communisis

1 August 2013

Communisis plc

(“Communisis” or the “Group”)

Interim Results for the six months ended 30 June 2013

Leading provider of personalised customer communication services Communisis plc (LSE: CMS), reports interim results for the six months ended 30 June 2013.

The Group had a successful half year with significant new contract wins and accelerated growth in international markets.

Profit from operations and operating margin before exceptional items increased substantially over the prior period, signalling further progress towards the achievement of a double-digit operating margin on sales (excluding pass through). Revenues from markets outside the UK grew faster than expected towards the medium term target of 20% of the total being derived from overseas.

Financial Highlights

- Profit from operations (before exceptional items and the amortisation of acquired intangibles) up 19% to £5.1m (H1 2012 £4.3m*)
  - Operating margin (before amortisation of acquired intangibles and excluding pass through) increased to 5.6% (H1 2012 4.9%*)
  - Turnover 8% higher at £121.2m (H1 2012 £112.6m)
  - Overseas revenues grew significantly to 13% of total revenues (H1 2012 5%)

- Profit after tax 33% lower at £1.0m (H1 2012 £1.5m*) and basic earnings per share of 0.55p (H1 2012 1.06p*) reflecting the after tax effect of exceptional items and new share issues

- Adjusted earnings per share (fully diluted after new share issues and excluding after tax effects of exceptional items and the amortisation of acquired intangibles) 9% lower at 1.49p (H1 2012 1.63p*)

- Interim dividend 9% higher at 0.60p (H1 2012 0.55p)

- Growth-related working capital resulted in a free cash outflow of £9.7m (H1 2012 £1.8m)

- Period-end net debt reduced to £12.9m (H1 2012 £27.5m)

- Financial position strengthened
  - £20m raised as growth capital for investment in new contracts, restructuring costs, small acquisitions and working capital
  - Bank debt refinanced in July with £55m revolving credit facility committed until March 2018 and £5m of overdraft renewable annually

* Restated to reflect the changes to IAS19

Operational Highlights

Growth and Diversification

- Significant new multi-year contractual relationships
  - Lloyds Banking Group – ten year term
  - Nationwide Building Society – nine year term
  - Yorkshire Building Society and Thames Water - three year terms

- Extended contracts in respect of:
  - Managed services in ten new European countries for FMCG client P&G
  - Transactional services for a major financial services client

- Diversified sources of revenues with a greater proportion coming from non-financial services sectors and overseas territories

Operational Excellence

- Continued investment in growth opportunities

- Successful implementation of recently announced contracts and migration onto market-leading high-speed colour digital platforms

- Growing presence of on-site teams as an important element of the client service model

- 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 has continued to execute its strategy for profitable growth, delivering results that give the Board confidence for the remainder of the year.

There have been a number of very significant developments during the first half of 2013, especially the long-term contract wins with Lloyds Banking Group and Nationwide Building Society together with a substantial geographical expansion of our services to P&G.

The Group is well placed to take advantage of fast developing market opportunities due to its strengthened financial position and its reputation for production excellence and innovation."

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About Communisis

Communisis is the 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.

Chief Executive's Review

Summary

Communisis has continued to execute successfully on its strategy for profitable growth during the first half of 2013. Our results were on target and considerably ahead of the same period last year, enabling us to continue with our policy to pay a progressive dividend which has increased by 9% at the interim.

Profit from operations (before exceptional items and the amortisation of acquired intangibles) increased 19% to £5.1m (H1 2012 £4.3m restated) whilst operating margin on the same basis improved to 5.6% (H1 2012 4.9% restated). Total turnover was 8% ahead at £121.2m (H1 2012 £112.6m).

New business development included a very significant ten-year contract with Lloyds Banking Group ("LBG") for the outsourcing of all transactional communication and an expansion of our activities with P&G into new countries and new services. Production is now live for customers such as British Telecommunications ("BT") and Nationwide Building Society ("Nationwide"), under contracts that we announced recently.

We are investing in our operational base where we see growth opportunities. At the same time we have re-structured legacy capacity in the more mature product areas, which will mean the closure of our Trafford Wharf production site and a re-alignment of operations at our Leeds facility.

We continue to analyse a range of acquisition opportunities to broaden and deepen our service offering.

The Group's financial position has been considerably strengthened during the period by the twin initiatives of an equity raise in March that contributed £20m of growth capital and an early re-financing of enlarged bank debt facilities, on improved terms and for an extended period until March 2018.

Communisis shares were re-admitted to the FTSE Small-Cap Index in the quarterly review in June this year.

Aspiration

The Group's aspiration is to be the leading provider of personalised customer communication services.

During the period we made further progress against both key financial targets for the medium term being the achievement of a double-digit margin on sales (excluding pass through), which was 5.6% in the first half of 2013 compared to 4.9% in 2012, and the derivation of 20% of revenues from overseas sources, which have grown to 13% in the first half of 2013 against 7% in 2012.

Our services are grouped around a sequence of activities being Design, Produce and Deploy and we have now adopted these headings in our segmental reporting.

These 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.

Design includes brand communication strategy, content management and insight and measurement services that cover creative, data analytic and digital marketing activities.

Production includes the specialist, high volume printing of transactional documents such as billings, statements and cheques; together with direct mail and other regulated communications.

