

Annual Review

Year Ending March 2011



wherever
money
moves

Creating
Customer
Engagement

Optimising
The
Workforce



Talaris management looks back on the year ended March 2011 as a positive period during which the Group has matured with a growth in sales and profits. Talaris has invested in optimisation of its core processes, as well as developing its market capabilities and access whilst still maintaining a position of leadership.

Given Talaris' worldwide footprint in over 100 countries, it is benefiting from the overall improving global economic climate and market conditions which have supported growth.

Retail banks are the primary customers for Talaris. They are emerging from a challenging period with a heightened focus on productivity and efficiency in the face of regulatory changes and competitive pressure. To support its customers with these challenges and opportunities, Talaris has continued to provide cash management solutions that deliver measurable business optimisation.

Talaris continues to differentiate itself through the integration of consulting services, software and business intelligence solutions alongside its core services and products for cash management. These solutions build on a 40 year heritage of delivering cash management technologies and products to customers worldwide. This experience enables Talaris to customise its offering, leveraging a global footprint while providing locally tailored solutions. Accordingly, Talaris continues to maintain a leading position in North America and Europe. In addition, Talaris has experienced strong growth in Latin America, Asia and the Middle East, responding to local requirements in each of these markets.

Talaris also remains active in other segments of the cash cycle including retail, cash centres and gaming. These are still relatively untapped markets for the Group and management is exploring ways to leverage proven, core capabilities into these markets in the coming years.

Throughout the past year, Talaris has executed successfully on operational changes, growing margin and building cash to invest in the business for ongoing growth. This has extended to manufacturing where Talaris has taken important steps to place production facilities closer to its current, and developing, supplier and customer base. This will enable Talaris to reduce lead times and support growth worldwide, particularly expansion into Asia and Latin America.

In addition to geographic expansion, the solid cash position and management resources provide the ideal environment for the business to benefit from expansion through acquisition. Processes are in place for the business to identify and qualify potential acquisition opportunities.

Talaris management is continually focused on improving the quality of services and products through operations functions worldwide. Investments are being made in a number of innovation projects to improve the service delivered to customers in their mission critical, branch environments.

The combined factors of a strengthening economic climate, the continued growth in cash volumes and Talaris' ability to significantly contribute to customers' operational efficiency, ideally positions the business for profitable growth in the year ahead.

A handwritten signature in black ink, appearing to read 'Tim Robinson', written over a horizontal line.

Tim Robinson, CEO, Talaris
13 July 2011



TALARIS' COMMITMENT TO THE CONTINUOUS DEVELOPMENT OF INNOVATIVE SOLUTIONS

Talaris has a 40 year heritage in providing specialist cash management solutions supported by a portfolio of more than 20 products. The organisation is uniquely positioned as the global leader operating exclusively in the field of cash management for business optimisation.

The culture of innovation at Talaris is built on a commitment to in-house development capability, complemented by long-standing relationships with trusted technology partners and close collaboration with industry leaders in their particular field of expertise. This diversity of skills and thinking has resulted in a further 12 patents being granted in the current year.

Over the past 12 months, Talaris has invested significantly in strengthening its supply chain, culminating in the opening of a new manufacturing facility in Shanghai. The new operation will provide greater overall manufacturing flexibility and shorter lead times, whilst positioning the business to take advantage of growth opportunities within the Asia Pacific region.

Talaris has continued to capitalise on the extensive value generated through the intellectual property (IP) it owns. The Group now has over 300 patents and designs granted across 28 countries covering every aspect of coin and note management, mechanisms, software and related technologies.

Additionally management are broadening Talaris' appeal by working closely with customers through consulting, managed services, third party maintenance and the provision of software solutions with supporting business intelligence.

Talaris strives to be the global partner of choice for the provision of cash management solutions which optimise business performance for our customers.

“The organisation is uniquely positioned as the global leader operating exclusively in the field of cash management for business optimisation.”

