6 March 2014

Communisis plc

(“Communisis” or the “Group”)

Preliminary Results for the year ended 31 December 2013

Leading provider of personalised customer communication services Communisis plc (LSE: CMS), reports preliminary results for the year ended 31 December 2013.

Financial highlights

- Turnover 18% ahead at £270.1m (2012 £229.8m)
- Overseas revenues increased to 18% of total turnover, nearing the 20% target (2012 7%)
- Adjusted operating profit up 16% to £13.3m (2012 £11.5m*)
- Operating margin on sales (excluding pass through) increased to 6.9% (2012 6.4%*)
- Profit after tax 26% higher at £4.9m (2012 £3.9m*)
- Basic earnings per share were 2.65p (2012 2.84p) and adjusted earnings per share (fully diluted and excluding the after tax effects of exceptional items and amortisation of acquired intangibles) were 4.19p (2012 4.51p) on increased weighted average shares in issue
- Final dividend of 1.2p per share. Full year dividend up by 9% to 1.8p per share (2012 1.65p)
- Free cash outflow was £5.6m (2012 inflow £6.6m) principally due to working capital
- Year-end net debt lower than expectations at £25.7m (2012 £20.0m)
- £20m raised as growth capital and invested in new contracts, restructuring costs, an acquisition and working capital
- Bank facilities refinanced on improved terms. £60m of unsecured facilities available

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

**Prior year numbers denoted with an asterisk have been restated either to reflect changes in the presentation of pension charges required under IAS19R or new segmental reporting introduced during the year.*

Operational highlights

Growth

- Two significant ten year outsourcing contracts secured with Lloyds Banking Group (LBG) for out-bound transactional customer communications and in-bound imaging and mail processing services
- A nine year outsourcing contract awarded by Nationwide Building Society for transactional and marketing customer communications and regulatory mailings
- A number of European offices and client sites established along with the infrastructure needed to support further geographic expansion and new client contracts
- Investment in new skills and services, especially in IT infrastructure and in the strategic account, legal and central management teams
- Acquisition and successful integration of Editions Financial, the UK’s leading content marketing agency in the financial services sector

Operational excellence

- Continued commitment to market-leading technology driving efficiency and product innovation
- New facilities acquired with the LBG contracts bringing the number of principal operating sites in the UK to nine and the expected number of employees to around 2,300
- Ongoing restructuring and site consolidation, aligning the cost base with the demands of a fast-changing market

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

"Communisis delivered another substantial improvement in operating profit in 2013; a fourth consecutive year of growth. The growth was achieved through a relentless focus on clients as new contracts were secured to underpin the Group's expansion plans for the foreseeable future.

Our clients are embracing a single customer view that enhances insight into consumer preferences. This ensures that messages are relevant and delivered through the customer's preferred media channel. The Group's expertise in all these areas is valued by its clients and helps them communicate with their customers more effectively and more profitably in fast-changing markets."

For further information please contact:

Communisis plc Andy Blundell / Nigel Howes	**020 7382 8952**
FTI Consulting Matt Dixon / Alex Le May	**020 7831 3113**
Cenkos Securities Ivonne Cantu/Alex Aylen	**020 7397 8900**
N+1 Singer Sandy Fraser/Richard Lindley	**020 7496 3000 / 0113 388 4789**

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 delivered another strong performance during 2013 and substantially improved adjusted operating profit for the fourth consecutive year. During that time, the current management team has doubled profit at this level from £6.6m* in 2009 to £13.3m in 2013 and a sound platform for future profitable growth has been established.

Greater clarity has also been brought to the Group’s activities with the adoption of new operational segments; Design, Produce and Deploy. All three offer significant growth opportunities both organically and through acquisition.

The Group’s reputation and leadership in outsourced customer communications services was demonstrated by the award of three major, long-term contracts, two with Lloyds Banking Group (LBG) for at least ten years and the other with Nationwide Building Society for nine years. These contracts are for business critical communications that need to be produced and delivered securely, reliably and at scale. These activities carry a degree of reputational risk for clients. The long-term commitments therefore reflect real confidence in Communisis’ capabilities as well as its ability to deliver against very demanding service level agreements. They illustrate the increasingly embedded nature of the Group’s relationships that should facilitate the introduction of a broader range of services over time.

New facilities, additional capacity and a new, in-bound imaging and mail processing capability have been acquired with the LBG contracts. As part of the arrangements with LBG and the overall expansion plans for transactional services, Communisis will commission a further three high-speed, colour digital platforms, demonstrating the Group’s commitment to the deployment of market-leading technology. The resulting fleet of eight machines will be unmatched in the UK and be the largest in Europe for transactional applications, providing considerable scope for product innovation.

Overseas expansion of the Group’s managed services has also accelerated during the year, with international revenues increasing from 7% of total turnover in 2012 to over 18% in 2013, nearing the 20% target. Communisis now supports clients in 15 countries operating from 11 European sites, principally providing external brand building services to Procter & Gamble (P&G). This contract has enabled the Group to develop the infrastructure needed to grow these overseas activities substantially both with P&G and with other consumer goods brands.

Adjusted operating profit increased 16% to £13.3m (2012 £11.5m*) on turnover that was 18% ahead at £270.1m (2012 £229.8m). This represented an operating margin of 6.9% on sales (excluding pass through) compared with 6.4%* in 2012. The exceptional items at £3.5m (2012 £2.7m) related principally to non-recurring costs associated with restructuring, pension projects and acquisition activity offset by non-cash credits resulting from the release of liabilities and property provisions no longer required. Profit after tax increased by 26% from £3.9m to £4.9m. Basic earnings per share were 2.65p (2012 2.84p) and adjusted earnings per share (fully diluted and excluding the after tax effects of exceptional items and acquired intangibles) were 4.19p (2012 4.51p) on increased weighted average shares in issue.

Dividend

The proposed final dividend of 1.2p per share brings the total dividend for the year to 1.8p per share, an increase of 9% over 2012, reflecting both the strong operating performance in 2013 and the Board’s confidence in the future of the business. The dividend will be payable on 20 May 2014 to shareholders on the register at 22 April 2014.

Growth capital

The Group raised additional equity in early 2013 realising gross proceeds of £20m. The net proceeds (after transaction costs) were used for investment in new contracts, for restructuring costs, for an acquisition and for working capital. The share issue was substantially oversubscribed with strong demand from both existing shareholders and new investors.

