Pollard Banknote

News Release

POLLARD BANKNOTE ANNOUNCES 2ND QUARTER FINANCIAL RESULTS

WINNIPEG, Manitoba, August 9, 2012 /CNW/ — Pollard Banknote Limited (TSX: PBL) ("Pollard") today released its financial results for the three and six months ended June 30, 2012.

HIGHLIGHTS	2nd Quarter ended June 30, 2012	2nd Quarter ended June 30, 2011
Sales	$ 40.8 million	$ 44.4 million
Gross Profit	$ 8.5 million	$ 7.7 million
Gross Profit % of sales	*20.8%*	*17.3%*
Administration expenses	$ 3.4 million	$ 3.4 million
Selling expenses	$ 1.6 million	$ 1.6 million
Realized foreign exchange gain	$ (0.1 million)	$ (1.5 million)
Net Income	$ 1.0 million	$ 1.8 million
Adjusted EBITDA	$ 5.2 million	$ 7.7 million
Adjusted EBITDA excluding gain on sale of property, plant and equipment and realized foreign exchange gain	$ 5.1 million	$ 4.7 million

	Six months ended June 30, 2012	Six months ended June 30, 2011
Sales	$ 77.4 million	$ 83.6 million
Gross Profit	$ 15.1 million	$ 13.8 million
Gross Profit % of sales	*19.5 %*	*16.5%*
Administration expenses	$ 6.8 million	$ 6.7 million
Selling expenses	$ 3.1 million	$ 3.1 million
Realized foreign exchange gain	$ -	$ (1.9 million)
Net Income	$ 1.8 million	$ 2.7 million
Adjusted EBITDA	$ 8.6 million	$ 11.5 million
Adjusted EBITDA excluding gain on sale of property, plant and equipment and realized foreign exchange gain	$ 8.6 million	$ 8.1 million

"We are very pleased with the strong gains achieved in our business during the second quarter," said John Pollard, Co-Chief Executive Officer. "Our sales and production volumes of instant tickets increased significantly when compared to the first quarter this year and we anticipate these higher levels to continue throughout 2012. Ongoing cost improvements, coupled with these higher volumes, generated significantly higher gross margins."

"Our people have been working diligently on cost improvement initiatives which have resulted in some impressive increases in production yields, lower labour costs and higher operational efficiencies. All of this work is ongoing and will generate further savings as we continue to produce at record levels."

"During the quarter the New Jersey Lottery extended our contract as primary supplier of instant tickets until the end of 2013. We are extremely honoured to supply leading lotteries such as the New Jersey Lottery and have experienced notable traction in the lottery world with a number of our new product offerings including advanced retail merchandising methods and our internet based Social Instants."

"The instant ticket industry continues to show strong growth and we are very excited about the opportunities to both grow our top line revenue through higher volumes and reap the benefits of our ongoing cost reductions through our Change Initiative process."

POLLARD BANKNOTE LIMITED

Pollard is one of the leading providers of products and services to lottery and charitable gaming industries throughout the world. Management believes Pollard is the largest provider of instant tickets based in Canada and the second largest producer of instant tickets in the world.

Results of Operations – Three and Six months ended June 30, 2012

SELECTED FINANCIAL INFORMATION

(millions of dollars)	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales	$40.8	$44.4	$77.4	$83.6
Cost of Sales	32.3	36.7	62.3	69.8
Gross Profit	8.5	7.7	15.1	13.8
Administration expenses	3.4	3.4	6.8	6.7
Selling expenses	1.6	1.6	3.1	3.1
Gain on sale of property, plant and equipment	-	(1.5)	-	(1.5)
Other income	-	-	0.1	-
Income from operations	3.5	4.2	5.1	5.5
Finance costs	1.5	1.5	2.5	2.7
Finance income	-	-	(0.2)	(0.8)
Income before income taxes	2.1	2.7	2.8	3.6
Income taxes:				
Current	0.3	0.3	0.6	0.6
Deferred	0.7	0.6	0.4	0.3
	1.0	0.9	1.0	0.9
Net Income	$1.0	$1.8	$1.8	$2.7
Adjustments:				
Amortization and depreciation	1.8	2.2	3.8	4.3
Interest	0.8	1.2	1.7	2.4
Unrealized foreign exchange loss	0.6	1.6	0.3	1.2
Income taxes	1.0	0.9	1.0	0.9
Adjusted EBITDA	$5.2	$7.7	$8.6	$11.5
Gain on sale of property, plant and equipment	-	1.5	-	1.5
Realized foreign exchange gain	0.1	1.5	-	1.9
Adjusted EBITDA excluding gain on sale of property, plant and equipment and realized foreign exchange gain	$5.1	$4.7	$8.6	$8.1

