

FOR IMMEDIATE RELEASE

17 December 2003

SCIPHER PLC

Interim Results

The technology development and licensing company, Scipher plc, announces its Interim Results for the six months ended 30 September 2003.

FIRST-HALF SUMMARY

Financial

- Total revenue down by 12% to £8.8m, mainly impacted by sales setback at Secure Identification
- Key New business revenues up by 1% to £7.8m representing 89% of total
- Total operating loss increased by 6% to £5.7m (H1 2001/02: £5.4m)
- Patent Licensing received payment of US\$1.0m for services to Tulip Computers International
- Banking facility being renegotiated following disposal of 3D Sound business

Management actions on cash

- Placing and Open Offer raises £7.0m net of expenses
- 3D Sound business sold, raises £3.4m net of expenses on 3 December 2003
- Continuing cost reductions
- Negotiations to transfer yet2.com and future funding requirements to its management
- SpectraProbe and Purple Voice refinanced by partners
- MicroVue cash burden under review

Dr Rudolph Burger, Chief Executive Officer, Scipher plc:

“The short time that I have been at Scipher has reinforced my belief that the Company has created a number of businesses with substantial commercial potential. The sale of our 3D Sound business demonstrates the way Scipher can extract financial benefit from its expertise in developing and commercialising intellectual property (“IP”).

The core Scipher businesses going forward (TSSI, CRL Opto and QED) have competitive products, good patent protection, and address large and growing markets. It is now clear that Scipher spread its investment cash across too many operations without sufficient attention to their ability to achieve anticipated returns. In addition, its core businesses have frequently failed to fulfil their financial plans. Going forward, Scipher needs to focus on its core businesses and ensure that they are well managed and adequately capitalised.

With this in mind I am carrying out a review of all businesses and technologies in Scipher's portfolio. This has two objectives. First, to re-evaluate each operation's longer-term potential and its appropriateness in its present form to Scipher's future. Secondly, to determine whether a change of business model might advance both the level and pace of realising shareholder returns. The outcome of this review and the new initiatives it reveals will be presented as early as possible in 2004.

Action is already in hand to address the major cash drains on the business. As announced today, owing to the performance of the yet2.com IP licensing website falling short of our expectations, we have heads of agreement to allow its management to take majority ownership and responsibility for its ongoing funding. QED remains with Scipher as an international provider of patent licensing and professional IP services."

Enquiries

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The Interim Results announcement, presentation and additional information may be seen at www.scipher.com

Chairman's Statement

Dr Kenneth W Gray CBE FREng

Introduction

"Trading in the first half of the year has continued to be affected by the difficult conditions in the technology market. These conditions have impacted our ability to grow our businesses and have also placed unexpectedly high demands on our cash resources.

For this reason we undertook a fund raising in July and the sale of our 3D Sound business earlier this month. We are also taking action to arrest the cash drain from our MicroVue and yet2.com businesses - moves that will positively affect our short-term cash position.

As regards the longer term, Rudy Burger, our new CEO, is currently undertaking a review of Scipher's operations, with a view to determining the best way to maximise returns for our shareholders.

Financial Review

As stated in last year's Annual Report, the fourth quarter of our 2003 financial year saw conditions in Scipher's high technology marketplace deteriorate. Disappointingly, this reduced level of activity persisted through the first half of the current year. In particular, technical issues resulted in a delay in the rollout of a new £2.0m systems project from our Secure Identification business. These issues have been overcome and the sales are now progressing.

Despite this, New business increased slightly by 1% in the first half, to £7.8m from £7.7m last time and accounted for 89% of total revenues (H1 2002: 78% (see Table 1 below)). This growth was lower than had been anticipated due mainly to delayed Secure Identification sales. In the first six months, Scipher's total revenues from all sources were £8.8m (H1 2002: £9.9m). The revenues from R&D were £0.7m, as against £1.2m in the same period last year owing to the decision by the Company to participate in fewer collaborative European Commission ("EC") R&D programmes. The revenue contribution from our small Mature business category was £0.3m (H1 2002: £1.0m), a decline in line with the age of the technologies employed.