The bank facilities were also refinanced in July 2013 on improved terms. The Group now has £60m of unsecured facilities, a £55m revolving credit facility committed for about five years until March 2018 and a £5m overdraft, renewable annually.

Board of directors

John Wells stood down from the Board as Executive Director in May 2013 and retired from the Company on 30 November 2013.

Peter Harris joined the Board as a non-executive Director and Chairman of the Audit Committee, on 1 July 2013. Peter had previously held a number of senior executive Finance Director roles in both public and private companies. He is currently Interim Finance Director of Next Fifteen Communications Plc.

Outlook

The growth of the UK economy in 2013 provides an early indication that confidence is returning and that marketing budgets will generally increase to drive business growth. There are also a number of market trends that favour Communisis, including the move toward more outsourcing of both in-bound and out-bound customer communications. With a broad range of services and a growing reputation, Communisis is well-positioned to capitalise on these trends and gain market share both in the UK and overseas.

Peter Hickson
Chairman
6 March 2014

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, regulatory or transactional nature and can be distributed either on paper or in digital formats, through e-mail, text message, mobile content or social media.

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

- The Design segment provides brand communication strategy and implementation, content management and insight and measurement services that cover creative, data analytic and digital marketing activities.
- The Produce segment includes the specialist, high volume and predominantly personalised printing of direct mail, shareholder mailings such as AGM notices and dividend cheques, invoices, statements and chequebooks.
- The Deploy segment covers the management of third party supply chains together with the fulfilment and distribution of marketing collateral.

The Group offers a broad range of services that can be delivered either separately or in combination to make its clients' communications more targeted and efficient. 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 and the depth of its embedded expertise and innovative capabilities.

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. Five have been installed and commissioned to date with a further three planned for 2014, to support growth from new contracts. The resulting fleet of eight machines, all of which are provided under operating leases but which represent an aggregate capital value of approximately £30m, will be unmatched in the UK and will be the largest in Europe for transactional applications. The scale of the capital commitment, together with operational know-how gained over several years provide 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 and at speed and scale, enabling marketing messages to be superimposed on substantial volumes of transactional 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 in progress include the consolidation of all client-facing software onto one platform, called "Mantl". The Group has also been developing its "Digital Production Workflow" platform since 2012 and expects to begin using it in 2014. It is designed to provide a secure environment for managing production across the Group's facilities to drive operational efficiency, seamless multi-channel delivery and enhanced disaster recovery.

Locations and employees

The Group currently operates from six principal locations in the UK, from one in India and from 18 satellite offices or client sites in both the UK and Europe. This operational footprint will be extended by three further principal locations and eleven sites in April 2014 after the start of the new outsourcing arrangement with

Lloyds Banking Group for in-bound imaging and mail processing services, referred to below, after which time the Group is expected to employ around 2,300 people.

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.

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 has become of increasing importance to most investor categories.

Market dynamics

Economy

The growth of the UK economy in 2013 provides an early indication that confidence is returning and that marketing budgets will generally increase to drive business growth.

There is a risk of increasing inflation in the foreseeable future. In the absence of comparable increases in pay rates, the prospect of higher inflation could put pressure on household budgets and consumer spending. This in turn could create further challenges for the Group's clients as they move to maintain their own margins, hence the focus on precise customer targeting and the importance of a single customer view that enhances insight into consumer preferences.

Market trends

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

- the outsourcing of in-bound and out-bound 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 to clients that deliver value both for them and for the Group.

There is also a growing client need to demonstrate improved returns on transactional 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 and contain 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 2013 (2012 46%) a percentage that is likely to increase as the new contracts with Nationwide and LBG become fully operational. A notable trend is the growing proportion of total revenues derived from the consumer goods sector which increased to 21% in 2013 (2012 8%).

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 55% of total revenues in 2013 but with no undue concentration on any one client.

About 80% of revenues are usually underpinned by contractual arrangements, giving good predictability 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 growth, profitability and capital sections below.

A third independent client audit, conducted in December 2013, confirmed a further significant improvement in overall client satisfaction and in the net number of clients willing to be promoters of the Group's services.

Segmental reporting

New segmental reporting has been adopted in 2013 so that it is better aligned with the Group's strategic direction and the way in which the activities are now managed. Turnover, operating profit and margins before exceptional items are now 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 increased by 16% to £13.3m (2012 £11.5m*) on turnover that was 18% ahead at £270.1m (2012 £229.8m).

Operating margin on sales (excluding pass through), which is a key financial metric, continued to improve from a 6.4%* in 2012 to 6.9% and toward our double-digit target in the medium term.

The Group's client-led international expansion accelerated during the year, with 18% (2012 7%) of total revenues being derived from overseas sources, and is well ahead of expected progress toward a 20% target.

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 available because of the extended sales lead times and the need for client culture to be aligned with that of Communisis. Three substantial new contracts or other arrangements, that will underpin revenues in both the UK and overseas for many years, have been announced, either during the year or after the year-end.

Major new contracts

Lloyds Banking Group

In July 2013, the Group was chosen by Lloyds Banking Group (LBG) as its outsource partner for the production of all out-bound transactional customer communications in the UK.

The contract is for a ten year term and was the largest available contract of its kind in 2013. Under the arrangements Communisis has assumed responsibility for LBG's manufacturing sites in Copley and Crawley, providing additional capacity, doubling the Group's annual production volumes for these services and establishing Communisis as the clear UK market-leader in the outsourced production of transactional communications.

Progressive implementation of the contract started in October 2013. As part of the arrangements, Communisis is installing two more market-leading HP T400 high speed colour digital platforms, of the type already operating effectively at its transactional centre of excellence in Liverpool, together with a similar but smaller HP T300.

In February 2014 the Group was awarded a further new outsourcing arrangement with LBG for in-bound imaging and mail processing services.

This arrangement, which is subject to the completion of a contract that is expected to be finalised shortly, will begin in April 2014 and is for an initial ten year term with a five year renewal option. It will involve an investment of about £7.5m in working capital and mobilisation costs, approximately £4m of which is expected to be paid during 2014.

Under the arrangements, Communisis will handle 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 will be digitised and content indexed for onward processing by the Bank. Communisis will also take responsibility for the design and creation of operational customer-facing documents.

The arrangement brings a new service line to the Group and will see it take over fourteen existing LBG sites in the UK, with the main operational centres being in Edinburgh, Leeds and Andover.
Combining in-bound and out-bound operations 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.