Deployment covers the management of third party supply chains together with the fulfilment and distribution of marketing services product.

Markets

The Group operates in an overall market that is attractive and fast-moving. The marketing spend of our clients is being more tightly focused so as to target individual consumers. This trend suits our approach which is driven by insight and data-analytics. Our activities in Design benefit from the de-coupling of production agency services from the conceptual aspects of brand development that are typically offered by the larger agency networks. Solutions which link persuasive content to precise delivery are finding favour. Our clients' spend is justified by measurement as we help them toward improved return on investment.

In Production and Deployment, the markets are seeing a "flight to scale" that plays to Communisis' strengths. The drivers are the ongoing outsourcing of business-critical activities, which with increasing regulation will only be directed to a trusted partner, and the progressive implementation of an international approach to marketing services. This has been talked about for some years but is only now becoming a reality. Such trends will lead to a consolidation of the supplier base and the need to deliver services locally across more territories outside the UK – especially, for Communisis, in the Europe, Middle East and African ("EMEA") region. The implication for our bid pipeline is that it will increasingly comprise fewer but larger opportunities that span more service lines across a wider geographic area. Where successful, such bids are expected to lead to substantial multi-year contractual commitments and the opportunity to develop long-lasting, embedded client relationships.

Clients

Lloyds Banking Group

The Group has been chosen by LBG as its outsource partner for the production of all transactional customer communications in the UK.

The contract, which remains subject to ratification by the LBG Board and is expected to become effective later this month, was announced in July.

This is the largest available contract of its kind in the UK. Under the arrangements Communisis will assume responsibility for LBG's current manufacturing sites in Copley and Crawley. The Company's annual production volumes for these services will double on an annualised basis, confirming Communisis as the clear UK market-leader in the outsourced production of transactional communications. Substantial revenues will be generated for Communisis over the ten year term of the contract.

Progressive implementation of the contract is planned from October 2013, with Communisis making a significant commitment to the same high-speed colour digital platforms already in use elsewhere in the Group.

P&G

Our partnership with P&G has expanded rapidly into new countries and new service areas.

We deliver external brand building services on behalf of P&G. These are the activities that promote the P&G brands in retail environments or directly to consumers. Communisis works with P&G to operate the related supply chains more efficiently and on a more cohesive basis throughout EMEA. All products are sourced locally and are not manufactured by the Group; rather our value is based on the technology we deploy and the skills of the Communisis teams that manage these services within each territory.

The majority of our people supporting the P&G activities are now based overseas. Communisis is already active across 14 countries outside the UK and in recent months we have delivered projects as far afield as Sweden, Turkey and North Africa.

The previously announced contracts with BT, Nationwide, Yorkshire Building Society and Thames Water have all been implemented successfully during the period and are now in live production.

Operations

Our investment priorities are in the growth areas of our business and have been reflected either in direct capital expenditure or in operating lease commitments. The priority areas are IT infrastructure and process improvement and transactional capacity. IT includes further progress on projects Mantl and Skyline which join up our front-end processes and our multi-site production workflow, respectively. In transactional, we have invested in more insertion capability and in a new postal sortation line. Under our partnership with Hewlett Packard ("HP") we are already one of the largest global operators of the "T series" high-speed colour digital technology at our Leeds and Liverpool facilities and further commitments to these HP platforms are planned for Copley in support of the LBG contract, enhancing our reputation for deploying market-leading technology.

Further site consolidation and restructuring plans were announced in June as part of our ongoing drive for cost efficiencies.

Cheque production at the Group's Trafford Wharf site in Manchester will cease by the end of 2013 and production will move to the Communisis facility in Leeds.

The Leeds site will be reconfigured with a substantial amount of the remaining, more commoditised direct-mail print being outsourced and managed instead through the third party supply chain. The more specialist, higher margin direct mail and other production will remain in Leeds. The changes will provide the capacity needed to accommodate the cheque production transferred from Trafford Wharf and the printing of other transactional communications, acting as a supplementary facility for the Group's operations in Liverpool.

Indirect overhead costs will be further reduced as processes and support services are streamlined to improve efficiency. The restructuring will also provide scope for planned reinvestment in new skills and services.

Board Appointment

In June we announced the appointment of Peter Harris, as non-executive Director and Chairman of the Audit Committee, effective 1 July 2013.

Peter's financial experience spans 30 years during which he has played key roles in driving the profitability and growth of listed and private companies.

Peter is currently Interim Finance Director of Centaur Media Plc which he joined in July 2013.

Peter was previously Finance Director of Engine, the UK's largest privately owned marketing services group. Prior to that, he was Group Finance Director of Capital Radio Plc.

Outlook

Our markets are providing further growth opportunities for transactional and marketing communication services, both in the UK and internationally. Taken together with the benefits of our continuing investment in market-leading technology, new skills and from the progressive migration from legacy capacity, the Board is confident about the Group's prospects for the remainder of the year.

