5 March 2015

Communisis plc

(“Communisis” or the “Group”)

Preliminary Results for the year ended 31 December 2014

- Strong growth in turnover, adjusted operating profit and cash generation -

- New contract award from AXA UK -

Leading provider of personalised customer communication services Communisis plc (LSE:CMS), reports preliminary results for the year ended 31 December 2014.

Financial highlights

- Turnover 27% ahead at £343.0m (2013 £270.1m)
- Overseas revenues increased by 36% to £66.5m (2013 £48.9m). Now over 19% of total turnover
- Adjusted operating profit up 21% to £16.0m (2013 £13.3m)
- Operating margin on sales (excluding pass through) maintained at 6.9% (2013 6.9%)
- Adjusted earnings per share (fully diluted and excluding the after tax effects of exceptional items and amortisation of acquired intangibles) increased 10% to 4.62p (2013 4.19p)
- Final dividend of 1.33p per share. Full year dividend up 11% to 2.0p per share (2013 1.80p)
- Free cash inflow improved by £11.6m to £6.0m (2013 outflow £5.6m) principally due to tighter working capital management
- Year-end net debt at £35.9m (2013 £25.7m). Increase attributable to investment during the year
- A £21m non-cash provision for the impairment of goodwill that arose on acquisitions made in the early years of the last decade resulted in a loss after tax of £15.1m (2013 profit £4.9m). Basic loss per share was 7.67p (2013 earnings 2.65p)
- 2014 triennial pension deficit valuation substantially reduced at £19.5m (2011 £38m deficit). Annual deficit reduction payments halved at an initial £1.5m (previously £3m)

Adjusted operating profit means profit from operations before exceptional items and the amortisation of acquired intangibles.

Operational highlights

Continued Growth

- Integrated agency model developed and launched under new brand name PSONA
  - Higher margin creative services expanded through five acquisitions
  - Complementary services provide revenue synergy opportunities
  - Now over 300 employees in the Design segment

- Multi-year contractual relationships secured or extended
  - Lloyds Banking Group (LBG) for new incoming customer communication services – ten year term
  - AXA UK (AXA) for incoming and outgoing marketing and operational customer communication services – six year term. Awarded in February 2015
  - Procter & Gamble Europe S.A. (P&G) for brand building services in Europe – extended for a further five year term
  - Other consumer goods clients in the drinks, healthcare and technology sectors for brand deployment services – two to three year terms

- Infrastructure and geographic reach expanded to support the ongoing growth in services, clients and revenues
  - Sixteen new locations during 2014 with a further four added since the year-end
  - Now operating from 51 locations (including 18 client sites) in 16 countries, delivering services into 73 countries
  - 2200 employees with over 150 based overseas

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

"Communisis has delivered another substantial improvement in adjusted operating profit and an average annual growth rate of 20% over a five year period.

2014 has been a successful year during which we have built and launched a new digital agency, continued to win important contracts for outsourced customer communication services and expanded rapidly overseas."

For further information please contact:

Communisis plc Andy Blundell / Mark Stoner	**020 7382 8952**
FTI Consulting Matt Dixon / Lucy Delaney	**020 3727 1000**
Cenkos Securities Ivonne Cantu	**020 7397 8900**
N+1 Singer Sandy Fraser / Richard Lindley	**020 7496 3000**

About Communisis

Communisis is a UK leading provider of personalised customer communication services that specialises in helping clients communicate with their customers more effectively and more profitably in fast-changing markets.

Communisis has a reputation for production excellence and innovation and is trusted by many leading, consumer-facing brands to design, produce and deploy multi-channel personalised customer communications accurately, securely, reliably and at scale.

Chairman's statement

Results

Communisis continues to deliver strong performances with adjusted operating profit increasing substantially for a fifth consecutive year. Over this period, the current management team has grown adjusted operating profit from £6.6m in 2009 to £16.0m in 2014, at an average annual growth rate of 20%.

Communisis has invested over £40m in the Design segment and has built and launched PSONA, an integrated digital agency, through the recruitment of talented individuals and the acquisition of carefully selected agencies. These acquisitions have been made over a number of years with each bringing relevant and complementary skills and adding leading brands to the Group's growing portfolio of blue-chip clients. Life Marketing Consultancy is the largest and most recent acquisition that was completed in January 2015. It is an insight-led shopper marketing agency that not only expands the services offered by Design, but also complements those provided to clients of Deploy.

The Group's reputation and leadership in outsourced customer communications services has continued to attract and secure significant long-term contracts for the Produce segment. Most contracts are for outgoing communications from the Group's clients to their customers. However the range of services was extended early in the year with the acquisition of imaging and mail processing capabilities for incoming customer communications under an outsourcing contract with LBG.

The most recent new contract award, in February 2015, was a six year commitment from AXA for both incoming and outgoing marketing and operational customer communication services for all its UK brands including SunLife, Wealth, Insurance and PPP healthcare. This contract win is a clear testament to the breadth and depth of Communisis' customer communication services that now span the entire customer life cycle.

The Deploy segment has experienced another successful year. Its contract with P&G was extended until December 2019 whilst revenues from its brand deployment services grew significantly, both through an expanded network of European offices and from the addition of new consumer goods clients in the drinks, healthcare and technology sectors. Overseas revenues grew by 36% to £66.5m (2013 £48.9m) and are now over 19% of total turnover, close to the Group's medium-term target of 20%. A new longer term goal is for overseas turnover to account for one third of the total.

Adjusted operating profit increased 21% to £16.0m (2013 £13.3m) on turnover that was 27% ahead at £343.0m (2013 £270.1m). The operating margin on sales (excluding pass through)was maintained at the 2013 level of 6.9%. Progress toward a realistic double-digit target is expected to resume in 2015. The exceptional items at £24.7m (2013 £3.5m) include non-recurring costs associated with restructuring, pension projects and acquisition activity together with a £21m non-cash provision for the impairment of goodwill that arose on acquisitions made in the early years of the last decade. For these reasons the profit after tax of £4.9m in 2013 was reduced to an after tax loss of £15.1m in 2014. The basic loss per share was 7.67p (2013 earnings 2.65p) but adjusted earnings per share (fully diluted and excluding the after tax effects of exceptional items and acquired intangibles) was 10% up at 4.62p (2013 4.19p).

Dividend

The proposed final dividend of 1.33p per share brings the total dividend for the year to 2.0p per share, an increase of 11% over 2013, reflecting both the strong operating performance in 2014 and the Board's confidence in the future of the business. The dividend will be payable on 15 May 2015 to shareholders on the register at 17 April 2015.

Pensions

The latest triennial valuation of the Group's Pension Scheme at 31 March 2014 resulted in a substantially reduced deficit at £19.5m (2011 £38m deficit) and annual deficit reduction payments that have been halved to £1.5m from the previous level of £3m.

Board of directors

Mark Stoner joined the Board as Finance Director in August 2014 having held a number of senior executive positions within the Group. Nigel Howes, who had been Finance Director since March 2011, became Strategic and Corporate Development Director on Mark's appointment.

Helen Keays joined the Board as a non-executive Director in August 2014. She was appointed Chairman of the Remuneration Committee in October 2014.

Mike Firth stood down from the Board as a non-executive Director in October 2014, a position he had held since 2002.The Board is most grateful to Mike for his contribution over many years and will miss him.

Outlook

All three segments have established strong market positions with blue-chip clients. Design has built and launched a substantial new integrated digital agency, Produce has the capabilities and expertise that continue to secure multi-year contracts for both incoming and outgoing customer communications and Deploy has expanded rapidly overseas with a service that is valued by a growing number of leading brands in the consumer goods sectors.

The Board is optimistic about the future, confident in its belief that Communisis can deliver another year of profitable growth in 2015 and build a sustainable platform for continuing success thereafter.

Peter Hickson
Chairman
5 March 2015

Strategic report

What we do

Communisis is a leading provider of personalised customer communication services that specialises in helping clients communicate with their customers more effectively and more profitably in fast-changing markets.

The Group has a reputation for production excellence and innovation and is trusted by many leading, consumer-facing brands to design, produce and deploy multi-channel personalised customer communications accurately, securely, reliably and at scale.

Services are focused on the integrated design, production and deployment of personalised customer communications. These communications are typically of a marketing, operational or regulatory nature and can be distributed either on paper or in digital formats, through e-mail, text message, mobile content, social media or as in-store marketing collateral.

There are three operational segments supported by centrally managed service functions.

- Design segment services support brand strategies by utilising creative, data analytic and digital marketing skills to devise and implement marketing campaigns that captivate and engage customers
- Produce segment services are mostly provided under multi-year contracts and comprise the specialist, high volume and predominantly personalised printing of outgoing customer communications of an operational nature, such as direct mail, invoices, statements and chequebooks, the processing of incoming customer correspondence and the production of shareholder mailings such as AGM notices and dividend cheques
- Deploy segment services provide brand deployment support through the management of third party supply chains for the sourcing and distribution of in-store marketing collateral, mainly in overseas markets.