Such a decline in revenue growth has a particular impact on a Company like Scipher that is growing new businesses from a comparatively small base. The effect has been to delay the point at which individual businesses can reach the critical mass where their own sales are sufficient to fund their activities. This has continued to place unexpectedly high demands on the Company's cash resources, which were bolstered during July 2003 by the successful Share Placing and Open Offer ("Placing").

At the time of the Placing the Directors were of the opinion that, taking into account the bank facilities available to the Group and the net proceeds of the Placing, the Company and the Group would have sufficient working capital for their present requirements, that is, for at least twelve months from the date of admission. Since then and as reported elsewhere in this statement, the Group has experienced poor operating results, which have had a significant negative impact on its cash position.

The Group has sought to offset this through the disposal of its 3D Sound business, which was completed in December 2003, raising a further £3.4m net of expenses.

The Group's operating performance led to the breach of its EBITDA covenant contained in its £5.0m committed facility with the Bank of Scotland. The Company is currently in discussions with the Bank who have indicated that part of the Sensaura disposal proceeds will be utilised in reducing the available facility. The Directors are confident of agreeing a revised on-demand facility in excess of £3.5m on an ongoing basis and will make an announcement in respect of its facility as soon as possible.

Consequently, this Interim statement has been prepared on the going concern basis as the Directors are of the opinion that, on the basis of the continuing support of the Group's bank and the further cost-saving initiatives, and a marked improvement in its operating performance, the Group will have sufficient financial resources for the foreseeable future.

The following actions are directed towards achieving this aim:

- The July Placing delivered £7.0m cash to Scipher, net of expenses.
- Since the period end, a further £3.4m cash, net of expenses, has been delivered through the divestment of the non-core 3D Sound business, giving rise to a profit on disposal of £2.3m. This transaction will be reflected in the full-year results.
- As referred to at the Placing, Scipher continues to seek appropriate divestments of its non-core activities.
- Heads of agreement have been reached to transfer the IP licensing website, yet2.com, and its ongoing funding requirements to its management
- Scipher's associated companies, SpectraProbe and Purple Voice, have been recapitalised by further cash investments by AstraZeneca and IPC UK Holdings, our partners, respectively, in the joint ventures. In both cases there is no further cash obligation on Scipher.

On the operating side, Scipher's New business saw a small increase in turnover to £7.8m despite the turbulence caused by cash constraints in the first four months of the year during the run-up to the Placing and the disappointing performance by Secure Identification.

Table 1
For the six months ended 30 September

	2003 £'000	2002 £'000	2001 £'000	FY2003 £'000
New Business	7,786	7,705	5,516	16,678
Mature Business	297	1,011	1,219	1,947
R&D	706	1,223	817	1,760
Total	8,789	9,939	7,552	20,385

Table 2
For the six months ended 30 September

	2003 £'000	2002 £'000	2001 £'000	FY2003 £'000
EBITDA	(4,382)	(3,964)	(6,598)	(10,012)
Depreciation	(670)	(659)	(660)	(1,390)
Amortisation	(477)	(433)	(83)	(948)
Group operating loss	(5,529)	(5,056)	(7,341)	(12,350)

The overall results (Table 2) for the first half include losses totalling £0.6m in respect of QED Inc., which was acquired as yet2.com in December 2002, and property costs of £1.2m, which were not reflected in the previous period.

Cost control and cost reduction remains at the top of the Company's agenda. In the period under review, headcount was reduced by 46.

Scipher is currently reviewing the basis on which overhead costs on certain R&D projects performed by the Company on behalf of the EC are charged. These contracts date back as far as 1996 and are being disputed by the EC as part of its project administration procedures. The Company believes that it has complied with the accounting rules as laid down by the EC and denies any liability and is vigorously defending its position. For prudence a contingent liability is referred to in note 6.

