

25 February 2010

**Communisis plc**

(“Communisis” or the “Company”)

**Preliminary Results for the year ended 31 December 2009**

Communisis plc (LSE: CMS.L), the expert in customer communications, announces preliminary results for the year ended 31 December 2009.

**Financial Highlights**

- Operating profit before exceptional items of £7.2m (2008: £15.0m)
- Positive second half operating cashflow of £7.5m (H1: outflow of £6.3m)
- Year end net debt of £16.8m (H1 2009: £24.8m, Year end 2008: £13.1m)
- Improvement made to the profile of Group pension liabilities
- Earnings per share 2.3p (2008: 6.2p)
- Final dividend of 0.43p making full year 2009 dividend of 1.29p (2008: 2.495p)

**Operational Highlights**

- A year characterised by very challenging conditions:
  - Communisis has not escaped the impact of recession
  - Consolidation and retrenchment in financial services has had a particular impact
  - Operational improvements effected in Direct Mail and Transactional businesses
- Value-added services have continued to grow, despite recession:
  - Strong market demand for our technology and services offering
  - 40 of the top 100 customers now taking more than one service from Communisis
  - Integration of Ai complete and making a positive contribution to the business
- Continued investment in key areas of the business:
  - £6.1m capital investment in new technology
  - Significant investment in colour digital output

**Commenting on the results Communisis Chief Executive, Andy Blundell, said:**

*“For the economy as a whole 2009 has been a very difficult year and Communisis has not escaped the impact of those challenges. Nevertheless, in spite of the economic difficulties particularly in the financial services industry, each segment of our business has remained profitable this year. Additionally, in Technology & Services, which represents the future for Communisis, we have succeeded in delivering revenue and profit growth. This growth has been supported by the successful integration of Ai, which has made a positive contribution in its first year as a part of our Group.”*

*At this point in the year, and as the economy emerges from recession, it is too early to say just how quickly demand will return. We take some encouragement from increased activity taking place now at the marketing campaign planning stage: activity which should filter through to Communisis later in the year. Whilst the macro economy remains uncertain, the Board believe we are well placed to benefit from the opportunities that an upturn will bring.”*

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## **Chairman's Statement**

The results for 2009 were disappointing as Communisis faced the impact of the severe downturn in the UK economy. As a result, on revenues of £190.2m, we reported operating profits of £7.2m compared to £15m in the previous year. The Board is proposing a final dividend of 0.43p per share making the dividend for the year 1.29p per share.

### **Operations**

In spite of the macro economic difficulties, particularly in the financial services industry, all major parts of the business remained profitable. The Leeds Direct Mail activities particularly suffered from the decline in demand from their major banking customers. However, the value-added segments of our business performed well and a first contribution from Ai was very satisfactory.

At the same time cash was tightly controlled so that net debt by the year end had been contained at £16.8m. This has enabled the company's investment plans to continue leading to the decision to purchase the most up to date digital technology from Hewlett Packard. Communisis is the only UK company to offer the HP platform to deliver highly personalised mass communications. The strategy of moving into non financial services business was successful with significant contracts obtained from T-Mobile, William Hill, Tesco, DCSE, Ogilvy and Wolseley. This diversification strategy continues. On the financial side, the pension deficit is being addressed with an agreed medium term plan designed to manage the deficit issue.

### **Management**

There were a number of management changes during the year, Steve Vaughan, Chief Executive since November 2006, indicated that he did not wish to continue with the Company beyond the end of the year. Following a thorough internal process, the Board appointed Andy Blundell as Chief Executive in November. Andy has been with Communisis for two years having previously been Sales Director.

We also took the opportunity to change the structure of the Board with the appointment of Dave Rushton as Operations Director, and John Wells as Commercial Director. This means that we now have five senior executives on the Board, bringing the activities of the company closer to the boardroom. Below Board level, we have also strengthened the management team with the appointment of two General Managers for the Speke and Leeds operations, together with a Director of Sales for the Direct Mail business.

### **Outlook**

Whilst 2009 was a difficult year, we are now seeing some of our customers returning to higher levels of marketing activity. We have built a unique range of services which enable highly personalised communications. I believe we have a new management team which is able to take those services to market and deal with the challenges of 2010 and beyond. We will continue to invest in the most modern technology, particularly in areas such as higher margin data analysis and online services. This will enable us to exceed the future demands of our customers and accelerate our penetration in markets other than financial services.

Our performance in 2010 will be linked to the rate at which the economy emerges from recession. At this stage, it is too early to judge how quickly demand will return. However I believe that with the steps we have taken - and continue to take - we are well placed to benefit from the opportunities an upturn will bring.

**Peter Hickson**  
Chairman

## Chief Executive's Review

### Summary

2009 was a year characterised by very challenging market conditions, with the double impact of a recession and severe disruption in the important financial services market.

Despite the impact of this on our financial performance in the year we continued to generate both profits and cash and kept our debt position under control. This underlines the importance of the strategy we have implemented over the past three years and means that we have been able to continue to invest in differentiated, value-added services.

Communis is a data-driven group which delivers effective and profitable customer communications through a combination of (1) data and analytics and (2) specialist multi-channel output.

We are committed to continued investment in technology to maintain a leading position in our chosen strategic market. Our investment was £6.1m in 2009 and is cumulatively in excess of £30m over the past 3 years. Our latest announcement is a £3m investment in an HP T300 Colour output platform. This technology changes the landscape in the Direct Mail market and offers customers the opportunity to access personalised full-colour messaging at output speeds previously unheard of. HP have appointed Communis as their Foundation Partner in this field and in addition have selected us as their preferred service delivery partner for the HP Exstream document composition software which will feed directly to the HP platform. Live customer work starts in April.

Having been appointed Chief Executive on 1 November 2009, I have started to make changes to the senior team and two executives – John Wells and Dave Rushton have joined the main Board adding a wealth of additional market experience to the team. We are also strengthening the next tier with new General Managers for our Leeds and Speke facilities along with a Director of Sales for Direct Mail. These appointments are key to our plans to improve operational efficiency and new business acquisition respectively.