The Group offers a broad range of services that can be delivered either separately or in combination to make its clients' communications more targeted, more efficient and more profitable. Many of these services are business critical and of operational necessity for clients thus providing a degree of stability and predictability in revenue streams irrespective of macro-economic and other market conditions.

Competitive differentiation is built on the breadth of the Group's portfolio of customer communication services, which is matched by few competitors, its market-leading technology, the scale of its operations, the depth of its embedded expertise and innovative capabilities, its closeness to clients and the strength of its leadership team. Clients can draw on the combined skills within Communisis to improve their customer experience and ensure that it is positive and consistent at every touch point.

Technology

The Group's commitment to market-leading technology is a source of competitive advantage, notably its deployment of Hewlett Packard (HP) T series high-speed digital platforms. The installed fleet of eight machines, all of which are provided under operating leases but which represent an aggregate capital value of approximately £30m, is unmatched in the UK and the largest in Europe for operational applications. The scale of the capital commitment, together with operational know-how gained over several years represent real barriers to entry.

The HP technology uses white paper rather than pre-printed base stock in the production process, thus reducing stockholding requirements and production costs. Its flexibility allows any colour image to be produced and personalised in high definition, at speed and at scale, enabling marketing messages to be superimposed on substantial volumes of operational documents. This is an emerging market that facilitates product innovation and enhances returns on clients' marketing spend through lower production and postage costs and improved response rates on promotional offers.

Other technology developments during the year included work on:

- production automation, to enable value to be driven from the HP technology investments;
- the replacement of legacy systems to improve productivity and support overseas growth;
- multi-channel document management, supporting client needs to provide a seamless customer experience regardless of channel; and
- analytics and decision-making tools that increase clients' return on investment and help them to target their customers more effectively.

Locations and employees

The Group currently operates from 13 principal locations in the UK, from 1 in India and from 19 satellite offices and 18 client sites in the UK and fourteen other European countries. Services are delivered into 73 countries.

There are around 2200 employees with over 150 based overseas.

Aspiration

The Group's aspiration is to be a market leader in providing personalised customer communication services both in the UK and internationally.

The key financial targets for the medium term are to deliver a double-digit margin on sales (excluding pass through) and to derive more than 20% of total revenues from overseas sources whilst continuing to grow UK sales. The new longer term goal is for overseas revenues to account for one third of the total.

Strategic initiatives

The Group's aspiration is pursued through a number of strategic initiatives including:

- growing sales both organically and through niche acquisitions;
- extending activities to broaden and deepen the service offering;
- further diversifying the client portfolio beyond the financial services sector;
- following international clients into overseas markets;
- investing in specialist, market-leading technologies; and
- continuing to optimise the direct cost and overhead base.

Improvement in margins is delivered through the combined effect of better capacity utilisation, the benefit of cost reduction programmes, synergies from acquisitions and a focus on growing volumes of higher margin services.

Improving the capital structure and managing the exposure to the pension deficit are also priorities as is the adoption of a progressive dividend policy that is important for most investor categories.

Market dynamics

Economy

The domestic economy continued to recover in 2014, providing a welcome boost to business confidence and marketing budgets. Ongoing cost and profitability pressures, especially within the financial services sector, stimulated further outsourcing of customer communication activities, leading to new business opportunities both in the UK and overseas. However, these beneficial effects need to be weighed against the uncertainties surrounding the outcome of the UK General Election in 2015, from economic weakness in the eurozone and further afield and from the many causes of political and social unrest elsewhere in the world.

Meanwhile, recent falls in commodity prices have allowed pay rate increases to move ahead of price inflation so that there should be less immediate pressure on household budgets and consumer spending. This could be beneficial for the Group's clients as they seek to maintain or improve their own margins. Any improvement in the profitability of their customer communications should flow from better returns on their marketing spend and from improved cost effectiveness of their operational communications, both areas in which Communisis can make significant contributions.

Market trends

The Group operates in an overall market that is attractive and fast-moving. There are growing trends toward:

- the outsourcing of incoming and outgoing customer communication services,
- precision marketing through personalised communications,
- more consistent messaging in global campaigns,
- a reduction by clients in the number of their service providers with the winners being those with scale and a broad range of services, and
- client-led differentiation of creative service providers.

There is an underlying volume erosion in some of the Group's more mature markets, such as those for chequebooks, but margins are maintained through tiered pricing mechanisms and adjustments to the cost base. The progressive switch from paper to digital communications is an important trend and the Group is adapting its business model accordingly. In particular Communisis aims to present innovative propositions that deliver value both for clients and for the Group.

There is also a growing client need to demonstrate improved returns on operational processing and marketing spend.

In this context, the proliferation of marketing channels, the rapid expansion of ‘big data’, the rise in demand for content marketing, a growing recognition by clients of the importance both of engaging more with their customers and of measuring, analysing and understanding their responses to marketing campaigns, are creating demand for innovative propositions and new market opportunities.

With a broad range of services and a growing reputation as a trusted supplier, Communisis is well-positioned to capitalise on these trends and gain market share.

Clients

The Group has a traditional strength in the financial services sector but has been diversifying the client portfolio in recent years. Clients now span a number of sectors with many leading consumer brands. They include all the major UK banks, the top ten building societies, major telecoms and media groups, utilities, global consumer goods distributors, high street retailers and supermarkets, Government departments and charities.

Financial services accounted for 43% of total revenues in 2014 (2013 43%) a percentage that was maintained as the new contracts in the sector, with Nationwide Building Society and LBG, became fully operational, offsetting volume erosion from the more mature products. A notable trend is the growing proportion of total revenues derived from the consumer goods sector which increased to 24% in 2014 (2013 21%).

Many of the Group’s largest clients are blue-chip companies. The credit risk is perceived to be very low and there has been little bad debt history in recent years. The top five clients accounted for approximately 62% of total revenues in 2014 (2013 55%) but with no undue concentration on any one client.

About 85% of revenues are usually underpinned by multi-year contractual arrangements, giving good medium-term visibility in the business.

The average contract life is currently five years. Many of the contracts are for personalised, business critical communications, such as invoices, statements and chequebooks, so that moving them to other suppliers would be a complex exercise with both cost and risk implications. Consequently the Group normally expects to extend or renew them as long as demanding service levels are met, making an average contract life much longer in practice.

Clients are showing an increased willingness to enter into much longer contractual terms. This reflects the scale of the investment on both sides and a move toward the implementation of sustainable commercial models that share risk and reward. The longer contract terms are expected to lead to more embedded relationships and a continuing need for the Group to act flexibly, promoting innovative propositions for consideration and implementation.

Progress against strategic initiatives

Good progress was made during the year against all the strategic initiatives as described in the following sections.

Results

Adjusted operating profit increased by 21% to £16.0m (2013 £13.3m) on turnover that was 27% ahead at £343.0m (2013 £270.1m).The operating margin on sales (excluding pass through)was somewhat diluted by the proportion of lower margin sales in the overall revenue mix but was nevertheless maintained at the 2013 level of 6.9%. Progress toward a realistic double-digit target is expected to resume in 2015.

The Group’s client-led international expansion accelerated during the year. Overseas revenues grew by 36% to £66.5m (2013 £48.9m) and are now over 19%, close to the Group’s medium-term target of 20%.A new longer term goal is for overseas turnover to be one third of the total.
Virtually all the overseas revenues are from clients of the Deploy segment and in the consumer goods sector, contributing to the overall diversification of the portfolio.

Further commentary on the results is set out below.

Growth

The Group's growth strategy is generally focused on organic opportunities within existing client relationships where long-term contracts are already in place for a broad range of services. The approach to new business is highly selective where long-term contracts are being tendered because of the extended sales lead times and the need for client culture to be aligned with that of Communisis. Two major new contracts with LBG and AXA, that will underpin revenues in the UK for many years, have been announced, either during the year or after the year-end.

New contracts

Lloyds Banking Group

In February 2014 the Group was awarded a further new outsourcing arrangement with LBG for the imaging and processing of incoming mail from customers. The arrangement is for an initial ten-year term with a five-year renewal option. It involved an investment of about £7.5m in working capital and mobilisation costs, approximately £3.2m of which was paid during 2014, with the balance falling due in 2015 and 2016.

Under the arrangements, Communisis is handling more than 30 million incoming customer documents annually for LBG and for all other brands within the Bank including TSB, Halifax and Scottish Widows. Documents are scanned and digitised with the content being indexed for archiving and onward distribution and processing by the Bank. Communisis is also responsible for the design and creation of operational customer-facing documents.

The arrangement brought a new service line to the Group and resulted in the acquisition of fourteen existing LBG sites in the UK, with the main operational centres being in Edinburgh, Leeds and Andover.

This outsourcing contract followed a similar award in the previous year for LBG's outgoing customer communications. Combining the outsourcing of both incoming and outgoing communications with a single strategic provider offers LBG an end-to-end service, with considerable scope for optimising customer communication, and provides the Group with a significantly expanded client relationship and substantial new capabilities and growth opportunities.

