communisis

7 March 2013

Communisis plc

(“Communisis” or the “Group”)

Preliminary Results for the year ended 31 December 2012

Leading provider of personalised customer communication services Communisis plc (LSE: CMS), reports preliminary results for the year ended 31 December 2012 which are in line with the Board’s expectations.

The Group has grown the business and substantially improved profit from operations and operating margin before exceptional items for the third consecutive year. Further progress has been made towards achieving a double-digit operating margin on sales (excluding pass through) and in increasing revenues from overseas markets.

Financial Highlights

- Profit from operations (before exceptional items) up 23% to £11.6m (2011: £9.4m)
- Profit from operations (before exceptional items and the amortisation of acquired intangibles) up 24% to £12.3m (2011: £9.9m)
- Operating margin (excluding pass through) increased to 6.5% (2011: 5.5%)
- Profit after tax 27% higher at £5.2m (2011: £4.1m) and reflected in basic earnings per share of 3.75p (2011: 2.96p)
- Adjusted earnings per share (fully diluted and excluding after tax effects of exceptional items and the amortisation of acquired intangibles) 19% ahead at 5.38p (2011: 4.52p)
- Final dividend of 1.1p per share. Full year dividend up by 10% to 1.65p per share (2011: 1.50p)
- Overseas revenues increased to 7% (2011: 4%) of total revenue
- Free cash flow improved to £6.6m (2011: £2.9m)
- Year-end net debt reduced to £20m (2011: £24.7m)
- £20m raised as growth capital early in 2013 for investment in new contracts, restructuring costs, small acquisitions and working capital
- Asset-backed, prepaid contribution reduces the pension deficit by £9.8m, limiting additional cash contributions to £1.15m p.a. until at least the beginning of 2015

Operational Highlights

Growth and Diversification

- Significant new multi-year contractual relationships with Nationwide Building Society, British Telecommunications plc, Yorkshire Building Society and Thames Water and an extended transactional contract with a financial services client
- Three niche acquisitions in strategic growth areas expanding capabilities in on-line communication, social media and specialist content management
- Diversified sources of revenues with a greater proportion coming from non-financial services sectors and overseas territories
- Market trends that are favourable to the Group’s differentiated proposition

Operational Excellence

- Continued commitment to market leading technology driving efficiency and product innovation
- Progressive development of technology platforms for client-facing and back-office functions

- Ongoing restructuring and site consolidation, aligning the cost base with the demands of a fast-changing market
- Growing presence of on-site teams as an important element of the client service model

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

"In 2012 Communisis has successfully grown the business and substantially improved operating profitability for the third consecutive year.

We are established as the trusted partner of many leading, consumer-facing brands in delivering their personalised customer communications. The continuing market trends coupled with our recent equity raise of £20m mean that the Group is well-positioned for another year of growth."

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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 has grown the business in 2012 and substantially improved profit from operations and operating margin before exceptional items for the third consecutive year.

The Group has secured a number of new and significant multi-year contractual relationships in recent months that will help to underpin results for 2013 and beyond. Its commitment to market-leading technology is driving efficiencies and product innovation and the benefits to clients have been influential in a number of these contract wins. Importantly they provide further evidence that Communisis is the trusted partner of many leading, consumer-facing brands in delivering their personalised customer communications.

Profit from operations before exceptional items grew to £11.6m, a 23% increase on 2011. This represented an operating margin of 6.5% on sales (excluding pass through) compared to 5.5% in 2011. The exceptional items, which were lower in 2012 at £2.8m (2011: £4.3m), related principally to a further restructuring programme and to non-recurring costs associated with acquisition activities. Profit after tax increased by 27% from £4.1m to £5.2m and basic earnings per share by the same percentage from 2.96p to 3.75p. Adjusted earnings per share, which exclude the after-tax effect of exceptional items and the amortisation of acquired intangibles, increased by 19% from 4.68p to 5.56p.

