

28 February 2007

**Communis plc**

**Preliminary Results for the year ended 31 December 2006**

**Outcome of strategic review**

**Highlights:**

- Profit from operations before exceptional items in line with expectations at £15.1m (2005 £15.1m)
- Revenues of £260.6m (2005 £264.8m) down 2%
- Full year loss from operations of £16.6m (2005 profit £7.2m) after £31.6m intangible asset impairment charge (2005 £nil)
- Proposed final dividend of 0.5p (2005 3.897p) taking 2006 full year dividend to 2.453p (2005 5.85p) and returning dividend cover to 2.4 times (2005 1 times)
- Pension deficit (IFRS basis) has fallen to £17.3m (2005 £37.7m) following triennial valuation, improvement in bond yields and strong investment performance. Assumptions strengthened
- Net debt at 31 December 2006 was £44.9m (2005 £36.0m)
- Excellent performance in Transactional Print division – HSBC and Centrica contracts going well
- Strategic review completed: New Print Management business model announced, but operational issues need to be addressed

**Commenting on these results, Steve Vaughan, who became Chief Executive in October 2006, said today:**

“While our Transactional Print Services business has performed well in 2006, these results characterise the continuing competitive pressures in our broader markets.

As already announced in December 2006, the disruption and costs of merging the Altrincham facility into Leeds has been very significant and we envisage that this site will only be running at acceptable levels of quality and efficiency by the second half of the current financial year.

The execution of the revised business strategy will require investment and this has already begun in terms of new management and revised internal practices. The Board has reviewed the company's dividend policy which, over time, has become unsustainable given the underlying performance of the business. We have therefore taken the difficult but necessary decision to re-base the dividend to a more sustainable level, allowing the business to be valued on its fundamentals in the longer term.”

**Commenting on the completed strategic review and current trading, Steve Vaughan added:**

“The strategic review of our operations shows clearly that Communisis has a range of services that can be sold to many of our customers. The different parts of the business make good sense together if we can combine them effectively. We are changing the Group's sales efforts quickly, implementing true, group wide, customer account management that presents a coordinated and integrated service offering to the customer.

To support this drive for account management we need to be much clearer about the service proposition we are taking to market. In the past, Communisis has focused too much on putting ink on paper, and not enough around the additional services we can and do provide. So our customer proposition will be "to help make customer communication a more profitable process". We can add real value to clients by offering expertise, technology and services that address the whole business process of marketing and customer communications, not just printing. We have already sold elements of this proposition successfully into several of our largest customers. The opportunity is to take a combined offering to the whole of our impressive customer base, and then beyond.

Looking forward to 2007, the first half is going to be one of significant change for the Group: basic processes need to be improved, account management practices implemented and the Leeds facility brought up to the levels of quality and efficiency required. In what will be a year of considerable transition, we expect profitability to be weighted significantly to the second half. For the current year overall, we expect profits from operations (before exceptional costs) to be impacted by the changes outlined above, but with a substantially reduced level of exceptional charges. In addition net debt levels should fall by year end. The changes made to the business in the current financial year can be expected to provide the foundation for incremental shareholder value in 2008 and beyond."

Enquiries:

**Communisis plc**

Steve Vaughan, Chief Executive

Peter King, Finance Director

On the day: 0207 8313113

Thereafter: 0207 4264690

**Financial Dynamics**

Edward Bridges

James Melville-Ross

0207 8313113

## Chairman's Report

2006 has been another demanding year for the management and employees of Communisis. Market conditions remained challenging and there was a need to react constantly to the changing circumstances. Our decision to cut costs by amalgamating two major plants, a process not yet fully complete, will serve to maintain longer term profitability. We also responded to price pressures, even within major long running contracts, in order to protect long term relationships with key customers.

Within this environment, Communisis managed not only to retain its major customers and contracts but added the strategically important HSBC and Centrica transactional print contracts. This means that the new Speke transactions plant due for completion in June 2007 will now be 60% utilised once both HSBC and Centrica work are transferred. This is a business sector where Communisis was not represented at all prior to 2006.

David Jones stood down as Chief Executive in October 2006 and Denise Moran resigned shortly after. My sincere thanks go to them both for their efforts and significant contributions to Communisis over many years. Steve Vaughan became Chief Executive and his background in account management and systems will assist the Company in its continuing re-orientation towards providing added value services. Peter King earned a well deserved promotion to Finance Director following the resignation of Mark Whiteling in August.

Despite the market related pressures which have inhibited improved financial results, Communisis has responsibly both protected the integrity of the pension arrangements for employees by making additional contributions, and boosted payments to shareholders by share buy-backs in the first half of the year. In 2007 the financial imperative will be providing the investment for committed additional facilities and services including the new plant in Speke and rebuilding a financial capacity to allow for further expansion in markets designated as being of the highest potential.

Mike Smith  
Chairman

## Business Review

The year ended 31 December 2006 was a year of significant change for the business. The Group has entered a new market, the printing of statements and bills, and aimed to drive efficiencies in the business. In the final quarter a new management team was put in place. This change has presented an opportunity to take a step back and consider the Group's strategic options and business opportunities afresh. We have done this over the past few months, and I am pleased to say that there are some promising opportunities for the Group in the next few years. Of course, it will have to face its fair share of challenges as well. We have created a business plan, which, we believe, will secure real competitive advantage and shareholder value in the longer term.

### Our place in the market in 2006

2006 has been a challenging year. Over-capacity and consequent downward pricing pressure continues to be a major feature of some parts of our business.

**Business Forms** is experiencing supply side over-capacity of approximately 40%, and prices reflect that. Efficiency is therefore key and we are very fortunate that our team at our Midsomer Norton plant, which services this market segment, is at the forefront of lean manufacturing in our industry. As a result, they have been able to maintain reasonable operating margins in the face of significant competition.

Our **Direct Mail** operations have seen a similar level of competition, but also a level of change in customer demand. The direct mail industry is fundamentally changing, moving away from long run, generic direct mail campaigns to tactical campaigns with much more personalisation. Communis needs to be able to respond to our clients' requirements rapidly, allowing changes in timing and design. This way, we can accommodate shorter timescales in marketing campaigns. Overall, our operation in Leeds is well placed to handle these requirements. Despite difficult market conditions, our sales efforts have managed to keep order volumes strong. This is the benefit of being the leader in this market.

During the year, the Group decided that operational efficiencies could be increased by combining our Leeds and Altrincham facilities. So the Altrincham plant was closed and the entire operation transferred to a reconfigured and expanded Leeds facility. This ambitious project was the largest move of print capacity ever attempted in Europe. As announced on 15<sup>th</sup> December, this project has proved highly disruptive, costing more and taking longer than first anticipated. While the physical move is now essentially complete, it has produced many problems in the resulting business. Much remains to be done to realise the plant's potential - a Direct Mail facility with at least twice the capacity of any other plant in Europe. If this can be achieved, it will become a key asset in the marketplace over the next few years. We are now engaged in numerous integration and enhancement activities in the merged operation to extract full economic and operational benefit from the considerable £8.2 million investment in restructuring. Realistically, it will take much of 2007 to make this goal a reality.