AXA UK

In February 2015, Communisis was awarded a new six-year contract with AXA for the provision of incoming and outgoing marketing and operational customer communication services including creative, print, digital and postal distribution and document management services. The contract covers all AXA's UK brands including SunLife, Wealth, Insurance and PPP healthcare.

Under the outsourcing arrangements, the Group will assume responsibility for a number of AXA's existing UK inbound and print centres including those at Lytham St Anne's, Ipswich, Bristol and Basingstoke with around 115 staff transferring to Communisis under TUPE regulations.

Overseas expansion

Overseas expansion of the Group's managed services has continued throughout 2014 and into the early months of 2015. Communisis now supports clients by delivering services into 72 countries outside the UK, principally providing brand building services under multi-year contracts to P&G and increasingly to other consumer goods clients in the drinks, healthcare and technology sectors.

The P&G contract was extended during the year until December 2019, justifying the Group's continuing development of the infrastructure needed to grow its overseas activities substantially both with P&G and with other consumer goods brands.

Acquisitions

Acquisitions are also an important component of the Group's growth strategy, especially the client driven initiatives to broaden the range of the Group's service offering.

Five acquisitions were completed during the year or shortly after the year-end. All added specific skills and expertise in support of the Group's strategy to build a comprehensive range of integrated services and critical mass in the Design segment. Jacaranda Productions Limited (Jacaranda) and Public Creative Limited (Public Creative) were acquired in April, The Communications Agency Limited (TCA) was acquired in June, The Meaningful Marketing Group Limited (Geronimo) was acquired in August and Life Marketing Consultancy Limited (Life) was acquired in January 2015.

The combined initial consideration for the five acquisitions, excluding acquired cash, was £23.2m satisfied through £17.1m in cash and £6.1m in Communisis shares with restrictions over disposal, giving most of the principal vendors a vested interest in the future success of the Group. Further performance related consideration of up to a maximum of £10.4m in aggregate is payable over the next five years in respect of these acquisitions.

Jacaranda is a video and film production specialist, creating, managing and measuring the effectiveness of video content for global brands.

Public Creative creates and drives brand awareness with digital media using web and mobile applications to build loyalty and encourage customer advocacy.

TCA specialises in brand response and customer relationship marketing. Its broad capabilities and experience across all media channels including TV, experiential and digital are central to the development of Communisis' integrated and differentiated agency model.

Geronimo is a customer relationship marketing agency with specialist knowledge of the financial services sector.

Life is an insight-led shopper marketing agency. Shopper marketing focuses distinctly on understanding and influencing consumer behaviour within the shopping environment whilst also taking account of retailer strategies and requirements. It is an important component of the marketing budgets of large consumer goods brands.

These acquisitions in combination offer considerable scope for growth. They provide opportunities for revenue synergies both within the Group's existing client portfolio and through the cross-selling of other marketing services in social media, video, digital production and content marketing.

A credible proposition, supported by a comprehensive range of capabilities, has been built within the Design segment, through the recruitment of talented individuals and the acquisition of carefully selected agencies. The proposition is now being taken to market as PSONA, the Group's new agency brand that is based in separate premises in London's West End.

Operational excellence

The Group made a substantial commitment to the development of a second transactional centre of excellence within LBG's facility at Copley, West Yorkshire to mirror that at Liverpool, and to allow the transfer of production from, and the closure of, the other LBG transactional site at Crawley. Net capital expenditure during the year has consequently been higher than normal at £14.2m of which £3m was provided under finance leases. Of this £14.2m, £9.2m relates to Copley, including £3m of capital equipment purchased from LBG. Additional expenditure of £1.4m to complete the facility will be incurred in 2015. Two market-leading HP T400 and one T300 high-speed colour digital platforms were also commissioned as part of this overall investment in Copley, all under operating leases.

Segmental reporting

The segmental reporting is aligned with the Group's strategic direction and the way in which the activities are managed. Turnover, operating profit and margins before exceptional items are reported in three segments, being Design, Produce and Deploy. Pass through revenues, being those purchased materials that are passed on to clients at cost with no added value, are reported separately, as are unallocated central costs that support integrated service offerings. Design, Produce and Deploy is a logical process flow across the three segments that demonstrate how content, the ultimate source of value, is first created (in Design) and then produced and distributed on a targeted basis either through specialist manufacturing (Produce) or through managed services in the third-party supply chain (Deploy).

Clients can access services either from a single segment or on an integrated basis across some or all segments. The Group's account management process encourages the delivery of a broader range of services to clients by targeting the available market in each one and setting growth targets accordingly. Communisis' integrated service capability is considered to be a source of competitive advantage.

Results

Adjusted operating profit means profit from operations before exceptional items and the amortisation of acquired intangibles.

The table below is an extract from the Group's segmental Income Statement.

	2014	2013
	£m	£m
Turnover		
Design	**26.5**	20.9
Produce	**150.7**	117.3
Deploy	**55.2**	55.9
Pass Through	**110.6**	76.0
	343.0	270.1
Adjusted profit from operations		
Design	**3.4**	3.6
Produce	**18.9**	17.1
Deploy	**13.8**	9.6
Central Costs	**(13.5)**	(11.4)
Corporate Costs	**(6.6)**	(5.6)
	16.0	13.3
Amortisation of acquired intangibles	**(1.0)**	(0.8)
Profit from operations before exceptional items	**15.0**	12.5
Contribution to overheads (on adjusted operating profit excluding pass through)		
Design	**12.8%**	17.2%
Produce	**12.5%**	14.6%
Deploy	**25.0%**	17.2%
Operating margin (on adjusted operating profit excluding pass through)	**6.9%**	6.9%
Exceptional items	**(24.7)**	(3.5)
(Loss) / profit from operations after exceptional items	**(9.7)**	9.0
Net finance costs	**(3.5)**	(2.7)
(Loss) / profit before tax	**(13.2)**	6.3
Tax	**(1.9)**	(1.4)
(Loss) / profit after tax	**(15.1)**	4.9
Earnings / (loss) per share		
Basic (p)	**(7.67)**	2.65
Adjusted (p)	**4.75**	4.31
Adjusted fully diluted (p)	**4.62**	4.19

Group

Adjusted operating profit increased by 21% to £16.0m (2013 £13.3m) on total turnover that was 27% ahead at £343.0m (2013 £270.1m).

The operating margin on sales (excluding pass through) was somewhat diluted by the proportion of lower margin sales in the overall revenue mix but was nevertheless maintained at the 2013 level of 6.9%. Progress toward a realistic double-digit target is expected to resume in 2015.

Design

The 25% growth in turnover is predominantly attributable to the revenues from acquisitions offset by a substantial reduction in data sales. This resulted from a continuing decline in demand for prospect lists from the insurance sector that has been the historical focus of the Group's data activities. The loss of contribution from the data sales together with the costs associated with a reorganisation of the business and refocusing its activities on data analytics has had a more significant adverse effect on adjusted operating profits of the segment and the contribution margin.

Produce

The two new LBG contracts accounted for most of the growth in turnover offset by an 8% reduction in demand for transactional documents and higher margin chequebooks, due to the ongoing migration from print to digital formats and the changing pattern of payment methods. Whilst the additional turnover contributed to higher adjusted operating profit, non-recurring costs incurred during the transition phases of new contracts together with a loss of contribution from changes in product mix resulted in a lower overall contribution margin.

Deploy

The small decline in turnover was the net effect of a 13% increase in managed fee income, linked to the international expansion of brand deployment services for P&G, and a 14% decrease in other revenue following a strategic decision to withdraw from, or outsource, low margin commodity print management services. These same factors, together with a 46% increase in pass through revenues associated with the growth in overseas turnover generated a 44% increase in adjusted operating profits and a substantially improved contribution margin.

Central and corporate costs

The increase in central and corporate costs was mainly due to investments in the systems infrastructure, strategic accounts management resource and the legal team needed to support both existing client contracts and new business development opportunities.

Certain of the central costs were reallocated on a directly attributable basis to the operating segments during the year and the comparatives have been restated on a consistent basis accordingly.

Exceptional items

A further rationalisation at the Leeds facility was undertaken during the year. This, together with certain ongoing costs from previously announced restructuring programmes (£3.3m), acquisition and pension scheme related expenses (net £0.4m), and a £21m non-cash provision for goodwill impairment, has resulted in an exceptional charge of £24.7m in 2014. Most of the related cash cost of these items has been incurred during the year with £0.5m being payable in 2015.

Tax

The effective tax charge (before impairment of goodwill) for 2014 was 23.9% (2013 22.5%). The rate for 2014 is above the UK standard rate due to the larger proportion of profits that are now generated in overseas jurisdictions with higher tax rates.