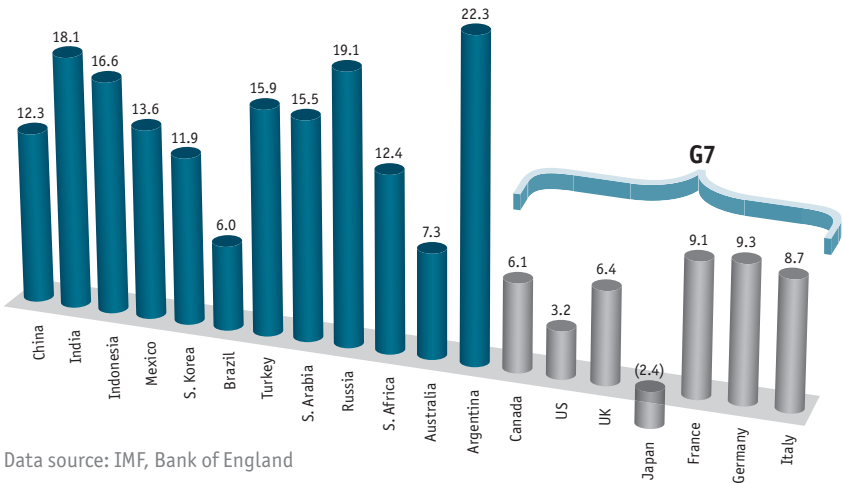


STRATEGY AND MARKET TRENDS

In recent years, the banking sector, which represents Talaris’ most sizeable market, has experienced significant financial disruption. Although recent macroeconomic figures show some signs of economic recovery, there is still continuing uncertainty across global markets. The diverse geographic coverage of Talaris is a good hedge against downturns in specific economies whilst providing a strong platform to capitalise on re-emerging growth trends.

Growing the Talaris business globally, whilst improving customer efficiency and effectiveness in the handling of cash remains a strategic imperative. While the traditional base of business in Europe, North America and Asia remains vital, Talaris has enjoyed success in gaining access to markets in Latin America, Eastern Europe and the Middle East. Continued exposure to these rapidly growing markets remains a priority.

One of the key drivers for Talaris’ solutions is the amount of cash in circulation. Across the globe, cash remains the preferred payment method of choice and continues to enjoy consistent growth year-on-year. The graph below shows the percentage growth of cash in circulation across world economies.



This increase in cash volumes brings with it the need for it to be managed by banks and retailers who operate in increasingly competitive markets. Customers have identified that the deployment of cash management solutions make a significant contribution to improvements in operating performance, through increasing business efficiency and enhancing customer service.



STRATEGY AND MARKET TRENDS continued

The benefits of efficient cash handling were further emphasised through the findings of the 2010 Banker's Survey¹ which identified that future branch success is dependent on four factors, which are: branch network efficiency; the application of technology; optimisation of the branch model and expansion of customer relationships. Talaris directly addresses each of these performance areas through consulting experience, business insight, tailored software solutions and high-end technology platforms.

The global Teller Automation installed base is forecast to grow CAGR 6% from 2010-2015, with a strong shift to teller recycling equipment. Renewed focus on customer relationships and engagements is driving banks to place greater emphasis on branches as a primary channel of communication, with the number of branches forecast to grow to 820,000 by 2015, an 11% increase².

An additional factor influencing the demand for Talaris solutions is new legislation. Regulations to ensure adequate standards of banknotes are recycled, such as those being implemented by the European Central Bank as well as variations on this theme, are increasingly being adopted in other geographies in which the business operates. These policies place the legal responsibility for a more stringent level of banknote authentication and counterfeit detection with commercial banks. Talaris' range of technical capabilities and commercial solutions remain vital elements in assisting customers to meet these regulatory frameworks.

Independent research shows that service is the primary factor in a customer's selection of a partner². Talaris' service provision remains a key differentiator in the marketplace and is a key competence within the business. Talaris specialises in the maintenance of critical devices in customer environments, an area of continued focus and investment.

Combined, these factors underpin management confidence that Talaris is well placed to continue its growth and that Talaris has the right solutions to create long term value.

“Across the globe, cash remains the preferred payment method of choice and continues to enjoy consistent growth year-on-year.”

