

27 February 2008

Communis plc

(“Communis” or “the Company”)

Preliminary Results for the twelve months ended 31 December 2007

Implementation of turnaround plan results in a year of significant financial improvement:

- Profit from operations after restructuring costs up by 472% to £10.5m (2006: £1.8m)
- Profit after tax £6.6m compared with a loss in 2006 of £20.0m
- Operating cash inflow significantly improved at £27.9m (2006: cash outflow £1.4m)
- 42% reduction in net debt to £26.3m (2006: £44.9m)
- Final dividend proposed of 1.635p/share

Further operational gains made:

- Benefits from first stage of recovery plan flowing through, with stage two well underway
- Account management discipline embedded in the business: benefits flowing through to the bottom line with more to come
- Cross-sell building momentum, with 24 of our top 100 customers now buying more than one service (2006: 14)
- Leeds Direct Mail business stabilised and returned to profit in H2
- “Greenprint” enhances our strong environmental credentials

Commenting on the results, Steve Vaughan, Chief Executive, said:

“This has been a year of real improvement across all parts of the Communis business. Stage one of our recovery plan, to restore the right focus on our customers and business basics, is now complete and we have made great in-roads into stage two: developing our range of services and better cross sell capabilities.

“Operationally, we have delivered on our commitments. Account management disciplines have been introduced, increasing the number of customers taking more than one service from us and greatly improving our cash collection performance. Our Leeds factory has been turned around, offering high quality output and returning to profit in the second half. Our transaction print factory in Speke was opened on time and now has four customers. Restructuring costs have also been brought under control. These actions resulted in the Company being able to report significant improvements in Group profit, revenue and cash conversion.

“With these foundations laid, our attention now turns to stage three: investing in building a range of propositions and services that help make our customer’s marketing communications more profitable and efficient. As we enter 2008 we believe Communis is well placed in its chosen marketplace and our long term prospects are strong.”

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Chairman's Statement

I became chairman of Communisys shortly before the year end, succeeding Mike Smith who stood down after four and a half years in the role. In the relatively short period since I arrived, I have spent time learning about a company which, with its improved manufacturing processes, its superior technological skills and its excellent customer base, has a real opportunity to continue the excellent work so clearly reflected in this year's results.

Revenue was £290.6m compared with £260.6m in 2006. Profit from operations after restructuring was £10.5m which was £8.7m above last year's figure of £1.8m. Profit after tax was £6.6m compared with a loss of £20.0m in 2006. Earnings per share were 4.73p, up 19.08p against (14.35p) in 2006. The Board is proposing a final dividend payment of 1.635p per share bringing the total dividend for the year to 2.453p, the same as last year.

Communisys started 2007 facing a number of significant challenges. The chief executive's report sets out the detailed story of the year that contained a number of considerable achievements. The Leeds factory was brought under control and restored to profitability; the new facility in Speke was successfully commissioned; the account management system was developed to enable improved customer service provision; and importantly the company met, and in most cases exceeded, its financial targets. Of particular importance was the cash management which saw the Group's debt substantially reduced.

Since taking over as chairman, I have had the opportunity to visit a number of the Group's locations and have been shown round our manufacturing facilities. I have been most impressed with what I have seen and this is a tribute to the leadership within the company. I have been struck by the high quality of the management I have met, and also by the enthusiasm of the employees. After many years of difficulty, we are most fortunate to have such a committed workforce who are so keen to see the company prosper. This set of results is a tribute to their effort, ingenuity and resilience; on behalf of the Board, I wish to thank all our staff for this.

At Board level, this year has seen changes. Mike Smith stepped down as a director and chairman on 10 December. I became a director on the same date, as did Nigel Howes, a former partner of Arthur Andersen and Deloitte, who joined as a non-executive director. He will take over from Roger Jennings as chairman of the Audit Committee after the AGM in April.

The Board will be responsible for addressing the challenges Communisys will face in 2008 and beyond. Our major objective must be to continue to deliver better financial returns for shareholders by pursuing the company's three stage plan. I look forward to the year ahead as we turn our attention to implementing successfully the third stage of this plan so Communisys can develop from the solid base we have worked hard this year to build.

Chief Executive's Report

I am pleased to report that 2007 has been a year of considerable progress. We began with much to do to turn around the operating performance of the Group. Our plan comprised three stages – first, to focus on the basics and most importantly our customers; secondly, from the middle of the year to focus on cross-selling and value-based services. The third stage, which will begin in the middle of 2008, will build on these two foundations, and see us introduce an integrated portfolio of services to address key business issues for our customers. I am pleased to say that this plan is progressing very well.

A strong financial position

Our financial results show the progress we have made. Revenues grew by 11.5%, indicating the strength in demand we are seeing for our services. More important is the revival in profit and cash generation, our key performance indicators.

Profit performance for Communisis in previous years has been dominated by large restructuring charges. We set an objective to run the group without these large charges, concentrating instead on driving long-term profit improvement from operations. In 2007 we have succeeded in breaking this cycle and holding restructuring costs to £3m (2006: £13.3m). The resulting profit from operations after restructuring costs is up 472% at £10.5m (2006: £1.8m). We anticipate that restructuring during 2008 will be restricted to cost reduction in our declining businesses, at around £1.5m.