Loss after tax and (loss) / earnings per share

The exceptional goodwill impairment provision was the principal reason for the profit after tax of £4.9m in 2013 becoming an after tax loss of £15.1m in 2014. The basic loss per share was 7.67p (2013 earnings 2.65p) and adjusted earnings per share (fully diluted and excluding the after tax effects of exceptional items and acquired intangibles) were up 10% at 4.62p (2013 4.19p).

Dividend

The Board maintained its progressive dividend policy by proposing a final dividend of 1.33p per share, giving a full-year dividend of 2.0p per share, an 11% increase on the prior year (2013 1.80p).

Cash Flow and Net Debt

The table below summarises the cash flows for the year and the closing net debt position.

	2014	**2013**
	£m	**£m**
Profit from operations before exceptional items	**15.0**	12.5
Depreciation and other non-cash items	**12.1**	8.4
Decrease / (Increase) in working capital	**1.1**	(9.3)
Pension scheme contributions	**(1.2)**	(1.7)
Interest and tax	**(4.7)**	(2.0)
Net operating cash flow before exceptional items	**22.3**	7.9
Exceptional items	**(5.1)**	(5.2)
Net operating cash flow	**17.2**	2.7
Net capital expenditure	**(11.2)**	(8.3)
Free cash flow	**6.0**	(5.6)
Investment in new contracts	**(3.2)**	(11.7)
Acquisition of subsidiary undertaking	**(6.5)**	(4.1)
Dividends paid	**(3.7)**	(3.3)
Debt arrangement fees	**(0.1)**	(0.6)
Share issues net of directly attributable expenses	**0.3**	18.4
Other	**(0.9)**	-
Increase in bank debt	**(8.1)**	(6.9)
Opening bank debt	**(25.4)**	(18.5)
Closing bank debt	**(33.5)**	(25.4)
Bank debt	**(33.5)**	(25.4)
Unamortised borrowing costs	**0.5**	0.5
Net bank debt	**(33.0)**	(24.9)
Finance lease creditor	**(2.9)**	(0.8)
Net debt	**(35.9)**	(25.7)

Growth in operating profit before exceptional items and depreciation along with better working capital management delivered substantially improved net operating cash both before and after exceptional items of £22.3m (2013 £7.9m) and £17.2m (2013 £2.7m) respectively. Within working capital, the percentage of overdue debt at year-end, a key measure, was lower at 5.4% (2013 8.7%) and with no indication of any significant credit risk within the Group's blue-chip client portfolio.

Net recurring capital expenditure was broadly equivalent to depreciation excluding the non-cash items relating to the amortisation of intangibles.

Free cash flow is defined as the net movement in bank debt adjusted to exclude cash flows in respect of investments in new contracts, acquisitions, disposals, dividends paid to shareholders and other cash movements in relation to the arrangement of debt facilities and equity. This is an important measure of the effectiveness of the Group's cash management process. This showed an £11.6m improvement in 2014 with cash inflow of £6.0m (2013 outflow of £5.6m). The net outflow in 2013 resulted from the exceptional costs of funding the continuing restructuring programmes, the additional working capital associated with growing the business, investment in new contracts and the costs of acquiring a new agency, Editions Financial, for which purpose additional equity capital of £18.4m, net of attributable expenses, was raised earlier in that year.

The cash cost of acquisitions during the year at £6.5m accounted for most of the £8.1m increase in the year-end bank debt to £33.5m (2013 £25.4m), less than half of the total current facilities of £70m. The Group operates well within its bank facilities but intra-period fluctuations in working capital increase the level of indebtedness during the year. The average bank debt during 2014 was £41.4m.

The additional capital expenditure associated with the new Copley facility included £3m under finance leases that increased the net debt to the expected level of £35.9m (2013 £25.7m). Net debt is defined as bank debt plus finance lease creditors, less unamortised loan arrangement fees.

Net assets

Two non-cash accounting adjustments have together reduced net assets at 31 December 2014 by £32.4m. Neither adjustment has any direct or immediate economic impact as they reflect only accounting measurements at a point in time.

The first reflects a £21m provision for the impairment of goodwill in the Produce segment, that arose on acquisitions made in the early years of the last decade, and has been charged as an exceptional item in the profit and loss account. The impairment has arisen in the current year due to a prudent view taken by management of the long-term reduction in demand for these more mature product lines, and also an increase in the underlying discount rate used to value the future cash flows of the Produce segment.

The second results from the recalculation of the pension deficit at the year-end with the increase of £11.4m being charged directly to reserves. This largely reflects an increase in the present value of the long-term liabilities with the underlying discount rate being driven by the large fall in corporate bond rates and gilt yields during 2014.

Pensions

The Group continues to monitor and manage its exposure to deficits on its Defined Benefit Pension Scheme.

The Pension Scheme deficit at the year-end has increased for accounting purposes to £39.1m (2013 £27.7m). This is primarily due to a significant reduction in corporate bond rates, offset by a small decrease in inflation indices, used in the actuarial calculation of the Pension Scheme liabilities. There has been no material change in the value of Pension Scheme assets.

This is an accounting measure for financial reporting purposes only. It has no effect on the cash contributions to the Pension Scheme that are determined by reference to a triennial actuarial valuation, the latest of which was performed as at 31 March 2014. This valuation showed a significant improvement on the previous one at March 2011 with the deficit reducing substantially to £19.5m (2011 £38m). The outcome enabled the Group to agree with the Trustees that the deficit reduction payments should be halved to an initial £1.5m (previously £3m) but be subject to annual increments in line with the higher of dividend growth and inflation rates.

Bank Facilities

The Group's financial position was strengthened with a £10m extension of its banking facilities in June 2014 on the same, previously agreed terms. The enlarged facilities now comprise a £65m revolving credit facility, committed until March 2018, and a £5m overdraft that is renewable annually.

Key Performance Indicators

The key performance indicators, that are commented upon individually elsewhere in this strategic report comprise:

	2014	2013
Financial		
(Loss) / profit after taxation (£million)	**(15.1)**	4.9
Adjusted operating profit (£million)	**16.0**	13.3
Adjusted dividend cover	**2.40**	2.40
Bank debt (£million)	**33.5**	25.4
Debt outside credit terms (%)	**5.4**	8.7
Operating margin on sales (excluding pass through) (%)	**6.9**	6.9
Overseas turnover (%)	**19.4**	18.1
Pension deficit (£million)	**39.1**	27.7
Sales to financial services clients (%)	**43.0**	42.9
Non-financial		
Carbon footprint (tonnes)	**12,649**	11,775
Accident incidence rate (per 1,000 employees)	**5.73**	5.62

Risks and Uncertainties

The Group is subject to a number of risks and uncertainties that bring both challenge and opportunity.

A pervasive risk relates to the extent and speed of clients' and consumers' migration from paper to digital communication formats. Each year, the number of paper-based communications on existing business tends to fall but overall growth is achieved from new services and market share gains. Communisis' services include the composition of the underlying document, the processing of the personalised data that is added to each communication and the distribution of that communication by the most appropriate channel. All these services continue to be relevant and add value in the digital environment. In 2014, approximately 10% of the Group's transactional communications were delivered digitally.

A further pervasive risk relates to the effective identification, evaluation and integration of acquisitions that continue to form an important part of the Group's overall growth strategy. To mitigate the associated risks, plans for the successful integration of each acquisition are developed during the evaluation phase of the process alongside normal due diligence activities. Earn-out arrangements based on future profitability are adopted as a risk management mechanism when appropriate and, wherever possible, vendors are generally required to take a substantial proportion of their consideration in Communisis shares so that their interests are aligned with those of other shareholders.

The Group's principal risks and uncertainties, together with the mitigating actions, are set out in more detail below.

People and Organisation

Communisis aims to attract, recruit, develop and retain the best people whilst keeping them actively engaged in driving results and delivering business goals.

The depth and capabilities of the broader leadership team are considered to be a particular strength of the organisation and a source of differentiation in the market place.

The Group is committed to employee engagement, development and wellbeing at all levels, to equality and diversity and to the active promotion of safe working environments.

Corporate Social Responsibility

The Group has embraced corporate social responsibility for many years and is in the process of developing and embedding long-term sustainability strategies that consolidate existing policies. The aim will be to make the organisation more resilient, more productive and more predictable whilst delivering economic, environmental and social benefits.

The Group actively supports clients, suppliers, employees and communities. Of particular note during 2014, was a three-week programme entitled “Get into manufacturing” that Communisis ran, in conjunction with The Prince’s Trust, for disadvantaged young people on Merseyside. The initiative was very successful and resulted in all participants subsequently gaining employment.

Andy Blundell
Chief Executive
5 March 2015

Mark Stoner
Finance Director

Risks and Uncertainties

The principal risk and uncertainties facing the business are taken directly from the risk registers and are detailed below. The Group faces other risks which are subject to regular review and, have been assessed as lower risk and are therefore not included here. Some risk factors remain beyond the direct control of the Group and the Risk Management Programme we can therefore, only provide reasonable but not absolute assurance that key risks are managed to an acceptable level.