Andy Blundell

Chief Executive

Finance Review

Profitability

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

	HY 2013 £m	restated HY 2012* £m
Turnover		
Design	9.6	7.9
Produce	55.2	57.6
Deploy	26.3	22.7
Pass Through	30.1	24.4
	121.2	112.6
Profit from operations before exceptional items		
Design	1.5	1.4
Produce	9.4	9.8
Deploy	3.7	1.7
Central Costs	(7.4)	(6.7)
Corporate Costs	(2.4)	(2.2)
	4.8	4.0
Analysed as:		
Profit from operations before exceptional items, amortisation of acquired intangibles and changes to IAS 19	5.4	4.8
Changes to IAS 19	(0.3)	(0.5)
	5.1	4.3
Amortisation of acquired intangibles	(0.3)	(0.3)
Profit from operations before exceptional items	4.8	4.0
Contribution to overheads (excluding pass through)		
Design	15.6%	17.7%
Produce	17.0%	17.0%
Deploy	14.1%	7.5%
Operating margin (excluding pass through)	5.3%	4.5%
Operating margin (before amortisation of acquired intangibles and excluding pass through)	5.6%	4.9%
Exceptional items	(2.1)	(0.7)
Profit from operations after exceptional items	2.7	3.3
Net finance costs	(1.4)	(1.4)
Profit before tax	1.3	1.9
Tax	(0.3)	(0.4)
Profit after tax	1.0	1.5
Earnings per share		
Basic (p)	0.55	1.06
Adjusted (p)	1.53	1.68
Adjusted fully diluted (p)	1.49	1.63

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

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.

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 £0.3m in the first half of 2013 (H1 2012 £0.5m) as shown in the table above summarising the Income Statement.

Results

Profit from operations (before exceptional items and amortisation of acquired intangibles) increased by 19% to £5.1m (H1 2012 £4.3m restated) on turnover that was 8% ahead at £121.2m (H1 2012 £112.6m). Operating margin on sales (excluding pass through), which is a key financial metric, continued to improve from a restated 4.9% in the first half of 2012 to 5.6% for the same period in 2013 and towards our double-digit target in the medium term.

The overall increase in turnover was principally due to the growth in overseas managed services which is reflected in both the Deploy segment as fees and in pass through revenues. Fees generated by the three businesses acquired towards the end of the first half of 2012 together with those from more on-site studios at clients accounted for the additional sales in the Design segment. The net reduction in revenues in the Produce segment was attributable to the progressive decline in demand from the more mature cheque printing and direct mail markets offset by growth in transactional services.

The sources of revenue have continued to diversify during the period with those derived from the financial services sector accounting for 41% (H1 2012 48%) and those from overseas growing to 11% (H1 2012 4%) on a rolling twelve month basis. Overseas revenues in the first half of 2013 increased to 13% (H1 2012 5%) of total sales, as the Group expanded its relationships with a number of clients, including P&G, into ten new European countries and towards our medium term target of 20%. The proportion of revenues derived from financial services clients could increase again in future periods as the significant new contracts with Nationwide and Lloyds Banking Group become operational but only to a level that is still reasonably balanced with that of other sectors.

Within operating margins the Design contribution was adversely affected by the mix of services delivered during the period whilst the Deploy contribution benefited from the growth in higher margin managed and fulfilment services. Central support costs increased by 10% as further investment was made in central management, IT and marketing to support the expansion in overseas activities and integrated offerings. Turnover is usually weighted towards the second half of the year so that, with a more consistent cost base throughout the year, the second half margins tend to be higher. Consequently margins are typically lower in the first half of the year than for the year as a whole.

The exceptional items in the first half of 2013 total £2.1m which includes the net costs of closing the Group's cheque production site at Trafford Wharf, a further rationalisation of the direct mail facility in Leeds and ongoing indirect overhead reductions, as announced in June 2013. A further estimated £1.4m of costs relating to these changes will be charged as an exceptional item in the second half of 2013 with most of the cash costs being incurred before the end of the year.

The 2013 tax charge is based on the estimated effective rate for the year of 24.1% which is slightly higher than the standard rate of 23.25% as it includes the taxation of certain overseas profits in higher rate jurisdictions.

Profit after tax was 33% lower, principally due to increased exceptional costs, whilst basic earnings per share reduced by 48% due to the additional impact of the share issues during the period.

Dividends of 1.1p per share were paid in the first half of 2013 in respect of 2012 and an interim dividend of 0.6p per share will be paid for 2013, an increase of 9% on the prior year. The dividend will be paid on 11 October 2013 to shareholders on the register at the close of business on 13 September 2013.

Cash Flow and Net Debt

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

		restated*
	HY 2013	**HY 2012**
	£m	**£m**
Profit from operations before exceptional items	4.8	4.0
Depreciation and other non-cash items	4.5	4.1
Increase in working capital	(12.2)	(4.5)
Exceptional items	(2.4)	(2.1)
Pension scheme contributions	(0.6)	-
Interest and tax	(0.7)	(1.0)
Net cash (outflow) / inflow from operating activities	(6.6)	0.5
Net capital expenditure	(3.1)	(2.3)
Free cash flow	(9.7)	(1.8)
Acquisition of subsidiary undertaking	-	(0.4)
Business disposals	-	0.5
Dividends paid	(2.1)	(1.4)
Share issues net of directly attributable expenses	18.4	-
Other	0.2	(0.1)
Decrease / (increase) in bank debt	6.8	(3.2)
Opening bank debt	(18.5)	(22.7)
Closing bank debt	(11.7)	(25.9)
Bank debt	(11.7)	(25.9)
Unamortised borrowing costs	0.2	0.5
Net bank debt	(11.5)	(25.4)
Finance lease creditor	(1.4)	(2.1)
Net debt	(12.9)	(27.5)

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

Operating cash flows and free cash flow worsened during the period principally due to the effects on working capital of transition costs on new contracts, of growth in pass through revenues from overseas managed services contracts and of longer credit terms demanded by leading brand clients.