	June 30, 2012	December 31, 2011
Total Assets	$123.8	$121.6
Total Non-Current Liabilities	$79.3	$77.2

The previous selected financial and operating information has been derived from, and should be read in conjunction with, the condensed consolidated unaudited interim financial statements of Pollard, as at and for the three and six months ended June 30, 2012.

Results of Operations – Three months ended June 30, 2012

During the three months ended June 30, 2012, Pollard achieved sales of $40.8 million, compared to $44.4 million in the three months ended June 30, 2011. Factors impacting the $3.6 million sales decrease were:

- During the three months ended June 30, 2012, Pollard generated approximately 70% of its revenue in U.S. dollars including a significant portion of international sales which are priced in U.S. dollars. During the second quarter of 2012 the actual U.S. dollar value was converted to Canadian dollars at $1.006, compared to a rate of $0.973 during the second quarter of 2011. This 3.4% increase in the U.S. dollar value resulted in an approximate increase of $1.0 million in revenue relative to the second quarter of 2011. Also during the second quarter of 2012, the Canadian dollar strengthened against the Euro resulting in an approximate decrease of $0.2 million in revenue relative to the second quarter of 2011.

- Instant ticket volumes for the second quarter of 2012 were lower than the second quarter of 2011 by 1.7% which, combined with a reduction in our ancillary instant ticket products and services, decreased sales by $3.3 million. In addition, a decrease in average selling price compared to 2011 decreased sales by $0.6 million. Charitable Gaming volume decreased slightly during the quarter reducing sales by $0.3 million when compared to 2011, in addition machine volumes in the quarter decreased which reduced sales by $0.2 million when compared to 2011.

Cost of sales was $32.3 million in the second quarter of 2012 compared to $36.7 million in the second quarter of 2011. Cost of sales were lower in the quarter relative to 2011 as a result of the costs savings generated by our Change Initiative process and decreased instant ticket volumes, partially offset by higher exchange rates on U.S. dollar transactions in the second quarter of 2012 which increased cost of sales by approximately $0.2 million.

Gross profit was $8.5 million (20.8% of sales) in the second quarter of 2012 compared to $7.7 million (17.3% of sales) in the second quarter of 2011. This increase is due mainly to the impact of costs savings generated by our Change Initiative process, partially offset by reduced instant ticket volumes and average selling price.

Administration expenses were $3.4 million in the second quarter of 2012 which is similar to $3.4 million in the second quarter of 2011.

Selling expenses were $1.6 million in the second quarter of 2012 which is similar to $1.6 million in the second quarter of 2011.

Under IFRS included in the income statement classification "finance costs" are interest, amortization of deferred financing costs, foreign exchange losses and amortization of de-designated hedges. Included in the income statement classification "finance income" are foreign exchange gains.

Interest expense decreased to $0.8 million in the second quarter of 2012 from $1.2 million in the second quarter of 2011 due primarily to the elimination of higher interest rates relating to certain interest rate swaps which expired on August 31, 2011 and the reduced amount of long-term debt.

The net foreign exchange loss was $0.5 million in the second quarter of 2012 compared to a net loss of $0.1 million in the second quarter of 2011. Within the 2012 foreign exchange loss is an unrealized foreign exchange loss of $0.6 million, relating to a $0.4 million unrealized foreign exchange loss on U.S. dollar denominated debt and a $0.2 million unrealized loss on U.S. dollar denominated payables. The realized gain of $0.1 million is comprised of realized gains on the increase value of U.S. dollar denominated receivables.

Within the 2011 foreign exchange loss are unrealized losses of $1.6 million, relating to a $1.7 million unrealized foreign exchange loss on U.S. dollar denominated debt (caused by the reversal of previously recorded unrealized foreign exchange gains from the strengthening of the Canadian dollar which were realized upon repayment) and a $0.1 million unrealized gain on U.S. dollar denominated payables. Within the realized gain of $1.5 million was a $1.6 million realized gain relating to payments made on U.S. dollar denominated debt, partially offset by $0.1 million in realized losses on the decreased value of U.S. dollar denominated receivables.