Nationwide

A nine year contract was awarded by Nationwide Building Society in January 2013 for the development and production of its customer communications, including transactional, marketing and regulatory mailings. The award of this contract was the culmination of a strategic review by Nationwide to determine the best way to deliver its out-bound customer communications.

The new contract commenced in the first quarter of 2013 and significantly extended the Group's relationship to include all of the transactional documentation that was previously produced in-house by Nationwide. All of this activity has been transferred to Communisis' transactional centre of excellence in Liverpool, using high-speed colour digital technology.

Nationwide has been an important client of Communisis for a number of years during which time the Group has expanded the range and volume of services provided. Communisis has continued to produce direct mail, regulatory communications and security products and source point of sale and marketing collateral through its managed supply chain.

Communisis is also deploying its workflow, document asset management and document composition technology to help Nationwide transform the clarity and effectiveness of its customer communications.

Overseas expansion

The Group's target is to derive more than 20% of total revenues from overseas sources in the medium term.

Overseas expansion of the Group's managed services has accelerated during the year, with international revenues increasing from 7% of total turnover in 2012 to over 18% in 2013. Communisis now supports clients in 15 countries operating from 11 European sites, principally providing external brand building services to Procter & Gamble (P&G). This contract has enabled the Group to develop the infrastructure needed to grow these overseas activities substantially both with P&G and with other consumer goods brands.

Acquisition

Acquisition is also an important mechanism in the delivery of the Group's strategic objectives and in implementing client driven initiatives to broaden the range of the Group's service offering.

In September 2013 the Group acquired the entire share capital of Editions Publishing Limited, trading as Editions Financial ("EF"), the UK's leading content marketing agency in the financial services sector for £6.9m.

EF has delivered in excess of 2,000 projects for more than 33 financial brands over 14 years; more than any other content marketing agency in the UK. EF is based in Edinburgh and has a 31-strong team of specialist writers, designers, digital experts, content strategists, BAFTA-winning broadcasters and marketing specialists.

EF works directly with major financial brands to develop their content strategies (including benchmarking, proposition development and campaign planning). It then implements the strategy by providing a co-ordinated content marketing delivery service in all key channels including copywriting, video production, digital content, print and digital magazines, social media, event content and front line sales collateral.

EF has been successfully integrated into the Group, and is performing well and in line with expectations.

Profitability

Cost base alignment

Further site consolidation and re structuring plans were announced in June 2013, and subsequently implemented, as part of an on-going drive for better capacity utilisation and cost efficiency.

Cheque production at the Group's Lisburn, Northern Ireland and Trafford Wharf, Manchester sites ceased during 2013 and was successfully moved, without any service disruption, to the Communisis facilities in Leeds and Crewe.

The Leeds site has now been reconfigured from a direct mail to a high integrity transactional mail operation, as a supplementary facility to Liverpool. The successful outsourcing of the commodity print element of the direct mail business coupled with the removal of print production capacity enabled the Leeds site to retain and focus on the more specialist, higher margin activities.

Indirect overhead costs were further reduced, as processes and support services were streamlined to improve efficiency. The majority of the savings were reinvested in new skills and services, especially in IT infrastructure and in the strategic account, legal and central management teams.

Capital

The Group's financial position was strengthened during the year through the successful raising of growth capital, the early refinancing of bank debt facilities, continuing access to operating lease arrangements and the adoption of new commercial terms with certain clients to improve working capital management.

Growth Capital

£20m was raised through a substantially oversubscribed share issue in March 2013. The principal purpose of the equity raise was to support the next phase of profitable growth by securing funds for investment in new contracts, for restructuring costs and for small acquisitions and working capital.

Bank Facilities

The Group's bank facilities were refinanced in July 2013 on improved terms. The Group's existing banking partners, Barclays, HSBC and Lloyds Banking Group, were joined by RBS so that the Group now enjoys the support of all four major UK banks.

£60m of unsecured facilities have been arranged comprising a £55m revolving credit facility committed for about five years until March 2018 and a £5m overdraft that is renewable annually.

Technology Funding

The Group finances most of its substantial commitment to the application of market-leading technology through operating leases. Such leases also reduce the technology risk, which remains with the lessor, enabling the Group to upgrade specifications at the end of the lease terms. During 2013 and subsequently, a further four HP T series high-speed colour digital platforms have been acquired under operating leases or ordered, bringing the installed base of such machines to eight with an aggregate capital value in the region of £30m.

W*orking Capital*

In the last quarter of the year, the Group adopted new commercial arrangements with certain clients to facilitate the early collection of their receivables. These ongoing arrangements are helping to mitigate the additional working capital demands of the rapidly expanding managed services business, both in the UK and overseas.

Pensions

The Group continues to monitor and manage its pension deficit exposure. The obligation for a discrete section of the Pension Scheme was effectively removed towards the end of 2013 using attributable Scheme assets and a cash contribution from the Group of £0.5m, reducing the liabilities by about £4m.

The Group is still benefitting from reduced annual cash contributions resulting from the asset backed arrangement entered into in early 2012, involving the securitisation of a rental stream on one of the Group's freehold properties. The annual cash saving, net of the rental cost, of about £2m p.a. will end in 2014 following the next triennial valuation of the Pension Scheme and the renegotiation of the annual contributions.

The Pension Scheme deficit at the year-end has increased for accounting purposes to £27.7m (2012 £21.7m). This is primarily due to a higher forecast inflation rate that has increased the Pension Scheme liabilities by about £8m. Mortality assumptions have also been revised in line with market practice increasing the liabilities by a further £0.7m. These increases have been offset by a small change in the discount rate that has reduced liabilities by about £2.8m. 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 next of which is due to be performed as at 31 March 2014.

Dividend

The Board maintained its progressive dividend policy by proposing a final dividend of 1.2p per share, giving a full-year dividend of 1.8p per share, a 9% increase on the prior year (2012 1.65p).

Segmental Results

Adjusted operating profit means profit from operations before exceptional items and the amortisation of acquired intangibles. Prior year numbers denoted with an asterisk have been restated either to reflect changes in the presentation of pension charges required under IAS19R or new segmental reporting introduced during the year.