The proposed final dividend of 1.1p per share brings the total dividend for the year to 1.65p per share, an increase of 10% over 2011, reflecting both the strong operating performance in 2012 and the Board's confidence in the future of the business. The dividend will be payable on 20 May 2013 to shareholders on the register at 19 April 2013.

Growth Capital

The Group raised growth capital for the first time in early 2013 with gross proceeds of £20m. The net proceeds (after transaction costs) will be used for investment in new contracts, for restructuring costs and for small acquisitions and working capital. They will strengthen the balance sheet and fund the next phase of profitable growth. The share issue was substantially oversubscribed with strong demand from both existing shareholders and new investors demonstrating their confidence in the Group's strategy and growth opportunities.

Board Changes

Jane Griffiths joined the Board as a non-executive director on 17 May 2012. Jane is Marketing Director EMEA for Citibank NA having previously worked as a senior advertising and marketing executive for a number of major global agencies.

John Wells will be moving to a part-time role from 9 May 2013 and has decided to step down from the Board after the 2013 Annual General Meeting. John will therefore not be seeking reappointment at the Annual General Meeting on 9 May 2013. The Board would like to thank John for his significant contribution to the Group in various management roles within companies that originally comprised the Group since 1972 and to the Board since 2009 and welcome his on-going involvement.

Outlook

Notwithstanding the current macro-economic environment in the UK, Communisis has started 2013 with a number of important contract wins. The new contracts will contribute from the first half and highlight the attractiveness of the Group's competitive proposition, especially in transactional communications and increasingly in overseas markets. With much of what we do being of operational necessity for our clients and with a stronger balance sheet and the resources to develop the business further, the Board is confident that the Group can deliver another year of growth.

Peter Hickson
Chairman
7 March 2013

Chief Executive's Review

2012 has been another successful year during which we have developed the identity of the business, clarifying its purpose and activities for clients, employees, investors and other stakeholders, and continued to deliver against our strategic initiatives.

During the year we have:

- grown the business organically with a 10% increase in revenues to £230m;
- expanded the portfolio of services through three niche acquisitions;
- diversified the sources of revenues with a greater proportion coming from non-financial services sectors and overseas territories;
- won a number of prestigious contracts from a strong pipeline of opportunities, providing further evidence that Communisis is becoming the trusted partner of leading consumer-facing brands in delivering their customer communications;
- remained committed to market leading technology, driving efficiency and product innovation;
- substantially improved profit from operations and operating margin before exceptional items for the third consecutive year in a difficult and very competitive macro-economic environment;
- actively managed the pension deficit with an innovative arrangement that limits the Group's annual cash payments to the Pension Scheme to £1.15m p.a. until at least the beginning of 2015; and
- secured the financial resources required for the next phase of profitable growth through an equity raise of £20m in early 2013. The net proceeds will be used for investment in new contracts, restructuring costs, small acquisitions and working capital.

What we do

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

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 email, text message, mobile content or social media.

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.

Our services include:

- the overall development of integrated offline and online marketing strategies;
- the acquisition, analysis and management of lifestyle and credit data to generate target lists of prospects for marketing campaigns;
- the design, creation and management of customer content that is used to produce the documents that convey the marketing messages;
- the application of software tools to manage communication campaigns on behalf of clients and to source materials;
- the production and deployment of highly personalised marketing, regulatory and transactional documents; and
- the management of responses to marketing messages and the measurement of their effectiveness.

Communisis has a reputation for production excellence and innovation and is trusted by many leading consumer-facing brands to deliver their personalised customer communications accurately, securely, reliably and at scale. Many of these services are business critical and of operational necessity for clients. 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.

Aspiration

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

The key financial targets for the medium term are to deliver a double-digit margin on sales (excluding pass through) and to derive 20% of revenues from overseas sources whilst continuing to grow UK sales.

Strategic Initiatives

The Group's aspiration will be 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.