During the quarter ended June 30, 2011, Pollard sold a building and land in Winnipeg, Manitoba to an affiliate of Equities for total proceeds of $3.5 million resulting in a gain of $1.5 million. The selling price was based on the current fair market value as determined through an independent appraisal.

Adjusted EBITDA was $5.2 million in the second quarter of 2012 compared to $7.7 million in the second quarter of 2011. The primary reasons for the decrease in

Adjusted EBITDA of $2.5 million were the absence of a gain on sale of property, plant and equipment of $1.5 million and lower realized foreign exchange gains (primarily relating to the repayment of U.S. dollar dominated debt in 2011) of $1.4 million, partially offset by an increase in gross margin $0.8 million.

Adjusted EBITDA excluding the gain on sale of property, plant and equipment and realized foreign exchange gains was $5.1 million in the second quarter of 2012, compared to $4.7 million in the second quarter of 2011.

Income tax expense was $1.1 million in the second quarter of 2012, an effective rate of 49.4%, as a result of permanent differences relating to the translation of the company's U.S. subsidiaries and differences relating to the foreign exchange impact of Canadian dollar dominated debt in the U.S. subsidiaries.

Income tax expense was $0.9 million in the second quarter of 2011, an effective rate of 33.3%, as a result of permanent differences relating to the translation of the company's U.S. subsidiaries and differences relating to the foreign exchange impact of Canadian dollar dominated debt in the U.S. subsidiaries.

Amortization includes amortization of property and equipment, deferred financing costs and intangible assets and totaled $1.8 million during the second quarter of 2012 as compared to $2.2 million during the second quarter of 2011, due primarily to lower amortization of intangible assets and property, plant and equipment.

Net Income was $1.0 million in the second quarter of 2012 compared to $1.8 million in the second quarter of 2011. The primary reasons for the decrease were the absence of the $1.5 million gain on sale of property, plant and equipment, an increase in foreign exchange loss of $0.4 million and an increase in income tax expense of $0.2 million, partially offset by an increase in gross profit of $0.8 million and a decrease in interest expense of $0.4 million.

Net income per share decreased to $0.04 per share in the second quarter of 2012 from $0.08 in the second quarter of 2011.

Results of Operations – Six months ended June 30, 2012

During the six months ended June 30, 2012 Pollard achieved sales of $77.4 million, compared to $83.6 million in the six months ended June 30, 2011. Factors impacting the $6.2 million sales decrease were:

- During the six months ended June 30, 2012, Pollard generated approximately 70% of its revenue in U.S. dollars including a significant portion of international sales which are priced in U.S. dollars. During the first six months of 2012 the actual U.S. dollar value was converted to Canadian dollars at $1.007, compared to a rate of $0.985 during the first six months of 2011. This 2.2% increase in the U.S. dollar value resulted in an approximate increase of $1.1 million in revenue relative to the first six months of 2011. In addition, during the six months ended June 30, 2012, the strengthening of the Canadian dollar against the Euro resulted in an approximate decrease of $0.2 million in revenue relative to the first six months of 2011.

- Instant ticket volumes for the first six months of 2012 were lower by 3.5% than the first six months of 2011 which, combined with a reduction in our ancillary instant ticket products and services, decreased sales by $5.3 million. A decrease in the average selling price of instant tickets reduced sales by $1.4 million compared to the first half of 2011. Charitable Gaming Products volumes were slightly lower than the first six months of 2011 reducing revenues by $0.3 million, which was partially offset by an increase in their average selling price which increased sales by $0.1 million when compared to the first six months of 2011. A decrease in machine volumes in the first half of 2012 decreased sales by $0.3 million when compared to 2011.

Cost of sales was $62.3 million in the six months ended June 30, 2012, compared to $69.8 million in the first six months of 2011. Cost of sales were lower in the first half of 2012 relative to 2011 as a result of the costs savings generated by our Change Initiative process and decreased instant ticket volumes, partially offset by higher exchange rates on U.S. dollar transactions in the second quarter of 2012 which increased cost of sales by approximately $0.5 million.

Gross profit increased to $15.1 million (19.5% of sales) in the first six months of 2012 from $13.8 million (16.5% of sales) in the six months ended June 30, 2011. This increase is due mainly to the costs savings generated by our Change Initiative process, partially offset by reduced instant ticket volumes and average selling price.