In the face of a difficult trading environment in 2009, management focus has been on delivering the key fundamentals of profitable contributions from each division, strong controls on cash and year-end net debt position, and renewal of the credit line from KBC Bank taking our total committed facilities to £50m.

### Segmental Review

	Revenue Year ended 31 Dec 09 £m	Revenue Year ended 31 Dec 08 £m	Profit Year ended 31 Dec 09 £m	Profit Year ended 31 Dec 08 £m
Technology & Services	20.3	11.9	6.3	5.1
Print Sourcing	58.1	96.7	0.6	1.3
Direct Mail (*)	53.6	91.8	0.5	5.5
Transactional	58.2	57.3	9.7	13.3
Central Costs	-	-	(9.9)	(10.2)
	<u>190.2</u>	<u>257.7</u>	<u>7.2</u>	<u>15.0</u>

(\*) Year ended 31 December 2008 includes Bath Business Forms disposed of in June 2008

### Technology and Services

We have again seen sales and profit growth in this business despite the recessionary pressures witnessed through the year. Technology and Services is central to the Communis strategy.

We have completed the integration of Ai. Revenue has grown more steeply than profits because Ai treats the cost of the acquisition of data as a pass-through. We expect Technology and Services overall to be able to maintain a return in excess of 25% going forward.

Our technology development strategy is moving forward. We continue to develop MRM (Marketing Resource Management) & digital asset management solutions with our customers, thereby reducing processing costs and providing robust electronic audit trails of all their activity. One of our largest deployments in 2009 was for the Department for Children Schools and Families ("DCSF"), where our digital asset management technology hosts the imagery for all their communications.

In 2010 we plan to integrate the database capabilities of Ai with our MRM platform, enabling customers to draw on vast data sets to more effectively target and individualise documents. We continue to react to the needs of the changing market by extending our customer database management capabilities to deliver a true single customer view for our clients.

The significant enhancements made to our point of sale module, enable customers to track all items, target campaigns down to individual spaces in stores and automatically calculate quantities, print costs and distribution instructions. There is real evidence of savings of 5-8% simply by eliminating wasted print, as well as significant process savings.

In addition our pipeline is getting stronger, with Tesco buying our point of sale solution, Ogilvy taking our print procurement software and a major UK energy company using our document composition technology to add marketing messages to bills.

We have established a Group Technology Steering Board for Communis to ensure that we continue to strengthen our technical leadership and remain ahead of the market.

### **Print Sourcing**

The role of Print Sourcing is to act as an incubator for new client relationships, which we then develop and take up the value-chain.

Demand from some existing customers was very weak in 2009 as the recession took hold. For example, one of our major banking customers reduced volume by 40% during the year. However run rates improved a little in the second half as some confidence returned.

We have commented previously on challenging the orthodox Print Management model. That means the early introduction of an integrated technology platform to enable direct interaction with clients, simplification of process and better management of the supply chain.

We have announced a series of new customer wins during 2009, including T-Mobile, DCSF and William Hill. These contracts are all well-embedded and the relationships are generating opportunities for our other service lines.

The pipeline of opportunities is reasonable and we are finding interest in our managed service offering from some unexpected quarters, for example social housing, where we have contracted with several providers.

### **Direct Mail**

We previously commented that the downturn in marketing spend across the industry was negatively impacting our Direct Mail business. Our exposure to the Financial Services sector, where many organisations stopped acquisition mailings entirely, had an additional impact. This volatility and adverse product mix, coupled with operational gearing led to the risk of cost under-recovery in times of low demand and excess costs when demand within tight delivery windows peaked toward the summer.

We have responded in a number of ways:

- First - we are basing our plans on modest market recovery and assuming that increasing our market share in the "Direct" market will offset slower demand from our "Key Accounts". We also think that the credit-crunch has to some extent changed customer behaviours for good – toward more targeted and personalised communications – which suits Communis.
- Secondly - we have made substantial changes to the management team – bringing in a new Head of sales and a new General Manager to run operations.
- Thirdly - we have already achieved significant reductions in the cost base and automated key processes.
- Fourthly - major new investment will continue to be made at the data front-end and in our digital output capability – we have already described how the HP T300 colour output platform is going to change the market and we will lead the trend.

To summarise we are going to substantially change the shape of our Direct Mail business to better mirror the way the market is changing and to reduce our operational gearing. It should be noted that having a major presence in Direct Mail remains central to our overall strategy of delivering more effective and profitable communications on behalf of our customers. This is a business which made a substantial contribution to Group profits in 2008 and we expect its performance to improve as these changes take effect.

## Transactional

Our Transactional business covers two areas of specialist and secure output – cheques and bills & statements.

Our cheques business performed well in 2009. This was despite a continued delay in re-branding projects and the previously documented decline in cheque-mailers. On the latter we expect Government legislation to have an impact from Q2 2010 but we believe that alternative opportunities may emerge for related products and services. There was considerable media interest in personal cheques recently following the announcement of a planned phase-out by 2018. This date resonates with our own long-term planning. We will continue to reduce the cost base in our cheque business in tune with annual reductions in demand.

We did encounter some issues with the performance of our statement printing facility in Speke. At the half year we reported volumes down on two of our main contracts and challenges with cost controls and the maintenance of service levels. Considerable efforts have gone into resolving these issues and the trend over the past three months has shown a marked improvement, driven by a new senior management team which was in place from the fourth quarter of 2009. The integration issues with the Mail Solutions work have been resolved and we are confident about profitability on the parts of this work which we will retain. We have just added a fourth main customer in Wolseley, to whom we already supply operational print.

We will continue to be in the vanguard for developing the statement vehicle and are now providing transpromotional (marketing messaging) output both in hard copy and on-line formats.

## Strategy update

Communis is an expert in Customer Communications. We help companies to engage with their customers effectively and profitably.

Our clients' challenge is to get their message heard. To do that they need insight and multi-channel delivery capability in order to send relevant communications through appropriate channels.

The market is growing in these areas. In data and analysis services, where we made our recent acquisition of Ai, data intelligence customer budgets continue to shift into analytics, measurement and database management. As for multi-channel output, industry research continues to predict significant growth in email and online channels.