Market Trends

The Group operates in an overall market that is attractive and fast-moving. There are growing trends toward the outsourcing of outbound customer communication services, precision marketing through personalised communications and more consistent messaging in global campaigns. Companies are also increasingly looking to use single suppliers that provide a range of services, and there is a client-led diversification of creative services away from marketing agencies. There is also a progressive migration from print to digital formats for many types of customer communication, an increasing use of data analytics and a growing client need to demonstrate improved returns on transactional processing and marketing spend.

Communisis is well-positioned to capitalise on these trends as evidenced by the recent contract wins.

Growth

2012 revenues increased by 10% to £229.8m (2011: £208.3m) with most of the overall growth coming from managed service contracts in overseas markets. The services comprise the deployment of people and technology, alongside client teams in the overseas territories, for the purpose of managing local supply chains rather than the export of product from the UK. As a result of this strong overseas demand, which is set to continue and expand, overseas revenues grew to 7% of total turnover in 2012 (2011: 4%).

Communisis has continued to develop its on-site operations across Western Europe and has grown significantly, increasing from 21 Communisis specialists in 7 countries in 2012 to a projected 40 or more specialists in 15 countries by the end of 2013. The teams manage the production, sourcing and deployment of exhibition services, point of sale materials, artwork services and premium gifts across a number of household, fashion and premium brands.

There has also been an underlying change in the mix of revenues with the value of new business more than offsetting a reduction in demand for more mature services; a trend that is expected to continue.

New Contracts

Organic growth has been maintained with two significant new contract awards from British Telecommunications plc ("BT") and Nationwide Building Society ("Nationwide") being recently announced. Both will be operational in the first half of 2013.

The five year BT contract is for the production of all billing and associated customer communications using high-speed colour digital technology at our transactional centre of excellence in Liverpool to make the billing formats clearer, more personal and more dynamic. This is in addition to the BT shareholder communications that Communisis has produced for many years.

The Nationwide contract is for a nine year term and covers the development and production of its customer communications, including transactional, marketing and regulatory mailings. The new contract significantly extends the Group's existing relationship to include all of the transactional documentation that is currently produced in-house by Nationwide. Over a number of years Communisis has expanded the range and volume of services provided as part of its strategic account programme. The Group will continue to produce direct mail, regulatory communications and security products, source point of sale and marketing collateral through its managed supply chain and deploy its workflow, document asset management and document composition technology to help Nationwide transform the clarity and effectiveness of its customer communications.

Activity on other client accounts has also expanded. Amongst the many interesting projects, Communisis has been at the heart of the high profile launch of the new EE brand, which offers the UK's only 4G mobile and fibre optic broadband service. This has been through the successful execution of a managed service contract for the sourcing and delivery of the associated marketing collateral to EE's 700 retail outlets throughout the UK and for all of its direct mail requirements and internal communications.

More recently a further series of important contract wins and extensions from a strong pipeline of opportunities has been announced, all of which will help to underpin the results for 2013 and beyond.

Yorkshire Building Society ("YBS") has awarded Communisis a three year contract, beginning in March 2013, which is an extension of a long-standing relationship and significantly expands the service offering beyond the existing provision of security products. Communisis will also be producing all direct mail for YBS, managing the deployment of all its point of sale branch material through the Group's distribution centre in Newcastle and providing access to the Mantl marketing technology platform for campaign and digital asset management purposes. This contract strengthens Communisis' presence in the mutual sector where it now works for all of the top ten building societies in Britain.

Thames Water ("Thames") has recently awarded the production and deployment of all revenue generating communications to Communisis under a three year contract. Thames has designed a clearer bill which from February 2013 is being produced on the HP T400 high-speed colour digital platform at the Group's Liverpool facility.

The contract with a financial services client for the production of transactional documents which started in 2006 has been extended by two years until January 2018. All of this production will now migrate to the HP T400 high-speed colour digital platform providing this client with a more cost effective white-paper solution and access to the broader benefits of variable content and product innovation.