Administration expenses were $6.8 million in the first six months of 2012 which is similar to $6.7 million in the first six months of 2011.

Selling expenses were $3.1 million in the first six months of 2012 which is similar to $3.1 million in the first six months of 2011.

Under IFRS included in the income statement classification "finance costs" are interest, amortization of deferred financing costs, foreign exchange losses and amortization of de-designated hedges. Included in the income statement classification "finance income" are foreign exchange gains.

Interest expense decreased to $1.7 million in the first six months of 2012 from $2.4 million in the first six months of 2011 due primarily to the elimination of higher interest rates relating to certain interest rate swaps which expired on August 31, 2011 and the reduced amount of long-term debt.

The net foreign exchange loss was $0.3 million in the first six months of 2012 compared to a net gain of $0.7 million in the first half of 2011. The 2012 foreign exchange loss is comprised of unrealized losses, relating to a $0.2 million unrealized foreign exchange loss on U.S. dollar denominated debt and a $0.1 million unrealized loss on U.S. dollar denominated payables.

Within the 2011 net foreign exchange gain are unrealized losses of $1.2 million, relating to a $1.4 million unrealized foreign exchange loss on U.S. dollar denominated debt (caused by the reversal of previously recorded unrealized foreign exchange gains from the strengthening of the Canadian dollar which were realized upon repayment) and a $0.2 million unrealized gain on U.S. dollar denominated payables. Within the realized gain of $1.9 million is a $2.3 million realized gain relating to payments made on U.S. dollar denominated debt, partially offset by $0.4 million in realized losses on the decreased value of U.S. dollar denominated receivables and the conversion of U.S. dollars and Euros into Canadian dollars.

During the first six months of 2011, Pollard sold a building and land in Winnipeg, Manitoba to an affiliate of Equities for total proceeds of $3.5 million resulting in a gain of $1.5 million. The selling price was based on the current fair market value as determined through an independent appraisal.

Adjusted EBITDA was $8.6 million in the first six months of 2012 compared to $11.5 million in the first six months of 2011. The primary reasons for the decrease in Adjusted EBITDA of $2.9 million were the absence of a gain on sale of property, plant and equipment of $1.5 million and lower realized foreign exchange gains (primarily relating to the repayment of U.S. dollar dominated debt in 2011) of $1.9 million, partially offset by an increase in gross margin (net of amortization and depreciation) of $0.8 million.

Adjusted EBITDA excluding the gain on sale of property, plant and equipment and realized foreign exchange gains was $8.6 million in the first six months of 2012, compared to $8.1 million in the first six months of 2011.

Income tax expense was $1.0 million in the first six months of 2012, an effective rate of 35.0%, primarily as a result of permanent differences relating to the translation of the company's U.S. subsidiaries and differences relating to the foreign exchange impact of Canadian dollar dominated debt in the U.S. subsidiaries.

Income tax expense was $0.9 million in the first six months of 2011, an effective rate of 24.4%, primarily as a result of permanent differences relating to the translation of the company's U.S. subsidiaries and differences relating to the foreign exchange impact of Canadian dollar dominated debt in the U.S. subsidiaries.

Amortization includes amortization of property and equipment, deferred financing costs and intangible assets and totaled $3.8 million during the first six months of 2012 compared to $4.3 million during the first six months of 2011, due primarily to lower amortization of intangible assets and property, plant and equipment.

Net Income was $1.8 million in the first six months of 2012 compared to $2.7 million in the first six months of 2011. The primary reasons for the decrease were the absence of the $1.5 million gain on sale of property, plant and equipment, an increase in foreign exchange loss of $1.0 million, the loss on the Chinese investment of $0.1 million and the increase in income tax expense of $0.1 million, partially offset by an increase in gross profit of $1.3 million and a decrease in interest expenses of $0.7 million.

Net income per share decreased to $0.08 per share in the six months ending June 30, 2012 from $0.11 in the first half of 2011.

Use of Non-GAAP Financial Measures

Reference to "Adjusted EBITDA" is to earnings before interest, income taxes, amortization and depreciation, unrealized foreign exchange gains and losses, mark-to-market gains and losses on foreign currency contracts and interest rate swaps, and certain non-recurring items including Conversion expenses, warranty reserve accruals, settlement loss on pension curtailment and restructuring costs. Adjusted EBITDA is an important metric used by many investors to compare issuers on the basis of the ability to generate cash from operations and management believes that, in addition to Net Income, Adjusted EBITDA is a useful supplementary measure.