Communis has built competitive differentiation through a unique combination of data and analysis services and specialist multi-channel output. There are very few other companies able to offer this combination. Customers benefit from everything being in one place, from 'Insight to Action', enabling them to achieve reduced cycle times, true personalisation and superior returns on their investment.

We hold some important customer relationships and 40 of our top 100 customers now take two or more service lines from Communis. Our priorities to take the company's growth strategy forward are threefold:

- First we want to expand the value our services provide to customers – which means greater integration and the development of new service propositions. Our expansion into postal consultancy services is a good example.
- Secondly we aim to expand the technology platforms through which we deliver value – which means continuing to take the business upstream and further capital investment. Our investment in the HP output platform is the latest evidence of this strategy in action.
- Thirdly we plan to expand the number of customers to whom we deliver value. This means new customer acquisition, strategic partnerships such as that with HP and alternative channels to market, such as with logistics provider Prolog to deliver a managed service for DCSF.

## Looking ahead

Like many companies we are cautious about the extent to which the economy will emerge from recession in 2010 but believe that new customer demand will favour our integrated communications capability. We have invested further in our capabilities and we are aggressively targeting to expand sales of Technology & Services to new customers and recover sales of complex Direct Mail. We have targeted some important contract renewals in 2010 and we expect to deliver further significant efficiency gains in our operational businesses.

It is our expectation that the reduced availability of credit and general trading pressures will force market consolidation in the Print Sourcing and Direct Mail sectors, which will benefit Communis. We are already seeing some customers seek a more resilient supplier base.

We have well developed plans designed to address our challenges and deliver the next stage of our strategy. These break down into four parts.

- Diversification outside the Financial Services sector – where we are seeing some successes already announced.
- Transition from established products, most notably on cheques – the solution being (a) to participate in the replacement technology – whenever that emerges and (b) related security printing opportunities for our existing skill base.
- Re-purposing our production facilities – most notably Leeds PDM to further reduce our traditional asset base whilst investing in data services and digital capacity to continue to take the business upstream and reduce operational gearing.
- Re-structure of our pension fund – we have a project well developed and early retirement success has already been achieved.

There is much to do in 2010 to push these initiatives forward and with an invigorated management team we are optimistic in taking the company forward.

In summary Communisis is now further down the road to becoming a fully-fledged Marketing Services Provider.

**Andy Blundell**  
Chief Executive

## Financial Performance Report

Against a backdrop of severe recession in our core markets, Communisis has maintained profits in all four business segments. Whilst we have seen disappointing declines in profits from some of our more mature service offerings, encouragingly, our much newer portfolio of higher margin services has continued to grow. Furthermore, our balance sheet management processes, developed and strengthened over the preceding two years, proved their worth in 2009 and have enabled us to maintain relatively low levels of debt.

### Profitability

After a challenging but still profitable first half, Communisis delivered stronger second half results to end the year with profit from operations before exceptional items of £7.2m (2008: £15.0m). The second half improvement was driven predominantly by the completion of projects in the Technology & Services segment and the benefits flowing from restructuring activity undertaken in the first half.

Our Technology & Services business has enjoyed a third successful year. Buoyed by the acquisition of Ai in 2009 it has grown profits by 23%. About half of this growth is attributable to Ai, the remainder to organic growth in our core business. A feature of the Ai business is the acquisition and onward sale of data which passes through the business at relatively low margins. Ai adds value for customers by refining this data and it is these higher margin services that fit well with the Communisis proposition. Our technology teams have done an excellent job cross selling the full range of our communication solutions to many of our most valued customer accounts. Their challenge for 2010 and beyond, whilst continuing to enable the transformation in customer communication in our key accounts, is to begin work with some of the accounts we have added in 2009 and plan to add in 2010.

Challenges remain in our two print based segments. Despite volume erosion and the decline of our promotional cheque mailing business, our cheques business has performed relatively well. In response to the downturn, we cut back more deeply in this business than in previous years and this helped to maintain profit levels in the second half. We anticipate that much of the remainder of our promotional cheque business will decline rapidly from the second quarter of this year and we expect to see the rate of cheque book volume erosion increase. This should be partially offset by work from new entrants in the financial sector. We also expect to respond to the volume declines by further downsizing this business as we have successfully done for some years now. We have budgeted for some recovery in one off rebranding work following the consolidation we have seen in financial services.

The statement and billing businesses were impacted by the difficult integration of contracts acquired from Mail Solutions. This drove costs up at a time when volumes on our two core contracts were eroding more significantly. Under new management this business is stronger and we are starting to see an improvement in cost efficiency. There is more we can do in this respect and we plan to undertake this work in the first half of 2010. It is important to note that our capabilities and relationships in transactional printing have been the engine room for the growth in Technology & Services profits for the last two years and we expect this to continue. The Transactional segment remains a vital part of the Communisis portfolio of businesses.

Our Direct Mail business has had a very difficult year. It has had to respond to significant and sudden declines in volume following the hiatus in the financial sector. For much of the year, the work we were able to carry out in this business was lower margin than our facility is used to dealing with. In addition, with suppliers chasing a smaller market place, we have seen significant price pressure. In spite of this, three years of cost reduction and efficiency improvement in this business have enabled us to remain in profit, helped by very much improved management of raw materials and work in progress which enabled us to release a stock provision of £0.3m in the second half of 2010. We continue to anticipate that the recession in financial services and the arrival of more agile businesses to this sector will increase the focus on data and the digitalisation of customer communication. Transformation activity we have already undertaken in Direct Mail leaves us well placed to capitalise on this shift in customer demand, when it comes, and we believe now is the time to accelerate the transformation of our Direct Mail facility.

To this end, the acquisition of our first colour inkjet web press enables us to switch off some of our older conventional litho based printing equipment and continues the process of modernising this part of our business. Our aim, over the next three to five years, is to significantly reduce our operational gearing in this business thereby reducing our financial exposure to another downturn in the market. The speed of our transformation will predominantly be driven by the rate at which the market adopts these new more flexible communication opportunities. The strength of our customer relationships, borne out of our investment in key account management, leaves us well positioned to judge the timing of the transition. In the meantime, our recent investments in Direct Mail sales expertise has lead us to target a significant improvement in Direct Mail sales in 2010.