Our **Transactional Print** business has had an excellent year. At the start of 2006 Communis had no presence at all in the statement and billing sector. By the end of the year, we have achieved the number two position in this market. Communis won both of the significant transactional print opportunities that came to tender during the year. The ten-year statement production contract with HSBC started in January 2006 and has proceeded well. We have completed all the major milestones in service transition on or ahead of schedule. The second contract, a seven-year agreement to produce bills for Centrica, began during December and has made a promising start. Both these contracts will transfer during 2007 to our new, purpose-built facility in Speke, which is on time and on budget and is expected to open in June 2007. This will be by far the largest and most modern transactional print facility in Europe. These two contracts will occupy about 60% of its capacity. There is opportunity for further profitable growth in this market segment.

The **Cheques** business has had a very successful year. We absorbed the 7% decline in cheque usage with some gain in market share and a continued focus on reducing costs. We are now the leading supplier in this segment. Volume erosion may accelerate in the future, but we have identified many areas for continued cost reduction. There are also opportunities in related security products that could absorb excess capacity.

The Group's **Print Management** business faces the most rapid change in its marketplace. The conventional print management model offers customers a consolidated print buying service. In the past, easily achieved savings supported strong margins. This is no longer the case. As contracts are renewed, customers demand more savings that can only be realised by reducing margins. In addition, new entrants with very low costs are rapidly commoditising this business. As a result, today if a contract only involves the consolidation of print buying for a customer, there is virtually no profit to be had. As announced on 15 December, this pricing pressure has caused our Print Management (PMS) division problems during the year. Several large contracts include benchmarking clauses that require Communis to respond to market price reductions mid-contract. In one or two cases, these reductions were backdated to the point at which the benchmarking exercise began, earlier in the year. As a result, a charge to address the effects of these clauses was taken in December 2006. Communis can now confirm that these benchmarking processes have now been resolved.

### **The Future - Focusing on our customers**

Communis has been built on a manufacturing heritage in the print industry. Now it needs to be a business services company. The principal asset of any services company is its customers, and the Communis customer list is absolutely unrivalled. The Group has a strong market position in financial services, with long-term relationships with all the major UK retail banks. In retail, we are numbered amongst the ten biggest suppliers to Sainsbury's and also service Marks & Spencer, Debenhams, the Cooperative Group, Tesco and leading home shopping brands such as Grattan, Freemans and the Redcats group. We also have relationships with leading companies in Consumer Packaged Goods (e.g. Gillette), utilities (Centrica and United Utilities) and the public sector (Department of Work and Pensions and the Post Office).

The strategic review of our operations shows clearly that Communis has a range of services that can be sold to many of our customers. Our important wins in Transactional Print in 2006 show that our sales force, when given the right focus and effort, can win in even the most challenging situations. However, the Group's sales efforts are currently aligned to individual divisions. We are changing this model quickly, implementing true, group wide, customer account management. This will present a coordinated and integrated service offering to the customer. Account managers will be measured on the profitability of their customer relationships rather than the revenue targets used in the past. As a result, this will naturally direct the strongest sales efforts towards the most profitable opportunities.

To support this drive for account management we need to be much clearer about the service proposition we are taking to market. Communis has historically focused on putting ink on paper, and not enough around the additional services we can and do provide. So our customer proposition will be **"to help make customer communication a more profitable process"**. We can add real value to clients by offering expertise, technology and services that address the whole business process of marketing and customer communications, not just printing. We have already sold elements of this proposition successfully into several of our largest customers. The opportunity is to take a combined offering to the whole of our impressive customer base, and then beyond.

### **Improving the marketing communications business process**

Communis has a very well established position at the end of the marketing communications process – in printing. However if we concentrate only on the production phase, then we will be trapped in an increasingly commoditised market. Similarly, if our print management contracts focus only on the sourcing of print, then we cannot continue to be profitable. Communis needs to move further up the value chain.

To move up the value chain means helping our customers improve the marketing business process. Fortunately, the Group already has a means to do this. We have existing service offerings that have improved the efficiency and effectiveness of a few of our clients' whole customer communications process. We have provided consultancy on the effective design of marketing material to improve rates of return and optimise production costs. We have technology that organises the process of campaign management, reducing campaign lead times and controlling budgets. We also provide the crucial documentary evidence that supports the financial services compliance requirements for our customers. We manage artwork for some of our customers, providing a central repository for creative assets, increasing reuse and reinforcing

brand compliance. These services all go together to make a real difference to the effectiveness of our customers' communications with their customers.

Our consulting capabilities in best practice campaign management are scattered amongst customer teams, but nonetheless represent a strong and untapped resource.

Some clients already benefit from these capabilities. For example, in our relationship with Barclays, we deliver value throughout the whole marketing process from budget planning through campaign management, artwork handling, data manipulation and eventual production. A relationship of this kind is sustainable and profitable because we are delivering genuine value to the customer's core business process.

### **The future for Print Management**

The margins available from the current print management business model no longer make economic sense. There must be a better way, and Communisis is in an excellent position to define the industry going forward. I have already outlined services we provide today for a few customers that represent a much more value-based proposition. For this business to prosper, we must concentrate on these aspects of our solution. This value adding, service led approach creates significant competitive advantage for Communisis that smaller competitors cannot match.

Our scale makes us a force to be reckoned with in the print supply chain. We have developed our supplier sourcing process and associated electronic procurement to be a key competitive advantage. Our sourcing process has received the highest level of accreditation from the Chartered Institute of Purchasing and Supply – the only one in the print industry. This gives us the basis of a new approach to print management business, with built-in credibility in the marketplace.

In the future, we will base our approach to print management around giving our customers direct access to our supply chain. The customer will be able to source print at the cost we buy it. In return, we gain access to the customer's marketing process for consulting opportunities, and ways to improve the process through our other offerings. This approach provides powerful benefits to the customer, and delivers profit to Communisis where we really add value. This creates entry barriers against small print brokers because they cannot make profits by marking up print throughput. We are now working to convert one of our existing Print Management contracts to this model. It is attractive and will provide a better source of profit in the future.

### **The plan to make this happen**

The change in approach to our market is not an overnight project. It will take time to bring about the move to higher value services as our principal source of profit growth. We are in the fortunate position of being able to make some quick improvements to show progress. However, the management team expects it will take about two years for the change process to filter fully through to the profit line. In order to give confidence that our plan is working, we have split our change programme into a series of discrete steps.