2012 has seen further diversification in the sources of revenue. Approximately 46% (2011: 51%) of revenues were derived from the financial services sector whilst other sectors, notably utilities, telecoms, retail, consumer goods, charities and government, accounted for the remaining 54% (2011: 49%). The financial services sector provides a substantial proportion of the demand for the Group's transactional and security products and is therefore likely to continue as a significant source of revenues for the foreseeable future. These products are ones of operational necessity for clients so that demand for them is less susceptible to changes in the broader economy.

Demand for marketing communications can be more variable. Competitive pressures in the insurance sector, particularly from comparison websites, during the year resulted in reduced demand for the Group's data and direct mail services. This was countered, to some extent, by growing demand for data insight services in other sectors and for specialist manufacturing project work. Communisis is winning more AGM communications; the Electoral Reform Services Limited commissioned the Group to produce the ballot papers for the Greater London Authority Assembly and Mayoral elections and a project has been successfully executed for the Standards Testing Agency ("STA"). Such activity exemplifies the power of combining data analytics with the personalisation capabilities of high-speed colour digital output.

Acquisitions

Three, carefully chosen, niche acquisitions in strategic growth areas were completed during the year to expand the Group's growing capabilities in on-line communication, social media and specialist content management.

Kieon builds websites and mobile and other digital applications. Its sales office is now based in the Group's London Headquarters and the operational base is in Bangalore, where over 50 software developers are employed.

Yomego is a UK based specialist social media agency that advises on the role of social media and measures its impact as an integral part of broader on-line and off-line marketing campaigns.

The Garden Marketing extends the Group's creative services offer, adding further strategic planning expertise, conceptual creative services, copywriting and artworking resources as well as specialist knowledge of financial services regulations to the Group's strong and growing marketing services proposition.

These acquisitions did not have a material effect on the 2012 results but the Group is starting to unlock the sales synergies by introducing these businesses to its larger clients as part of an integrated service offering.

Operational Excellence

Communisis has been at the forefront of high-speed colour digital technology deployment in the UK for some time. Two HP T300 lines were installed in the Leeds facility during 2010 and 2011. They sit at the heart of the Group's new offering into the direct mail market and played a key role in the successful delivery of the STA project.

Two HP T400 lines were commissioned during the year in the Group's transactional centre of excellence in Liverpool which delivered an extremely high average of 99.8% compliance with client defined service levels during the year. This facility is expected to change the UK market for statements and billing significantly and all major clients are expected to transition to these platforms during 2013, whilst also attracting new clients directly onto the technology. The benefits of wholly variable content, in colour and at high definition, have been influential in a number of the recent contract wins.

The plan to consolidate all client-facing software onto one platform, called "Mantl" is advancing and similarly all back-office functions will be consolidated onto one platform called "Skyline." The benefits of this to the Group's clients include improved transparency on workflow and cost-reduction opportunities.

On-site teams are a valuable part of Communisis' client service and business development model. The Group now has 115 employees operating with 12 clients across 19 locations whereas in March 2012 there were 94 employees operating with 11 clients across 16 client sites.

The number of Communisis locations increased following the addition of the offices of Kieon (Bangalore), Yomego (Glasgow) and The Garden Marketing (London) but subsequently reduced as the London operations of Kieon and The Garden Marketing moved to the Group's expanding base in the City.

In line with the strategic initiative of optimising the direct cost and overhead base the Group announced in November 2012 the closure of its cheque personalisation facility in Lisburn, Northern Ireland and the consolidation of production at certain other facilities. A further restructuring of the direct mail operations in Leeds was also announced at the same time in order to reduce costs following pricing pressures in the market and falling demand in some areas, particularly in the insurance sector. Both programmes are expected to be completed during the first quarter of 2013.

Corporate costs reduced during the year by 8% to £3.5m (2011: £3.8m) as the benefits of earlier re-structuring initiatives flowed through.

Results

The combined effect of these activities is that the Group has grown the business and substantially improved profit from operations and operating margin before exceptional items for the third consecutive year in a difficult and very competitive macro-economic environment.