Central costs have reduced slightly in 2009. Because they represent a significant overhead to the Group we have provided a little more detail in the table below about the key components of this cost.

	2009 £m	2008 £m
Corporate Office	3.0	3.6
IT infrastructure	2.9	2.7
Group sales & marketing	2.6	2.4
Group procurement	1.4	1.5
	<u>9.9</u>	<u>10.2</u>

Corporate office costs have reduced by 17% from 2008 levels. The transformation that we have been effecting in Communis has lead us to invest in both our IT infrastructure and our Group sales and marketing capability. Our IT environment is critical to us as customers increasingly adopt digital technologies. We continue to be a major buyer of paper, equipment and other communication peripherals and our Group procurement team ensures that we fully leverage the combined buying power of the Group. They have been able to extend their influence following the acquisition of Ai. The summarised Group Income Statement is shown in the table below.

	2009 £m	2008 £m
Revenue	<u>190.2</u>	<u>257.7</u>
Profit from operations before exceptional items	7.2	15.0
Exceptional items		
Disposal of Bath Business Forms	(0.6)	1.4
Provision from legacy property leases	(2.0)	(2.0)
Profit from operations	<u>4.6</u>	<u>14.4</u>
Net Finance cost	(2.0)	(1.7)
Tax	0.6	(4.1)
Profit for the year	<u>3.2</u>	<u>8.6</u>
Earnings per share (pence)	2.3	6.2

Much of the revenue decline in 2009 relative to 2008 was experienced and explained in the first half of 2009 and followed from the disposal of Bath Business Forms and the loss of the Sainsbury's contract. The decline continued in the second half but at a much reduced rate (Revenue H2 2009: £95.2m, H2 2008: £109.6m). The bulk of the second half decline was in Print Sourcing, where the impact on profit is negligible and also in Direct Mail. These declines were partially offset by strong revenue growth in Technology & Services driven by the acquisition of Ai.

The Group has disclosed two items of an exceptional nature. Firstly, we successfully negotiated the early payment of the bulk of the deferred consideration due in respect of the disposal of Bath Business Forms. We have now collected a total of £3.5m of the £4.6m outstanding at the beginning of 2009. This was previously due in quarterly instalments starting from 2010. In return for early payment, we reduced the total amount payable by £650,000 by way of a renegotiation of terms. Securing this early payment effectively reduces the extent of our financial exposure to this business and more importantly makes a significant contribution to the funding required for the next stage of our project to de-risk and reduce the pension liability.

Secondly we have provided a further sum of £2m in respect of legacy property leases. The existence of this issue was disclosed extensively in the 2008 report and accounts. In 2009 we successfully disposed of one of the more material liabilities, whilst others remain. Whilst management continues to seek ways to mitigate this liability, and there are further options to explore, in establishing this further provision we have fully anticipated the maximum possible liability that can be recognised under International Accounting Standards.

The increase in the 2009 interest charge is mostly driven by pension costs and to a lesser extent by losses associated with cash flow hedges. We include the costs associated with ongoing management of the now closed defined benefit scheme under interest costs. In 2009 these costs included fees associated with our project to de-risk pension liabilities. The underlying interest cost attaching to drawn bank facilities is lower as

the Group benefited from a full year of lower interest rates and normalisation of the gap between the base rate and LIBOR.

Our efforts to manage our tax cash flows have continued apace in 2009. We successfully claimed relief for costs associated with research and development activity undertaken in the last three years. Much of our investment in new technology driven communication solutions was included in this claim and along with further resolution in our favour of outstanding tax issues has resulted in significant tax credits in 2009. Clearly lower profit levels have also impacted on the 2009 tax charge when compared with 2008.

As discussed in the Chairman's Statement, the Board has taken the decision to reduce the full year dividend declared in respect of 2009. In 2007 the Board established the intention to maintain a dividend cover of between two and two and half times. We propose to pay a final dividend of 0.43p per share making the total dividend for 2009 1.29p (2008: 2.495p). With adjusted 2009 earnings per share of 2.6p the 2009 dividend is 2 times covered. Importantly, this decision will free up cash that can be used to accelerate the reduction in pension risk which we consider will enhance shareholder value. The 2009 final dividend is payable on 4 May 2010 to shareholders on the register at the close of business on 6 April 2010. This will be put to shareholders at the annual general meeting on 27 April 2010.

### Cashflow and net debt

After experiencing significant cash outflows in the first half of 2009, associated both with market conditions and the traditional seasonality in Group cash flows, the second half saw the delivery of anticipated stronger cash flow. The first half outflow in cash generated from operating activities of £6.3m was completely reversed such that we ended the year with a net inflow of £1.2m. The first half working capital outflow (£8.8m) did not repeat in the second half of the year, indeed we achieved a small inflow of £0.9m.

Despite the downturn, we have continued to invest in our business. In addition to the capital cash spend, we have acquired assets for a further £2m by way of finance leases. This investment should leave us well placed to take maximum advantage of the upturn when it comes. Even with this investment, overall, our movement in net debt is relatively neutral, before returns to shareholders.

The Group's full year cashflows are summarised in the table below:

	2009 £m	2008 £m
Profit from operations before exceptional items	7.2	15.0
Depreciation and other non-cash item	8.2	7.9
Working capital	(7.9)	1.7
Additional pension scheme contributions	(2.5)	(1.2)
Interest and tax	(3.8)	(3.8)
Net cash inflow from operating activities	1.2	19.6
Net capital expenditure	(4.1)	(6.9)
Business disposals	3.5	8.2
Business acquisitions	(0.6)	(4.5)
Dividends	(3.5)	(3.5)
Other	(0.2)	0.3
Movement in net debt	(3.7)	13.2
Opening net debt	(13.1)	(26.3)
Group net debt	(16.8)	(13.1)

Having renewed two of our three main bank facilities in 2008, we completed renewal of the third and final facility with KBC in the fourth quarter of 2009. This leaves us with a total of £50m of committed bank facilities and three strong relationships with banks that are keen to support the Group in the next phase of its development.