The first stage, **Focus on Customers and Basics**, is well underway. This will take us until the middle of 2007. Much of the attention during this period will rest upon basic business disciplines that need better implementation throughout the Group. During this stage, we are implementing the account management model, with account managers measured on profits rather than revenues. We have been successful in attracting a number of senior and middle managers into the organisation, with a range of experience, to begin this process. This investment will continue. Account management techniques will help build plans for all of our key customer relationships.

The process of merging all of our direct mail operations into Leeds must be completed. Quality and efficiency programmes are needed to deliver the full benefits from this major project. These started in the first half of 2007 and will spread into the second half. We expect that this programme to restore commercial effectiveness to our Leeds plant will involve further cost reduction and investment. We will develop our new print management business model, and sign several 'landmark' deals, showing customer acceptance of this model. We will also strengthen the Group balance sheet, with better management of working capital as a key priority. The combination of these significant change programmes is likely to dilute our profitability in the first half of 2007.

The second stage, **Focus on Cross-sell and Value**, will concentrate on changing the way we do business with customers, to focus on the areas where we really add value. We will channel sales efforts into the areas of technology and consultancy that command better prices. In this twelve-month period, we would expect to see our electronic supply chain become a major force in print buying in the UK. In addition, we would expect to be able to fill the statement facility in Speke to capacity. New service line development will concentrate on those areas where we already have some embryonic capability, such as improving marketing campaign management and document composition solutions for our statements business. In financial terms, we expect during this period to cease to derive profit from deals that solely mark-up print throughput, replacing this with value added services. We also expect to produce positive net cashflow from the group.

Towards the end of 2008, we would expect to see a business in quite a different place from today. During the third stage, **Focus on Integrated Portfolio**, we should have most customers buying more than one service from us. Communisis should be in a position to offer integrated propositions to manage or support large parts of a customers marketing workflow. We anticipate that a majority of our profits will come from multi-service customer relationships, and therefore look to exit some very low margin areas of our business. During this period, we will also consider additional investment in new complementary services to cross-sell further. The move towards higher margin services will still be supported by fundamental strength in niche manufacturing. We see this as a key differentiator for us in our chosen marketplace.

### **Managing and implementing change**

To effect the change implied by this programme, the Group must make some clear decisions on priorities and investments. The most pressing requirement is to strengthen the customer facing parts of our business. We have been too ready in the past to respond to market changes solely by reducing costs rather than to embrace those changes as business opportunities. Nonetheless, there are elements of our business where costs are too high, so addressing those cost issues forms part of our plan. Both of these imperatives will take investment, which will form the basis for sustainable profitable growth. Because of this need for investment, the board has taken the difficult decision to reduce the 2006 final dividend payment. Going forward, we intend to maintain a dividend cover ratio of between 2 and 2.5. We believe that this represents a sustainable and affordable policy.

Looking forward to 2007, the first half is going to be one of significant change for the Group: basic processes need to be improved, account management practices implemented and the Leeds facility brought up to the levels of quality and efficiency required. In what will be a year of considerable transition, we expect profitability to be weighted significantly to the second half. For the current year overall, we expect profits from operations (before exceptional costs) to be impacted by the changes outlined above, but with a substantially reduced level of exceptional charges. In addition net debt levels should fall by year end. The changes made to the business in the current financial year can be expected to provide the foundation for incremental shareholder value in 2008 and beyond.”

Fundamentally, success will be measured by a sustainable improvement in profits. This can be achieved by ensuring that our mix of services migrates to higher margin offerings. A key performance indicator that will demonstrate this migration will be the number of customers buying more than one service from us. In 2006, just 14 of our top 100 customers bought more than one service from us. It is success in cross-selling that will ultimately define our progress. Our mix of services already supports this approach. It will allow us to become the chosen marketing communications partner, rather than just the preferred print partner.

Steve Vaughan  
Chief Executive

## Financial Review

### Profitability

The Group has reported a loss from operations in 2006 of £16.6m, compared in 2005 with a profit of £7.2m. Both results include significant exceptional items as shown by the table below:

	2006 £m	2005 £m
Print Management	4.7	5.7
Print and Direct Mail	4.5	7.2
Transactional Print	10.8	5.4
Corporate expenses	(4.9)	(3.2)
	-----	-----
Profit from operations before exceptional items	15.1	15.1
Operational restructuring charges	(1.1)	(0.9)
Transfer of business – PDM Altrincham	(8.2)	-
Loss on sale of Datadocs operation	-	(4.9)
Other restructuring and corporate activity charges	(3.9)	(2.1)
	-----	-----
Profit from operations after exceptional restructuring costs	1.8	7.2
Impairment of intangible assets	(31.6)	-
Profit on exceptional property disposals	13.1	-
	-----	-----
(Loss) / profit from operations	(16.6)	7.2

Profit from operations before exceptional items at £15.1m was in line with 2005. As the segmental analysis shows, this masks some significant developments in the profitability of individual service lines.

Print Management profitability has begun to decline, as new low cost market entrants drive margin erosion both at the time of contract renewal and in some cases mid-contract through the action of benchmarking clauses. The overall reduction in the profitability of this segment has been softened by an improvement in the trading performance of our European operations, where a loss of £1m in 2005 was reduced to a loss of £0.1m in 2006.

Print and Direct Mail profitability declined £2.7m in the year following a fall of £2.9m in 2005. Industry over capacity resulted in continued pressure on margins. In addition, the transfer of the PDM Altrincham business to PDM Leeds gave rise to considerable disruption in PDM Leeds. The move took longer than anticipated and impacted the traditionally active fourth quarter. The segment result also reflects, for the first time, a rental charge net of depreciation saved of £0.5m in the second half of the year, following the sale and leaseback of the PDM Bath facility.

Transactional Print profitability improved considerably to £10.8m (2005 £5.4m). This segment benefited from almost a full year of contribution from the HSBC statement production business acquired in January. In addition we have continued to drive efficiency gains in our cheques business which has also been very successful in absorbing a proportion of the work transferred from PDM Altrincham.

Group revenue fell to £260.6m in 2006 (2005 £264.8m). The Transactional Print business enjoyed net revenue growth of £22.3m, the majority of which was the result of the new HSBC contract. The contract with Centrica commenced just before the year end and has had negligible impact on revenue. The growth enjoyed by the Transactional print business has been offset by declines in both Print and Direct Mail and Print Management Services.

Corporate expenses at £4.9m (2005 £3.2m) have increased as the Group no longer benefits from rental income associated with the Stourton factory property sold by the Group in March 2006. In addition, the 2005 corporate expense benefited from a one off payment received in respect of the early termination of the lease agreement on the same property.

Operational restructuring charges at £1.1m (2005 £0.9m) show the cost of continued cost reduction at our cheque printing plants and at our Business Forms operation. This action has enabled us to increase our efficiency in response to considerable competition and falling demand.