Our cash generation has received considerable attention during the year. Our new account management structure has helped us focus on securing customer payment within contractual terms. As a result, we have reduced the level of debtors' outside terms from 33% at the start of the year to 13% at the end of the year. This, coupled with stronger disciplines in capital expenditure, stock control and restructuring spend, has produced operating cash inflow of £27.9m. This year we have therefore converted operating profit to operating cashflow at a rate exceeding 200%. This has enabled us to reduce net debt to £26.3m (2006: £44.9m): a major achievement, and a clear result of a proper focus on basic business disciplines.

Strong underlying indicators too

Good financial performance has been reinforced by progress in our operations and with our customers. There were four tasks to accomplish in 2007. Success in each of these areas was a key reason for our strong financial performance:

- The turnaround in performance of our Leeds Direct Mail factory
- The implementation of an account management structure
- The roll out of a new business model for our print management business
- The start-up of the statement business in Speke

The improvement in performance in **Direct Mail** was well documented at the time of the Group's interim results. Progress has continued into the second half, with Leeds returning strongly to profit. Profit in the Direct Mail and Business Forms segment, comprising our Leeds and Bath factories, is up 129% in the second half to £3.9m (H1 07: £1.7m). All of this increase is due to the improvements at Leeds.

Operating indicators such as press running speeds (up 13.1% in Q4 compared to Q1), and business quality indicators such as growth in high margin services (data and response handling revenue up 45% on 2006) both show the extent of the improvement. The management team and staff in Leeds have brought about a considerable transformation. To show our confidence in this change, we made our first investment in full colour digital print capacity during October 2007. By the end of 2007, our order book for this new press was full. Our customers have noticed the changes. We have a strong flow of business, with 2008 showing a robust start to the year.

Account management is now at the heart of the way we do business. Cross-selling is the outcome. The number of our top 100 customers buying more than one service from us has increased to 24 compared with 14 a year ago. Stage 2 of our strategy depends for its success on deriving profit from selling additional services, wherever and whatever these are. There are many small-scale examples of the addition of service lines to existing customers. The growth in size of some relationships is impressive. Our considerable investment in the skills and support infrastructure for the account management function has continued through the second half, and this continues in 2008.

Our new **print management** model is now installed fully in several of our highest profile customers. Our biggest relationship, with Barclays, was renegotiated in May 2007 to adopt the new model. We also have elements of the solution implemented in a number of other customers including Procter and Gamble, HSBC, HBOS, Defra and Wolseley. The key to the new model is to make our margin from technology and consultancy services, rather than marking up bought-in print. This has a number of advantages for the customer, such as access to better procurement technology and management information and there is better incentive for the print manager to help reduce the amount of print bought. For Communisis, the benefit is a source of profit that is more sustainable and value-based than simply a procurement mark-up on bought-in print. Our account management discipline is working well to roll out this new approach to a wider range of our customers.

The **statement business** has had an excellent year. To give some sense of the strides we have made, in 2005 Communisis had no presence in this sector – now we are the number 2 in the UK. During the last twelve months, our team have completed a new 100,000 sq ft factory in Speke, Liverpool. 230 staff and related equipment from five different customer sites have transferred to the new facility. We now produce 1.5m statements and invoices a day for HSBC and Centrica from what has become the most advanced facility of its type in the country. The quality of this operation has attracted further customers. In December 2007 we signed a five year, £10m contract with Co-operative Financial Services to produce all their banking and insurance statements. In January 2008 we were selected by a fourth customer to outsource their statement print operation. With these four contracts, the factory will be operating at over 80% capacity, although rationalisation projects during 2008 will increase the space available.

In other parts of the business, we have been successful in defending profits despite declining markets. Our cheques business has had its most profitable year to date. The annual decline in cheque book issuing has continued, but we have been able to remove cost at an even faster rate. The Bath business forms factory remains very efficient and lean, but its markets are in decline and competition is severe. This is the only part of our business where offshore competition is a serious threat, because many of its products are ordered on long lead times. Nonetheless, the factory remains in profit and a resilient business. Although it has recorded a decline year on year, it has grown market share in several important products. We have been able to use the cross-selling model to achieve some sales to customers from other divisions who have not previously taken products from Bath.

Our place in the market

We have a clear vision of how Communisis can maintain and develop its competitive advantage in a complex, fragmented and at times difficult marketplace. Despite our heritage in print, we will be successful now and in the future where we deliver additional services and skills beyond ink and paper.

Our customers face challenges to make their marketing content more effective and more efficient. In general they regard direct marketing as a cost effective channel for customer communication, and a key element in their own fight for market share. The evidence we glean from those customers still shows an increasing willingness to invest to make that customer communication more relevant, compelling, agile and rapid. Because our range of services extends beyond manufacturing, we are able to help address these challenges. Our information technology services represent a key competitive advantage in delivering these improvements. What makes us unique is the ability to connect these services to a manufacturing base with the scale, capability and quality to deliver strong end-to-end solutions. We are and will be more resilient to difficult market conditions precisely because we have these wider offerings.

Where to next?

The three-stage plan that was outlined a year ago remains our blueprint:

1. Focus on customers and basics, which has been completed with much success.
2. Focus on cross-sell and value, which is still in progress.
3. Focus on integrated portfolio, which is to begin later this year.