¹ Branch Network Optimisation Survey and Report 2010, Banker Staff

² Global Teller Assist Units 2011 Study, RBR Ltd

Authenticating
Notes

Detecting
Counterfeits

Reducing
Error

Creating
Customer
Engagement

Increasing
Sales

Optimising
The
Workforce

Delivering
Security

Reducing
Costs

CHIEF FINANCIAL OFFICER'S REPORT

The year ending March 2011 represents a further period of financial progress for Talaris as an independent entity. This is despite continuing uncertainty in the world economy, including the uncertainty over re-balancing the US budget deficit and the bail-out of three Eurozone countries. The first reporting period for the Group was seven months to 31st March 2009 and the current results reflect Talaris' second full financial year.

Performance***

£m	2011 (audited)	2010 (audited)	12 months 2009** (unaudited)	Annual % change 2011 vs 2010
Turnover	321.5	305.6	321.5	5.2%
Gross Profit	137.1	131.3	138.5	4.4%
SG & A	76.2	73.5	85.5	(3.7%)
Operating Profit	60.9	57.8	53.0	5.4%
EBITDA	68.0	63.7	58.0	6.8%
Cash	89.8	85.4	51.7	5.2%
Net Debt*	166.2	180.0	243.4	7.7%

* Excluding Preference Shares and accrued dividends.

** The unaudited figures above relate to the 52 week and 3 day period to 31st March 2009.

*** All figures quoted at average exchange rates for Profit and Loss items and closing rates for Balance Sheet items.

“The year ending March 2011 represents a further period of financial progress for Talaris as an independent entity.”

CHIEF FINANCIAL OFFICER'S REPORT

Of the total turnover for the year of £321.5m, some 43.3% was generated from the Group's service business which comprises primarily of multi year maintenance contracts. This shows the robust nature of the Talaris service business which grew by 3.3% in absolute terms in the last financial year (after eliminating the impact of large one off contracts in North America in 2010). The business has continued the rigorous management of its cost base which has generated gross margin broadly in line with prior years at 42.7%. Selling, distribution and administrative costs rose by £2.7m in the year, partly as the company granted a salary increase after freezing wages in the prior year and also due to selective investment in channels and solutions. The operational leverage created by the higher revenue generation has allowed EBITDA margin to grow to 21.2% (2009: 20.8%).

Cash generation has continued to be strong, with tight control of working capital. The costs associated with the closure of the Swedish operation (together with other exceptional costs representing a charge of £10.9m) and an increase in investment in intangible assets (£5.9m), have utilised significant amounts of the cash previously generated by the business. Nevertheless, the Group remained cash generative reducing net debt to £166.2m (2010: £180.0m).

Foreign currency has a major impact on the reported results of the Group as much of the underlying earnings are generated in EUR/USD, reflecting the markets in which it operates. The Group trades in a number of other currencies, including the Swedish Krona with a factory located in Sweden, although the SEK exposure will reduce substantially from Q2 FY12 once the Swedish factory closes following the switch to the new manufacturing location in China. The rates used to convert the data in the table on page 11 are as follows:

Currency/GBP	2011		2010		2009	
	Average	Closing	Average	Closing	Average	Closing
USD	1.56	1.60	1.58	1.52	1.73	1.43
EUR	1.17	1.13	1.13	1.12	1.21	1.08
SEK	11.15	10.84	11.67	10.92	12.06	11.85

If the impact of foreign exchange rate differences between 2011 and 2010 are removed then turnover shows an increase of 3.3% and EBITDA shows an increase of 6.4% year-on-year, again underlining the remarkable cost performance of the business over the last 12 months.

CHIEF FINANCIAL OFFICER'S REPORT

Funding

The cash flow generated by the business, plus a slight weakening of the USD, has enabled net debt levels to be driven down to £166m. On a like-for-like exchange rate basis, the gross debt at inception was some £275m. The deleveraging effect of this is to bring the debt cover ratio down to 2.6x. At year end rates gross senior debt now stands at £184.5m (2010: £198.8m) and mezzanine debt at £77.3m (2010: £74.4m). The step down in the senior debt level reflects voluntary repayments over and above scheduled amortisations. Despite this the Group ended the year with cash of £89.8m (2009: £85.4m), giving significant internal resources with which the business can aggressively pursue long term growth opportunities. The Group's revolving credit facility of £26m remains undrawn since inception.