The Group experiences minimal bad debts and strong credit control remains a priority, despite cash management pressures from clients, with overdue debt at June 2013 reducing to 5.4% (H1 2012 9.7%). Tight working capital management continues to be an area of focus in which a number of improvement opportunities are regularly considered.

The pension scheme contributions represent the first two quarterly rental payments under the previously reported arrangement involving the securitisation of a rental stream on one of the Group's freehold properties.

The Group raised £20m from a successful equity raise in March 2013, partly for the purpose of funding working capital, as described more fully below.

The net effect of these cash flows together with the ongoing capital repayments on finance leases was to reduce net debt to £12.9m at June 2013 (H1 2012 £27.5m), creating significant headroom on existing facilities.

The recently announced LBG contract will involve substantial investment in the region of £12.5m in capital expenditure, working capital and other mobilisation costs as the contract becomes operational in the second half of the year.

Capital Structure

The Group's financial position was strengthened during the period through the successful raising of growth capital and the early refinancing of bank debt facilities.

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 on 31 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 facilities have been arranged, comprising a £55m revolving credit facility committed for almost five years until March 2018 and a £5m overdraft that is renewable annually.

Nigel Howes

Finance Director

Consolidated Income Statement
for the half year ended 30 June 2013: unaudited

	Note	Half year ended 30 June 2013			Half year ended 30 June 2012 (restated)*			Year ended 31 Dec 2012 (restated)*		
		Before amortisation of acquired intangibles and exceptional items £000	**Amortisation of acquired intangibles and exceptional items £000**	**Total £000**	**Before amortisation of acquired intangibles and exceptional items £000**	**Amortisation of acquired intangibles and exceptional items £000**	**Total £000**	**Before amortisation of acquired intangibles and exceptional items £000**	**Amortisation of acquired intangibles and exceptional items £000**	**Total £000**
Revenue	1	**121,213**	**-**	**121,213**	112,560	-	112,560	229,774	-	229,774
Changes in inventories of finished goods and work in progress		**14**	**-**	**14**	(715)	-	(715)	(410)	-	(410)
Raw materials and consumables used		**(65,493)**	**-**	**(65,493)**	(61,197)	-	(61,197)	(125,263)	-	(125,263)
Employee benefits expense		**(31,347)**	**(2,800)**	**(34,147)**	(28,912)	-	(28,912)	(58,734)	(1,191)	(59,925)
Other operating expenses		**(15,576)**	**684**	**(14,892)**	(14,098)	(700)	(14,798)	(27,214)	(1,221)	(28,435)
Depreciation and amortisation expense		**(3,664)**	**(357)**	**(4,021)**	(3,300)	(349)	(3,649)	(6,682)	(1,105)	(7,787)
Profit from operations	1	**5,147**	**(2,473)**	**2,674**	4,338	(1,049)	3,289	11,471	(3,517)	7,954
Finance revenue	2	**52**	**-**	**52**	124	-	124	133	-	133
Finance costs	2	**(1,479)**	**-**	**(1,479)**	(1,507)	-	(1,507)	(2,930)	-	(2,930)
Profit before taxation		**3,720**	**(2,473)**	**1,247**	2,955	(1,049)	1,906	8,674	(3,517)	5,157
Income tax expense	3	**(1,070)**	**770**	**(300)**	(635)	183	(452)	(2,233)	1,007	(1,226)
Profit for the period attributable to equity holders of the parent		**2,650**	**(1,703)**	**947**	2,320	(866)	1,454	6,441	(2,510)	3,931
Earnings per share On profit for the period attributable to equity holders and from continuing operations	4									
- basic		**1.53p**		**0.55p**	1.68p		1.06p	4.66p		2.84p
- diluted		**1.49p**		**0.53p**	1.63p		1.02p	4.51p		2.75p
Dividend per share	5									
- paid				**1.10p**			1.00p			1.55p
- proposed				**0.60p**			0.55p			1.10p

*Restated to reflect the changes to IAS 19 (Note 10)

Dividends paid and proposed during the period were £2.1 million and £1.1 million respectively (30 June 2012 £1.4 million and £0.8 million respectively, 31 December 2012 £2.1 million and £2.1 million respectively).The accompanying notes are an integral part of these Consolidated Financial Statements. All income and expenses relate to continuing operations.