Our focus on cross-selling has delivered excellent results in the second half of 2007, and shows every sign of continuing strongly. The challenge for 2008 is to move from stage 2 to stage 3 of our plan. So far, we have sold additional service lines to customers one at a time. We have consciously designed our channel to market to encourage incremental business to develop our customer relationships. This has been successful, but it has not yet unlocked the full potential of those relationships, and the value we can bring to them.

Stage 3 will see us capitalise on our existing range of services to offer joined-up propositions which deliver Business Process Improvement for our customers. This is something our competitors find difficult to replicate because they tend to lack the necessary breadth of capabilities. But, for our business, this will be the source of sustainable profit improvement going forward.

We have already released the first of these propositions – helping our customers to respond to environmental issues in marketing. Linking a range of our services, such as use of sustainable paper or data modelling for better customer targeting, helps with this issue. We can reduce the environmental impact of marketing by reducing waste and making better use of resources. We have called this proposition “Greenprint”. It has generated a better quality of conversation with customers about a serious business issue – the environment.

Further propositions will follow. For example, there is increasing demand from our customers to merge transactional mailings, such as bank statements, with marketing material on the same page. Experience from markets such as the United States shows that this increases the effectiveness of the marketing message. This so-called Transpromotional proposition has great potential benefits, but our customers face issues of data integrity, design and management control. With our capabilities in both statements and direct mail, we are in an excellent position to help our customers achieve this change. It will involve a complex, related set of our services, and will require Communisis to demonstrate good sales skills and strong delivery credibility. The ability to sell in this way is at the heart of stage 3.

Investing for the future

Executing stage 3 will require investment. We must invest in relevant services we cannot deliver at present, such as email marketing, artwork and complex data profiling, to make sure our propositions are complete. Investment in the IT products that make up our new print management model, such as C-Store, IQ and Connect-3 will increase. New technology in manufacturing will also be required, because we must migrate our production to match new marketing techniques. Our investment programme will not neglect skill development and creation of marketing material to support this account management. Finally, we will also make an investment of £1m in 2008 to reduce the impact of our operations on the environment.

Our level of capital investment in 2008 will remain at about the same level as in 2007. In real terms this represents an increase, because our 2007 investment funded the new Speke factory, and that expense will not repeat in 2008. The improvement in our balance sheet during 2007 leaves us in a good position to do this.

This investment will bear fruit as Stage 3 develops into 2009. Many of these new services will fall within our Technology and Services segment, and so we expect this segment to deliver an increasing percentage of our profits in the future. Margins here are strong, and we believe will remain so. Manufacturing will remain important, because it forms part of our end-to-end service offering, but we will rely on it less as a source of profit for the overall Group.

Strong foundations and momentum

Our aim is to help our customers make communication with their customers a more profitable process. We have made enormous progress in 2007 in that direction. All of our manufacturing facilities now deliver high quality, efficient and relevant products at a profit. Our financial performance is greatly improved. Our account management model is evolving into a strong channel to market for our services.

Communis operates in a difficult and competitive sector, so staying ahead of the market is crucial. Our progress in this regard in 2007 and the investments we are committed to making in the year ahead mean that we are well placed to succeed in our chosen marketplace. We take note of recent developments in the economy, particularly in financial services, but to date these have had little effect on our business. We are in a strong position to respond to changing customer priorities, and we enter 2008 with good long term prospects.

Steve Vaughan
Chief Executive

Financial Performance Report

This financial year has seen Communisis make significant progress in its stated strategy and numerous improvements in business performance. Even now, the early financial rewards of this progress are showing through in terms of both improved profitability and stronger balance sheet. These improvements, and those we continue to make, bolster our confidence in Communisis' long-term prospects.

Profitability

Profit from operations after restructuring costs increased by 472% to £10.5m (2006: £1.8m). Restructuring costs were controlled in line with management expectations. Profit after tax was £6.6m (2006: loss of £20.0m).

The table below records revenue and profit performance in each of our key business segments as well as the much-reduced impact of exceptional items. We announced a realignment of our reportable business segments at our 2007 interim results. The change is designed to show the way we manage performance and it better records progress with our strategy (see note 1). The 2006 results in the table below have been restated to show this new segmentation, presented on a comparable basis.

		2007	2006
		£m	£m
Revenue	Technology & Services	12.4	7.0
	Print Sourcing	107.4	98.0
	Direct Mail & Business Forms	115.7	114.1
	Transactional	55.1	41.5
		<u>290.6</u>	<u>260.6</u>
Profit	Technology & Services	4.0	2.0
	Print Sourcing	1.1	5.0
	Direct Mail & Business Forms	5.7	6.1
	Transactional	11.7	10.5
	Central costs	(9.0)	(8.5)
	Restructuring costs	(3.0)	(13.3)
	Profit from operations after restructuring costs	<u>10.5</u>	<u>1.8</u>
	Profit on exceptional property disposals	-	13.1
	Impairment of intangible assets	-	(31.5)
	Profit / (Loss) from Operations	<u>10.5</u>	<u>(16.6)</u>
	Net finance cost	(2.6)	(2.8)
	Tax	(1.3)	(0.6)
	Profit / (loss) for the year	<u>6.6</u>	<u>(20.0)</u>

Revenue improved in all four of our business segments, overall growing by 11.5%. Profit from operations after all exceptional costs improved from a loss of £16.6m in 2006 to a profit of £10.5m in 2007. The loss from operations in 2006 was impacted by a £31.5m goodwill impairment charge but was flattered by one off profits of £13.1m from major property disposals.