Outlook

Emerging markets in Latin America and Australasia continue to show strong growth, with traditional markets still subject to extended decision making cycles. The global nature of the Talaris business is a good hedge against downturns in specific economies or regions as is the long term nature of its partnerships with customers and suppliers. The order book that Talaris carries into the new financial year remains solid. Product order coverage runs into the second quarter of 2011/12 and service visibility well into the second half year. The focus on cost management will continue, with the switch to a Far Eastern supply chain forecast to start to deliver benefits in the coming financial year, including reduced levels of inventory holding, with other new projects underway. Selective investment will be made in sectors, products and geographies where growth potential exists. It is anticipated that the Group will reduce the level of its cash balances during the coming year to drive additional growth and create a more efficient funding structure.



Mike Wilson, CFO, Talaris
5th July 2011

“The global nature of the Talaris business is a good hedge against downturns in specific economies or regions as is the long term nature of its partnerships with customers and suppliers.”

MANAGEMENT OVERVIEW

The year ending March 2011 has been a period of further financial progress for Talaris, seeing the business mature as an independent entity and achieve a growth in sales and profits. The business has expanded both geographically and through broadening and deepening the Group's solutions offering.

Continuing to improve the customer experience remains a strategic imperative and at the centre of all Talaris operations. The past 12 months have seen the business successfully execute on a number of operational changes which are enabling the business to enhance the service provided to customers, grow margin and build cash to re-invest for future growth.

Talaris management remain committed to innovation and new product development has advanced well whilst the business has brought significant new software solutions and professional service offerings to market.

As in previous years management believe employee engagement to be central to the ongoing success of the company and contribution from across all levels of the business is actively encouraged. The past 12 months has seen the management sponsor numerous employee initiatives around communications, engagement and personal development.

Looking ahead the continued growth of cash in circulation and the forecast increase in demand for solutions to enable its efficient and effective handling is driving growth in all markets that Talaris operates in. The business is ideally positioned to take advantage of this growth and Talaris management remain committed to exceeding customer expectations through providing global cash management solutions that deliver measurable business optimisation.



“The combined factors of a strengthening economic climate, the continued growth in cash volumes and Talaris’ ability to significantly contribute to customers’ operational efficiency, ideally positions the business for profitable growth in the year ahead.”

Tim Robinson, CEO



“The global nature of our business and our long term partnerships with customers and suppliers have enabled Talaris to achieve a further period of financial progress, despite continuing uncertainty in the world economy.”

Mike Wilson, Chief Financial Officer



“Throughout the past year focus has been on refining operational and supply chain processes, to continually improve the service delivered to customers and support investment in the business for future growth.”

Paul Adams, Chief Operating Officer



“Our worldwide presence, achieved through direct offices and a strong business partner network, is enabling the Group to drive innovative solution development globally whilst retaining close links to local market requirements.”

Mal McHutchison, Managing Director BTA and Group Director of Marketing



“Across North America, as banks face increasing challenges to deliver enhanced branch productivity, the demand for our proven cash management solutions continues to grow.”

Chris Regan, President, Talaris, Inc



“In an active and competitive European market our consistent ability to exceed our customers’ expectations and requirements is the reason we continue to be their partner of choice for cash management solutions.”

Vincent Nakache, Managing Director, Continental Europe



“Our award winning OEM solutions continue to enjoy growth in both our traditional markets and increasingly within new geographies. Our outlook into the next year is strong.”

Adrian Trise, Managing Director – Worldwide OEM



“The demand for our solutions continues to extend across diverse geographical borders and Talaris has time and again demonstrated its expertise at leading the way in opening new markets.”

Wilbert Bieleman, Managing Director, Market Development Business (MDB)



The Talaris Commitment

Talaris are World Experts in cash management. Across the globe 2,000 personnel, with over 130 business partners deliver technology and solutions that provide security, productivity and innovation to our customers.

The Company is committed to the highest ethical standards and compliance with legislation and to be a fair employer wherever we operate. As a responsible organisation we maintain a disciplined approach to our corporate governance and operate to the optimum professional standards in all aspects of our business.

Talaris will always seek to provide a safe and productive work environment where all employees can grow and be challenged. Wherever we operate our objective is to contribute actively to the community and the local environment. An intrinsic part of our business philosophy across our product and service offerings is to be consistently environmentally responsible and to continue to improve our performance across all environmental issues wherever possible.



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