Risk Area	Commentary	Mitigating Actions and Management
The Group must be able to respond to technological change	Clients' and their customers' progressive adoption of digital formats and channels may impact Group strategy and market demand for products and services. There is a risk that the systems and equipment utilised by the Group could be superseded earlier than anticipated by management.	Continued investment in technology and new services maintains and enhances the Group's competitive position. Specific teams have been put together within the business to lead Change and Innovation. The Group is committed to developing or procuring new types of technology in order to be able to provide the latest services to clients and therefore maintain its competitive position.
The Group continues to pursue international expansion	The Group now operates in 15 countries outside the UK. Delivering services into 73 countries. International exposure to geo-political volatility and social instability may put the Group operations at risk.	The Group has implemented a Work Stream Forum team that specifically deals with management of operations that are carried out in territories outside the UK. A country Risk Assessment process in the early stages of development.
Deterioration in the economic environment may decrease profitability	There is a risk that macro-economic issues may quickly and detrimentally affect consumer expenditure, which could impact the trading performance of the Group's clients and reduce their discretionary spend resulting on lower sales and profitability.	Market trends are monitored and factored into the Group's business planning, budgeting and management processes. Volume erosion protection is included in contract terms where possible.
The Group continues to pursue acquisitions and contract wins to meet its strategic objectives	The Group continues to pursue growth which is achieved via purchase of other business wins. There is a risk that the Group may be unable to integrate the operations that have been acquired successfully and may not achieve the expected cost base control or increased revenues anticipated as a result of these acquisitions.	The Group has clear strategy for ensuring growth. This includes assessment of the alignment of the products and services. Due Diligence is performed in advance of acquisition and contract signature. The Group has gained considerable experience and skills dealing with acquisitions.
Clients rely upon proven and resilient business operations	Certain Group operations depend upon the uninterrupted delivery of products and services that rely on complex computer networks and systems. There is a risk that the Group may face a significant business continuity incident that will materially affect its ability to deliver products or services to its	A Business Continuity Management (BCM) System and BCM plans are in place and audited by clients in core areas of the Group.

	clients.	
Safeguarding of data	The Group processes personal and sensitive data on behalf of clients as part of its core services. The risks are that: A failure to maintain a secure and fully functional IT infrastructure could result in an inability to meet contractual service obligations; and The confidentiality, integrity and availability of information processed by the Group could be compromised by human error, systems failure, equipment malfunction or deliberate unauthorised action, any of which could result in reputational damage and financial loss.	Continued investment in IT infrastructure, security and monitoring, guards against the inappropriate use of client data and maintains and enhances the effectiveness of controls. Established information and security standards are subject to regular third-party audits. Processes to deal with Cloud Computing assessment and risk management have been implemented. Core areas of the Group are subject to Certification including ISO/IEC 27001.
Talent and skills shortage and employee well-being	Without learning, development resource and succession planning, there is a risk that the Group will be unable to develop, retain and motivate employees that have the necessary skills to support operations, essential policy and legislation. There is also a risk to employee morale and well-being from a failure by the Group to maintain a safe and compliant working environment.	The Group actively monitors senior leadership to ensure motivation is maintained, that succession plans are in place and applied to relevant team members. Motivation and support for senior leadership is provided through regular leadership conferences. The Group has policies and procedures in place for training and development. Business operational expansion and acquisitions also help to ensure that the Group has the right skills. The Group provides regular training on Health and Safety for all employees and monitors performance to ensure compliance with all relevant regulations and employment laws across all jurisdictions in which the Group operates.
Existing client concentration may mean that the loss of a major client could materially decrease sales	A substantial percentage of the Group's revenues are derived from a relatively small number of clients and therefore the loss of one or more of these clients could have a material impact on the Group's sales. This could result in a material decrease in profitability whilst new contracts are sought and excess capacity reduced. In the year ended 31 December 2014 the top five clients of the Group accounted for approximately 62 per cent of sales.	A strategic account management programme operates to preserve client relationships, monitor compliance with service level agreements and expand the services offered to key clients. Business development activities continue to promote the Group's services in a broad range of market sectors and into international markets. Long-term client relationships are developed.
Due to high operational gearing, a reduction in	The risks are that the Group will not: Adapt sufficiently quickly to any	The Group's cost base is regularly reviewed and aligned with projected demand to avoid margin erosion.

revenues could significantly impact profitability	technological change or downturn in demand, with a consequent loss of competitiveness and profitability; have adequate resources to invest in new technology and services; retain its major client portfolio, without replacement, or recover debts; and diversify sufficiently into other market sectors.	Sufficient financing facilities are arranged with a reasonable degree of headroom over projected funding requirements. Client credit is closely monitored and controlled to minimise the amount of overdue debt. Credit insurance is obtained against larger non-financial services sector debts. Working capital and capital expenditure are actively managed to ensure that banking covenants are not breached. Business development activities in a range of sectors reduce the historic reliance on the financial services sector.
A change in pension scheme assumptions could increase the pension deficit	Communisis has continuing obligations under a defined benefit pension scheme that is now closed to new entrants. The IAS 19 pension deficit was £39.1 million as at 31 December 2014. The risk is that any changes in life expectancy, or other assumptions, such as interest rates, equity returns or discount rates could require substantial future cash contributions to eliminate any resulting increase in the pension scheme deficit and therefore decrease the Group's ability to expand the business through continued investment or to pay dividends to shareholders.	The Group works closely with the Pension Scheme Trustees to adopt programmes that optimise returns on Pension Scheme assets, reduce the ultimate pension liabilities and minimise the level of additional cash contributions required to eliminate any deficit.
Potential lease liabilities from past disposals could result in high cash costs to the Group	The Group has contingent liabilities arising from lease commitment guarantees on past corporate disposals. The principal risk is that current leasehold occupants will become insolvent and that guarantees will be called, resulting in a material cash cost to the Group.	The financial status of the leasehold occupants is monitored on a regular basis. Action will be taken to minimise the cost to the Group when default is anticipated. Break clauses are reviewed and exercised where possible.

Cyber Security and Business Continuity have been dealt with in previous report and accounts as "Operations relying upon interrupted IT systems and the safeguarding of client data". Given the change in complexity and increased external focus on these activities they will be reported separately in future. During 2014 risks which have risen in priority are profitable sales growth, contract terms, customer retention and technological change.

Consolidated Income Statement
for the year ended 31 December 2014

	Note	2014 Before amortisation of acquired intangibles and exceptional items £000	2014 Amortisation of acquired intangibles and exceptional items £000	2014 Total £000	2013 Before amortisation of acquired intangibles and exceptional items £000	2013 Amortisation of acquired intangibles and exceptional items £000	2013 Total £000
Revenue		**343,026**	-	**343,026**	270,148	-	270,148
Changes in inventories of finished goods and work in progress		**303**	-	**303**	(459)	-	(459)
Raw materials and consumables used		**(188,330)**	-	**(188,330)**	(149,921)	-	(149,921)
Employee benefits expense		**(87,301)**	**(3,258)**	**(90,559)**	(67,053)	(3,882)	(70,935)
Other operating expenses		**(41,178)**	**(21,421)**	**(62,599)**	(31,887)	407	(31,480)
Depreciation and amortisation expense		**(10,505)**	**(1,008)**	**(11,513)**	(7,571)	(827)	(8,398)
(Loss) / profit from operations		**16,015**	**(25,687)**	**(9,672)**	13,257	(4,302)	8,955
Finance revenue	2	**6**	**-**	**6**	34	-	34
Finance costs	2	**(3,592)**	**-**	**(3,592)**	(2,540)	(176)	(2,716)
(Loss)/profit before taxation		**12,429**	**(25,687)**	**(13,258)**	10,751	(4,478)	6,273
Income tax expense	4	**(3,060)**	**1,209**	**(1,851)**	(2,844)	1,431	(1,413)
(Loss)/profit for the year attributable to equity holders of the parent		**9,369**	**(24,478)**	**(15,109)**	7,907	(3,047)	4,860
(Loss) / earnings per share	6						
On (loss)/ profit for the year attributable to equity holders and from continuing operations							
- basic		**4.75p**		**(7.67)p**	4.31p		2.65p
- diluted		**4.62p**		**(7.45)p**	4.19p		2.58p
Dividend per share							
- paid				**1.84p**			1.68p
- proposed				**1.33p**			1.20p

Dividends paid and proposed during the year were £3.7 million and £2.8 million respectively (2013 £3.3 million and £2.3 million respectively).