On increased turnover of £229.8m (2011: £208.3m), profit from operations before exceptional items grew by 23% to £11.6m (2011: £9.4m) whilst the operating margin on sales (excluding pass through) improved to 6.5% (2011: 5.5%) and toward our target of a double-digit margin in the medium term.

Resources

The Group raised growth capital for the first time in early 2013 with gross proceeds of £20m. The net proceeds (after transaction costs) will be used for investment in new contracts, for restructuring costs and for small acquisitions and working capital. The share issue was substantially oversubscribed with strong demand from both existing shareholders and new investors demonstrating their confidence in the Group's strategy and growth opportunities. Completion of the fundraising was approved by shareholders at the General Meeting held on 5 March 2013.

The Group's unsecured bank facilities were extended by £5m early in 2012 to £50m whilst its exposure to the pension deficit was actively managed through an innovative asset backed arrangement that limits the Group's annual cash commitment to the Pension Scheme (other than for administrative expenses) to an affordable £1.15m p.a. until at least the beginning of 2015.

Tight cash management has resulted in increased free cash flow in each of the last three years and in excess of the annual dividend payments to shareholders. This will continue to be an area of focus and a target for ongoing improvement despite the need for additional, growth related working capital.

Two significant legacy issues, being the pension deficit and the structural debt in the Group, have therefore been addressed, the Balance Sheet has been strengthened and the resources needed to fund the next growth phase have been secured.

Andy Blundell
Chief Executive
7 March 2013

Finance Review

Profitability

The table below is an extract from the segmental Income Statement

	2012 £m	2011 £m
Turnover		
IDC	30.1	25.0
SPS	148.7	144.8
Pass Through	51.0	38.5
	229.8	208.3
Profit from operations before exceptional items		
IDC	3.8	3.2
SPS	11.3	10.0
Corporate Costs	(3.5)	(3.8)
Profit from operations before exceptional items	11.6	9.4

Analysed as:		
Profit from operations before exceptional items and the amortisation of acquired intangibles	12.3	9.9
Amortisation of acquired intangibles	(0.7)	(0.5)
Profit from operations before exceptional items	11.6	9.4

Operating margin (excluding pass through)		
IDC	12.6%	12.8%
SPS	7.6%	6.9%
	6.5%	5.5%
Exceptional items		
Exceptional restructuring costs	(1.7)	(3.7)
Other exceptionals	(1.1)	(0.6)
	(2.8)	(4.3)
Profit from operations after exceptional items	8.8	5.1
Net finance costs	(2.0)	(0.9)
Profit before tax	6.8	4.2
Tax	(1.6)	(0.1)
Profit after tax	5.2	4.1
Earnings per share		
Basic (p)	3.75	2.96
Adjusted (p)	5.56	4.68
Adjusted fully diluted (p)	5.38	4.52

Profit from operations before exceptional items increased by 23% to £11.6m (2011: £9.4m) on turnover that was 10% ahead at £229.8m (2011: £208.3m). Operating margin on sales (excluding pass through), which is a key financial metric, showed an improvement, for the third consecutive year, from 5.5% in 2011 to 6.5% and further progress toward our double-digit target in the medium term.

The overall increase in turnover is principally accounted for by the growth in pass through sales and the associated management fees. The management fees and the related margin are reported within the IDC segment. Under these arrangements the Group receives a fee for managing clients' marketing spend through a third party supply chain. The purchased materials are billed to the clients at cost, so that they carry no added value and are therefore reported as pass through. Most of the growth in revenues in 2012 has emanated from the management of supply chains in overseas markets and has resulted in 7% of 2012 revenues arising outside the UK (2011: 4%).

2012 has seen further diversification in the sources of revenue. Approximately 46% (2011: 51%) of revenues were derived from the financial services sector whilst other sectors, notably utilities, telecoms, retail, consumer goods, charities and government, accounted for the remaining 54% (2011: 49%). The financial services sector provides a substantial proportion of the demand for the Group's transactional and security products and is therefore likely to continue as a significant source of revenues for the foreseeable future. These products are ones of operational necessity for clients so that demand for them is less susceptible to changes in the broader economy.