The Technology & Services business has grown strongly in 2007. A major factor in this growth was the renegotiation of our contract with Barclays to our new print management model. This model charges for access to our print supply chain and other value-added services, and these charges are shown in this segment. New sales of marketing and procurement software and services sustained growth in this segment into the second half. New sales of this type to Procter & Gamble, HSBC and Defra replaced one-off profits made in 2006 from other consultancy opportunities. Technology & Services margins continue to be strong.

In contrast, Print Sourcing profits declined year-on-year, as expected. A new feature of this segment was £39.1m of revenue provided to customers at nil margin (2006: £nil), either as part of our new print management model, or for postal services. Profits derived from marking up bought-in print fell significantly. Early in 2007 we took steps to reduce cost and improve efficiency in this segment. As anticipated, this enabled us to grow profits in the second half of 2007 - by more than 50% compared with the first half of 2007.

The Direct Mail and Business Forms segment delivered modest revenue growth. A year-on-year comparison shows a 6.5% decline in profits and an operating margin reduced from 5.4% to 5%. This masks the significant turnaround achieved, particularly in our Leeds Direct Mail factory. Segment profit in the second half of 2007 improved to £4m (compared with first half 2007: £1.7m, and second half 2006: £2.6m). This half-on-half improvement of 135% was achieved despite the traditionally quiet summer months. Year-on-year performance was diluted by the full year effect of rent payments following the sale and leaseback of the Bath facility in June 2006. Excluding this dilution shows that profits have grown year on year. All of this improvement was due to the Leeds direct mail business; Bath business forms recorded a decline year-on-year, but remains a resilient business.

The Transactional business continued to grow in 2007 with the Centrica billing contract coming on stream early in the year. Segment performance in 2006 and 2007 was boosted by additional activity associated with the service transition to Speke. In 2008 we have two new statement contracts to add to the Speke operation and investment to enable further efficiency gains. Cheques performed strongly again in 2007. Well-developed efficiency improvement plans were implemented early in the year helping to offset the impact of continued volume decline. In addition, work more suited to the cheque business moved from Leeds and the cheque business benefited from a full year of business previously undertaken in Altrincham.

Central costs now include all the cost of Group centred activity, some of which was previously allocated to divisions. This includes our Corporate head office, the Group procurement team and business development teams, and IT development. The 6% rise in cost, year-on-year, reflects both our investment in new skills and capabilities, and a provision for bonuses payable on delivery of profit and cash targets.

The targeted reduction in restructuring costs was achieved in line with expectations. The £3m incurred in 2007 funded redundancies in Print Sourcing in Europe, Direct Mail and cheques. These initiatives enabled us to achieve real efficiency gains in the three segments in which these businesses operate and will benefit future years.

Headline net finance costs were slightly reduced compared with 2006. If the non-cash impact of pensions, foreign exchange losses and interest receivable on tax repayments are excluded however, net finance costs rose by 3%. The increase reflected the rise in the base lending rate, the more significant rise in LIBOR in the latter part of the year and the addition of new Group borrowing at higher margins offset by lower net debt levels, particularly in quarter 4 of 2007.

The tax charge for the year of £1.3m (2006: £0.6m) represents an effective rate of tax of 16%. The principal reason for the relatively low rate was the release of certain contingent provisions established in previous accounting periods. We would anticipate the effective rate increasing in 2008 and beyond to slightly in excess of the UK statutory rate.

Cashflow and net debt

A key aim for this financial year was to improve working capital management and begin to repair our balance sheet. In the second half of 2007, we built upon the significant improvements delivered in the first half of 2007. Our continued focus on working capital and further reductions in overdue customer debt enabled us to reduce Group net debt by £18.6m.

The table below summarises the Group's key cashflows:

	2007	2006
	£m	£m
Profit from operations before restructuring costs	13.5	15.1
Depreciation and other non-cash items	9.3	10.4
Decrease / (Increase) in working capital	17.4	(10.3)
Cash effect of restructuring	(4.2)	(9.6)
Additional pension contributions	(3.1)	(2.5)
Interest and tax	(5.0)	(4.5)
Net cashflow from operating activities	<u>27.9</u>	<u>(1.4)</u>
Capital expenditure	(8.5)	(8.2)
Exceptional property disposals	-	20.3
Net acquisitions and disposals	1.2	(6.3)
Dividends	(1.8)	(8.2)
Share buybacks	-	(5.1)
Other	(0.2)	-
Movement in net debt	<u>18.6</u>	<u>(8.9)</u>
Opening net debt	<u>(44.9)</u>	<u>(36.0)</u>
Group net debt	<u>(26.3)</u>	<u>(44.9)</u>

Despite 11.5% growth in revenue, the Group achieved working capital improvements from stock, debtors and creditors. These improvements provided a total cash inflow of £17.4m compared with an outflow of £10.4m in 2006.

Customer debt was considerably reduced during the year. At the end of 2006, 33% of all customer debt was overdue. By the half year this had reduced to 17% and at the end of 2007 to 13%. Most attention was directed to the top 60 customer accounts looked after by our key account managers. Here the improvement was even more marked, with overdue debt falling from 28% to 8%. The result is a £9.4m reduction in trade and other receivables and consequent cash inflow, despite higher sales revenue. Overall debtor days fell by 38% year-on-year.

