 2008 and for the equivalent period in 2007 has not been audited or reviewed. It has been prepared on the basis of the accounting policies as set out in the 2007 Annual Report and Accounts and in accordance with IAS 34.

The financial information in this statement does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The statutory accounts for the year ended 31 December 2007, on which the auditors have given an unqualified audit report, have been filed with the Registrar of Companies.

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