Operating Review

Secure Identification

The unexpected delays to a major new systems programme and low sales of core products caused lower than expected New business revenues of £1.4m for the period. Sales under this programme are now underway. Other positive commercial developments include contracts by US licensee, Appleton Papers, for secure documentation for Ford and for vehicle-licensing applications in three US states. The successful rollout of the National Health Service 'smart-card' project heralds potential sales of over £2.0m for extensions to the system that are currently in negotiation. A £0.6m order from Korea for the mature 'Watermark' products was received in November.

Communications

The Communications operation, reorganised as a solutions-oriented business, achieved £1.8m sales in the first half from its core markets of Education, Defence, Health and Transport. Progress was maintained with Royal Mail to provide wireless broadband data communications and a new multi-year contract was recently signed. Important new contracts since the end of the period include £0.6m in the Education sector. The promising market for community wireless broadband applications in the UK is expected to grow over the coming years.

Displays

CRL Opto progressed several new consumer product designs using our microdisplay technology. These include rear-projection TV and front projectors. We have a strong position in professional applications for defence training and simulation. Continuing interest in our technology has led to the design of projection engines incorporating our technology by UNEED Systems (South Korea), ITRI (Taiwan), and Qubic Light (USA).

Patent Licensing

Patent Licensing delivered revenue of £2.0m in a market that exhibits continuing growth. In the first half Scipher received US\$1.0m for its services in connection with the successful patent infringement litigation on behalf of its client, Tulip Computers International. We announce today heads of terms to transfer majority ownership of the yet2.com IP licensing website to its management who will take responsibility for

its ongoing funding. IP consulting and licensing will remain the core of Scipher's Patent Licensing business.

Sensors

The Sensors business experienced sales growth in both its domestic and industrial markets. It has secured new orders worth £0.75m from Sensotec Europe and other customers in North America. There were increased sales in the industrial sector to detector companies in Germany, Russia and North America. Semi-automated manufacture is in place to meet the expected uplift in sales during 2004/05.

Technology Generation

Revenue from this sector declined sharply, principally owing to the decision by the Company to participate in fewer collaborative EC R&D programmes. However, significant advances were made in techniques to perform chemical reactions in controlled micro-environments, leading to new business opportunities. The 'Smart CCTV' system is now use at Gatwick airport and a major UK shopping mall.

3D Sound

During the first half, 3D Sound achieved sales of £1.3m from the licensing of its 3D audio technology to makers of PC audio chips and technology providers for game consoles. As mentioned in the Financial Review above, on 3 December 2003, the 3D Sound business and assets were sold to Creative Technology Ltd for £3.4m net of expenses.

Board Changes

On 10 November, Dr Rudolph Burger was appointed as Scipher's Chief Executive Officer. Rudy, 45, has over 20 years international business and entrepreneurial experience in the information and communication technology sector and a proven track record in translating advanced technology into profitable business models. We welcome his arrival, which is already invigorating Scipher's business approach.

In light of his appointment, the Board has agreed to change my role to that of Non-executive Chairman, in which capacity I shall give Rudy every support in the detailed re-examination of the Company's overall business and strategy.

I take this opportunity to express our great appreciation of the contribution made over six years by Neil Pearce, who retired from the Board as a Non-executive Director at the AGM on 18 September.

We announce today that Chris Mutter, who joined Scipher as Finance Director in March 2001, is resigning from the Board with effect from 31 December. Chris has made a major contribution to the business for which we are most grateful. We have been active in seeking a suitable replacement for this position and are in discussions with several candidates. Scipher's Financial Controller will provide continuity during the interim period.

In addition, Dr Ashok Vaidya, an Executive Director since Scipher's formation, has expressed his intention to retire from the Board on 31 December 2003. The Board thanks Ashok for the substantial contribution he has made, both before and after the Company's formation.

Outlook

The review being conducted by CEO Rudy Burger aims to determine how best to accelerate Scipher's transition to profitability. This may require changes to our business model. It is clear that where circumstances have affected the established business plan of any of our operations, appropriate action must be taken. We also continue to explore opportunities to capitalise on technologies that we have successfully developed to a strong position in their market sector.