There are three principal financial covenants in place with all three lenders. The detail of these was disclosed in the 2009 interim report and accounts. Headroom existed on all three covenants at the half year and headroom is increased on all three at the full year.

### Pensions

Our plan to reduce the sizeable liability imposed on our balance sheet by the Group's defined benefit pension scheme was announced in the 2008 Annual Report. The first phase, being an offer of early

retirement, was announced and successfully completed in the first half of 2009. Because of uncertain market conditions and the need to ensure that we did not over-commit our cash resources, we announced in September that we would delay the next phase of the project.

A combination of strong cash management, the early receipt of deferred consideration in respect of the Business Forms disposal and the reduction in the dividend mean that we are now well placed to continue with the next phase of this project. We intend to issue enhanced transfer offers to some 1,500 members of the scheme not currently drawing pension, in the process making up to £4m available to fund the enhancements. At this stage, it is difficult to predict the level at which these offers will be taken up. However, based on an analysis of the outcome of similar exercises, we expect to deliver a significant reduction in both the liability and the deficit.

The triennial pension scheme valuation, as at 30 September 2008, has recently been completed and submitted by the scheme trustees to the Pensions Regulator for review and approval. It records a deficit of £40m. The Company is required to agree a recovery plan with the scheme trustees that will eliminate the deficit over an affordable period. We have proposed to repay it over 14 years. This entails paying nothing in 2010, £2m in 2011 and then £3m p.a. for the remaining years. With the agreement of the scheme trustees, the plan is designed to free up cash flow in 2010 to enable us to reduce liabilities significantly in 2010 via the enhanced transfer exercise.

The pension scheme deficit recorded under the less onerous rules prescribed by International Accounting Standards has increased to £17.5m at 31 December 2009 (2008: £11.1m). A deterioration in the outlook for inflation and the fall in corporate bond yields has driven a significant increase in the liability which has been substantially offset by a recovery in the value of scheme investments.

### **Directors' Responsibility Statement**

The directors are responsible for preparing the Annual Report and the Consolidated Financial Statements in accordance with applicable United Kingdom law and regulations and International Financial Reporting Standards ('IFRS') as adopted by the European Union.

Company law requires the directors to prepare Financial Statements for each financial year. Under that law the directors must not approve the Financial Statements for the Group unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. Under IFRS the directors are required to prepare Financial Statements which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing these Financial Statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgments and estimates that are reasonable and prudent;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Financial Statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Peter King**  
Finance Director

**Consolidated Income Statement**  
for the year ended 31 December 2009

	Note	2009 £000	2008 £000
Revenue		190,188	257,730
Changes in inventories of finished goods and work in progress		(292)	106
Raw materials and consumables used		(96,109)	(138,645)
Employee benefits expense		(54,617)	(65,316)
Other operating expenses		(25,003)	(32,464)
Depreciation and amortisation expense		(6,960)	(6,435)
Gains arising on disposal of Bath business		-	1,380
Adjustment to deferred consideration for disposal of Bath business	3	(650)	-
Exceptional property provisions	3	(2,000)	(1,969)
<b>Profit from operations</b>		<b>4,557</b>	<b>14,387</b>
<b>Analysed as:</b>			
<b>Profit from operations before exceptional items</b>		<b>7,207</b>	<b>14,976</b>
Gains arising on disposal of Bath business	3	-	1,380
Adjustment to deferred consideration for disposal of Bath business	3	(650)	-
Exceptional property provisions	3	(2,000)	(1,969)
<b>Profit from operations</b>		<b>4,557</b>	<b>14,387</b>
Finance revenue		499	731
Finance costs		(2,459)	(2,392)
	2	(1,960)	(1,661)
<b>Profit before taxation</b>		<b>2,597</b>	<b>12,726</b>
Income tax credit / (expense)	4	562	(4,095)
<b>Profit for the year attributable to equity holders of the parent</b>		<b>3,159</b>	<b>8,631</b>
<b>Earnings per share</b>	5		
On profit for the year attributable to equity holders and from continuing operations			
- basic		2.28p	6.24p
- diluted		2.25p	6.15p
<b>Dividend per share</b>	6		
- paid		2.495p	2.495p
- proposed		0.430p	1.635p

*Dividends paid and proposed during the year were £3.5 million and £0.6 million respectively (2008 £3.5 million and £2.3 million respectively).*

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

All income and expenses relate to continuing operations.

**Consolidated Statement of Comprehensive Income**  
for the year ended 31 December 2009

	2009	2008
	£000	£000
<b>Profit for the year</b>	<b>3,159</b>	8,631
Exchange differences on translation of foreign operations	(9)	(67)
Actuarial (losses) / gains on defined benefit pension plans	<b>(8,889)</b>	1,240
Income tax thereon	<b>2,489</b>	(347)
Loss on cash flow hedges taken directly to equity	<b>(37)</b>	(239)
Income tax thereon	<b>10</b>	67
<b>Other comprehensive (loss) / income for the year, net of tax</b>	<b>(6,436)</b>	654
<b>Total comprehensive (loss) / income for the year, net of tax</b>	<b>(3,277)</b>	9,285
Attributable to:		
Equity holder of the parent	<b>(3,277)</b>	9,285

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

## Consolidated Balance Sheet

31 December 2009

	2009 £000	2008 £000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	24,236	23,752
Intangible assets	158,160	157,170
Trade and other receivables	450	4,965
Deferred tax assets	2,442	-
	<u>185,288</u>	<u>185,887</u>
<b>Current assets</b>		
Inventories	6,431	7,248
Trade and other receivables	27,249	28,234
Cash and cash equivalents	19,178	17,940
	<u>52,858</u>	<u>53,422</u>
<b>TOTAL ASSETS</b>	<u>238,146</u>	<u>239,309</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to the equity holders of the parent</b>		
Equity share capital	34,651	34,651
Share premium	22	22
Merger reserve	11,427	11,427
Capital redemption reserve	1,375	1,375
ESOP reserve	(338)	(338)
Cumulative translation adjustment	(152)	(143)
Retained earnings	81,283	87,773
<b>Total equity</b>	<u>128,268</u>	<u>134,767</u>
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	37,236	6,000
Retirement benefit obligations	17,518	11,100
Deferred tax liability	-	353
Provisions	1,807	1,323
Financial liabilities	45	81
	<u>56,606</u>	<u>18,857</u>
<b>Current liabilities</b>		
Interest-bearing loans and borrowings	359	25,000
Trade and other payables	50,012	53,650
Income tax payable	2,029	4,213
Provisions	641	2,664
Financial liabilities	231	158
	<u>53,272</u>	<u>85,685</u>
<b>Total liabilities</b>	<u>109,878</u>	<u>104,542</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<u>238,146</u>	<u>239,309</u>