Profitability

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

	2013 £m	restated* 2012 £m
Turnover		
Design	20.9	17.6
Produce	117.3	111.1
Deploy	55.9	50.1
Pass Through	76.0	51.0
	270.1	229.8
Profit from operations before exceptional items		
Design	3.7	3.1
Produce	19.3	21.2
Deploy	9.5	4.3
Central Costs	(15.2)	(13.5)
Corporate Costs	(4.8)	(4.4)
	12.5	10.7
Analysed as:		
Profit from operations before exceptional items, amortisation of acquired intangibles and changes to IAS 19	13.8	12.4
Changes to IAS 19	(0.5)	(0.9)
Adjusted operating profit	13.3	11.5
Amortisation of acquired intangibles	(0.8)	(0.8)
Profit from operations before exceptional items	12.5	10.7
Contribution to overheads (excluding pass through)		
Design	17.7%	17.6%
Produce	16.5%	19.1%
Deploy	17.0%	8.6%
Operating margin (excluding pass through)	6.4%	6.0%
Operating margin (before amortisation of acquired intangibles and excluding pass through)	6.9%	6.4%
Exceptional items	(3.5)	(2.7)
Profit from operations after exceptional items	9.0	8.0
Net finance costs	(2.7)	(2.9)
Profit before tax	6.3	5.1
Tax	(1.4)	(1.2)
Profit after tax	4.9	3.9
Earnings per share		
Basic (p)	2.65	2.84
Adjusted (p)	4.31	4.66
Adjusted fully diluted (p)	4.19	4.51

* **restated to reflect the changes to IAS 19**

Change in accounting policy

Changes in the guidance on the basis of the calculation and presentation of pension charges under International Accounting Standard 19R (IAS 19R) have led to a change in accounting policy in 2013 and a consequent restatement of the 2012 results on a consistent basis for comparative purposes. This has resulted in an additional operating charge of £0.5m in 2013 (2012 £0.9m) as shown in the table above summarising the income statement.

Results

Adjusted operating profit increased by 16% to £13.3m (2012 £11.5m*) on turnover that was 18% ahead at £270.1m (2012 £229.8m).

Operating margin on sales (excluding pass through), which is a key financial metric, continued to improve from 6.4%* in 2012 to 6.9% and toward our double-digit target in the medium term.

Design

Turnover and profit from operations before exceptional items both increased by 19% in 2013. Over half of the additional turnover and most of the extra profitability came from two of the recent acquisitions, Yomego the social media agency that was acquired in 2012 and Editions Financial, the content marketing specialist that was acquired in 2013. There was also an improved performance in data services during the year which had suffered from reduced demand from the insurance sector in 2012. Despite a change in the mix of services the contribution margin remained constant at 17.7% (2012 17.6%).

Produce

Turnover increased by 6% overall but this reflects the combined effects of a significant reduction in direct mail activity, following the Group's decision to outsource the commodity print element and a faster than expected decline in the demand for chequebooks that have been more than offset by the substantial growth from new contracts for transactional communications that were announced during the year.

Nevertheless the profit from operations before exceptional items has declined by 9% in 2013 and the contribution margin was lower at 16.5% (2012 19.1%). This is partly attributable to the differing contribution margins between the lost and the replacement volumes and partly due to operational inefficiencies beyond the Group's control, during the transitional period, on certain of the new contracts.

Deploy

The turnover from pass through sales and the associated management fees together increased by 31%, accounting for most of the growth in Group turnover. The higher margins on fee based activities, together with the benefit of certain performance related gain-share arrangements resulted in a significantly improved contribution to the profit from operations before exceptional items of £9.5m (2012 £4.3m) and contribution margins that almost doubled to 17% (2012 8.6%).

Central and corporate costs

As noted above, indirect overhead costs were further reduced during 2013, as processes and support services were streamlined to improve efficiency. The majority of the savings were reinvested in new skills and services, especially in IT infrastructure and in the strategic account, legal and central management teams, most of which are included within central and corporate costs.

Exceptional items

The exceptional items in 2013 comprise the net effect of the £4m cost of restructuring the Trafford Wharf and Leeds sites together with the indirect overhead reduction programme announced in June, £0.3m of non-recurring professional fees associated with pensions and acquisition activity and £0.8m of non-cash credits resulting from the release of liabilities and property provisions no longer required. The restructuring was largely completed and paid for during 2013 with the remaining £1.8m incurred in the first half of 2014.

Tax

The effective tax charge for both 2013 and 2012 at 22.5% and 23.8% respectively were broadly in line with the standard rate for each year.

Profit after tax and earnings per share

Profit after tax increased by 26%. Basic earnings per share were 2.65p (2012 2.84p) and adjusted earnings per share (fully diluted and excluding the after tax effects of exceptional items and acquired intangibles) were 4.19p (2012 4.51p) on increased weighted average shares in issue.

Cash Flow and Net Debt

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

Cash flow statement

	2013 £m	restated* 2012 £m
Profit from operations before exceptional items	12.5	10.7
Depreciation and other non-cash items	8.4	8.4
Increase in working capital	(9.3)	(0.1)
Pension scheme contributions	(1.7)	(0.9)
Interest and tax	(2.0)	(2.5)
Net operating cash flow before exceptional items	7.9	15.6
Exceptional items	(5.2)	(3.6)
Net operating cash flow	2.7	12.0
Net capital expenditure	(8.3)	(5.4)
Free cash flow	(5.6)	6.6
Investment in new contracts	(11.7)	-
Acquisition of subsidiary undertaking	(4.1)	(1.3)
Business disposals	-	0.5
Dividends paid	(3.3)	(2.1)
Debt arrangement fees	(0.6)	-
Share issues net of directly attributable expenses	18.4	0.6
Other	-	(0.1)
(Increase) / decrease in bank debt	(6.9)	4.2
Opening bank debt	(18.5)	(22.7)
Closing bank debt	(25.4)	(18.5)
Bank debt	(25.4)	(18.5)
Unamortised borrowing costs	0.5	0.4
Net bank debt	(24.9)	(18.1)
Finance lease creditor	(0.8)	(1.9)
Net debt	(25.7)	(20.0)

*** restated to reflect the changes to IAS 19**

Net operating cash inflow excluding the cash cost of exceptional items was £7.9m (2012 £15.6m). This was lower than in 2012 due principally to the additional working capital costs of growing the business and the additional costs of funding the buy-out of one discrete section of the Pension Scheme referred to above.

Within working capital the percentage of overdue debt, a key measure, worsened from 7.3% to 8.7%. This was mainly attributable to procedural delays in implementing cash collections on a major new account and does not indicate any increasing credit risk as the cash was collected shortly after the year end.