The situation in the technology marketplace has begun to improve recently and we expect to see this continue through the second half of the year. The actions we are taking are aimed at putting each business in the best position to capitalise its technology. While the longer-term prospects for trading and market conditions remain difficult to predict, the actions we have in hand enable us to be cautiously optimistic for Scipher's progress over the medium term."

***Dr Kenneth W Gray CBE FREng
Chairman, Scipher plc***

Group profit and loss account

	Note	Six months to 30 September 2003 Unaudited £'000	Six months to 30 September 2002 Unaudited £'000	Year ended 31 March 2003 Audited £'000
Turnover				
Continuing operations		7,523	9,232	19,005
Discontinued operation	7	1,266	707	1,380
		8,789	9,939	20,385
Less share of joint ventures		(25)	(74)	(124)
Group turnover		8,764	9,865	20,261
Cost of sales		(3,735)	(5,045)	(11,103)
Gross profit		5,029	4,820	9,158
Administrative expenses		(10,558)	(9,876)	(21,508)
Continuing operations		(5,894)	(4,993)	(12,216)
Discontinued operation	7	365	(63)	(134)
Group operating loss		(5,529)	(5,056)	(12,350)
Share of operating loss in joint ventures		(70)	(201)	(328)
Share of operating loss in associated undertakings		(114)	(150)	(396)
Total operating loss		(5,713)	(5,407)	(13,074)
Profit on disposal of fixed assets		-	3,592	3,598
Net interest (payable)				
- Group		(337)	(342)	(668)
- Associated undertakings and joint ventures		(4)	(16)	(22)
Amounts written off from investments		-	(192)	(192)
Other finance charges		(21)	-	(142)
Loss on ordinary activities before taxation		(6,075)	(2,365)	(10,500)
Taxation		-	-	(15)
Loss on ordinary activities after taxation		(6,075)	(2,365)	(10,515)
Minority interests		539	297	825
Loss for the period		(5,536)	(2,068)	(9,690)
Loss per share				
Basic and diluted	2	(3.2p)	(2.3p)	(10.4p)

Statement of Group total recognised gains and losses

		Six months to 30 September 2003 Unaudited £'000	Six months to 30 September 2002 Unaudited £'000	Year ended 31 March 2003 Audited £'000
Loss for the period		(5,536)	(2,068)	(9,690)
Currency translation differences on foreign currency net investments		21	23	13
Total recognised gains and losses for the period and since last Annual Report		(5,515)	(2,045)	(9,677)

Group balance sheet

	As at 30 September 2003 Unaudited £'000	As at 30 September 2002 Unaudited £'000	As at 31 March 2003 Audited £'000
Note			
Fixed assets			
Intangible assets	7,695	6,623	8,902
Tangible assets	4,137	5,215	4,762
Investment in associated undertakings	-	94	-
Investments	-	98	84
Investments – own shares	4	4	4
	11,836	12,034	13,752
Current assets			
Stocks	1,471	1,969	1,436
Debtors – amounts falling due within one year	8,753	12,271	10,330
Debtors – amounts falling due after more than one year	2,372	2,450	2,227
Cash at bank and in hand	82	43	275
	12,678	16,733	14,268
Creditors: amounts falling due within one year	(12,609)	(13,375)	(17,313)
Net current assets	69	3,358	(3,045)
Total assets less current liabilities	11,905	15,392	10,707
Creditors: amounts falling due after more than one year	(427)	(128)	(407)
Provision for losses in associated undertakings	(394)	(608)	(206)
Provisions for other liabilities and charges	(754)	(429)	(486)
Net assets	10,330	14,227	9,608
Capital and reserves			
Called-up share capital	2,590	913	1,007
Share premium account	50,322	40,084	43,334
Shares to be issued	533	2,950	2,791
Capital redemption reserve	149	149	149
Profit and loss account	(44,009)	(30,862)	(38,494)
Shareholders' funds	9,585	13,234	8,787
Minority interest (equity)	745	993	821
	10,330	14,227	9,608