All income and expenses relate to continuing operations.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2014

	Note	2014 £000	2013 £000
(Loss) / profit for the year		**(15,109)**	4,860
Other comprehensive loss to be reclassified to profit or loss in subsequent years:			
Exchange differences on translation of foreign operations		**(296)**	(118)
(Loss) / gain on cash flow hedges taken directly to equity		**(252)**	43
Income tax thereon	4	**50**	(10)
Items not to be reclassified to profit or loss in subsequent years:			
Adjustments in respect of prior years due to change in tax rate	4	**-**	(651)
Actuarial losses on defined benefit pension plans		**(11,329)**	(6,622)
Income tax thereon	4	**2,266**	1,322
Other comprehensive loss for the year, net of tax		**(9,561)**	(6,036)
Total comprehensive loss for the year, net of tax		**(24,670)**	(1,176)
Attributable to:			
Equity holders of the parent		**(24,670)**	(1,176)

Consolidated Balance Sheet
31 December 2014

	2014	2013
	£000	**£000**
ASSETS		
Non-current assets		
Property, plant and equipment	**25,246**	21,254
Intangible assets	**175,545**	181,721
Trade and other receivables	**265**	203
Deferred tax assets	**4,726**	2,510
	205,782	205,688
Current assets		
Inventories	**8,379**	9,609
Trade and other receivables	**56,098**	52,955
Cash and cash equivalents	**24,503**	18,642
	88,980	81,206
TOTAL ASSETS	**294,762**	286,894
EQUITY AND LIABILITIES		
Equity attributable to the equity holders of the parent		
Equity share capital	**49,757**	48,601
Share premium	**8,036**	6,799
Merger reserve	**11,427**	11,427
ESOP reserve	**(72)**	(77)
Capital redemption reserve	**1,375**	1,375
Cumulative translation adjustment	**(635)**	(339)
Retained earnings	**45,818**	73,369
Total equity	**115,706**	141,155
Non-current liabilities		
Interest-bearing loans and borrowings	**59,612**	43,672
Trade and other payables	**2,638**	192
Financial liability	**273**	-
Retirement benefit obligations	**39,098**	27,670
	101,621	71,534
Current liabilities		
Interest-bearing loans and borrowings	**738**	677
Trade and other payables	**75,684**	71,419
Income tax payable	**382**	1,441
Provisions	**631**	647
Financial liability	**-**	21
	77,435	74,205
Total liabilities	**179,056**	145,739
TOTAL EQUITY AND LIABILITIES	**294,762**	286,894

Consolidated Cash Flow Statement
for the year ended 31 December 2014

	Note	2014 £000	2013 £000
Cash flows from operating activities			
Cash generated from operations	8	**21,987**	4,732
Interest paid		**(1,799)**	(1,458)
Interest received		**6**	37
Income tax paid		**(2,914)**	(570)
Net cash flows from operating activities		**17,280**	2,741
Cash flows from investing activities			
Acquisition of subsidiary undertakings (net of cash acquired)		**(6,476)**	(4,070)
Purchase of property, plant and equipment		**(6,532)**	(5,592)
Purchase of intangible assets		**(8,524)**	(15,638)
Proceeds from the sale of property, plant and equipment		**602**	1,210
Net cash flows from investing activities		**(20,930)**	(24,090)
Cash flows from financing activities			
Share issues net of directly attributable expenses		**343**	18,407
New borrowings		**14,000**	44,000
Repayment of borrowings		**-**	(40,000)
Debt arrangement fees		**(100)**	(550)
Dividends paid		**(3,665)**	(3,270)
Net cash flows from financing activities		**10,578**	18,587
Net increase / (decrease) in cash and cash equivalents		**6,928**	(2,762)
Cash and cash equivalents at 1 January		**18,642**	21,548
Exchange rate effects		**(1,067)**	(144)
Cash and cash equivalents at 31 December		**24,503**	18,642
Cash and cash equivalents consist of:			
Cash and cash equivalents		**24,503**	18,642

Consolidated Statement of Changes in Equity
for the year ended 31 December 2014

	Issued capital	Share premium	Merger reserve	ESOP reserve	Capital redemption reserve	Cumulative translation adjustment	Retained earnings	Total equity
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
As at 1 January 2013	35,251	22	11,427	(346)	1,375	(221)	77,679	125,187
Profit for the year	-	-	-	-	-	-	4,860	4,860
Other comprehensive loss	-	-	-	-	-	(118)	(5,918)	(6,036)
Total comprehensive loss	-	-	-	-	-	(118)	(1,058)	(1,176)
Employee share option schemes - value of services provided	-	-	-	-	-	-	307	307
Shares issued – firm placing and placing and open offer	12,500	7,500	-	(20)	-	-	-	19,980
Transaction costs	-	(1,672)	-	-	-	-	-	(1,672)
Shares issued – exercise of options	99	-	-	-	-	-	-	99
Shares issued from ESOP	-	-	-	289	-	-	(289)	-
Acquisition of subsidiary	751	949	-	-	-	-	-	1,700
Dividends paid	-	-	-	-	-	-	(3,270)	(3,270)
As at 31 December 2013	**48,601**	**6,799**	**11,427**	**(77)**	**1,375**	**(339)**	**73,369**	**141,155**
Loss for the year	**-**	**-**	**-**	**-**	**-**	**-**	**(15,109)**	**(15,109)**
Other comprehensive loss	**-**	**-**	**-**	**-**	**-**	**(296)**	**(9,265)**	**(9,561)**
Total comprehensive loss	**-**	**-**	**-**	**-**	**-**	**(296)**	**(24,374)**	**(24,670)**
Employee share option schemes - value of services provided	**-**	**-**	**-**	**-**	**-**	**-**	**493**	**493**
Shares issued – exercise of options	**327**	**16**	**-**	**-**	**-**	**-**	**-**	**343**
Shares issued from ESOP	**-**	**-**	**-**	**5**	**-**	**-**	**(5)**	**-**
Acquisition of subsidiary	**829**	**1,221**	**-**	**-**	**-**	**-**	**-**	**2,050**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**(3,665)**	**(3,665)**
As at 31 December 2014	**49,757**	**8,036**	**11,427**	**(72)**	**1,375**	**(635)**	**45,818**	**115,706**

1 Segmental information

Business segments

The Group's activities are predominantly focused in three main areas which are:

- Design;
- Produce; and
- Deploy

There have been no changes to the basis of segmental reporting in 2014.

The Communisis Board considers the performance of Design, Produce and Deploy in assessing the performance of the Group and making decisions about the allocation of resources. Segmental disclosures have therefore been presented on this basis.

Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the Consolidated Financial Statements. However, Corporate Costs, Central Costs, Group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer pricing between business segments is set on an arm's 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 over the page.

Sales to external customers disclosed in geographical information are based on the customers' geographical location.

The segment results for the year ended 31 December 2014 are as follows:

	Design £000	Produce £000	Deploy £000	Pass Through £000	Central Costs £000	Corporate Costs £000	Total £000
Revenue	**26,497**	**150,708**	**55,175**	**110,646**	**-**	**-**	**343,026**
Profit / (loss) from operations before amortisation of acquired intangibles and exceptional items	**3,357**	**18,891**	**13,812**	**-**	**(13,419)**	**(6,626)**	**16,015**
Amortisation of acquired intangibles	**(597)**	**(411)**	**-**	**-**	**-**	**-**	**(1,008)**
Profit from operations before exceptional items	**2,760**	**18,480**	**13,812**	**-**	**(13,419)**	**(6,626)**	**15,007**
Exceptional items	**(548)**	**(23,730)**	**(52)**	**-**	**(29)**	**(320)**	**(24,679)**
Loss from operations	**2,212**	**(5,250)**	**13,760**	**-**	**(13,448)**	**(6,946)**	**(9,672)**
Net finance costs							**(3,586)**
Loss before tax							**(13,258)**
Income tax expense							**(1,851)**
Loss for the year							**(15,109)**

The restated* segment results for the year ended 31 December 2013 are as follows:

	Design £000	Produce £000	Deploy £000	Pass Through £000	Central Costs £000	Corporate Costs £000	Total £000
Revenue	20,939	117,357	55,887	75,965	-	-	270,148
Profit / (loss) from operations before amortisation of acquired intangibles and exceptional items	3,605	17,049	9,632	-	(11,389)	(5,640)	13,257
Amortisation of acquired intangibles	(378)	(449)	-	-	-	-	(827)
Profit from operations before exceptional items	3,227	16,600	9,632	-	(11,389)	(5,640)	12,430
Exceptional items	123	(2,942)	(112)	-	(380)	(164)	(3,475)
Profit from operations	3,350	13,658	9,520	-	(11,769)	(5,804)	8,955
Net finance costs							(2,682)
Profit before tax							6,273
Income tax expense							(1,413)
Profit for the year							4,860

* Certain central costs were reallocated on a directly attributable basis to the operating segments during 2014 and the comparatives have been restated on a consistent basis accordingly.