The transfer of the PDM Altrincham business to PDM Leeds resulted in an exceptional charge in the year of £8.2m. In 2005 the Group incurred a loss on the sale of the remaining European Forms business (Datadocs).

Other restructuring and corporate activity charges include the cost of the consolidation of the support functions for the Print Management business into a single location in the North East, the closure of our German office and associated cost reduction in our European operations, the capital reorganisation, changes to the management team and costs associated with concluding discussions in connection with a possible offer for the company. Profit from operations after exceptional restructuring costs is £1.8m (2005 £7.2m).

As required by International Financial Reporting Standards, the Group has completed its annual test for impairment of intangible assets arising from business combinations. In recognition of the decline in profitability of both the Print Management and Print and Direct Mail operations we have reduced our estimates of future cash flows from these segments. The result is an impairment of intangible assets of £31.6m (2005 £Nil), of which £22.4m is attributable to Print and Direct Mail operations and £9.2m to Print Management.

Exceptional property gains comprise the sale of our vacant factory property in Stourton, Leeds which generated a profit of £3.6m and the sale and leaseback of our PDM Bath facility which generated a profit of £9.5m. These transactions funded the share buyback undertaken in the first half of 2006, the transfer of the PDM Altrincham business and the acquisition of Centrica's UK transactional print and mail operations.

The tax charge in the year fell to £0.7m (2005 £2.0m) and after excluding the charge for impairment of intangible assets. This represents an effective rate of tax of 5.6% (2005 22.5%). This exceptionally low rate is driven by two factors. Firstly the Group benefited from a very low tax charge in respect of the gains made on the two exceptional property disposals. Substantial indexation allowances and the utilisation of brought forward capital losses significantly reduced the taxable capital gain on these transactions. Secondly the Group successfully concluded discussions with HM Revenue and Customs as to the tax treatment of expenses associated with businesses disposed of at the time of the Group's reconstruction in 2000. The result was a £1.1m release of prior year tax provisions.

The loss per share of 14.35 pence (2005 profit 1.81 pence) reflects the impact of the intangible asset impairment in 2006. Adjusted earnings per share, which excludes the impact of exceptional items and exceptional tax credits, has increased to 5.81 pence per share (2005 5.60 pence) following the repurchase and cancellation of 5.5m of the Company's shares.

## Cashflow and Net Debt

The Group's principal cash flows are summarised in the table below:

Inflow / (outflow):	2006 £m	2005 £m
Profit before exceptional items	15.1	15.1
Depreciation and other non-cash items	10.4	11.7
Additional pension contributions	(2.5)	(10.0)
Cash effect of restructuring	(9.6)	(2.9)
Increase in working capital	(10.3)	(7.7)
Interest and tax	(4.5)	(5.3)
Discontinued operations	-	0.2
	-----	-----
Net cash (outflow) / inflow from operations	(1.4)	1.1
Investing activities	5.8	(1.6)
Financing activities excluding loan facility movements	(13.3)	(7.9)
	-----	-----
Movement in net debt	(8.9)	(8.4)
Opening net debt	(36.0)	(27.6)
Closing net debt	(44.9)	(36.0)

The Group experienced a net cash outflow from operations of £1.4m in 2006 (2005 net inflow £1.1m). Whilst additional contributions to the pension scheme were reduced by £7.5m in 2006, the closure of PDM Altrincham led to an increase of £6.7m in restructuring costs and our working capital requirement increased by £10.3m (2005 £7.7m).

Working capital management will be a significant focus for the Group in 2007. By the end of 2006, the proportion of trade debt outside contracted payment terms had risen to 32.6% (2005 18.4%). Our focus and investment in account management is targeted to drive a significant improvement in this key performance indicator and consequent reduction in our working capital requirement. The working capital increase in 2006 also reflects the fact that, where it is prudent to do so, the Group takes advantage of early payment discounts offered by our major suppliers. We intend to continue with this policy.

The Group's cash inflow from investing activities included £21.5m from the two exceptional property disposals (2005 £4.0m) and a further £1.6m in deferred consideration following the disposal of the Colour Solutions business in 2004. The principal investing activity outflows were the acquisition of the HSBC statement production business and Centrica's UK billing operations which totalled £7.9m and fixed and intangible asset additions of £8.2m (2005 £4.4m).

Financing activity excluding amortisation of existing loans and the addition of new loan facilities consisted solely of cash payments to shareholders in the form of a £5.1m share buyback (2005 £nil) and dividends of £8.2m (2005 £7.9m).

Overall net debt increased by £8.9m (2005 £8.4m) and ended the year at £44.9m (2005 £36.0m). The Group had committed bank facilities at 31 December 2006 of £49m (2005 £42m) and cash and cash equivalents at the year end of £2.1m (2005 £6.0m).

## Dividend Policy

In considering the company's strategic options and business opportunities afresh, the Board has reviewed the existing dividend policy. The Group's dividend cover before exceptional items fell from 3.4 times in 2001 to around 1 times in 2005.

In 2007 we will complete our investment in our Speke plant, the largest and most modern transaction printing facility in Europe. We will also invest to increase our customer-facing skills.

Against this backdrop, the Board has resolved to rebase the dividend. For 2006, we propose to increase our dividend cover ratio to 2.4 times, and over the medium term to maintain this ratio at between 2 and 2.5 times. Accordingly the Board propose to pay a final dividend in respect of 2006 of 0.5 pence per share taking the full year dividend to 2.453 pence per share (2005 5.85 pence per share). This represents a significant cash saving for the Group in 2007 which will enable more rapid progress with the Group's new strategy. Dividends will be paid, subject to shareholders' approval, on 1 May 2007 to shareholders on the register at the close of business on 10 April 2007.

### **Capital Reorganisation**

At the time of our 2006 interim results, the Board announced that it would seek shareholder approval for a capital reorganisation. The board are pleased to report that this approval was given and that Communisis plc's application to the Court to reorganise its share capital through the cancellation of its share premium account was successful.

The result is a capital reduction of £152.3m registered at Companies House on 9 November 2006. The Board has reassessed the carrying value of Communisis plc's investment in subsidiary businesses and has written down this value by a total of £95.7m. The impact of the reorganisation, the write down and other corporate transactions on Communisis plc distributable reserves is an increase of £53m, with distributable reserves ending the year at £83m.

### **Pensions**

The gross pension deficit under IFRS included in the Group balance sheet has fallen by more than £20m to £17.3m (2005 £37.7m). The reduction is driven by three significant factors. Firstly an increase in the liability discount rate used from 4.8% in 2005 to 5.1% in 2006 reflecting the extent of the recovery in bond yields from their low point. Secondly the recognition of higher cash commutation allowances following the 'A Day' pension legislation changes and thirdly, gains from better than expected investment returns and experience gains arising from the triennial valuation.