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

**Consolidated Cash Flow Statement**  
for the year ended 31 December 2009

	Note	2009 £000	2008 £000
<b>Cash flows from operating activities</b>			
Cash generated from operations	7	4,882	23,385
Interest paid		(2,167)	(2,764)
Interest received		331	358
Income tax paid		(1,918)	(1,423)
<b>Net cash flows from operating activities</b>		<b>1,128</b>	<b>19,556</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiary undertakings including overdraft acquired		(600)	(4,459)
Receipt of consideration from sale of Bath business		3,500	8,200
Purchase of property, plant and equipment		(2,782)	(5,444)
Proceeds from the sale of property, plant and equipment		38	705
Purchase of intangible assets		(1,356)	(2,111)
<b>Net cash flows from investing activities</b>		<b>(1,200)</b>	<b>(3,109)</b>
<b>Cash flows from financing activities</b>			
Receipt from sharesave options exercised		-	30
New borrowings		39,000	800
Repayment of borrowings		(34,000)	(4,300)
Dividends paid		(3,452)	(3,450)
<b>Net cash flows from financing activities</b>		<b>1,548</b>	<b>(6,920)</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,476</b>	<b>9,527</b>
Cash and cash equivalents at 1 January		17,940	8,221
Exchange rate effects		(238)	192
<b>Cash and cash equivalents at 31 December</b>		<b>19,178</b>	<b>17,940</b>
<b>Cash and cash equivalents consist of:</b>			
Cash and cash equivalents		19,178	17,940

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

## Consolidated Statement of Changes in Equity

for the year ended 31 December 2009

Year ended 31 December 2009

	Issued capital £000	Share premium £000	Merger reserve £000	ESOP reserve £000	Capital redemption reserve £000	Cumulative translation adjustment £000	Retained earnings £000	Total equity £000
<b>As at 1 January 2009</b>	<b>34,651</b>	<b>22</b>	<b>11,427</b>	<b>(338)</b>	<b>1,375</b>	<b>(143)</b>	<b>87,773</b>	<b>134,767</b>
Profit for the year	-	-	-	-	-	-	3,159	3,159
Other comprehensive loss	-	-	-	-	-	(9)	(6,427)	(6,436)
<b>Total comprehensive loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(9)</b>	<b>(3,268)</b>	<b>(3,277)</b>
Employee share option schemes: - value of services provided	-	-	-	-	-	-	230	230
Dividends paid	-	-	-	-	-	-	(3,452)	(3,452)
Shares issued	-	-	-	-	-	-	-	-
<b>As at 31 December 2009</b>	<b>34,651</b>	<b>22</b>	<b>11,427</b>	<b>(338)</b>	<b>1,375</b>	<b>(152)</b>	<b>81,283</b>	<b>128,268</b>

Year ended 31 December 2008

	Issued capital £000	Share premium £000	Merger reserve £000	ESOP reserve £000	Capital redemption reserve £000	Cumulative translation adjustment £000	Retained earnings £000	Total equity £000
<b>As at 1 January 2008</b>	<b>34,636</b>	<b>4</b>	<b>11,427</b>	<b>(338)</b>	<b>1,375</b>	<b>(76)</b>	<b>81,470</b>	<b>128,498</b>
Profit for the year	-	-	-	-	-	-	8,631	8,631
Other comprehensive income	-	-	-	-	-	(67)	721	654
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(67)</b>	<b>9,352</b>	<b>9,285</b>
Employee share option schemes: - value of services provided	-	-	-	-	-	-	404	404
Dividends paid	-	-	-	-	-	-	(3,450)	(3,450)
Shares issued	15	18	-	-	-	-	(3)	30
<b>As at 31 December 2008</b>	<b>34,651</b>	<b>22</b>	<b>11,427</b>	<b>(338)</b>	<b>1,375</b>	<b>(143)</b>	<b>87,773</b>	<b>134,767</b>

The accompanying notes are an integral part of this Consolidated Statement of Changes in Equity.

## 1 Segmental information

The Group is organised into four main business segments: Technology & Services, Print Sourcing, Direct Mail (formerly Direct Mail & Business Forms) and Transactional.

The 'Technology & Services' segment 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. The 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' also includes 'old model' print management contracts that rely for profit on marking up print sourced elsewhere.

The Group's 'Direct Mail' segment includes activities in the Direct Mail market sector.

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 2009 are as follows:

	Continuing operations					
	Technology & Services £000	Print Sourcing £000	Direct Mail £000	Trans- actional £000	Central Cost £000	Total £000
<b>Revenue</b>	20,282	58,073	53,572	58,261	-	190,188
<b>Profit from operations before exceptional items</b>	6,283	609	492	9,686	(9,863)	7,207
Adjustment to deferred consideration for disposal of Bath business	-	-	(650)	-	-	(650)
Exceptional property provisions	-	-	-	-	(2,000)	(2,000)
<b>Profit from operations</b>	6,283	609	(158)	9,686	(11,863)	4,557
Net finance costs	-	-	-	-	-	(1,960)
<b>Profit before tax</b>	-	-	-	-	-	2,597
Income tax income	-	-	-	-	-	562
<b>Profit for the year</b>	-	-	-	-	-	3,159

Revenue includes sales to four customers who each individually represent more than 10% of the Group's total revenue. Sales to Customer 1 and Customer 2 were £29.1m and £28.8m respectively, and included transactions with each business segment. Sales to Customer 3 were £27.0m, and included transactions with the Technology & Services and Transactional segments. Sales to Customer 4 were £23.0m, and included transactions with the Print Sourcing, Direct Mail, and Transactional segments.