Consolidated Statement of Comprehensive Income
for the half year ended 30 June 2013: unaudited

	Half year ended 30 June 2013	Half year ended 30 June 2012 (restated)	Year ended 31 Dec 2012 (restated)
	£000	£000	£000
Profit for the period	**947**	1,454	3,931
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations	**38**	(38)	(40)
Items not to be reclassified to profit or loss in subsequent periods:			
Actuarial losses on defined benefit pension plans	**(109)**	(501)	(7,540)
Income tax thereon	**25**	129	1,736
Adjustments in respect of prior years due to change in tax rate	**-**	(142)	(284)
Gain / (loss) on cash flow hedges taken directly to equity	**31**	-	(64)
Income tax thereon	**(7)**	-	15
Other comprehensive loss for the period, net of tax	**(22)**	(552)	(6,177)
Total comprehensive income / (loss) for the period, net of tax	**925**	902	(2,246)
Attributable to:			
Equity holders of the parent	**925**	902	(2,246)

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Cash Flow Statement
for the half year ended 30 June 2013: unaudited

	Note	Half year ended 30 June 2013 £000	Half year ended 30 June 2012 (restated) £000	Year ended 31 Dec 2012 (restated) £000
Cash flows from operating activities				
Cash generated from operations	6	**(5,866)**	1,489	14,512
Interest paid		**(795)**	(1,069)	(1,954)
Interest received		**28**	17	229
Income tax received / (paid)		**30**	88	(730)
Net cash flows from operating activities		**(6,603)**	525	12,057
Cash flows from investing activities				
Acquisition of subsidiary undertakings (net of cash acquired)		**(13)**	(414)	(1,278)
Disposal of subsidiary undertakings		**-**	450	450
Purchase of property, plant and equipment		**(1,957)**	(1,501)	(3,139)
Proceeds from the sale of property, plant and equipment		**1,150**	5	10
Purchase of intangible assets		**(2,251)**	(828)	(2,206)
Net cash flows from investing activities		**(3,071)**	(2,288)	(6,163)
Cash flows from financing activities				
Share issues net of directly attributable expenses		**18,429**	-	588
New borrowings		**-**	9,000	13,000
Repayment of borrowings		**(13,000)**	(9,000)	(9,000)
Dividends paid	5	**(2,104)**	(1,378)	(2,137)
Net cash flows from financing activities		**3,325**	(1,378)	2,451
Net (decrease) / increase in cash and cash equivalents		**(6,349)**	(3,141)	8,345
Cash and cash equivalents at 1 January		**21,548**	13,280	13,280
Exchange rate effects		**108**	(77)	(77)
Cash and cash equivalents at end of period		**15,307**	10,062	21,548
Cash and cash equivalents consist of:				
Cash and cash equivalents		**15,307**	10,062	21,548

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Balance Sheet
30 June 2013: unaudited

	Half year ended 30 June 2013 £000	Half year ended 30 June 2012 £000	Year ended 31 Dec 2012 £000
ASSETS			
Non-current assets			
Property, plant and equipment	**18,370**	19,942	19,853
Intangible assets	**169,436**	163,911	166,846
Trade and other receivables	**69**	125	69
Deferred tax assets	**2,364**	1,256	2,215
	190,239	185,234	188,983
Current assets			
Inventories	**8,283**	8,336	7,423
Trade and other receivables	**49,394**	39,509	41,527
Cash and cash equivalents	**15,307**	10,062	21,548
	72,984	57,907	70,498
TOTAL ASSETS	**263,223**	243,141	259,481
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the parent			
Equity share capital	**47,850**	34,663	35,251
Share premium	**5,852**	22	22
Merger reserve	**11,427**	11,427	11,427
Capital redemption reserve	**1,375**	1,375	1,375
ESOP reserve	**(77)**	(535)	(346)
Cumulative translation adjustment	**(183)**	(219)	(221)
Retained earnings	**76,353**	81,662	77,679
	142,597	128,395	125,187
Non-current liabilities			
Interest-bearing loans and borrowings	**27,271**	36,685	40,518
Trade and other payables	**223**	766	766
Retirement benefit obligations	**21,705**	15,170	21,713
Provisions	**-**	1,006	761
	49,199	53,627	63,758
Current liabilities			
Interest-bearing loans and borrowings	**924**	930	1,030
Trade and other payables	**67,781**	57,886	67,650
Income tax payable	**823**	940	471
Provisions	**1,868**	1,363	1,321
Financial liability	**31**	-	64
	71,427	61,119	70,536
Total liabilities	**120,626**	114,746	134,294
TOTAL EQUITY AND LIABILITIES	**263,223**	243,141	259,481

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity
for the half year ended 30 June 2013: unaudited

	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 2013	**35,251**	**22**	**11,427**	**(346)**	**1,375**	**(221)**	**77,679**	**125,187**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**947**	**947**
Other comprehensive income /(loss)	**-**	**-**	**-**	**-**	**-**	**38**	**(60)**	**(22)**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**38**	**887**	**925**
Employee share option schemes: - value of services provided	**-**	**-**	**-**	**-**	**-**	**-**	**160**	**160**
Shares issued - firm placing and placing & open offer (Note 10)	**12,500**	**7,500**	**-**	**(20)**	**-**	**-**	**20**	**20,000**
Transaction costs	**-**	**(1,670)**	**-**	**-**	**-**	**-**	**-**	**(1,670)**
Shares issued – exercise of options	**99**	**-**	**-**	**-**	**-**	**-**	**-**	**99**
Shares issued from ESOP	**-**	**-**	**-**	**289**	**-**	**-**	**(289)**	**-**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**(2,104)**	**(2,104)**
As at 30 June 2013	**47,850**	**5,852**	**11,427**	**(77)**	**1,375**	**(183)**	**76,353**	**142,597**

	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 period (restated)	-	-	-	-	-	-	1,454	1,454
Other comprehensive loss (restated)	-	-	-	-	-	(38)	(514)	(552)
Total comprehensive (loss)/income	-	-	-	-	-	(38)	940	902
Employee share option schemes: - value of services provided	-	-	-	-	-	-	79	79
Dividends paid	-	-	-	-	-	-	(1,378)	(1,378)
As at 30 June 2012	34,663	22	11,427	(535)	1,375	(219)	81,662	128,395

	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

The accompanying notes are an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements
for the half year ended 30 June 2013: unaudited

1 Segmental information

At 30 June 2013, the Group is now organised into three main reportable segments: Design, Produce and Deploy (Note 10).