Net capital expenditure, including £2.9m of fixed assets acquired under the transactional outsourcing contract with LBG, was broadly equivalent to depreciation during 2013 and at a more normal level. It was lower in 2012 as the major deployment of digital colour platforms in that year was provided under operating leases with the associated cost being charged as an operating expense rather than as depreciation.

Free cash flow is defined as the net increase 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. The net outflow for the year of £5.6m reflects the exceptional costs of funding the continuing restructuring programmes and the additional working capital associated with growing the business, for which purpose additional equity capital was raised in March 2013.

£20m (£18.4m net of attributable expenses) of growth capital was raised and used for the intended purposes during the year, including amounts for the funding of previously announced restructuring programmes (£1.4m) and new contracts (£6.0m) and £11.5m for acquisitions and working capital, of which £4.1m was subsequently spent in connection with the acquisition of Editions Financial.

Further investments in new contracts (£5.7m) in the latter part of the year, the additional cost of the increased dividend (£1.2m) and the cost of refinancing the bank facilities during the year (£0.6m) offset by repayments of the finance lease creditors (£1.1m) are the other principal items that account for the increase in net debt at the end of 2013 to £25.7m (2012 £20.0m).

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 2013 was £28.1m compared to total current facilities of £60m.

Key Performance Indicators

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

	2013	2012 (restated*)
Financial		
Profit after taxation (£million)	**4.9**	3.9
Adjusted operating profit (£million)	**13.3**	11.5
Adjusted dividend cover	**2.40**	2.82
Bank debt (£million)	**25.4**	18.5
Debt outside credit terms (%)	**8.7**	7.3
Operating margin on sales (excluding pass through) (%)	**6.9**	6.4
Overseas turnover (%)	**18.1**	7.0
Pension deficit (£million)	**27.7**	21.7
Sales to financial services clients (%)	**42.9**	46.1
Non-financial		
Carbon footprint (tonnes)	**11,775**	13,485
Accident incidence rate (per 1,000 employees)	**5.62**	8.59

* restated to reflect changes in IAS 19

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 2013, approximately 15% of the Group's transactional communications were delivered digitally.

An emerging risk relates to the effective identification, evaluation and implementation of acquisitions which are likely 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, that can often drive the wrong behaviours are generally avoided and, wherever possible, vendors are 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.

Andy Blundell
Chief Executive
6 March 2014

Nigel Howes
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' 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 and therefore, impact market demand for the Group's products and services. This is also linked to the need to ensure that employees have the correct skill set to deliver the Group strategy.	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 acquisitions and contract wins to meet its strategic objectives	The Group continues to pursue growth which is achieved via purchase of other businesses (eg. Kieon, Yomego, Editions etc) or contract wins (eg. Lloyds, Nationwide). There is a risk that Group may be unable to successfully integrate the operations that have been acquired 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 and sustainability. 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 resilient business operations	The Group's 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 clients.	A Business Continuity Management (BCM) System and BCM plans are in place and audited by clients. A detailed rolling programme of BCM audits take place across the Group.

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	Without learning and development resource there is a risk that the Group will be unable to develop and retain managers and staff. This will affect the Group's ability to deliver business strategy and educate employees on necessary and essential policy, procedures and legislation.	The Group has a policy and procedures in place for training and development for all staff. Business operational expansion and acquisitions help to ensure that the Group has the right skills.
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 2013 the top five clients of the Group accounted for approximately 55 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, reducing the historical reliance on the financial services sector. Long-term client relationships are developed.
Due to high operational gearing, a reduction in revenues could significantly impact profitability	The risks are that the Group will not: Adapt sufficiently quickly to any 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.	The Group's cost base is regularly reviewed and aligned with projected demand to avoid margin erosion. 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.

Framework contracts with complex arrangements may result in litigation or losses through higher than anticipated costs	A substantial proportion of the Group's activities are conducted within the terms of multi-year framework contracts with clients, often for a range of different services. The contract terms usually contain complex commercial, legal and financial arrangements. The risk is that over the life of the contract the practical working relationships may differ from those anticipated at the outset, giving rise to the potential for dispute, commercial damage and financial loss.	The Group's contract risk management programme delivers a structured process that can be consistently applied to bids, tenders and contracts and assists with the management and control of contractual risk through the entire contract life cycle. Compliance with contract terms, particularly service level agreements, is monitored and, where required, reported to clients on a regular basis. Periodic commercial review of contract terms is conducted to highlight any emerging anomalies between the original intent and the current working practices.
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 £27.7 million as at 31 December 2013. 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.
Deterioration in the economic environment may decrease profitability	The Group is a provider of marketing services to businesses, which in turn supply goods and services to consumers. There is a risk that macro-economic issues may detrimentally affect consumer expenditure, which could impact the trading performance of the Group's clients and reduce their discretionary market spend with Communisis. This could potentially result in lower sales and profitability for the Group.	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.

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 2013 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 2013

	Note	2013 Before amortisation of acquired intangibles and exceptional items £000	2013 Amortisation of acquired intangibles and exceptional items £000	2013 Total £000	2012 (restated)* Before amortisation of acquired intangibles and exceptional items £000	2012 (restated)* Amortisation of acquired intangibles and exceptional items £000	2012 (restated)* Total £000
Revenue		**270,148**	**-**	**270,148**	229,774	-	229,774
Changes in inventories of finished goods and work in progress		**(459)**	**-**	**(459)**	(410)	-	(410)
Raw materials and consumables used		**(149,921)**	**-**	**(149,921)**	(125,263)	-	(125,263)
Employee benefits expense		**(67,053)**	**(3,882)**	**(70,935)**	(58,734)	(1,191)	(59,925)
Other operating expenses		**(31,887)**	**407**	**(31,480)**	(27,214)	(1,221)	(28,435)
Depreciation and amortisation expense		**(7,571)**	**(827)**	**(8,398)**	(6,682)	(1,105)	(7,787)
Profit from operations		**13,257**	**(4,302)**	**8,955**	11,471	(3,517)	7,954
Finance revenue		**34**	**-**	**34**	133	-	133
Finance costs		**(2,540)**	**(176)**	**(2,716)**	(2,930)	-	(2,930)
Profit before taxation		**10,751**	**(4,478)**	**6,273**	8,674	(3,517)	5,157
Income tax expense	4	**(2,844)**	**1,431**	**(1,413)**	(2,233)	1,007	(1,226)
Profit for the year attributable to equity holders of the parent		**7,907**	**(3,047)**	**4,860**	6,441	(2,510)	3,931
Earnings per share	6						
On profit for the year attributable to equity holders and from continuing operations							
- basic		**4.31p**		**2.65p**	4.66p		2.84p
- diluted		**4.19p**		**2.58p**	4.51p		2.75p
Dividend per share	7						
- paid				**1.68p**			1.55p
- proposed				**1.20p**			1.10p

*Restated to reflect the changes to IAS 19

Dividends paid and proposed during the year were £3.3 million and £2.3 million respectively (2012 £2.1 million and £2.1 million respectively).