Inter-segment sales amounting to £10.0m, £5.0m and £6.8m were made to Print Sourcing from Direct Mail, Transactional, and Technology & Services respectively. Inter-segment sales amounting to £0.2m and £1.1m were made to Direct Mail from Transactional and Technology & Services respectively. Inter-segment sales amounting to £0.4m, £0.1m and £0.2m were made to Transactional from Direct Mail, Print Sourcing and Technology & Services respectively.

The segment results for the year ended 31 December 2008 were as follows:

	Continuing operations					
	Technology & Services £000	Print Sourcing £000	Direct Mail & Business Forms £000	Trans- actional £000	Central Cost £000	Total £000
<b>Revenue</b>	11,851	96,727	91,816	57,336	-	257,730
<b>Profit from operations before exceptional items</b>	5,127	1,308	5,445	13,329	(10,233)	14,976
Gains arising on disposal of Bath business	-	-	1,380	-	-	1,380
Exceptional property provisions	-	-	-	-	(1,969)	(1,969)
<b>Profit from operations</b>	5,127	1,308	6,825	13,329	(12,202)	14,387
Net finance costs	-	-	-	-	-	(1,661)
<b>Profit before tax</b>	-	-	-	-	-	12,726
Income tax expense	-	-	-	-	-	(4,095)
<b>Profit for the year</b>	-	-	-	-	-	8,631

Revenue includes sales to three customers who each individually represent more than 10% of the Group's total revenue. Sales to Customer 1 and Customer 2 were £49.4m and £30.4m respectively, and included transactions with each business segment. Sales to Customer 3 were £26.3m, and included transactions with the Technology & Services and Transactional segments.

Inter-segment sales amounting to £29.1m, £6.5m and £3.1m were made to Print Sourcing from Direct Mail & Business Forms, Transactional, and Technology & Services respectively. Inter-segment sales amounting to £0.3m and £0.9m were made to Direct Mail & Business Forms from Transactional and Technology & Services respectively. Inter-segment sales amounting to £5.1m, £0.2m and £0.2m were made to Transactional from Direct Mail & Business Forms, Print Sourcing and Technology & Services respectively.

The unallocated assets and liabilities figures include current and deferred tax, pension deficit, cash and borrowings.

## 2 Finance costs and finance revenue by category of financial instruments

	2009 £000	2008 £000
Interest on receivables measured at amortised cost	499	419
Interest on financial liabilities measured at amortised cost	(1,361)	(2,392)
Net interest from financial assets and financial liabilities not at fair value through Income Statement	(862)	(1,973)
(Loss) / gain on foreign currency financial liabilities	(236)	62
Retirement benefit related (expense) / income	(862)	250
	<u>(1,960)</u>	<u>(1,661)</u>

## 3 Exceptional items

	2009 £000	2008 £000
Profit from operations is arrived at after charging / (crediting) the following items:		
Gains arising on disposal of Bath business	-	(1,380)
Adjustment to deferred consideration for disposal of Bath business	650	-
Exceptional property provisions	2,000	1,969
Exceptional items	<u>2,650</u>	<u>589</u>

On 30 June 2008, the Group disposed of the Bath operation which comprised Communisis' Bath Business Forms and Economailer businesses, both of which were part of the Direct Mail & Business Forms segment. At 31 December 2009, £450,000 (2008 £4,600,000) of deferred consideration was due to the Group in respect of this sale. During 2009, £650,000 of this deferred consideration was written off in return for early payment of £3,000,000 of the remaining balance.

The exceptional property provisions relate primarily to the estimated costs for the rental obligations, dilapidations and other costs of surplus premises which are long-term in nature. The provision reflects the estimated discounted net cost to the Group over the remainder of the lease period (maximum 2 years). This provision has been classified as exceptional by virtue of its size and the fact that the liabilities arise from businesses that ceased to be part of Communisis' trading activities some years ago and therefore the costs are not related to current operating activities.

## 4 Income tax

The major components of income tax expense for the years ended 31 December 2009 and 2008 are:

	2009 £000	2008 £000
<b>Tax charged in the Income Statement</b>		
<i>Current income tax</i>		
UK Corporation Tax	1,219	3,543
Adjustments in respect of prior years	(1,476)	(1,723)
Overseas tax on profits for the year	33	-
Total current income tax (credit) / charge	<u>(224)</u>	<u>1,820</u>
<i>Deferred income tax</i>		
Origination and reversal of temporary differences	(327)	1,699
Adjustments in respect of prior years	(11)	(232)
Changes in tax rates and laws	-	808
Total deferred tax (credit) / charge	<u>(338)</u>	<u>2,275</u>
Tax (credit) / charge in the Consolidated Income Statement	<u>(562)</u>	<u>4,095</u>

**Tax relating to items charged or credited to other comprehensive income***Deferred income tax related to items charged or credited to comprehensive income*

Actuarial gains on pension scheme		
Current year (credit) / charge	(2,489)	347
Tax on financial liability	(10)	(67)
Income tax (credit) / expense reported in Consolidated Statement of Comprehensive Income	<u>(2,499)</u>	<u>280</u>

Current tax adjustments in respect of prior years 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 (2008 higher) than the average standard rate of corporation tax in the UK of 28% (2008 28.5%). The differences are reconciled below:

	<b>2009</b>	<b>2008</b>
	<b>£000</b>	<b>£000</b>
Profit before income tax	<u>2,597</u>	12,726
At UK statutory income tax rate of 28% (2008 28.5%)	727	3,627
Write off of goodwill on disposal, not deductible for tax purposes	-	1,003
Expenses not deductible for tax purposes	169	347
Unrelieved overseas losses	21	171
Effect of different tax rates of subsidiaries operating in other jurisdictions	(41)	-
Share-based payments	81	134
Change in deferred tax in respect of rolled over capital gains	(32)	(40)
Adjustments in respect of prior years	(1,487)	(1,147)
Tax (credit) / charge in the Consolidated Income Statement	<u>(562)</u>	<u>4,095</u>

**5 Earnings per share**

	<b>2009</b>	<b>2008</b>
	<b>000</b>	<b>000</b>
Weighted average number of ordinary shares (excluding ESOP shares) for basic earnings per share	138,323	138,285
Effect of dilution:		
Share options	2,171	2,060
Weighted average number of ordinary shares (excluding ESOP shares) adjusted for the effect of dilution	<u>140,494</u>	<u>140,345</u>

279,628 (2008 279,628) shares were held in trust at 31 December 2009.