The Board has reviewed all the assumptions underpinning the IFRS valuation basis. We have adopted higher long term inflation views and strengthened the mortality assumptions, adding an average of 2 years of life expectancy.

The Trustees' actuarial valuation of the pension fund, last updated at 30 September 2005, recorded a deficit of £4.5m. During 2006, following discussions with the fund's Trustees, we reached agreement to eliminate this deficit via two cash payments. The first of these (£1.6m) was made in July 2006 and the second (£3.1m including interest costs) was made in January 2007. A further outcome to these discussions was agreement as to the Company contribution rate for the Plan going forward. This has been set at 13.3% of pensionable salary (2005 12%).

Peter King  
Finance Director

## **Risks and Uncertainties**

The operation of a public company involves a series of risks and uncertainties across a range of strategic, commercial, operational and financial areas. Communis has a robust internal control and risk management process, outlined in the corporate governance statement. This process is designed to provide assurance but cannot seek to avoid all risks.

The more significant risks and uncertainties faced which could cause the Group's actual results to vary materially from historical and expected results are set out below.

### **Competition**

Communis operates in highly competitive markets and the Group's products and services are characterised by continually evolving industry standards and changing technology driven by the demands of the Group's customers. We invest in product development to sustain competitive advantage. However, if we fail to keep pace with technological, product and process change, the Group may fail to or experience delay in introducing new or enhanced services. We review our pricing and take action to control our cost base to ensure that we remain competitive and protect our margins. Failure to do either of the above may result in materially lower margins and loss of market share.

### **Operational Disruption**

Given the nature of our products and services, disruption of our manufacturing and distribution facilities could impact our revenues and profits. This risk is managed through a process including systems of standard operating procedures, regulatory compliance, monitoring, audit and multiple sourcing.

During 2006 we closed our print and direct mail manufacturing facility at Altrincham and relocated its operations to Leeds and Manchester. The disruption to our factory in Leeds caused by this process has been very significant, and work is continuing to address issues of quality and production efficiency. Whilst we are confident of resolving these problems, to the extent that we are delayed or are not completely successful there is a risk of a potentially material and adverse impact on the operations of the Group.

A failure of the Group's information systems platform would affect all our sites. The Group therefore maintains back up and disaster recovery plans. While the Group maintains insurance at appropriate levels, some of these operational risks could result in losses and liabilities in excess of our insurance coverage or in uninsured losses and liabilities.

### **Pensions Liabilities**

The interaction of, amongst other things, increased life expectancy, equity market performance and low interest rates over the past several years has had a significant negative impact on the funding levels of the Group's pension plan. This has materially and adversely affected the pension plan funding obligations of the Group and action has been taken to mitigate the effects of these factors by means of the closure to new entrants of the defined benefit section of the Group's pension plan and increased pension contributions from our employees. Although market movements during 2006 and a number of other factors have helped to reduce the funding deficit, any future decline in the equity market, improvement in life expectancy, or future decreases in interest rates could increase that deficit and require additional contributions in excess of those currently expected.

### **Group Debt Levels**

The Group has significant debt and similar liabilities. Our ability to comply with our financial covenants and to make scheduled payments or to re-finance our debt and other obligations will depend on, among other things, our gearing, operating performance and liability management. If the Group's cash flow and capital resources are insufficient to meet our debt service requirement and other obligations we may be forced to reduce or delay scheduled expansion and capital expenditure, sell material assets, obtain additional capital or restructure our debt. In the event of significant deterioration in the Group's operating performance, cash flow or capital resources, there is a risk that the Group could no longer service the debt and other liabilities in the future.

## **Working Capital Management**

Management of the Group's working capital is a cause of concern to the Board and a range of measures has been introduced in order to improve our performance in this area. Credit control and stock management are both areas in which a significant opportunity lies if we are able to bring about the desired improvement, and more regular and rigorous monitoring of performance is now being established as part of our management regime.

To the extent that we fail to achieve our objectives in this area, however, we may find our ability to expand or invest in new equipment constrained by a shortage of capital. There cannot be complete assurance that the measures currently being introduced will be wholly successful and there is therefore a risk that the Group's activities and development could be hindered if we fall short of our targets.

## **Liabilities Arising from Past Disposals**

Over the past few years the Group has made a number of disposals. In many cases the Group has agreed to retain known or pre-sale liabilities. Any material changes in known or potential pre-sale liabilities could result in a cash outflow from the Group and have a material adverse effect on the Group's business, financial condition and results of operations.

## **Environmental Risk**

The Group seeks to conduct its activities in such a manner that there is no or minimal damage to the environment. Risk could arise if we do not apply our resources in such a way to achieve the protection or improvement of the natural environment.

## **Network and Systems**

The Group's operations depend crucially on complex networks and systems and on the ability to access similar networks belonging to other parties. Failures in these networks or systems may mean that we cannot serve our customers, exposing us to potential claims and loss of those customers and to costs of repair or modification of the systems.

## **High Dependency on Few High Value Customers**

The Group is dependant upon a small number of high value customers. 56% of the Group's turnover is derived from its top ten customers. If we were to lose one or more of these customers without replacing them this could result in a material adverse affect on the Group's business and operations.

## **Off-Shoring**

We continue to see a trend towards sourcing print and print related products from manufacturers outside the United Kingdom. Whilst our product range and customer base normally implies time-critical delivery, making overseas sourcing more difficult, there is a risk that increasing sophistication in overseas suppliers may impact on our ability to retain turnover levels within the United Kingdom. To the extent that business is lost to this lower cost competition there is a risk that the Group's activities could be adversely affected.

## **Technological Change and Declining Markets**

As outlined above in the context of competition risk, the Group's activities are subject to constant technological development and change. Certain of our businesses operate in market sectors where there is a strong risk that electronic technology will supersede paper-based communications. The Group fully recognises this risk and is actively involved in developing, often in tandem with our customers, new methods of providing information that will, in due course, replace existing products. In addition, the Group maintains an active programme to increase efficiency in areas of operation addressing declining markets in order to maintain profitability. The success of this work should protect us from loss of market share and turnover but there is a clear risk that if we fail to meet the evolving requirements of our customers there will be a material adverse effect on the Group's results of operations.