Business segments

The segment results for the half year ended 30 June 2013 are as follows:

	Design £000	Produce £000	Deploy £000	Pass Through £000	Central Costs £000	Corporate Costs £000	Total £000
Revenue	**9,616**	**55,203**	**26,294**	**30,100**	**-**	**-**	**121,213**
Profit from operations before amortisation of acquired intangibles and exceptional items	**1,681**	**9,668**	**3,716**	**-**	**(7,439)**	**(2,479)**	**5,147**
Amortisation of acquired intangibles	**(132)**	**(225)**	**-**	**-**	**-**	**-**	**(357)**
Profit from operations before exceptional items	**1,549**	**9,443**	**3,716**	**-**	**(7,439)**	**(2,479)**	**4,790**
Exceptional items	**207**	**(1,728)**	**(112)**	**-**	**(468)**	**(15)**	**(2,116)**
Profit from operations	**1,756**	**7,715**	**3,604**	**-**	**(7,907)**	**(2,494)**	**2,674**

The restated segment results for the half year ended 30 June 2012 were as follows:

	Design £000	Produce £000	Deploy £000	Pass Through £000	Central Costs £000	Corporate Costs £000	Total £000
Revenue	7,923	57,590	22,653	24,394	-	-	112,560
Profit from operations before amortisation of acquired intangibles and exceptional items	1,570	10,017	1,680	-	(6,678)	(2,251)	4,338
Amortisation of acquired intangibles	(124)	(225)	-	-	-	-	(349)
Profit from operations before exceptional items	1,446	9,792	1,680	-	(6,678)	(2,251)	3,989
Exceptional items	(140)	-	-	-	-	(560)	(700)
Profit from operations	1,306	9,792	1,680	-	(6,678)	(2,811)	3,289

The restated segment results for the year ended 31 December 2012 were 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

Notes to the Consolidated Financial Statements
for the half year ended 30 June 2013: unaudited

2 Net finance costs

	Half year ended 30 June 2013 £000	Half year ended 30 June 2012 (restated) £000	Year ended 31 Dec 2012 (restated) £000
Interest on financial assets measured at amortised cost	**31**	16	25
Interest on financial liabilities measured at amortised cost	**(1,032)**	(1,174)	(2,296)
Net interest from financial assets and financial liabilities not at fair value through Income Statement	**(1,001)**	(1,158)	(2,271)
Change in fair value of derivatives	**-**	108	108
Gain / (loss) on foreign currency financial liabilities	**21**	(10)	(19)
Retirement benefit related cost	**(447)**	(323)	(615)
Net finance costs	**(1,427)**	(1,383)	(2,797)

3 Income tax

The tax charge on continuing operations for the period is based upon an effective rate of 24.1%.

On 20 March 2013 it was announced that the corporation tax rate was to be reduced to 20% from 1 April 2015; the rate will fall to 21% from 1 April 2014. At the balance sheet date the legislation introducing these reductions was not substantively enacted and therefore the provision for deferred tax has continued to be made at 23%. If this rate change had been substantively enacted at the balance sheet date the deferred tax asset would have reduced by approximately £192,000.

4 Earnings per share

	Half year ended 30 June 2013 £000	Half year ended 30 June 2012 (restated) £000	Year ended 31 Dec 2012 (restated) £000
Basic and diluted earnings per share are calculated as follows:			
Profit attributable to equity holders of the parent	**947**	1,454	3,931
Weighted average number of ordinary shares (excluding treasury shares) for basic earnings per share	**173,145**	137,765	138,263
Effect of dilution:			
Share options	**4,866**	4,955	4,583
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution	**178,011**	142,720	142,846

143,964 (30 June 2012 886,138, 31 December 2012 573,730) shares were held in trust at 30 June 2013.

Earnings per share from continuing operations before exceptional items

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

	Half year ended 30 June 2013 £000	Half year ended 30 June (restated) 2012 £000	Year ended 31 Dec (restated) 2012 £000
Profit after taxation from continuing operations	**947**	1,454	3,931
Exceptional items	**2,116**	700	2,740
Taxation on the above	**(689)**	(98)	(633)
Amortisation of acquired intangibles	**357**	349	777
Taxation on the above	**(81)**	(85)	(220)
Taxation – adjustments in respect of prior years	**-**	-	(154)
Profit after taxation from continuing operations excluding exceptional items and amortisation of acquired intangibles	**2,650**	2,320	6,441
Adjusted earnings per share			
Basic	**1.53p**	1.68p	4.66p
Diluted	**1.49p**	1.63p	4.51p

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

Notes to the Consolidated Financial Statements
for the half year ended 30 June 2013: unaudited