Group cash flow statement

	Six months to 30 September 2003 Unaudited £'000	Six months to 30 September 2002 Unaudited £'000	Year ended 31 March 2003 Audited £'000
Net cash outflow from operating activities			
Operating loss	(5,529)	(5,056)	(12,350)
Amortisation of intangible fixed assets	477	433	948
Depreciation of tangible fixed assets	670	659	1,390
Loss on disposal of fixed assets	-	-	119
(Increase) / decrease in stocks	(85)	278	527
Decrease / (increase) in debtors	1,512	(524)	852
(Decrease) / increase in creditors	(2,188)	1,246	(1,565)
Increase in provisions	291	12	1,196
	(4,852)	(2,952)	(8,883)
Returns on investments and servicing of finance			
Interest received	27	148	183
Interest paid	(354)	(463)	(916)
Interest element of finance lease rentals	(31)	(27)	(58)
	(358)	(342)	(791)
Taxation	-	-	(15)
Capital expenditure and financial investment			
Net proceeds of sales of tangible fixed assets	-	13,682	13,290
Purchase of tangible fixed assets	(53)	(257)	(373)
	(53)	13,425	12,917
Acquisitions and disposals			
Purchase of subsidiary undertakings	-	-	(295)
Net cash acquired with subsidiary undertakings	-	-	2,849
Proceeds of sales in joint ventures	-	3	3
Investment in joint ventures	-	(188)	(188)
Investment in associated undertakings	(72)	(81)	(118)
	(72)	(266)	2,251
Net cash (outflow) / inflow before use of liquid resources & financing	(5,335)	9,865	5,479
Financing			
Issue of shares	7,591	69	21
Share issue expenses	(631)	-	-
Contributions from minority interests	463	207	539
Increase in borrowings	18	-	-
Capital element of financial lease payments	(104)	(286)	(239)
Decrease in debt	-	(6,763)	(6,790)
Cash inflow / (outflow) from financing	7,337	(6,773)	(6,469)
Increase / (decrease) in cash in the period	2,002	3,092	(990)
Reconciliation of net cash flow to movement in net debt			
Increase / (decrease) in cash in the period	2,002	3,092	(990)
Cash (inflow) / outflow from (increase) / decrease in debt	(18)	6,763	6,790
Movement in finance leases	104	286	239
Exchange differences	(10)	-	(28)
Movement in net funds in the period	2,078	10,141	6,011
Net debt at beginning of period	(5,836)	(11,847)	(11,847)
Net debt at end of period	(3,758)	(1,706)	(5,836)

Notes to the financial statements for the six months ended 30 September 2003

1. Basis of preparation

The financial information for the six months ended 30 September 2003 is unaudited and has been prepared in accordance with applicable accounting standards and on the basis of the accounting policies set out in the statutory accounts for the year ended 31 March 2003. The financial information for the year ended 31 March 2003 is extracted from the statutory accounts for that period, which have been delivered to the Registrar of Companies. The auditors' opinion in those accounts was unqualified and did not include a statement under section 237 (2) or (3) of the Companies Act 1985. These interim accounts were approved by the Directors on 17 December 2003. The interim accounts do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985.

At the time of the Placing the Directors were of the opinion that, taking into account the bank facilities available to the Group and the net proceeds of the Placing, the Company and the Group would have sufficient working capital for their present requirements, that is, for at least twelve months from the date of admission. Since then and as reported elsewhere in this statement, the Group has experienced poor operating results, which have had a significant negative impact on its cash position. The Group has sought to offset this through the disposal of its 3D Sound business, which was completed in December 2003, raising a further £3.4m net of expenses.

The Group's operating performance led to the breach of its EBITDA covenant contained in its £5.0m committed facility with the Bank of Scotland. The Company is currently in discussions with the Bank who have indicated that part of the Sensaura disposal proceeds will be utilised in reducing the available facility. The Directors are confident of agreeing a revised on-demand facility in excess of £3.5m on an ongoing basis and will make an announcement in respect of its facility as soon as possible.