2 Net finance costs

	2014 £000	2013 £000
Interest on financial assets measured at amortised cost	**6**	33
Interest on financial liabilities measured at amortised cost	**(2,416)**	(1,831)
Net interest from financial assets and financial liabilities not at fair value through Income Statement	**(2,410)**	(1,798)
Gain on foreign currency liabilities	**-**	1
Retirement benefit related cost	**(1,176)**	(885)
	(3,586)	(2,682)

3 Amortisation of acquired intangibles and exceptional items

	2014 £000	2013 £000
Profit from operations is arrived at after charging the following items:		
Acquisition and set up costs	**389**	105
Exceptional restructuring costs	**3,258**	3,500
Trade name write off	**368**	-
Pension deficit reduction projects	**164**	164
Impairment of goodwill	**21,000**	-
Net benefit from TGML restructuring	**-**	(294)
Contingent consideration write off	**(500)**	-
Exceptional items	**24,679**	3,475
Non-exceptional depreciation and amortisation – amortisation of acquired intangibles	**1,008**	827
	25,687	4,302

Acquisition and set up costs relate to non-recurring professional fees for acquisition related activities.

During 2014 the Group incurred £3,258,000 (2013 £3,500,000) in respect of organisational restructuring which included ongoing rationalisation across the Group, along with further costs in relation to the closure of the Group's cheque production facility at Trafford Wharf, and integration costs relating to the new Design agency, Psona, and recently acquired contracts. Of the £3,258,000, £527,000 is unpaid at 31 December 2014.

The £368,000 trade name write off relates to the creation of Psona, which has resulted in statutory name changes for Kieon Limited and The Communications Agency Limited, to Communisis Digital Limited and Psona Limited.

The pension deficit reduction costs relate to legal and consultancy expenses of £164,000 (2013 £164,000) for projects undertaken during 2014. These have been fully paid at 31 December 2014.

The Group has completed its annual test for impairment of goodwill arising from business combinations. The result is an impairment in the Produce segment of £21,000,000 against goodwill which arose on acquisitions made at the beginning of the last decade. The impairment has arisen in the current year due to a prudent view taken by management of the long-term reduction in demand for these more mature product lines, and also an increase in the underlying discount rate used to value the future cash flows of the Produce segment.

The £500,000 contingent consideration write off relates to the acquisition of The Communications Agency Limited.

In 2013, the net benefit from TGML arose as a result of the purchase of the remaining 51% of The Garden Marketing Limited on 30 June 2013. At 31 December 2012 the Group held a call option to purchase the remaining 51% for a consideration of £543,000. Communisis acquired the remaining 51% for a net cost of £249,000, with the resulting gain of £294,000 also being recognised in exceptional items.

4 Income tax

The major components of income tax expense for the years ended 31 December 2014 and 2013 are:

	2014 £000	2013 £000
Tax charged in the Income Statement		
Current income tax		
UK Corporation Tax	**1,486**	876
Adjustments in respect of prior years	**(314)**	(272)
Overseas tax on profits for the year	**709**	1,104
Total current income tax charge	**1,881**	1,708
Deferred income tax		
Origination and reversal of temporary differences	**(73)**	(238)
Adjustments in respect of prior years	**43**	(13)
Adjustments in respect of prior years – due to change in tax rate	**-**	(44)
Total deferred tax credit	**(30)**	(295)
Tax charge in the Consolidated Income Statement	**1,851**	1,413
Tax relating to items charged or credited to other comprehensive income		
Deferred income tax		
Actuarial losses on pension scheme current year credit	**(2,266)**	(1,322)
Adjustment in respect of prior years – due to change in tax rate	**-**	651
Tax on financial liability	**(50)**	10
Income tax credit reported in Consolidated Statement of Comprehensive Income	**(2,316)**	(661)

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 higher (2013 lower) than the average standard rate of Corporation Tax in the UK of 21.5% (2013 23.25%). The differences are reconciled below:

	2014 £000	2013 £000
(Loss) / Profit before income tax	**(13,258)**	6,273
At UK statutory income tax rate of 21.5% (2013 23.25%)	**(2,850)**	1,458
Impairment of goodwill not deductible for tax purposes	**4,515**	-
Expenses not deductible for tax purposes	**340**	324
Non-taxable income	**(108)**	(198)
Untaxed overseas profits	**-**	(7)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**181**	187
Share-based payments	**69**	2
Change in deferred tax in respect of rolled over capital gains	**(25)**	(24)
Adjustments in respect of prior years	**(271)**	(285)
Adjustment in respect of prior years – due to change in tax rate	**-**	(44)
Tax charge in the Consolidated Income Statement	**1,851**	1,413

Unrecognised tax losses

The Group has unrecognised losses, which arose outside of the UK, of £817,000 (2013 £817,000) that are available for offset against future taxable profits of the companies in which the losses arose. No deferred tax assets have been recognised in respect of these losses as their future utilisation is uncertain and they may not be used to offset taxable profits elsewhere in the Group.

5 Acquisition of business

On 25 April 2014, the Group acquired the entire issued share capital of Jacaranda Productions Limited ("Jacaranda"). Jacaranda is a video and film production specialist, creating, managing and measuring the effectiveness of video content for global brands. It is based in London with a team of six people. For over 15 years Jacaranda has been voted in the top ten independent production companies in Televisual's annual 'Corporate Top 50' awards and has won over 250 creative awards including The Digital Impact Awards, Cannes Corporate Media and TV Awards and New York Film and TV Awards. On 30 June 2014 the Company's name was changed to Psona Films Limited.

The consideration payable by Communisis amounted to £1,676,000, including acquired cash of £117,000. The consideration was satisfied in cash of £876,000 and through the issue of 913,242 new ordinary shares of 25p each in the share capital of Communisis (the "Consideration Shares") to the value of £600,000 based on the middle market closing price of 65.7 pence per ordinary share.

As part of the purchase agreement a contingent consideration has been agreed. An amount equal to ten percent of annual gross profits of the company will be payable to the sellers at the end of each of the three earn-out periods, being the years ended 30 April 2015, 2016 and 2017. The total contingent consideration shall in no circumstance exceed the value of £500,000. As at the date of acquisition, the fair value of the contingent consideration was estimated at £200,000, determined using a discounted cash flow method. Significant unobservable valuation inputs are provided below:

Assumed Gross Profit of Jacaranda for the 3 year earn-out period	£2,000,000
Discount rate	8.3%

Details of the consideration paid and book values of assets and liabilities as at the date of acquisition are set out below:

	Fair value to Group £000
Property, plant and equipment	**21**
Inventories	**85**
Customer relationships	**195**
Software	**438**
Trade and other receivables	**230**
Trade and other payables	**(269)**
Income tax payable	**(8)**
Cash at bank	**117**
Deferred tax	**(127)**
Fair value of net assets acquired	**682**
Goodwill	**994**
Consideration	**1,676**

Satisfied by:	
Cash	**876**
Shares	**600**
Contingent consideration	**200**
Total consideration	**1,676**

The net cash outflow arising from the acquisition was as follows:

Cash consideration, as above	**(876)**
Cash acquired, as above	**117**
Net outflow of cash	**(759)**

The goodwill recognised above comprises certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the expected value of synergies through future earning capacity and cost savings. None of the goodwill recognised above is expected to be deductible for income tax purposes.

The results of this business are included within the Design business segment.

The acquired business contributed revenue of £810,000 and a profit of £28,000 from the date of acquisition (25 April 2014) to 31 December 2014. If the combination had taken place at the beginning of the year the consolidated loss of the Group to 31 December 2014 would have been £15,141,000 and revenue from continuing operations would have been £343,283,000.

Acquisition and set up costs of £34,000 have been expensed and included in exceptional items in 2014.

On 25 April 2014, the Group acquired the entire issued share capital of Public Creative Limited ("Public Creative"). Public Creative creates and drives brand awareness with digital media using web and mobile applications to build loyalty and encourage customer advocacy. It is based in London with a team of eight people.

Details of the consideration paid and book values of assets and liabilities as at the date of acquisition are set out below:

	Fair value to Group £000
Customer relationships	**62**
Trade and other receivables	**37**
Trade and other payables	**(81)**
Cash at bank	**78**
Deferred tax	**(12)**
Fair value of net assets acquired	**84**
Goodwill	**295**
Consideration	**379**

Satisfied by:	
Cash	**379**

The net cash outflow arising from the acquisition was as follows:

Cash consideration, as above	**(379)**
Cash acquired, as above	**78**
Net outflow of cash	**(301)**

The goodwill recognised above comprises certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the expected value of synergies through future earning capacity and cost savings. None of the goodwill recognised above is expected to be deductible for income tax purposes.

The results of this business are included within the Design business segment.

The acquired business contributed revenue of £258,000 and a loss of £12,000 from the date of acquisition (25 April 2014) to 31 December 2014. If the combination had taken place at the beginning of the year the consolidated loss of the Group to 31 December 2014 would have been £15,088,000 and revenue from continuing operations would have been £343,165,000.

Acquisition and set up costs of £29,000 have been expensed and included in exceptional items in 2014.