All income and expenses relate to continuing operations.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2013

	2013 £000	2012 £000 (restated)
Profit for the year	**4,860**	3,931
Other comprehensive loss to be reclassified to profit or loss in subsequent years:		
Exchange differences on translation of foreign operations	**(118)**	(40)
Gain / (loss) on cash flow hedges taken directly to equity	**43**	(64)
Income tax thereon	**(10)**	15
Items not to be reclassified to profit or loss in subsequent years:		
Adjustments in respect of prior years due to change in tax rate	**(651)**	(284)
Actuarial losses on defined benefit pension plans	**(6,622)**	(7,540)
Income tax thereon	**1,322**	1,736
Other comprehensive loss for the year, net of tax	**(6,036)**	(6,177)
Total comprehensive loss for the year, net of tax	**(1,176)**	(2,246)
Attributable to:		
Equity holders of the parent	**(1,176)**	(2,246)

Consolidated Balance Sheet
31 December 2013

	2013 £000	2012 £000
ASSETS		
Non-current assets		
Property, plant and equipment	**21,254**	19,853
Intangible assets	**181,721**	166,846
Trade and other receivables	**203**	69
Deferred tax assets	**2,510**	2,215
	205,688	188,983
Current assets		
Inventories	**9,609**	7,423
Trade and other receivables	**52,955**	41,527
Cash and cash equivalents	**18,642**	21,548
	81,206	70,498
TOTAL ASSETS	**286,894**	259,481
EQUITY AND LIABILITIES		
Equity attributable to the equity holders of the parent		
Equity share capital	**48,601**	35,251
Share premium	**6,799**	22
Merger reserve	**11,427**	11,427
ESOP reserve	**(77)**	(346)
Capital redemption reserve	**1,375**	1,375
Cumulative translation adjustment	**(339)**	(221)
Retained earnings	**73,369**	77,679
Total equity	**141,155**	125,187
Non-current liabilities		
Interest-bearing loans and borrowings	**43,672**	40,518
Trade and other payables	**192**	766
Retirement benefit obligations	**27,670**	21,713
Provisions	**-**	761
	71,534	63,758
Current liabilities		
Interest-bearing loans and borrowings	**677**	1,030
Trade and other payables	**71,419**	67,650
Income tax payable	**1,441**	471
Provisions	**647**	1,321
Financial liability	**21**	64
	74,205	70,536
Total liabilities	**145,739**	134,294
TOTAL EQUITY AND LIABILITIES	**286,894**	259,481

Consolidated Cash Flow Statement
for the year ended 31 December 2013

	Note	2013 £000	2012 £000
Cash flows from operating activities			
Cash generated from operations	8	**4,732**	14,512
Interest paid		**(1,458)**	(1,954)
Interest received		**37**	229
Income tax paid		**(570)**	(730)
Net cash flows from operating activities		**2,741**	12,057
Cash flows from investing activities			
Acquisition of subsidiary undertakings (net of cash acquired)		**(4,070)**	(1,278)
Disposal of subsidiary undertakings		**-**	450
Purchase of property, plant and equipment		**(5,592)**	(3,139)
Purchase of intangible assets		**(15,638)**	(2,206)
Proceeds from the sale of property, plant and equipment		**1,210**	10
Net cash flows from investing activities		**(24,090)**	(6,163)
Cash flows from financing activities			
Share issues net of directly attributable expenses		**18,407**	588
New borrowings		**44,000**	13,000
Repayment of borrowings		**(40,000)**	(9,000)
Debt arrangement fees		**(550)**	-
Dividends paid		**(3,270)**	(2,137)
Net cash flows from financing activities		**18,587**	2,451
Net (decrease) / increase in cash and cash equivalents		**(2,762)**	8,345
Cash and cash equivalents at 1 January		**21,548**	13,280
Exchange rate effects		**(144)**	(77)
Cash and cash equivalents at 31 December		**18,642**	21,548
Cash and cash equivalents consist of:			
Cash and cash equivalents		**18,642**	21,548

Consolidated Statement of Changes in Equity
for the year ended 31 December 2013

	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
As at 1 January 2012	34,663	22	11,427	(535)	1,375	(181)	82,021	128,792
Profit for the year (restated)	-	-	-	-	-	-	3,931	3,931
Other comprehensive loss (restated)	-	-	-	-	-	(40)	(6,137)	(6,177)
Total comprehensive loss	-	-	-	-	-	(40)	(2,206)	(2,246)
Employee share option schemes - value of services provided	-	-	-	-	-	-	190	190
Shares issued – exercise of options	588	-	-	-	-	-	-	588
Shares issued from ESOP	-	-	-	189	-	-	(189)	-
Dividends paid	-	-	-	-	-	-	(2,137)	(2,137)
As at 31 December 2012	**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**

1 Segmental information

Business segments

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

- Design;
- Produce; and
- Deploy

The key changes to the previously reported segments are:

- The activities of the previously named IDC segment (with the exception of postal sortation and managed services) are now included under the new Design segment which is made up of data and analysis, creative and elements of campaign management.
- The activities previously reported under the SPS segment have been split between two further new segments, Produce and Deploy.
- Included within the new Produce segment are the direct mail, cheques and statements businesses along with postal sortation.
- Included within the new Deploy segment are print sourcing and managed services.
- Central costs previously allocated between the operating segments are now reported separately within Central Costs, which comprise marketing, IT, group procurement, group sales, strategic accounts and management.
- Corporate Costs representing the cost of the head office and other plc related costs, and Pass Through representing pre-agreed or contracted revenues that include an element regarding print, postal and other marketing material which are passed onto clients at cost as part of a wider service continue to be reported separately.