The three small acquisitions completed during the year, each of which added specific and complementary competencies to our marketing services proposition, did not make a material contribution to the overall results.

The continuing improvement in both profit from operations before exceptional items and operating margin is attributable to the combined effect of better capacity utilisation, the benefit of cost reduction programmes, synergies from acquisitions and the focus on growing volumes of higher margin services in both the IDC and SPS segments.

The exceptional items in 2012 include £1.7m relating principally to the restructuring announced in November, £0.7m in respect of non-recurring professional fees for acquisition related activities and £0.3m non-cash write off of a customer relationship asset. The restructuring charge covered the closure of the cheque personalisation facility in Lisburn, Northern Ireland with consolidation of production in certain other facilities and the further restructuring of the direct mail operations in Leeds. Both programmes are expected to be completed in the first quarter of 2013 when the cash costs will be incurred.

The increase in net finance costs of £1.1m between 2011 and 2012 results from a reduced credit of £0.1m (2011: £0.9m), being the difference between the expected return and the expected interest cost on the Pension Scheme assets and liabilities respectively, and from the additional borrowing costs associated with greater utilisation of debt facilities during the year.

The effective 2012 tax charge of 23.6% is broadly in line with the standard rate for the year. The 2011 tax charge was largely eliminated by the release of provisions following favourable settlement of group relief claims and other prior year items.

The resulting profit after tax and basic earnings per share have increased by 27% to £5.2m (2011: £4.1m) and to 3.75p (2011: 2.96p) respectively. Adjusted earnings per share, which exclude the after-tax effect of exceptional items and the amortisation of acquired intangibles, has increased by 19% to 5.56p (2011: 4.68p). This percentage improvement is lower than that of the operating profit before exceptional items because the after-tax finance costs in 2012 are relatively higher than those in 2011.

An interim dividend of 0.55p per share was paid in October and a final dividend of 1.1p per share has been proposed, bringing the full year dividend to 1.65p per share, an increase of 10%.

Cash Flow and Net Debt

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

	2012 £m	2011 £m
Profit from operations before exceptional items	11.6	9.4
Depreciation and other non-cash items	7.5	6.8
Increase in working capital	(0.1)	(0.5)
Exceptional items	(3.6)	(3.9)
Pension scheme contributions	(0.9)	(3.0)
Interest and tax	(2.5)	(1.0)
Net cash inflow from operating activities	12.0	7.8
Net capital expenditure	(5.4)	(4.1)
Debt arrangement fees	-	(0.8)
Free cash flow	6.6	2.9
Acquisition of subsidiary undertaking	(1.3)	(7.7)
Business disposals	0.5	-
Dividends paid	(2.1)	(1.9)
Other	0.5	(0.2)
Decrease / (increase) in bank debt	4.2	(6.9)
Opening bank debt	(22.7)	(15.8)
Closing bank debt	(18.5)	(22.7)
Bank debt	(18.5)	(22.7)
Unamortised borrowing costs	0.4	0.6
Net bank debt	(18.1)	(22.1)
Finance lease creditor	(1.9)	(2.6)
Net debt	(20.0)	(24.7)

Operating cash flow improved during 2012 with a net cash inflow of £12m (2011: £7.8m) after exceptional items of £3.6m (2011: £3.9m).

Bank debt reflects bank loans of £40m net of cash deposits of £21.5m. Year-end net debt reduced to £20m in 2012 from £24.7m in 2011. Within the overall amount, net bank debt was £4m lower and finance lease creditors decreased by £0.7m as the capital value was repaid. Intra-period fluctuations in working capital increase the level of indebtedness during the year with the average bank debt during 2012 being £38.5m compared to total facilities of £50m.