Our growth allowed the absolute level of supplier credit to rise. This was offset by a 23% reduction in the number of days of credit taken from suppliers, which gave us the advantage of early payment discounts. Group stock levels reduced by £2.3m following attention to levels of finished goods and work in progress. Control of restructuring costs delivered a reduction in the cash cost of restructuring of more than 50%.

The combination of all these measures enabled the Group to achieve a £27.9m cash inflow from operations, an improvement of nearly £30m compared with the prior year.

In 2007, the bulk of our capital expenditure was in the Speke factory fit out and equipment for our new transactional contracts. We have also supported the turnaround in Leeds with investment in both new capability and enhancements to existing equipment in Leeds.

Cash flow in 2006 was flattered by two exceptional property disposals; the sale and leaseback of our Bath business forms facility and the sale of a factory property in Stourton, Leeds. There have been no property disposals in 2007.

There were no acquisitions in 2007; in 2006 the Group acquired HSBC's statement production business and Centrica's UK billing operations. In 2007 we received £1.2m (2006: £1.6m) in respect of the disposal of the Colour Solutions business in 2004. All amounts due in respect of this transaction have now been received in full.

The total 2007 dividend is held at the same level as 2006 at 2.453p per share. The Group remains within its self-imposed cover ratio target of 2-2.5 times profit before restructuring cost. The bulk of the 2006 dividend was paid as an interim dividend (1.953p per share) in 2006, whereas two thirds of the 2007 dividend will be paid in April 2008. The result is a one-off reduction in the year-on-year cash cost of dividends of £6.4m. Dividends will be paid, subject to shareholders approval, on 30 April 2008 to shareholders' on the register at the close of business on 4 April 2008. There were no further share buybacks in 2007 (2006: £5.1m).

The combined effect of all of the above was an £18.6m reduction in Group net debt levels. This compares with an increase in debt of £8.9m in 2006. The Group increased the level of committed bank facilities by £5m whilst making scheduled loan repayments of £8.5m. Committed loan facilities totalled £46.1m at the end of 2007 with £12.5m of amortisation scheduled for 2008. There are well developed plans to extend the facilities by a further £10m to ensure that the Group has access to the funds necessary to continue progress with its strategy.

Pensions

On 30 November 2007, following consultation with the beneficiaries of the defined benefit sections of the Communisis Pension Plan ("the plan"), the defined benefit sections of the plan closed to future benefit accruals. A new defined contribution section of the plan replaced defined benefit sections for accruals after that date. Employees have the opportunity to contribute between 2% and 7% of pensionable salary to this section to which the Company contributes a further 4% to 9%. Employees can vary their contributions annually, which in turn will affect the level of Company contributions. With most employees opting for the upper end of the contribution range, indications are that overall the change in pension arrangements will be cash neutral to the Group.

The new deficit recovery plan agreed with Trustees during the first half remains in place with the first instalment of £1.2m due in March 2008. Planning has started for the trustees' next actuarial valuation of the plan due at 30 September 2008.

The gross pension deficit under IFRS has fallen to £14.7m (31 December 2006: £17.3m, 30 June 2007: £10.4m). The reduction was driven by the £3.1m additional contribution made by the Group in January 2007, and improvements in bond yields resulting in a higher liability discount rate offset by an increase in the long-term inflation assumption.

Peter King
Finance Director

Consolidated Income Statement
for the year ended 31 December 2007

	Note	2007 £000	2006 £000
Revenue		290,590	260,640
Changes in inventories of finished goods and work in progress		(246)	585
Raw materials and consumables used		(157,968)	(132,215)
Employee benefits expense		(75,742)	(72,977)
Other operating expenses		(36,401)	(33,386)
Depreciation and amortisation expense		(6,700)	(7,541)
Impairment of intangible assets	3	-	(31,561)
Restructuring costs	3	(3,025)	(13,269)
Profit on disposal of properties	3	-	13,132
Profit / (loss) from operations		10,508	(16,592)
Analysed as:			
Profit from operations after restructuring costs		10,508	1,837
Impairment of intangible assets	3	-	(31,561)
Profit on disposal of properties	3	-	13,132
Profit / (loss) from operations		10,508	(16,592)
Finance revenue		894	619
Finance costs		(3,531)	(3,392)
	2	(2,637)	(2,773)
Profit / (loss) before taxation		7,871	(19,365)
Income tax expense	4	(1,320)	(675)
Profit / (loss) for the year attributable to equity holders of parent		6,551	(20,040)
Earnings per share	5		
On profit / (loss) for the year attributable to equity holders and from continuing operations			
- basic		4.73p	(14.35)p
- diluted		4.68p	(14.35)p
Dividend per share	6		
- paid		1.318p	5.850p
- proposed		1.635p	0.500p

Dividends paid and proposed during the year were £1.8 million and £2.3 million respectively (2006 £8.2 million and £0.7 million respectively).

The accompanying notes are an integral part of this Consolidated Income Statement.