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 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 from operations before amortisation of acquired intangibles and exceptional items	**4,125**	**19,703**	**9,510**	**-**	**(15,241)**	**(4,840)**	**13,257**
Amortisation of acquired intangibles	**(378)**	**(449)**	**-**	**-**	**-**	**-**	**(827)**
Profit from operations before exceptional items	**3,747**	**19,254**	**9,510**	**-**	**(15,241)**	**(4,840)**	**12,430**
Exceptional items	**123**	**(2,942)**	**(112)**	**-**	**(380)**	**(164)**	**(3,475)**
Profit from operations	**3,870**	**16,312**	**9,398**	**-**	**(15,621)**	**(5,004)**	**8,955**
Net finance costs							**(2,682)**
Profit before tax							**6,273**
Income tax expense							**(1,413)**
Profit for the year							**4,860**

Revenue includes sales to two customers who each individually represent more than 10% of the Group's total revenue. Sales to Customer 1 were £53.4m including transactions with the Deploy and Design business segments, and to Customer 2 were £30.3m including transactions with each business segment.

Pension scheme costs are included in the Corporate Costs segment.

Inter-segment sales were as follows:

	2013 £000	2012 £000
From:		
Design to Produce	**3,746**	4,463
Design to Deploy	**3,508**	2,924
Design to Corporate Costs	**20**	58
Design to Central Costs	**106**	-
Produce to Deploy	**28,536**	24,770
Produce to Corporate Costs	**29**	30

The restated segment results for the year ended 31 December 2012 are as follows:

	Design £000	Produce £000	Deploy £000	Pass Through £000	Central Costs £000	Corporate Costs £000	Total £000
Revenue	17,579	111,156	50,089	50,950	-	-	229,774
Profit from operations before amortisation of acquired intangibles and exceptional items	3,461	21,660	4,257	-	(13,542)	(4,365)	11,471
Amortisation of acquired intangibles	(328)	(449)	-	-	-	-	(777)
Profit from operations before exceptional items	3,133	21,211	4,257	-	(13,542)	(4,365)	10,694
Exceptional items	(505)	(1,500)	-	-	(175)	(560)	(2,740)
Profit from operations	2,628	19,711	4,257	-	(13,717)	(4,925)	7,954
Net finance costs							(2,797)
Profit before tax							5,157
Income tax expense							(1,226)
Profit for the year							3,931

Revenue includes sales to two customers who each individually represent more than 10% of the Group's total revenue. Sales to Customer 1 were £35.8m and Customer 2 £28.3m and included transactions with each business segment.

2 Finance costs and finance revenue by category of financial instruments

	2013 £000	**2012 £000 (restated)**
Interest on financial assets measured at amortised cost	**33**	25
Interest on financial liabilities measured at amortised cost	**(1,831)**	(2,296)
Net interest from financial assets and financial liabilities not at fair value through Income Statement	**(1,798)**	(2,271)
Change in fair value of derivatives	**-**	108
Gain / (loss) on foreign currency liabilities	**1**	(19)
Retirement benefit related cost	**(885)**	(615)
	(2,682)	(2,797)

3 Amortisation of acquired intangibles and exceptional items

	2013 £000	**2012 £000**
Profit from operations is arrived at after charging the following items:		
Acquisition and set up costs	**105**	700
Exceptional restructuring costs	**3,500**	1,712
Net benefit from TGML restructuring	**(294)**	-
Pension deficit reduction project	**164**	-
	3,475	2,412
Impairment of intangible assets included in depreciation and amortisation expense	**-**	328
Exceptional items	**3,475**	2,740
Non-exceptional depreciation and amortisation – amortisation of acquired intangibles	**827**	777
	4,302	3,517

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

During 2013 the Group incurred £3,500,000 (2012 £1,712,000) in respect of organisational restructuring which included the net cost of closing the Group's cheque production at Trafford Wharf (restructuring costs including a profit on disposal of £385,000), a further rationalisation of the direct mail facility in Leeds, and ongoing indirect overhead reductions. Included in this amount is £445,000 relating to the release of property provisions no longer required. Of the £3,500,000, £1,755,000 is unpaid at 31 December 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.

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

In 2012 a customer relationship with a cost of £410,000 and accumulated amortisation of £82,000 was written down to £nil due to the loss of a customer.

4 Income tax

The major components of income tax expense for the years ended 31 December 2013 and 2012 are:

	2013 £000	2012 £000 (restated)
Tax charged in the Income Statement		
Current income tax		
UK Corporation Tax	**876**	1,864
Adjustments in respect of prior years	**(272)**	(332)
Overseas tax on profits for the year	**1,104**	144
Total current income tax charge	**1,708**	1,676
Deferred income tax		
Origination and reversal of temporary differences	**(238)**	(573)
Adjustments in respect of prior years	**(13)**	178
Adjustments in respect of prior years – due to change in tax rate	**(44)**	(55)
Total deferred tax credit	**(295)**	(450)
Tax charge in the Consolidated Income Statement	**1,413**	1,226
Tax relating to items charged or credited to other comprehensive income		
Deferred income tax		
Actuarial losses on pension scheme current year credit	**(1,322)**	(1,736)
Adjustment in respect of prior years – due to change in tax rate	**651**	284
Tax on financial liability	**10**	(15)
Income tax credit reported in Consolidated Statement of Comprehensive Income	**(661)**	(1,467)

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 (2012 lower) than the average standard rate of Corporation Tax in the UK of 23.25% (2012 24.5%). The differences are reconciled below:

	2013 £000	2012 £000 (restated)
Profit before income tax	**6,273**	5,157
At UK statutory income tax rate of 23.25% (2012 24.5%)	**1,458**	1,263
Expenses not deductible for tax purposes	**324**	290
Non-taxable income	**(198)**	-
Unrelieved overseas losses	**-**	3
Untaxed overseas profits	**(7)**	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	**187**	(1)
Share-based payments	**2**	(70)
Change in deferred tax in respect of rolled over capital gains	**(24)**	(50)
Adjustments in respect of prior years	**(285)**	(154)
Adjustment in respect of prior years – due to change in tax rate	**(44)**	(55)
Tax charge in the Consolidated Income Statement	**1,413**	1,226

Unrecognised tax losses

The Group has unrecognised losses, which arose outside of the UK, of £817,000 (2012 £797,000) 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 any 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 4 September 2013, the Group acquired the entire share capital of Editions Publishing Limited (trading as Editions Financial, “EF”). The acquisition was at an enterprise value (on a debt free, cash free basis) of £5,757,000, including EF’s net assets at completion of £106,000. The consideration payable by Communisis totals £6,947,000, including acquired cash of £1,190,000. The consideration was satisfied in cash of £5,247,000 and through the issue of 3,003,533 new ordinary shares of 25p each in the share capital of Communisis (the “Consideration Shares”) to the value of £1,700,000, based on an average middle market closing price of 56.6 pence per ordinary share.