On 9 June 2014, the Group acquired the entire issued share capital of The Communications Agency Limited ("TCA"). TCA is a long-established, award-winning agency that specialises in brand response and customer relationship marketing. Its broad capabilities and experience across all media channels including TV, experiential and digital are central to the development of Communisis' integrated and differentiated agency model. TCA also brings long-standing client relationships with leading brands in the financial services, retail and consumer goods sectors. The acquisition offers considerable scope for growth and revenue synergies with the Group's existing client portfolio and the cross-selling of other marketing services in social media, video, digital development and content marketing. On 30 June 2014 the Company's name was changed to Psona Limited.

The consideration payable by Communisis amounted to £7,821,000, including acquired cash of £522,000. The consideration was satisfied in cash of £5,300,000 and through the issue of 2,404,643 new ordinary shares of 25p each in the share capital of Communisis (the "Consideration Shares") to the value of £1,450,000 based on the middle market closing price of 60.3 pence per ordinary share. Of the £571,000 deferred consideration, £188,000 had been paid by 31 December 2014.

As part of the purchase agreement a contingent consideration was agreed. An amount of up to a maximum of £500,000 being payable to the sellers at the end of the earn-out period (being the year ended 31 October 2014) subject to the company generating an adjusted EBITDA of £888,000. If the company failed to generate an adjusted EBITDA of £888,000 in the earn-out period, the contingent consideration would be reduced by a multiple of eight times the shortfall in adjusted EBITDA. The company did not generate an EBITDA of £888,000 in the year ended 31 October 2014, therefore no further consideration was payable. The contingent consideration was not discounted as it was payable within four months of acquisition.

Details of the consideration paid and book values of assets and liabilities as at the date of acquisition are set out below:

	Fair value to Group £000
Property, plant and equipment	**99**
Inventories	**72**
Customer relationships	**1,329**
Trade name	**261**
Trade and other receivables	**862**
Trade and other payables	**(946)**
Cash at bank	**522**
Income tax payable	**(59)**
Deferred tax	**52**
Fair value of net assets acquired	**2,192**
Goodwill	**5,629**
Consideration	**7,821**
Satisfied by:	
Cash	**5,300**
Shares	**1,450**
Deferred consideration	**571**
Contingent consideration	**500**
Fair value at acquisition	**7,821**

The net cash outflow arising from the acquisition was as follows:

Cash consideration	**(5,488)**
Cash acquired	**522**
Net outflow of cash in year	**(4,966)**

The goodwill recognised above comprises certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the expected value of synergies through future earning capacity and cost savings. Goodwill has also been recognised in relation to the value of the workforce of highly skilled technical professionals which did not meet the criteria for recognition as intangible assets as at the date of acquisition. None of the goodwill recognised above is expected to be deductible for income tax purposes.

The results of this business are included within the Design business segment.

The acquired business contributed revenue of £3,447,000 and a profit of £531,000 from the date of acquisition (9 June 2014) to 31 December 2014. If the combination had taken place at the beginning of the year the consolidated loss of the Group to 31 December 2014 would have been £14,954,000 and revenue from continuing operations would have been £345,079,000.

Acquisition and set up costs of £135,000 have been expensed and included in exceptional items in 2014. The write off of the £500,000 contingent consideration as a result of the earn-out requirements not being met has also been included in exceptional items.

On 15 August 2014, the Group acquired the entire issued share capital of The Meaningful Marketing Group Limited (“Geronimo”). Geronimo is a customer relationship marketing agency with specialist knowledge of the financial services sector.

The consideration payable by Communisis amounted to £647,000, satisfied in cash of £390,000 and an amount of up to £625,000 being payable to the sellers, spread over the earn-out periods (being the 12 months to 14th August 2015, 2016, 2017, 2018 and 2019). The amount payable for each earn-out period will be equal to 10% of Gross Profit between £1m and £1.5m, and 12.5% of Gross Profit over £1.5m. As at the date of acquisition, the fair value of the contingent consideration was estimated at £257,000, determined using a discounted cash flow method. Significant unobservable valuation inputs are provided below:

Assumed Gross Profit of Geronimo for the 5 year earn-out period	£8,000,000
Discount rate	8.3%

Details of the consideration paid and book values of assets and liabilities as at the date of acquisition are set out below:

	Fair value to Group
	£000
Inventories	**32**
Customer relationships	**192**
Trade and other receivables	**317**
Trade and other payables	**(388)**
Cash at bank	**(60)**
Income tax receivable	**48**
Deferred tax	**(34)**
Fair value of net assets acquired	**107**
Goodwill	**540**
Consideration	**647**

Satisfied by:	
Cash	**390**
Contingent consideration	**257**
Total consideration	**647**

The net cash outflow arising from the acquisition was as follows:

Cash consideration, as above	**(390)**
Cash acquired, as above	**(60)**
Net outflow of cash	**(450)**

The goodwill recognised above comprises certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the expected value of synergies through future earning capacity and cost savings. None of the goodwill recognised above is expected to be deductible for income tax purposes.

The results of this business are included within the Design business segment.

The acquired business contributed revenue of £562,000 and a profit of £187,000 from the date of acquisition (15 August 2014) to 31 December 2014. If the combination had taken place at the beginning of the year the consolidated loss of the Group to 31 December 2014 would have been £15,380,000 and revenue from continuing operations would have been £343,595,000.

Acquisition and set up costs of £35,000 have been expensed and included in exceptional items in 2014.

6 Earnings per share

	2014 000	2013 000
Weighted average number of ordinary shares (excluding ESOP shares) for basic earnings per share	**197,111**	183,402
Effect of dilution:		
Share options	**5,764**	5,195
Weighted average number of ordinary shares (excluding ESOP shares) adjusted for the effect of dilution	**202,875**	188,597

134,675 (2013 143,964) shares were held in trust at 31 December 2014.

Share options in issue for which exercise is currently unlikely (as the option price is higher than the market price) total 3,216,021 (2013 nil) options.

	2014 £000	2013 £000
Basic and diluted earnings per share is calculated as follows:		
(Loss) / profit attributable to equity holders of the parent	**(15,109)**	4,860
(Loss) / earnings per share:		
Basic	**(7.67)p**	2.65p
Diluted	**(7.45)p**	2.58p

Earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles

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

	2014 £000	2013 £000
(Loss) / profit after taxation from continuing operations	**(15,109)**	4,860
Exceptional costs (Note 3)	**24,679**	3,475
Taxation on exceptional items	**(736)**	(895)
Amortisation of acquired intangibles	**1,008**	827
Taxation on amortisation of acquired intangibles	**(202)**	(210)
Exceptional interest charge	**-**	176
Tax on exceptional interest charge	**-**	(41)
Taxation – adjustments in respect of prior years	**(271)**	(285)
Profit after taxation from continuing operations excluding exceptional items and amortisation of acquired intangibles	**9,369**	7,907
Adjusted earnings per share:		
Basic	**4.75p**	4.31p
Diluted	**4.62p**	4.19p

The basis of measurement of adjusted EPS is to reflect more accurately the measure of EPS used by the market.

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

7 Dividends paid and proposed

Declared and paid during the year	2014 £000	2013 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend of the year ended 31 December 2012 of 1.10p per share	**-**	2,104
Interim dividend of the year ended 31 December 2013 of 0.60p per share	**-**	1,166
Final dividend of the year ended 31 December 2013 of 1.20p per share	**2,333**	-
Interim dividend of the year ended 31 December 2014 of 0.67p per share	**1,332**	-
	3,665	3,270
Proposed for approval at AGM (not recognised as a liability as at 31 December)		
Final equity dividend on ordinary shares of 1.33p (2013 1.20p) per share (based on issued share capital at the date of approval of the Financial Statements)	**2,754**	2,333

8 Cash generated from operations

	2014	2013
	£000	£000
Continuing operations		
(Loss) / profit before tax	**(13,258)**	6,273
Adjustments for:		
Amortisation of intangible assets arising on business acquisitions	**1,008**	827
Depreciation and other amortisation	**10,505**	7,571
Excess of contributions paid over Income Statement pension costs	**-**	(214)
Exceptional items	**24,679**	3,475
Loss / (profit) on sale of property, plant & equipment	**85**	(15)
Share-based payment charge	**493**	307
Net finance costs	**3,586**	2,682
Additional contribution to the defined benefit pension plan	**(1,150)**	(1,650)
Cash cost of exceptional items	**(5,055)**	(5,253)
Changes in working capital:		
Decrease / (Increase) in inventories	**1,361**	(2,186)
Increase in trade and other receivables	**(5,678)**	(21,572)
Increase in trade and other payables	**5,411**	14,487
Cash generated from operations	**21,987**	4,732

9 Additional information

Communisis 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 2014 and 2013 is abridged and has been extracted from the 2014 statutory accounts of Communisis plc which were approved by the Board on 5 March 2015, 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 2014 statutory accounts. The 2013 statutory accounts have been delivered to the Registrar of Companies. The auditors' report on the 2013 statutory accounts was unqualified.

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

We confirm that to the best of our knowledge:

- the accounts, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the directors' report includes a fair review of the development and performance of the business and the position of the issuer and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.