The reductions in net debt and the minimal working capital outflow of £0.1m for the year as a whole, despite the growth in revenues, reflect the continuing focus on tight working capital management.

Nevertheless there has been a trend toward the deferral of payments, especially over reporting period ends, by certain leading-brand clients with the result that overdue debt levels have slightly worsened in 2012 to 7.3% (2011: 4.1%). This trend does not indicate any emerging credit risk as tight credit control is maintained and the Group continues to experience minimal bad debt. However strong creditor management has more than offset the effects of this increase in overdue debt with the result that trading working capital (being inventories plus trade receivables minus trade payables) has improved to minus £7.1m (2011: minus £3.8m).

The £3.6m cash cost of exceptional items has been a substantial outflow during the year. Of this amount, £3.1m related to the exceptional costs accrued or provided in 2011 or prior and £0.5m to the exceptional costs charged in 2012. The remainder of the costs comprising the exceptional charge in 2012 of £1.9m will be a cash cost in 2013.

Following the triennial valuation of the Pension Scheme in 2011, the Group and the Trustees agreed to maintain the additional annual contributions that are required to eliminate the actuarially assessed funding deficit at £3m, subject to review by the Pensions Regulator. Early in 2012, the Group and the Trustees also agreed to an arrangement involving the securitisation of a rental stream on one of the Group's freehold properties, amounting to £1.15m p.a. for 15 years. The £9.8m present value of the rental stream was treated as an additional pension contribution in 2012 and a prepayment of the contributions due for the three years 2012 to 2014. Accordingly in 2012 and for each of the following two years the only cash payments to the Pension Scheme (other than for ongoing administrative expenses) comprise the proportionate amount of the annual rental of £1.15m p.a.

Bank borrowing costs have been higher in 2012 than in 2011 and exceptional tax recoveries in 2011 reduced the cash outflows in that year.

Capital expenditure in both 2011 and 2012 continued at levels below depreciation as the major deployments of digital colour platforms in each year were provided under operating leases with the associated costs 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 acquisitions, disposals, dividends paid to shareholders and other cash movements in relation to equity. This is an important measure of the effectiveness of the Group's cash management process and the improvement over the last two years has continued through 2012. In each of these years free cash flow has exceeded dividend payments to shareholders so that any overall increase in borrowings has reflected the debt funding of acquisitions.

The final instalment of the consideration arising from the disposal of the Bath business forms operation in 2008 was received in 2012 (£0.5m). The consideration for the three acquisitions completed during 2012 (excluding the payments for acquired cash) amounted to £1.3m. The acquisition consideration in 2011 comprised the final earn-out payment for Absolute Intuistic Limited (£5.5m) and the purchase cost of Orchestra Bristol Limited (£2.2m).

Balance Sheet

Share Issue

The Group raised £20m (approximately £18.9m after expenses) through the issue of new ordinary shares in March 2013, as described in Note 8. The net proceeds will be used for investment in new contracts, for restructuring costs and for small acquisitions and working capital. They will strengthen the balance sheet and support the next phase of profitable growth.

Bank Facilities

The Group's revolving credit facility of £40m was extended to £45m in February 2012 and is committed until August 2014. The Group also has a £5m overdraft facility that is renewable annually. The bank facilities were temporarily increased after the year end to facilitate the share issue as described in Note 8.

Retirement Benefit Obligations

The Group and the Pension Scheme Trustees agreed to an arrangement involving the securitisation of a rental stream on one of the Group's freehold properties in early 2012 as referred to above. The effect of this arrangement was to reduce both the funding deficit and the Group's cash payments to the Pension Scheme substantially. The Group continues to manage its obligations to the Pension Scheme actively and responsibly. The overall objective is to ensure that any future cash contributions are affordable over the medium term without constraining the implementation of the Group's development strategies.

Change in Accounting Policy

Changes in guidance on the basis of the calculation and presentation of pension charges under International Accounting Standard 19 will lead to a change of accounting policy in 2013 with a consequent restatement of the 2012 Financial Statements on a consistent basis for comparative purposes. The changes will have no impact on the Group's cash payments to the Pension Scheme.