5 Dividends paid and proposed

	Half year ended 30 June 2013 £000	Half year ended 30 June 2012 £000	Year ended 31 Dec 2012 £000
Declared and paid during the period			
Amounts recognised as distributions to equity holders in the period:			
Final dividend of the year ended 31 December 2011 of 1.00p per share	**-**	1,378	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**	-	-
	2,104	1,378	2,137
Proposed for approval by the Board (not recognised as a liability at period end) Interim equity dividend on ordinary shares for 2013 of 0.60p (30 June 2012 interim 0.55p, 31 December 2012 final 1.10p) per share	**1,148**	758	2,095

6 Cash generated from operations

	Half year ended 30 June 2013 £000	Half year ended 30 June (restated) 2012 £000	Year ended 31 Dec (restated) 2012 £000
Continuing operations			
Profit before tax	**1,247**	1,906	5,157
Adjustments for:			
Amortisation of intangible assets arising on business acquisitions	**357**	349	777
Depreciation and other amortisation	**3,664**	3,300	6,682
Excess of contributions paid over Income Statement pension costs (net of scheme costs)	**274**	393	761
Exceptional items (including exceptional property disposal)	**2,116**	700	2,740
Profit on sale of property, plant and equipment	**-**	5	(10)
Share-based payment charge	**160**	79	190
Net finance costs	**1,427**	1,383	2,797
Additional contribution to the defined benefit pension plan	**(575)**	-	(863)
Cash cost of exceptional items	**(2,366)**	(2,096)	(3,663)
Changes in working capital:			
(Increase) / decrease in inventories	**(855)**	(431)	483
Increase in trade and other receivables	**(8,004)**	(5,803)	(8,472)
(Decrease) / Increase in trade and other payables	**(3,311)**	1,704	7,933
Cash generated from operations	**(5,866)**	1,489	14,512

7 Acquisitions

On 18 April 2012, the Group acquired the whole issued share capital of Kieon Limited ("Kieon"). Kieon is a UK-based specialist software production agency, with an offshore development facility in Bangalore India. The addition of Kieon to the Group widens and deepens Communisis' creative services capabilities to include the building of websites and mobile and other digital applications. Details of the consideration paid and book values of assets and liabilities acquired are set out below. This transaction was accounted for by the purchase method of accounting.

	Fair value to Group £000
Fixed assets	17
Separately identifiable intangibles	173
Cash at bank	327
Trade and other receivables	340
Trade and other payables	(121)
Deferred tax	(6)
Fair value of net assets acquired	730
Goodwill	226
Consideration	956
Satisfied by:	
Cash	73
Deferred consideration	883
Total consideration	956
The net cash inflow arising from the acquisition was as follows:	
Cash consideration, as above	(73)
Cash acquired, as above	327
Net inflow of cash	254

The goodwill recognised above comprises certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include an assembled workforce and the expected value of synergies through future earning capacity and cost savings.

The results of this business are included within the Design (previously IDC) business segment.

The acquired business contributed revenue of £661,000 and a profit of £30,000 from the date of acquisition (18 April 2012) to 31 December 2012. If the combination had taken place at the beginning of the year the consolidated profit of the Group would have been £5,222,000 and revenue from continuing operations would have been £230,054,000.

Acquisition and set up costs of £46,000 were expensed and included in exceptional items.

7 Acquisitions (continued)

On 3 May 2012, the Group acquired the trade and certain assets of Yomego Limited ("Yomego"). Yomego is a specialist social media agency that advises on the role of social media as an integral part of broader on-line and off-line marketing campaigns, measures its effectiveness and provides insights into brand reputation and sentiment across social media sources. Details of the consideration paid and book values of assets and liabilities acquired are set out below:

	Fair value to Group
	£000
Fixed assets	5
Separately identifiable intangibles	55
Deferred tax	(13)
Fair value of net assets acquired	47
Goodwill	328
Consideration	375
Satisfied by:	
Cash	375

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

Cash consideration, as above	375
Net outflow of cash	375

The goodwill recognised above comprises certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include an assembled workforce and the expected value of synergies through future earning capacity and cost savings.

The results of this business are included within the Design (previously IDC) business segment.

The acquired business contributed revenue of £358,000 and a loss of £176,000 from the date of acquisition (3 May 2012) to 31 December 2012. If the combination had taken place at the beginning of the year the consolidated profit of the Group would have been £5,150,000 and revenue from continuing operations would have been £230,001,000.

Acquisition and set up costs of £56,000 were expensed and included in exceptional items.

7 Acquisitions (continued)

On 14 June 2012, the Group acquired 49% of the voting shares of The Garden Marketing Limited ("TGML") for a cash consideration of £392,000. The Group also held a call option to purchase the remaining 51% of the voting shares for a consideration of £543,000. On 30 June 2013, Communisis acquired the remaining 51% for a consideration of £249,000, with the resulting gain of £294,000 being recognised in exceptional items.

TGML is a full service integrated marketing agency based in London. The company was founded in 1987 and specialises in creating lead generation and collateral marketing communications for financial services and technology clients. It delivers print and digital marketing assets, advertising and direct mail campaigns across both consumer and business-to-business channels. Communisis' investment in TGML extends the Group's creative services offering, adding further strategic planning expertise, conceptual creative services, copywriting and additional artworking resources to Communisis' strong and growing marketing services proposition.