Adjusted EBITDA is a measure not recognized under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, this measure may not be comparable to similar measures presented by other entities. Investors are cautioned that Adjusted EBITDA should not be construed as an alternative to Net Income determined in accordance with GAAP as an indicator of Pollard's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

Outlook

The market for instant tickets is growing strongly and we expect this trend to continue. Lotteries are aggressively expanding their sales in support of generating higher surpluses for their good causes and, in particular, instant tickets are seen as a critical component in growing their businesses. The market is growing both in North America as well as in many jurisdictions throughout the world including countries such as China.

Our sales volume for the second quarter was significantly higher than the first quarter and we expect our volumes for the rest of 2012 to be similar to those achieved in the second quarter. During the quarter the New Jersey Lottery extended our contract until the end of 2013. We have no other material contracts coming due in 2012 (when extensions are considered).

One facet of the lottery growth story has been the introduction of new products associated with the traditional instant ticket, particularly around internet and social media related applications. While still very much in its infancy, we have been encouraged by the reception that many of our new, innovative product offerings have received throughout the industry and look forward to expand these areas. Recent sales of internet apps supporting our instant tickets is one example of the type of opportunity that we see developing in the lottery industry in the immediate and longer term future and we see these methods of attracting and involving more people in the lottery world growing significantly.

In addition, a number of lottery jurisdictions are currently exploring different structures to deliver lottery operations to their citizens including increased opportunities for private sector involvement. We will continue to monitor these developments and will be actively participating in opportunities as they present themselves.

We are continuing to bid strategically on contracts and work that is available for bid, focusing on increasing our market share but at the same time, ensuring new work is only obtained at economically reasonable terms.

Our charitable gaming business (pull-tabs and bingo paper) remains relatively stable despite challenges from alternative gaming products and reduced participation at charitable gaming venues due to legislation restricting smoking in public settings. Our business will continue to selectively identify market share opportunities while focusing on improved operational efficiency.

Our significantly improved gross margin attained in the second quarter is partially reflective of the achievements made in our Change Initiative process, which has been focusing on our key success factors and has resulted in noticeable enhancements in labour efficiency, reduced waste and higher productivity. We will maintain our commitment to our various plans during the remainder of 2012 and beyond and believe we will continue to reap the benefits through lower per unit costs and improved gross margin.

Our joint venture in China remains on track to initiate our first installed instant ticket distribution and validation system in the third quarter. While not currently material to our operations the opportunity to obtain a foothold in the burgeoning Chinese lottery market is an important aspect of our growth strategy.

During the second quarter the value of the Canadian dollar relative to the U.S. dollar weakened about 4% after remaining fairly steady during the first quarter of 2012. The nature of our operations results in ongoing exposure to foreign exchange risk as a substantial amount of our revenue continues to be generated in U.S. dollars. In addition we do have some exposure to the Euro due to a number of European lotteries in our client roster. We expect these exposures to continue and have a number of risk management policies and tools available to help mitigate these risks, key among these is sourcing a significant amount of our cost inputs in U.S. dollars.

We are anticipating capital expenditures during the remainder of 2012 slightly higher than experienced over the last two years. Projects underway include ongoing press capacity expansion in addition to system process improvements.

During the quarter we renewed our bank facility for one year, effective June 29, 2012. The renewal relaxes several of the financial covenants and effectively maintains a 24 month term for the outstanding amounts from the renewal date.

Pollard Banknote believes that its credit facilities and ongoing cash flow from operations will be sufficient to allow it to meet ongoing requirements for investment in capital expenditures, working capital and dividends at existing business levels.

Forward-Looking Statements

Certain statements in this report may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this document, such statements include such words as "may," "will," "expect," "believe," "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this document. There should not be an expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise.

For Further Information Please Contact:

John Pollard
Co-Chief Executive Officer
Telephone: (204) 474-2323 ext 204
Facsimile: (204) 453-1375

Doug Pollard
Co-Chief Executive Officer
Telephone: (204) 474-2323 ext 275
Facsimile: (204) 453-1375

Rob Rose
Chief Financial Officer
Telephone: (204) 474-2323 ext 250
Facsimile: (204) 453-1375

SEDAR: 00022394
(PBL)

CO: Pollard Banknote Limited