Share options in issue for which exercise is currently unlikely (as the option price is higher than the average market price) total 6,218,971 (2008 3,390,064) options. As a consequence, these options have not been included in the diluted earnings per share in the current year.

	<b>2009</b>	<b>2008</b>
	<b>£000</b>	<b>£000</b>
Basic and diluted earnings per share is calculated as follows:		
Profit attributable to equity holders of the parent	<u>3,159</u>	8,631
Earnings per share		
Basic	<b>2.28p</b>	6.24p
Diluted	<b>2.25p</b>	6.15p

## 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:

	2009 £000	2008 £000
Profit after taxation from continuing operations	3,159	8,631
Exceptional items (Note 3):		
Gains arising on disposal of Bath business	-	(1,380)
Adjustment to deferred consideration for disposal of Bath business	650	-
Exceptional property provisions	2,000	1,969
	<u>5,809</u>	<u>9,220</u>
Taxation on exceptional items	(742)	821
Taxation – adjustments in respect of prior years (Note 4)	(1,487)	(1,147)
Profit after taxation from continuing operations excluding exceptional items	<u>3,580</u>	<u>8,894</u>
Adjusted earnings per share		
Basic	2.59p	6.43p
Diluted	2.55p	6.34p

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

## 6 Dividends paid and proposed

	2009 £000	2008 £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 2007 of 1.635p per share	-	2,261
Interim dividend of the year ended 31 December 2008 of 0.860p per share	-	1,189
Final dividend of the year ended 31 December 2008 of 1.635p per share	2,262	-
Interim dividend of the year ended 31 December 2009 of 0.860p per share	1,190	-
	<u>3,452</u>	<u>3,450</u>
<i>Proposed for approval at AGM (not recognised as a liability as at 31 December)</i>		
Final equity dividend on ordinary shares for 2009 of 0.430p (2008 1.635p) per share	595	2,261

## 7 Cash generated from operations

	2009 £000	2008 £000
<b>Continuing operations</b>		
Profit before tax	2,597	12,726
Adjustments for:		
Depreciation and amortisation	6,960	6,438
Amortisation of contract payment	1,000	1,000
Excess of Income Statement pension charge over normal contributions paid	(86)	85
Gains arising on disposal of Bath business	-	(1,380)
Adjustment to deferred consideration for disposal of Bath business	650	-
Exceptional property provisions	2,000	1,969
(Profit) / loss on sale of property, plant & equipment	22	55
Share-based payment charge	230	404
Net finance costs	1,960	1,661
Additional contribution to the defined benefit pension plan	(2,500)	(1,200)
Changes in working capital:		
Decrease in inventories	793	447
Decrease in trade and other receivables	497	7,801
(Decrease) in trade and other payables	(9,241)	(6,621)
<b>Cash generated from operations</b>	<u>4,882</u>	<u>23,385</u>

## **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 2009 and 31 December 2008 is abridged and has been extracted from the 2009 statutory accounts of Communis plc which were approved by the Board of Directors on 25 February 2010, 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 2009 statutory accounts. The 2008 statutory accounts have been delivered to the Registrar of Companies. The auditors' report on the 2008 statutory accounts was unqualified.

## 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. Communisis has a robust internal control and risk management process, outlined in the Corporate Governance Report. This process is designed to provide assurance but cannot seek to avoid all risks.

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

### Economic environment

Our business depends upon the level of marketing spend from our customers. In an economic environment of depressed spending levels and defensive marketing strategies, there is a risk that marketing spend amongst our customers will be severely constrained. Our plans make an assumption that this will occur to a certain extent, and long-term contractual relationships also give some insulation. However, the level of fixed cost in some of our operations makes it difficult to respond rapidly to large falls in demand. Therefore, Group profit levels would be materially affected if a prolonged, widespread and significant marketing spend reduction in excess of our expectations were to occur.

### Competition

Communisis 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 experience delay or fail 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, multiple sourcing and business continuity management.

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.

### Information Security

As our customers increasingly adopt data driven communications there is a risk that the confidentiality, integrity & availability of the information processed could be compromised by factors such as human error, systems failure, equipment malfunction or deliberate unauthorised action which may cause reputational damage and financial loss to the business.

There are a number of controls in place to manage this risk including Information & Security policies & procedures which have been designed specifically to accommodate each area of our business and are subject to regular third party review & certification.

### 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 in previous years to mitigate the effects of these factors by means of the closure to new entrants of the defined benefit sections of the Group's pension plan and increased pension contributions from our employees. In addition, with effect from 30 November 2007, the defined benefit sections of the Group's pension plan were closed to future benefit accruals, and replaced by a new defined contribution section.

Market movements over the last couple of years have significantly increased the funding deficit as measured by the triennial valuation of the plan. Any further decline in equity markets, improvement in life expectancy or adverse movement in interest rates could further increase that deficit. The Company has a well developed plan to reduce the risk, the continuation of which is discussed at greater length in the Chief Executive's Report and the Financial Performance Report.

### 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 the contingent risk, as guarantor, of 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.

In particular, the recent serious deterioration in the economic climate has significantly increased the risk that the current tenants of leasehold properties previously occupied by the Group may fail, and that the financial obligations attaching to those properties could, therefore, fail to be met by Communis.

#### Environmental risk

The Group seeks to conduct its activities in such a manner that there is no or minimal damage to the environment. Financial and/or reputational risk could arise if we do not apply our resources in such a way as 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 dependent upon a small number of high value customers; 68% 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 effect 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 imply 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 which will, in due course, replace existing products.

In addition, the Group maintains an active programme to increase efficiency in areas of operation facing 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.