The fair values of the identifiable assets and liabilities of TGML, as at the date of acquisition were:

	Fair value to Group
	£000
Property, plant and equipment	**16**
Customer relationships	**410**
Cash at bank	**99**
Trade and other receivables	**124**
Trade and other payables	**(14)**
Corporation tax	**(42)**
Deferred tax	**(94)**
Fair value of net assets acquired	**499**
Goodwill	**436**
Consideration	**935**
Satisfied by:	
Cash	**392**
Call option price	**543**
Total consideration	**935**
The net cash outflow arising from the acquisition was as follows:	
Cash consideration, as above	**(392)**
Cash acquired, as above	**99**
Net outflow of cash	**(293)**

The acquired business contributed revenue of £548,000 and a profit of £215,000 from the date of the acquisition (14 June 2012) to 31 December 2012. If the combination had taken place at the beginning of the year, the consolidated profit of the Group would have been £5,113,000 and revenue from continuing operations would have been £230,141,000.

The results of this business are included within the Design (previously IDC) segment.

Acquisition and set up costs of £38,000 were expensed and 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 include an assembled workforce, and value of expected synergies through future earning capacity and cost savings.

Notes to the Consolidated Financial Statements
for the half year ended 30 June 2013: unaudited

8 Directors' responsibility statement

The directors are responsible for preparing the condensed set of financial statements, in accordance with applicable law and regulations. Andy Blundell, Chief Executive and Nigel Howes, Finance Director confirm that, to the best of their knowledge:

- the condensed set of financial statements on pages 11 to 23 has been prepared in accordance with IAS 34 – Interim Financial Reporting, as adopted by the European Union; and

- the information set out on this page and on pages 1 to 10 includes a fair review of the information required by Sections DTR 4.2.7R and DTR 4.2.8R of the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

There were no related party transactions during the period which require disclosure.

9 Risks and Uncertainties

Communisis has a robust internal control and risk management process outlined on page 48 of the Corporate Governance Report of the 2012 Annual Report.

The principal risks and uncertainties relating to the business at 31 December 2012 were set out in the Business Review on pages 19 to 21 of the 2012 Annual Report. These include the ability of the Group to adapt products and services to technological change, the degree of customer concentration within the Group, the complexity of the Group's framework contracts, the smooth and uninterrupted operation of the Group's IT networks, the Group's continuing obligations under defined benefit pension scheme arrangements and contingent liabilities arising from lease commitment guarantees on past disposals.

The view of the Board of Directors is that the nature of the risks has not changed since 7 March 2013 and that they represent our current best understanding of the situation faced by the Company. In terms of risk mitigation, management will continue to be alert to the need for action in respect of any problems caused or exacerbated by the current economic climate, especially as it affects our ability to forecast reliably the market demand for some of our newer services.

10 Additional information

General information

The information for the year ended 31 December 2012 does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The financial information for the half year ended 30 June 2013 and for the equivalent period in 2012 has not been audited or reviewed. It has been prepared in accordance with IAS 34 ('Interim Financial Reporting') and on the basis of the accounting policies as set out in the 2012 Annual Report and Financial Statements, except for the adoption of new Standards and Interpretations as of 1 January 2013 which are applicable to the Group, as noted below.

New Standards and Interpretations

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time now have to be presented separately from items that will never be reclassified. The amendment affected presentation only and had no impact on the Group's financial position or performance.

IAS 19 'Employee Benefits' was amended in June 2011. The impact on the Group has been to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability and to transfer the costs of administrating the pension scheme from a deduction from expected return on plan assets into employee benefits expense.

The impact on the results for the year ended 31 December 2012 has been to increase employee benefits expense by £0.9m (30 June 2012 £0.5m), to increase the net finance cost by £0.8m (30 June 2012 £0.4m) and reduce the income tax charge £0.4m (30 June 2012 £0.2m), resulting in a lower profit after tax of £3.9m (30 June 2012 £1.5m). Within the Consolidated Statement of Comprehensive Income, the impact has been to reduce actuarial losses on defined benefit schemes by £1.6m (30 June 2012 £0.8m) and to increase the tax on actuarial gains by £0.4m (30 June 2012 £0.2m). There is no impact on either the net retirement benefit liability or related deferred tax balance within the balance sheet.

IFRS 7 requires fair value disclosures for each class of financial assets and financial liabilities, in a way that permits it to be compared with its carrying amount. This disclosure has not been made as it is not required where the carrying amount is a reasonable approximation of fair value.

IFRS 13 requires specific disclosure on fair value for financial instruments. The Group does not hold any significant financial instruments and as such no further disclosure has been considered necessary.

Notes to the Consolidated Financial Statements
for the half year ended 30 June 2013: unaudited

Change in segmental reporting

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.

Share issue

In March 2013, the Group raised £20m before expenses through the issue of 50,000,000 new ordinary shares at an issue price of 40 pence per new ordinary share. The net proceeds will be used for investment in new contracts, for restructuring costs, and for small acquisitions and working capital.

Events after the balance sheet date

The Group's bank facilities were refinanced on 31 July 2013 on improved terms. The Group's existing banking partners, Barclays, HSBC and Lloyds Banking Group, were joined by RBS.

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

The impact on the results for the year ended 31 December 2013 will be an exceptional finance cost of £0.2 million, in respect of unamortised loan arrangement fees relating to the existing facilities.

Going Concern

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the interim report.