**Consolidated Income Statement**  
for the year ended 31 December 2006

	Note	2006 £000	2005 £000
<b>Continuing operations</b>			
Revenue	1	260,640	264,785
Changes in inventories of finished goods and work in progress		566	(79)
Raw materials and consumables used		(133,428)	(140,349)
Employee benefits expense		(79,005)	(70,139)
Depreciation and amortisation expense		(7,541)	(9,233)
Impairment of intangible assets	2.2	(31,561)	-
Other operating expenses		(39,395)	(32,956)
Profit on disposal of properties	2.2	13,132	-
Loss on sale of Datadocs operation		-	(4,865)
<b>(Loss)/ profit from operations</b>		<b>(16,592)</b>	<b>7,164</b>
<b>Analysed as:</b>			
<b>Profit from operations before exceptional items</b>		15,106	15,073
Exceptional restructuring costs	2.2	(13,269)	(7,909)
<b>Profit from operations after exceptional restructuring costs</b>		<b>1,837</b>	<b>7,164</b>
Impairment of intangible assets		(31,561)	-
Profit on disposal of properties	2.2	13,132	-
<b>(Loss)/ profit from operations</b>		<b>(16,592)</b>	<b>7,164</b>
Finance revenue		619	252
Finance costs	2.1	(3,392)	(3,317)
<b>(Loss)/ profit before taxation</b>		<b>(19,365)</b>	<b>4,099</b>
Income tax expense	3	(675)	(2,014)
<b>(Loss)/ profit for the year from continuing operations</b>		<b>(20,040)</b>	<b>2,085</b>
<b>Discontinued operations</b>			
Profit for the year from discontinued operations		-	512
<b>(Loss)/ profit for the year attributable to equity holders of parent</b>		<b>(20,040)</b>	<b>2,597</b>
<b>Earnings per share</b>			
On (loss)/ profit for the year attributable to equity holders	4		
- basic		(14.35)p	1.81p
- diluted		(14.35)p	1.80p
On (loss)/ profit for the year from continuing operations			
- basic		(14.35)p	1.45p
- diluted		(14.35)p	1.45p
<b>Dividend per share</b>			
- paid	5	5.850p	5.502p
- proposed		0.500p	3.897p

Dividends paid and proposed during the year were £8.2 million and £0.7 million respectively (31 December 2005: £7.9 million and £5.6 million respectively).

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

## Consolidated Balance Sheet

31 December 2006

	2006	2005
	£000	£000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	27,080	32,286
Intangible assets	151,182	173,797
Trade and other receivables	2,865	6,055
Deferred tax asset	3,955	8,417
	<b>185,082</b>	<b>220,555</b>
<b>Current assets</b>		
Inventories	13,272	13,089
Trade and other receivables	51,624	47,616
Cash and cash equivalents	2,133	9,778
	<b>67,029</b>	<b>70,483</b>
Non-current assets classified as held for sale	<b>350</b>	<b>3,344</b>
<b>TOTAL ASSETS</b>	<b>252,461</b>	<b>294,382</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to the equity holders of the parent</b>		
Equity share capital	34,633	36,008
Share premium	-	152,287
Merger reserve	11,427	11,427
Capital redemption reserve	1,375	-
ESOP reserve	(338)	(374)
Cumulative translation adjustment	(33)	(2)
Retained earnings	76,547	(56,029)
<b>Total equity</b>	<b>123,611</b>	<b>143,317</b>
<b>Non-current liabilities</b>		
Interest bearing loans and borrowings	38,521	33,500
Retirement benefit obligations	17,306	37,737
Provisions	211	408
	<b>56,038</b>	<b>71,645</b>
<b>Current liabilities</b>		
Interest bearing loans and borrowings	8,548	12,251
Trade and other payables	57,853	61,575
Income tax payable	4,783	5,550
Provisions	1,628	44
	<b>72,812</b>	<b>79,420</b>
<b>Total liabilities</b>	<b>128,850</b>	<b>151,065</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>252,461</b>	<b>294,382</b>

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

**Consolidated Cash Flow Statement**  
for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	7	3,039	6,408
Interest paid		(3,177)	(2,498)
Interest received		619	239
Income tax paid		(1,912)	(2,988)
<b>Net cash flows from operating activities</b>		<b>(1,431)</b>	<b>1,161</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiary undertakings net of cash acquired		(7,929)	(1,137)
Receipt of deferred consideration from the sale of subsidiary undertakings		1,600	147
Purchases of property, plant and equipment		(4,580)	(3,857)
Proceeds from the sale of property, plant and equipment		21,495	3,997
Purchase of intangible assets		(3,580)	(539)
Tax on disposal of property, plant and equipment		(1,191)	(231)
<b>Net cash flows from investing activities</b>		<b>5,815</b>	<b>(1,620)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital		-	35
Purchase of own shares including costs		(5,147)	-
New borrowings		13,075	10,000
Repayment of borrowings		(8,000)	(5,000)
Dividends paid		(8,223)	(7,907)
<b>Net cash flows from financing activities</b>		<b>(8,295)</b>	<b>(2,872)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(3,911)</b>	<b>(3,331)</b>
Cash and cash equivalents at 1 January		6,027	9,386
Exchange rate effects		(31)	(28)
<b>Cash and cash equivalents at 31 December</b>		<b>2,085</b>	<b>6,027</b>
<b>Cash and cash equivalents consist of:</b>			
Cash and cash equivalents		2,133	9,778
Overdrafts		(48)	(3,751)
		<b>2,085</b>	<b>6,027</b>

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 2006**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Currency translation (losses) / gains in year	(31)	98
Foreign currency translation difference transferred from reserves on sale of Datadocs operation	-	153
Exchange (losses) / gains on translation of foreign operations	(31)	251
Actuarial gains / (losses) on defined benefit pension plans	19,176	(3,043)
Tax on items taken directly to equity	(5,752)	913
<b>Net profit / ( loss) recognised directly in equity</b>	<b>13,393</b>	<b>(1,879)</b>
(Loss) / profit for the year	(20,040)	2,597
<b>Total recognised income and expense for the year</b>	<b>(6,647)</b>	<b>718</b>
Attributable to:		
Equity holders of the parent	(6,647)	718

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

## Notes to preliminary results

### 1 Business segments

The segment results for the year ended 31 December 2006 are as follows:

	Print Manage- ment Services £000	Print and Direct Mail Services £000	Trans- actional Print Services £000	Corporate expenses £000	Total £000
<b>Revenue</b>					
Total revenue	139,739	115,060	49,864	-	304,663
Inter-segment sales	(623)	(38,598)	(4,802)	-	(44,023)
<b>External sales</b>	<b>139,116</b>	<b>76,462</b>	<b>45,062</b>	<b>-</b>	<b>260,640</b>
Operating profit before exceptional items	4,736	4,497	10,780	(4,907)	15,106
Operational restructuring costs	-	(617)	(489)	-	(1,106)
Transfer of business – PDM Altrincham	-	(8,260)	-	-	(8,260)
Other restructuring and corporate activity charges	(2,047)	-	-	(1,856)	(3,903)
<b>Profit from operations after exceptional restructuring costs</b>	<b>2,689</b>	<b>(4,380)</b>	<b>10,291</b>	<b>(6,763)</b>	<b>1,837</b>
Impairment of intangible assets	(9,115)	(22,446)	-	-	(31,561)
Profit on disposal of properties	-	9,559	-	3,573	13,132
<b>(Loss) / profit from operations</b>	<b>(6,426)</b>	<b>(17,267)</b>	<b>10,291</b>	<b>(3,190)</b>	<b>(16,592)</b>
Net finance costs					(2,773)
<b>Loss before taxation</b>					<b>(19,365)</b>
Income tax expense					(675)
<b>Loss for the year</b>					<b>(20,040)</b>