Consolidated Balance Sheet

31 December 2007

	2007 £000	2006 £000
ASSETS		
Non-current assets		
Property, plant and equipment	27,473	27,080
Intangible assets	151,022	151,182
Trade and other receivables	1,865	2,865
Deferred tax assets	2,521	3,955
	182,881	185,082
Current assets		
Inventories	10,970	13,272
Trade and other receivables	40,977	51,624
Cash and cash equivalents	13,628	2,133
	65,575	67,029
Non-current assets classified as held for sale	350	350
TOTAL ASSETS	248,806	252,461
EQUITY AND LIABILITIES		
Equity attributable to the equity holders of the parent		
Equity share capital	34,636	34,633
Share premium	4	-
Merger reserve	11,427	11,427
Capital redemption reserve	1,375	1,375
ESOP reserve	(338)	(338)
Cumulative translation adjustment	(76)	(33)
Retained earnings	81,470	76,547
Total equity	128,498	123,611
Non-current liabilities		
Interest bearing loans and borrowings	22,000	38,521
Retirement benefit obligations	14,730	17,306
Provisions	68	211
	36,798	56,038
Current liabilities		
Interest bearing loans and borrowings	17,907	8,548
Trade and other payables	60,548	57,853
Income tax payable	3,568	4,783
Provisions	1,487	1,628
	83,510	72,812
Total liabilities	120,308	128,850
TOTAL EQUITY AND LIABILITIES	248,806	252,461

The accompanying notes are an integral part of this Consolidated Balance Sheet.

Consolidated Cash Flow Statement
for the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Cash flows from operating activities			
Cash generated from operations	7	32,937	3,039
Interest paid		(3,696)	(3,177)
Interest received		266	619
Income tax paid		(1,584)	(1,912)
Net cash flows from operating activities		27,923	(1,431)
Cash flows from investing activities			
Acquisition of subsidiary undertakings net of cash acquired		-	(7,929)
Receipt of deferred consideration from the sale of subsidiary undertakings		1,164	1,600
Purchase of property, plant and equipment		(7,667)	(4,580)
Proceeds from the sale of property, plant and equipment		260	21,495
Purchase of intangible assets		(1,074)	(3,580)
Tax on disposal of property, plant and equipment		-	(1,191)
Net cash flows from investing activities		(7,317)	5,815
Cash flows from financing activities			
Receipt from sharesave options exercised		7	-
Purchase of own shares including costs		-	(5,147)
New borrowings		6,000	13,075
Repayment of borrowings		(18,500)	(8,000)
Dividends paid		(1,822)	(8,223)
Net cash flows from financing activities		(14,315)	(8,295)
Net increase / (decrease) in cash and cash equivalents		6,291	(3,911)
Cash and cash equivalents at 1 January		2,085	6,027
Exchange rate effects		(155)	(31)
Cash and cash equivalents at 31 December		8,221	2,085
Cash and cash equivalents consist of:			
Cash and cash equivalents		13,628	2,133
Overdrafts		(5,407)	(48)
		8,221	2,085

The accompanying notes are an integral part of this Consolidated Cash Flow Statement.

Consolidated Statement of Recognised Income and Expense
for the year ended 31 December 2007

	2007	2006
	£'000	£'000
Exchange losses on translation of foreign operations	(43)	(31)
Actuarial gains on defined benefit pension plans	511	19,176
Tax on items taken directly to equity	(489)	(5,752)
Net profit / (loss) recognised directly in equity	(21)	13,393
Profit / (loss) for the year	6,551	(20,040)
Total recognised income and expense for the year	6,530	(6,647)
Attributable to:		
Equity holders of the parent	6,530	(6,647)

The accompanying notes are an integral part of this Consolidated Statement of Recognised Income and Expense.

Notes to preliminary results

1 Segmental information

In order to reflect the way in which the Group now manages performance and to record very clearly progress with our strategy, business segments have been realigned. The old 'Print Management Services' segment has been replaced by a 'Technology & Services' segment and a 'Print Sourcing' segment. The former includes 'new model' print management contracts and all profits made from selling added-value communication-enhancing services and print or communication related consultancy.

Customers who have signed up to a 'new model' print management contract have full access to the Group's print supply chain and are able to source print at the cost the Group buys it. Where this is the case, revenue and cost associated with the print element of the Group's offering to these customers is included in the 'Print Sourcing' segment. 'Print Sourcing' will also include 'old model' print management contracts that rely for profit on marking up print sourced elsewhere.

The Group will report performance against two further segments, 'Direct Mail & Business Forms' and 'Transactional'. The Group's 'Direct Mail & Business Forms' segment will include activities in both these market sectors. The 'Transactional' segment includes all cheque and cheque mailing activity along with statement and billing operations.

Transfer pricing between business segments is set on an arms length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment profits include sales between business segments. Those sales are eliminated on consolidation and are not included in the revenue figures below.

Business segments

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

	Continuing operations					
	Technology & Services £000	Print Sourcing £000	Direct Mail & Business Forms £000	Transactional £000	Central Cost £000	Total £000
Revenue	12,373	107,457	115,670	55,090	-	290,590
Profit from operations before restructuring costs	4,031	1,087	5,734	11,724	(9,043)	13,533
Restructuring costs (Note 3)	-	(228)	(2,223)	(574)	-	(3,025)
Profit from operations	4,031	859	3,511	11,150	(9,043)	10,508

Revenue attributable to contracts where the Group provides certain services at nil margin is shown wholly within Print Sourcing and amounts to £39.1m (2006: £nil).