The Consideration Shares will rank equally in all respects with Communisis’ existing ordinary shares. 574,204 and 2,429,329 Consideration Shares are subject to an absolute lock-in for one and two years respectively after the acquisition. After the second anniversary of the acquisition the 2,429,329 Consideration Shares will only be tradable in an orderly market basis through the Group’s brokers.

EF has delivered in excess of 2,000 projects for more than 33 financial brands over 14 years; more than any other content marketing agency in the UK. EF is based in Edinburgh and has a 31-strong team of specialist writers, designers, digital experts, content strategists, BAFTA-winning broadcasters and marketing specialists.

EF works directly with major financial brands to develop their content strategies (including benchmarking, proposition development and campaign planning). It then implements the strategy by providing a co-ordinated content marketing delivery service in all key channels including copywriting, video production, digital content, print and digital magazines, ezines, social media, event content and front line sales collateral.

The acquisition of EF is in line with Communisis’ stated strategy of acquiring businesses in specialist complementary areas. EF will add considerable skill and experience in content marketing to the Group’s Design segment capabilities and strengthen its leading position in the strategically important financial services sector.

Details of the consideration paid and book values of assets and liabilities acquired are set out below. This transaction has been accounted for by the acquisition method of accounting.

	Fair value to Group £000
Property, plant and equipment	**123**
Customer relationships	**1,697**
Work in progress	**15**
Cash at bank	**1,190**
Trade and other receivables	**573**
Trade and other payables	**(466)**
Deferred tax	**(339)**
Income tax payable	**(158)**
Fair value of net assets acquired	**2,635**
Goodwill	**4,312**
Consideration	**6,947**
Satisfied by:	
Cash	**5,247**
Shares	**1,700**
Total consideration	**6,947**
The net cash outflow arising from the acquisition was as follows:	
Cash consideration, as above	**(5,247)**
Cash acquired, as above	**1,190**
Net outflow of cash	**(4,057)**

The acquired business contributed revenue of £1,177,000 and profit of £349,000 from the date of the acquisition (4 September 2013) to 31 December 2013. If the combination had taken place at the beginning of the year, the consolidated profit of the Group would have been £5,381,000 and revenue from continuing operations would have been £272,061,000.

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

Acquisition and set up costs of £105,000 have been expensed and are included in exceptional items.

The goodwill recognised above comprises certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items represent significant opportunities for synergy benefits and cost savings. Goodwill has also been recognised through recognition of the value of Editions' workforce of highly skilled technical professionals which did not meet the criteria for recognition as intangible assets as at the date of acquisition.

6 Earnings per share

	2013 000	2012 000
Weighted average number of ordinary shares (excluding ESOP shares) for basic earnings per share	**183,402**	138,263
Effect of dilution:		
Share options	**5,195**	4,583
Weighted average number of ordinary shares (excluding ESOP shares) adjusted for the effect of dilution	**188,597**	142,846

143,964 (2012 573,730) shares were held in trust at 31 December 2013.

Share options in issue for which exercise is currently unlikely (as the option price is higher than the average market price) total nil (2012 583,306) options. As a consequence, these options were not included in the diluted earnings per share in 2012.

.

	2013 £000	2012 £000 (restated)
Basic and diluted earnings per share is calculated as follows:		
Profit attributable to equity holders of the parent	**4,860**	3,931

Earnings per share :		
Basic	**2.65p**	2.84p
Diluted	**2.58p**	2.75p

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:

	2013 £000	2012 £000 (restated)
Profit after taxation from continuing operations	**4,860**	3,931
Exceptional costs (Note 3)	**3,475**	2,740
Taxation on exceptional items	**(895)**	(633)
Amortisation of acquired intangibles	**827**	777
Taxation on amortisation of acquired intangibles	**(210)**	(220)
Exceptional interest charge	**176**	-
Tax on exceptional interest charge	**(41)**	
Taxation – adjustments in respect of prior years (Note 4)	**(285)**	(154)
Profit after taxation from continuing operations excluding exceptional items and amortisation of acquired intangibles	**7,907**	6,441

Adjusted earnings per share:		
Basic	**4.31p**	4.66p
Diluted	**4.19p**	4.51p

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

	2013	2012
Declared and paid during the year	**£000**	**£000**
Amounts recognised as distributions to equity holders in the year:		
Final dividend of the year ended 31 December 2011 of 1.00p per share	**-**	1,378
Interim dividend of the year ended 31 December 2012 of 0.55p per share	**-**	759
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**	-
	3,270	2,137
Proposed for approval at AGM (not recognised as a liability as at 31 December)		
Final equity dividend on ordinary shares of 1.20p (2012 1.10p) per share (based on issued share capital at the date of approval of the Financial Statements)	**2,333**	2,095

8 Cash generated from operations

	2013 £000	2012 £000 (restated)
Continuing operations		
Profit before tax	**6,273**	5,157
Adjustments for:		
Amortisation of intangible assets arising on business acquisitions	**827**	777
Depreciation and other amortisation	**7,571**	6,682
Excess of contributions paid over Income Statement pension costs	**(214)**	(99)
Exceptional items	**3,475**	2,740
Profit on sale of property, plant & equipment	**(15)**	(10)
Share-based payment charge	**307**	190
Net finance costs	**2,682**	2,797
Additional contribution to the defined benefit pension plan	**(1,650)**	(863)
Cash cost of exceptional items	**(5,253)**	(3,663)
Changes in working capital:		
(Increase) / decrease in inventories	**(2,186)**	483
Increase in trade and other receivables	**(21,572)**	(8,472)
Increase in trade and other payables	**14,487**	8,793
Cash generated from operations	**4,732**	14,512

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 2013 and 2012 is abridged and has been extracted from the 2013 statutory accounts of Communisis plc which were approved by the Board on 4 March 2014, 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 2013 statutory accounts. The 2012 statutory accounts have been delivered to the Registrar of Companies. The auditors' report on the 2012 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.