The segment results for the year ended 31 December 2005 are as follows:

	Continuing operations				Discontinued operations		Group £000
	Print Manage- ment Services £000	Print and Direct Mail Services £000	Trans- actional Print Services £000	Corporate expenses £000	Total £000	Colour Solutions £000	
<b>Revenue</b>							
Total revenue	148,893	125,537	27,081	-	301,511	-	301,511
Inter-segment sales	(2,171)	(30,263)	(4,292)	-	(36,726)	-	(36,726)
<b>External sales</b>	<b>146,722</b>	<b>95,274</b>	<b>22,789</b>	<b>-</b>	<b>264,785</b>	<b>-</b>	<b>264,785</b>
Operating profit before exceptional items	5,710	7,205	5,377	(3,219)	15,073	-	15,073
Operational restructuring costs	-	(500)	(448)	-	(948)	-	(948)
Other restructuring and corporate activity charges	(649)	-	-	(1,447)	(2,096)	-	(2,096)
Loss on sale of Datadocs operations (Note 2.2)	-	(4,865)	-	-	(4,865)	-	(4,865)
<b>Profit from operations after exceptional restructuring costs</b>	<b>5,061</b>	<b>1,840</b>	<b>4,929</b>	<b>(4,666)</b>	<b>7,164</b>	<b>-</b>	<b>7,164</b>
Profit on sale of property	-	-	-	-	-	1,048	1,048
Loss on closure of label printing operation	-	-	-	-	-	(418)	(418)
<b>Profit / (loss) from operations</b>	<b>5,061</b>	<b>1,840</b>	<b>4,929</b>	<b>(4,666)</b>	<b>7,164</b>	<b>630</b>	<b>7,794</b>
Net finance costs					(3,065)	(2)	(3,067)
<b>Profit before taxation</b>					<b>4,099</b>	<b>628</b>	<b>4,727</b>
Income tax expense					(2,014)	(116)	(2,130)
<b>Profit for the year</b>					<b>2,085</b>	<b>512</b>	<b>2,597</b>

## 2 Other expenses

### 2.1 Finance costs

	2006 £000	2005 £000
Bank loans and overdrafts	3,346	2,575
Retirement benefit related costs	46	744
	<u>3,392</u>	<u>3,319</u>
Continuing operations	3,392	3,317
Discontinued operations	-	2
	<u>3,392</u>	<u>3,319</u>

### 2.2 Exceptional items

	2006 £'000	2005 £'000
(Loss) / profit from operations is arrived at after charging / (crediting) the following items:		
Operational restructuring costs	1,106	948
Transfer of business - PDM Altrincham	8,260	-
Other restructuring and corporate activity charges	3,903	2,096
Loss on sale of Datadocs operation	-	4,865
Restructuring costs	<u>13,269</u>	<u>7,909</u>
Profit on disposal of properties	(13,132)	-
Impairment of intangible assets (Note 6)	31,561	-
Net exceptional expense	<u>31,698</u>	<u>7,909</u>

During the year the Group closed its PDM Altrincham operation and transferred production to PDM Leeds. The exceptional item deriving from this closure relates to disruption, redundancy, onerous lease costs, and loss on disposal of property, plant and equipment.

Other exceptional item comprise redundancy costs and expenses at both operational and board level which relate to the strategic review of business. In addition there are exceptional costs arising from previous disposals and litigation expenses.

Profits on disposal of properties are classified as exceptional on the basis that they arise from transactions to dispose of assets other than at the end of their usual expected lives or at values significantly different to their previously assessed residual. As such the amounts earned or charged in any given year is not indicative of a trend in financial performance.

### 3 Income tax

The major components of income tax expense for the years ended 31 December 2006 and 2005 are:

	2006 £000	2005 £000
<b>Tax charged in the Income Statement</b>		
<i>Current income tax</i>		
UK Corporation Tax	- continuing operations 3,476	3,469
	- discontinued operations -	250
Adjustments in respect of prior years	- continuing operations (1,454)	(1,037)
	- discontinued operations -	5
Adjustments in respect of overseas tax for prior years	- continuing operations 295	-
Total current income tax charge	<u>2,317</u>	<u>2,687</u>
<i>Deferred income tax</i>		
Origination and reversal of temporary differences	- continuing operations (1,307)	(489)
	- discontinued operations -	(71)
Adjustments in respect of prior years	- continuing operations (335)	71
	- discontinued operations -	(68)
Total deferred tax credit	<u>(1,642)</u>	<u>(557)</u>
Tax charge in the Consolidated Income Statement	<u>675</u>	<u>2,130</u>
<b>The tax charge in the Consolidated Income Statement is disclosed as follows:</b>		
Income tax expense on continuing operations	675	2,014
Income tax expense on discontinued operations	-	116
	<u>675</u>	<u>2,130</u>

#### **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	<u>5,752</u>	<u>(913)</u>
Income tax expense / (credit) reported in Statement of Recognised Income and Expense	<u>5,752</u>	<u>(913)</u>

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 higher (2005 higher) than the standard rate of corporation tax in the UK of 30% (2005 30%). The differences are reconciled below:

	2006 £000	2005 £000
(Loss)/ profit before tax from continuing operations	(19,365)	4,099
Profit before tax from discontinued operations	-	628
(Loss)/ profit before income tax	<u>(19,365)</u>	<u>4,727</u>
At UK statutory income tax rate of 30% (2005 30%)	(5,810)	1,418
Impairment (2005 disposal) of goodwill not deductible for tax purposes	9,468	628
Expenses not deductible for tax purposes	276	136
Non-taxable gain on property disposals	(1,887)	-
Non-deductible loss on disposal of business	-	756
Unrelieved overseas losses	55	136
Share-based payments	72	140
Change in deferred tax in respect of rolled over capital gains	(5)	(55)
Adjustments in respect of prior years	<u>(1,494)</u>	<u>(1,029)</u>
	<u>675</u>	<u>2,130</u>

#### 4 Earnings per share

	2006 £000	2005 £000
Basic and diluted earnings per share is calculated as follows:		
(Loss) / profit attributable to equity holders of the parent – continuing operations	(20,040)	2,085
Profit attributable to equity holders of the parent – discontinued operations	-	512
(Loss) / profit attributable to equity holders of the parent	<u>(20,040)</u>	<u>2,597</u>

	2006 Thousands	2005 Thousands
Weighted average number of ordinary shares (excluding treasury shares) for basic earnings per share	139,653	143,710
Effect of dilution:		
Share options	<u>877</u>	<u>244</u>
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution	<u>140,530</u>	<u>143,954</u>

279,628 (2005 309,628) shares were held in trust at 31 December 2006.