Inter-segment sales amounting to £30,368,000 and £7,737,000 were made to Print Sourcing from Direct Mail & Business Forms and Transactional respectively. Inter-segment sales amounting to £356,000 and £521,000 were made to Direct Mail & Business Forms from Transactional and Technology & Services respectively. Inter-segment sales amounting to £10,051,000 were made to Transactional from Direct Mail & Business Forms.

The segment results for the year ended 31 December 2006, restated to reflect the new segmental reporting structure adopted from 1 January 2007, are as follows:

	Continuing operations					
	Technology & Services £000	Print Sourcing £000	Direct Mail & Business Forms £000	Transactional £000	Central Cost £000	Total £000
Revenue	7,010	97,974	114,095	41,561	-	260,640
Profit from operations before restructuring costs	1,982	4,990	6,109	10,531	(8,506)	15,106
Restructuring costs	-	(2,047)	(8,877)	(489)	(1,856)	(13,269)
Profit from operations after restructuring costs	1,982	2,943	(2,768)	10,042	(10,362)	1,837
Impairment of intangible assets	-	(9,115)	(22,446)	-	-	(31,561)
Profit on disposal of properties	-	-	9,559	-	3,573	13,132
Profit / (loss) from operations	1,982	(6,172)	(15,655)	10,042	(6,789)	(16,592)

Notes to preliminary results

1 Segmental information (continued)

Inter-segment sales amounting to £31,689,000 and £4,489,000 were made to Print Sourcing from Direct Mail & Business Forms and Transactional respectively. Inter-segment sales amounting to £268,000 and £623,000 were made to Direct Mail & Business Forms from Transactional and Technology & Services respectively. Inter-segment sales amounting to £6,881,000 were made to Transactional from Direct Mail & Business Forms.

2 Finance costs and finance income by category of financial instruments

	2007 £000	2006 £000
Interest on receivables measured at amortised cost	266	619
Interest on financial liabilities measured at amortised cost	<u>(3,350)</u>	<u>(3,346)</u>
Net interest from financial assets and financial liabilities not at fair value through profit and loss	(3,084)	(2,727)
Loss on foreign currency financial liabilities	(181)	-
Retirement benefit related income / (costs)	<u>628</u>	<u>(46)</u>
	<u>(2,637)</u>	<u>(2,773)</u>

3 Restructuring costs and other exceptional items

	2007 £'000	2006 £'000
Profit / (loss) from operations is arrived at after charging / (crediting) the following items:		
Transfer of business - PDM Altrincham	700	8,260
Other restructuring costs	<u>2,325</u>	<u>5,009</u>
Restructuring costs	3,025	13,269
Profit on disposal of properties	-	(13,132)
Impairment of intangible assets	<u>-</u>	<u>31,561</u>
	<u>3,025</u>	<u>31,698</u>

During the previous year the Group closed its Altrincham operation and transferred production to Leeds. The restructuring costs deriving from this closure relates to disruption, redundancy, onerous lease costs, and loss on disposal of property, plant and equipment. In 2007 the Group's exposure to an onerous lease and other associated property costs in respect of the Altrincham property has been reassessed and a further charge made of £700,000.

Other restructuring costs in 2007 consist entirely of redundancy costs associated with efficiency improvement made in the European business, the Leeds Direct Mail factory and the cheques business.

In 2006, Other restructuring costs includes redundancy costs in both the UK and European print sourcing businesses, the Bath business forms operation, and the cheques business. Also included are the costs of Board appointments and final costs associated with corporate activity in 2005.

Notes to preliminary results

4 Income tax

The major components of income tax expense for the years ended 31 December 2007 and 2006 are:

	2007	2006
	£000	£000
Tax charged in the Income Statement		
<i>Current income tax</i>		
UK Corporation Tax	1,659	3,476
Adjustments in respect of prior years	(1,284)	(1,454)
Adjustments in respect of overseas tax for prior years	-	295
Total current income tax charge	375	2,317
<i>Deferred income tax</i>		
Origination and reversal of temporary differences	1,091	(1,307)
Adjustments in respect of prior years	(73)	(335)
Adjustments in respect of prior years – due to change in tax rate	(73)	-
Total deferred tax charge / (credit)	945	(1,642)
Tax charge in the Consolidated Income Statement	1,320	675
Tax relating to items charged or credited to equity		
<i>Deferred income tax related to items charged or credited directly to equity</i>		
Actuarial gains / (losses) on pension scheme		
Current year charge	143	5,752
Adjustments in respect of prior years – due to change in tax rate	346	-
Income tax expense / (credit) reported in Statement of Recognised Income and Expense	489	5,752

Adjustments in respect of prior years' corporation tax relate to the release of provisions created in respect of prior years' tax submissions, agreed in the current year.