Consequently, this Interim statement has been prepared on the going concern basis as the Directors are of the opinion that, on the basis of the continuing support of the Group's bank and the further cost-saving initiatives, and a marked improvement in its operating performance, the Group will have sufficient financial resources for the foreseeable future.

2. Loss per share

The calculation of loss per share has been based upon the loss for the period, divided by the weighted average number of ordinary shares in issue during the period of 174,540,806 (30 September 2002: 90,891,746).

An adjusted basic loss per share is also provided below in order to eliminate the effects of goodwill amortisation, and the effect of the exceptional gain made in the previous period on the disposal of fixed assets.

	Six months to 30 September 2003 Unaudited £'000	Six months to 30 September 2002 Unaudited £'000	Year ended 31 March 2003 Audited £'000
Loss for the period	(5,536)	(2,068)	(9,690)
Adjustments:			
Goodwill amortisation	477	433	946
Profit on disposal of fixed assets	-	(3,592)	(3,598)
Adjusted loss for the period	(5,059)	(5,227)	(12,342)
Weighted average number of shares ('000)	174,541	90,892	93,516
Loss per share	(3.2p)	(2.3p)	(10.4p)
Adjustments:			
Goodwill amortisation	0.3p	0.5p	1.0p
Profit on disposal of fixed assets	-	(4.0p)	(3.8p)
Adjusted basic loss per share for the period	(2.9p)	(5.8p)	(13.2p)

The exercise of outstanding share options would not dilute loss per share.

3. Placing and Open Offer

In July 2003 the Company issued 130,000,000 new ordinary shares in a Firm Placing and 21,334,309 in an Open Offer raising £7.0m after expenses.

	£'000
Increase in share capital	1,513
Increase in share premium	6,076
Cash raised before expenses	7,589
Share issue expenses (offset against share premium)	(631)
Cash raised after expenses	6,958

The Company also issued a further 7,019,843 shares during the period.

4. Reconciliation of movements in shareholders' funds

	Six months to 30 September 2003 Unaudited £'000	Six months to 30 September 2002 Unaudited £'000	Year ended 31 March 2003 Audited £'000
Loss for the period	(5,536)	(2,068)	(9,690)
Currency translation differences	21	23	13
Issue of share capital	1,583	3	97
Share premium (net of issue expenses)	6,988	156	3,406
Shares to be issued	(2,258)	(100)	(259)
Net reduction to shareholders' funds	798	(1,986)	(6,433)
Opening shareholders' funds	8,787	15,220	15,220
Closing shareholders' funds	9,585	13,234	8,787

5. Analysis of net debt

	At 1 April 2003 £'000	Cash flow £'000	Non-cash changes £'000	At 30 Sept. 2003 £'000
Cash at bank and in hand	275	(183)	(10)	82
Secured overdrafts	(5,478)	2,185	-	(3,293)
Debt:				
secured loans due within one year	-	-	-	-
secured loans due after one year	-	(18)	-	(18)
Finance leases:				
due within one year	(576)	104	2	(470)
due after one year	(57)	-	(2)	(59)
Net debt at end of period	(5,836)	2,088	(10)	(3,758)

6. Contingent liability

A subsidiary company of the Group has performed research projects for the EC since 1996. At 30 September 2003, that company was in dispute over the recharging of overhead costs to certain projects performed by the company between 1996 and 2000. Overheads are allocated across all projects performed for the EC. The Directors strongly believe that the Company has complied with the accounting rules as laid down by the EC. The Company denies any liability to the EC and is vigorously defending its position. The total overheads recharged to these contracts were £1.0m and this amount has been challenged in its entirety by the EC pending completion of its review. The Board is unable to quantify the final amount of any liability, if any, in respect of this matter.

7. Post-balance sheet event

On 3 December 2003, the Group completed the sale of the business and assets of its 3D sound business, Sensaura, for £3.8m (approximately £3.4m net of expenses).

	£'000
Disposal proceeds	3,775
Value of assets sold	(1,067)
Gross profit on disposal	2,708
Expenses	(372)
Net profit on disposal	2,336

The turnover and operating results of this business have been shown as discontinued operations within the Group profit and loss account.