Share options in issue for which exercise is currently unlikely total 3,168,339 (2005 1,131,239) share options. The inclusion of these options would be anti-dilutive and so would have no impact on diluted earnings per share.

#### Earnings per share from continuing operations before exceptional items

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

	2006 £000	2005 £000
(Loss)/ profit after taxation from continuing operations	(20,040)	2,085
Exceptional items (Note 2.2)	31,698	7,909
Taxation on exceptional items	(2,055)	(913)
Taxation - adjustments in respect of prior years	<u>(1,494)</u>	<u>(1,029)</u>
Profit after taxation from continuing operations excluding exceptional items	<u>8,109</u>	<u>8,052</u>
Adjusted earnings per share		
Basic	5.81p	5.60p
Diluted	5.77p	5.59p

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

#### Discontinued operations

Profit per share for discontinued operations is derived from the net profit attributable to the equity holders of the parent from discontinued operations of £Nil (2005 £512,000) divided by the weighted average number of ordinary shares for both basic and diluted amounts per the table above.

#### 5 Dividends paid and proposed

	2006 £000	2005 £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 2004 of 3.549p per share	-	5,100
Interim dividend of the year ended 31 December 2005 of 1.953p per share	-	2,807
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	<u>2,700</u>	<u>-</u>
	<u>8,223</u>	<u>7,907</u>
<i>Proposed for approval at AGM (not recognised as a liability as at 31 December)</i>		
Final equity dividend on ordinary shares for 2006 of 0.500p (2005 3.897p) per share	<u>691</u>	<u>5,523</u>

## 6 Impairment of goodwill

Goodwill acquired through business combinations has been principally allocated for impairment testing purposes to three cash-generating units, which are reportable segments, as follows:

- Print Management Services
- Print and Direct Mail Services
- Transactional Print Services

These represent the lowest level within the Group at which goodwill is monitored for internal management purposes. In addition, impairment tests have been performed on goodwill arising on current year acquisitions.

The recoverable amount of all three units has been determined based on a value in use calculation using risk-adjusted cash flow projections based on financial budgets approved by the Board. The approach and key assumptions are consistent with those used in prior years.

In 2006 an impairment charge of £30.2 million has been calculated, £22.4 million is attributed to the Print and Direct Mail segment and £7.8 million is attributed to the Print Management segment and arises due to over capacity in the UK print industry leading to continuing pressure on prices and thus profits.

Following the impairment the carrying amount of goodwill allocated to cash-generating units is as follows:

### Carrying amount of goodwill allocated to cash-generating units:

	<u>Total</u>	
	2006	2005
	£000	£000
Print Management Services	62,211	69,963
Print and Direct Mail Services	69,871	92,317
Transactional Print Services	14,146	8,920
	<u>146,228</u>	<u>171,200</u>

There are no other intangible assets with indefinite useful lives. Included within Transactional Print Services is goodwill of £5,226,000 relating to current year acquisitions, for which separate impairment tests have been performed.

### Key assumptions used in value in use calculations

#### *Discount rates*

The pre tax discount rate applied to the cash flow projections is 10.36% (2005 9.51%). This is the Group's weighted average cost of capital adjusted to a pre tax rate and adjusted to reflect market assessment of specific risks associated with the segment cash flows.

#### *Period over which projected cash flows are based on approved financial budgets*

The period over which cash flows are projected based on financial budgets approved by the Board is three years in respect of all cash-generating units.

#### *Profit growth rate used to extrapolate cash flows beyond the budget period*

The profit growth rate used to extrapolate cash flow projections beyond the budget period for all cash-generating units is below the long term average growth rate for the UK and is considered to be a representative rate for the markets to which these segments are dedicated.

Profit growth rates have been assessed individually for each cash-generating unit (primary segment). Print Management Services profit growth rates range between 0% and 2%, Print and Direct Mail Services profit growth rates range between 0% and 2% and Transactional Print Services growth rates range between -2% and 0%. These rates reflect both past experience and the expected outcome of contract re-negotiations with significant customers.

## 6 Impairment of goodwill

### Sensitivity to changes in assumptions

An impairment charge has been made against goodwill for Print Management Services to bring the carrying amount into line with the segment's value in use. Any further deterioration in the key assumptions above would result in a further impairment charge. For example a 0.1% increase in the discount rate would result in £1.6 million additional impairment and a 0.5% reduction in profit growth rates would result in an additional £4.8 million impairment.

An impairment charge has been made against goodwill for Print and Direct Mail Services to bring the carrying amount into line with the segment's value in use. Any further deterioration in the key assumptions above would result in a further impairment charge. For example a 0.1% increase in the discount rate would result in £2.0 million additional impairment and a 0.5% reduction in profit growth rates would result in an additional £5 million impairment.

## 7 Cash generated from operations

	2006	2005
	£000	£000
<b>Continuing operations</b>		
(Loss) / profit before tax	(19,365)	4,099
Adjustments for:		
- depreciation and amortisation	7,523	9,233
- amortisation of contract premium payment	1,000	1,000
- excess of Income Statement pension charge over normal contributions paid	1,547	1,286
- loss on sale of Datadocs operation	-	4,865
- restructuring costs	13,269	3,044
- profit on sale of property, plant & equipment	(43)	(49)
- profit on exceptional property disposals	(13,132)	-
- share-based payment charge	259	240
- net finance costs	2,773	3,065
- impairment of goodwill and customer relationship assets	31,561	-
Additional contribution to the defined benefit pension plan	(2,484)	(10,000)
Cash effect of restructuring continuing operations	(9,636)	(2,942)
Changes in working capital:		
(Increase) / decrease in inventories	(183)	1,361
Increase in trade and other receivables	(3,734)	(5,101)
Decrease in trade and other payables	(6,316)	(3,926)
Cash inflow from operating activities on continuing operations	<b>3,039</b>	<b>6,175</b>
<b>Discontinued operations</b>		
Profit before tax	-	628
Adjustments for:		
- profit on sale of property, plant & equipment	-	(1,048)
- share-based payment charge	-	3
- net finance costs	-	2
Changes in working capital:		
Decrease in trade and other receivables	-	3,327
Decrease in trade and other payables	-	(2,679)
Cash inflow from operating activities on discontinued operations	-	<b>233</b>
<b>Cash generated from operations</b>	<b>3,039</b>	<b>6,408</b>

## **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 2006 and 31 December 2005 is abridged and has been extracted from the 2006 statutory accounts of Communis plc which were approved by the Board of Directors on 27 February 2006, 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 2006 statutory accounts. The 2005 statutory accounts have been delivered to the Registrar of Companies. The auditors' report on the 2005 statutory accounts was unqualified.