Reconciliation of the total tax charge

The tax expense in the Income Statement for the year is lower (2006 higher) than the standard rate of corporation tax in the UK of 30% (2006 30%). The differences are reconciled below:

	2007	2006
	£000	£000
(Loss)/ profit before income tax	7,871	(19,365)
At UK statutory income tax rate of 30% (2006 30%)	2,361	(5,810)
Impairment of goodwill not deductible for tax purposes	-	9,468
Expenses not deductible for tax purposes	335	276
Non-taxable gain on property disposals	-	(1,887)
Unrelieved overseas losses	100	55
Share-based payments	3	72
Change in deferred tax in respect of rolled over capital gains	(49)	(5)
Adjustments in respect of prior years	(1,430)	(1,494)
	1,320	675

Notes to preliminary results

5 Earnings per share

	2007	2006
	£000	£000
Basic and diluted earnings per share is calculated as follows:		
Profit / (loss) attributable to equity holders of the parent	<u>6,551</u>	<u>(20,040)</u>

	2007	2006
	Thousands	Thousands
Weighted average number of ordinary shares (excluding treasury shares) for basic earnings per share	138,254	139,653
Effect of dilution:		
Share options	<u>1,468</u>	<u>877</u>
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution	<u>139,722</u>	<u>140,530</u>

279,628 (2006 279,628) shares were held in trust at 31 December 2007.

Share options in issue for which exercise is currently unlikely (as the option price is higher than the average market price) total 2,472,681 (2006 3,168,339) options. As a consequence, these options have not been included in the diluted earnings per share in the current year. The inclusion of these options would have been anti-dilutive in the prior year and so had no impact on diluted earnings per share for the year ended 31 December 2006.

Earnings per share from continuing operations after restructuring costs and before other exceptional items

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

	2007	2006
	£000	£000
Profit / (loss) after taxation from continuing operations	6,551	(20,040)
Exceptional items (Note 3)		
Profit on disposal of properties	-	(13,132)
Impairment of intangible assets	-	31,561
Taxation on exceptional items	-	1,818
Taxation – adjustments in respect of prior years (Note 4)	<u>(1,430)</u>	<u>(1,494)</u>
Profit after taxation from continuing operations excluding exceptional items	<u>5,121</u>	<u>(1,287)</u>
Adjusted earnings per share		
Basic	3.70p	(0.92)p
Diluted	3.66p	(0.92)p

Earnings per share from continuing operations before restructuring costs and other exceptional items

	2007	2006
	£000	£000
Profit / (loss) after taxation from continuing operations	6,551	(20,040)
Restructuring costs	3,025	13,269
Exceptional items (Note 3)		
Profit on disposal of properties	-	(13,132)
Impairment of intangible assets	-	31,561
Taxation on restructuring costs and exceptional items	(825)	(2,055)
Taxation – adjustments in respect of prior years (Note 4)	<u>(1,430)</u>	<u>(1,494)</u>
Profit after taxation from continuing operations excluding exceptional items	<u>7,321</u>	<u>8,109</u>
Adjusted earnings per share		
Basic	5.28p	5.81p
Diluted	5.23p	5.77p

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

Notes to preliminary results

6 Dividends paid and proposed

	2007	2006
	£000	£000
<i>Declared and paid during the year</i>		
Amounts recognised as distributions to equity holders in the year:		
Final dividend of the year ended 31 December 2005 of 3.897p per share	-	5,523
Interim dividend of the year ended 31 December 2006 of 1.953p per share	-	2,700
Final dividend of the year ended 31 December 2006 of 0.500p per share	691	-
Interim dividend of the year ended 31 December 2007 of 0.818p per share	1,131	-
	<u>1,822</u>	<u>8,223</u>
<i>Proposed for approval at AGM (not recognised as a liability as at 31 December)</i>		
Final equity dividend on ordinary shares for 2007 of 1.635p (2006 0.500p) per share	2,260	691

7 Cash generated from operations

	2007	2006
	£000	£000
Continuing operations		
Profit / (loss) before tax	7,871	(19,365)
Adjustments for:		
- depreciation and amortisation	6,700	7,523
- amortisation of contract premium payment	1,000	1,000
- excess of Income Statement pension charge over normal contributions paid	1,513	1,547
- restructuring costs	3,025	13,269
- profit on sale of property, plant & equipment	(97)	(43)
- profit on exceptional property disposals	-	(13,132)
- share-based payment charge	172	259
- net finance costs	2,637	2,773
- impairment of goodwill and customer relationship assets	-	31,561
Additional contribution to the defined benefit pension plan	(3,100)	(2,484)
Cash effect of restructuring continuing operations	(4,223)	(9,636)
Changes in working capital:		
Decrease / (increase) in inventories	2,307	(183)
Decrease / (increase) in trade and other receivables	9,412	(3,734)
Increase / (decrease) in trade and other payables	5,720	(6,316)
Cash generated from operations	<u>32,937</u>	<u>3,039</u>

In 2007 the cash effect of restructuring includes payments of £1,973,000 in respect of amounts charged to profit in 2006. Non cash restructuring costs in 2007 amount to £775,000 in respect of onerous lease provisions and redundancy provisions.

8 Additional information

Communis plc is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares are traded on the London Stock Exchange.

The preliminary announcement is prepared on the same basis as set out in the previous year's financial statements.

The financial information for the year ended 31 December 2007 and 31 December 2006 is abridged and has been extracted from the 2007 statutory accounts of Communis plc which were approved by the Board of Directors on 27 February 2008, along with this preliminary announcement, but have not yet been delivered to the Registrar of Companies. The auditors have issued an unqualified opinion on the 2007 statutory accounts. The 2006 statutory accounts have been delivered to the Registrar of Companies. The auditors' report on the 2006 statutory accounts was unqualified.