Nigel Howes
Finance Director
7 March 2013

Risks and Uncertainties

The Group's risk management process is a continuous and developing process which is well embedded within the business. This process manages risks and opportunities and is integral to the delivery of our strategic objectives.

During the year the risk management process was reviewed and updated. The individual business units continuously review risks surrounding past, present and future activities, reporting these in their risk register which are now submitted monthly for review by the risk governance team. An overall Group risk register and risk map reflecting the top 30 risks of the Group is prepared for review by the Operating Board and the PLC Board on a monthly basis. The detailed risk register is reviewed on a six-monthly basis.

The principal risks and uncertainties facing the Group together with the mitigating actions are set out below:

Risks and Impact	Mitigating Actions and Management
A 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.
The Group must be able to respond to technological change Clients' progressive adoption of digital formats and channels may impact market demand for the Group's products and services. The Group is committed to developing or procuring new types of technology either organically or through acquisition, in order to be able to provide the latest services to clients and therefore maintain its competitive position. 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. Further investment could then be required by the Group to develop or acquire the latest technology in order to maintain its position in the market.	• Continued investment in advanced technology and new services maintains and enhances the Group's competitive position. • Due diligence together with the monitoring of development projects and integration plans ensures that new products and services whether organically developed or procured through acquisition are cost-effectively introduced and successfully implemented.

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 2012 the top five clients of the Group accounted for approximately 52 per cent of sales.	• A strategic account management programme operates to preserve customer relationships, monitor compliance with service level agreements and expand the services offered to key clients. • Business development activities promote the Group's services in a broad range of market sectors and into international markets. • Development of long-term customer relationships. • Increase market share by extension into other sectors, reducing the reliance on financial services sector.
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; • diversify sufficiently into other market sectors; and	• 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 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, are 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.
Operations rely on uninterrupted IT systems and the safeguarding of client data The Group's operations depend upon the uninterrupted operation of its complex computer networks and systems, as well as its ability to access the networks of other parties. The Group also processes confidential and personal 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, either of which could result in reputational damage and financial loss.	• Business continuity plans are in place. • Established information and security standards are subject to regular third-party audits. • Continued investment in IT infrastructure, security and monitoring, guards against the inappropriate use of client data and maintains and enhances the effectiveness of controls.
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 IAS19 pension deficit was £21.7 million as at 31 December 2012. 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 in the current economic climate 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.

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Consolidated Income Statement
for the year ended 31 December 2012

		2012			2011		
	Note	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		**229,774**	**-**	**229,774**	208,276	-	208,276
Changes in inventories of finished goods and work in progress		**(410)**	**-**	**(410)**	(116)	-	(116)
Raw materials and consumables used		**(125,263)**	**-**	**(125,263)**	(113,577)	-	(113,577)
Employee benefits expense		**(57,874)**	**(1,191)**	**(59,065)**	(53,552)	(2,107)	(55,659)
Other operating expenses		**(27,214)**	**(1,221)**	**(28,435)**	(24,701)	(2,226)	(26,927)
Depreciation and amortisation expense		**(6,682)**	**(1,105)**	**(7,787)**	(6,408)	(516)	(6,924)
Profit from operations		**12,331**	**(3,517)**	**8,814**	9,922	(4,849)	5,073
Finance revenue		**278**	**-**	**278**	1,192	-	1,192
Finance costs		**(2,315)**	**-**	**(2,315)**	(2,105)	-	(2,105)
Profit before taxation		**10,294**	**(3,517)**	**6,777**	9,009	(4,849)	4,160
Income tax expense	4	**(2,604)**	**1,007**	**(1,597)**	(2,565)	2,476	(89)
Profit for the year attributable to equity holders of the parent		**7,690**	**(2,510)**	**5,180**	6,444	(2,373)	4,071
Earnings per share	6						
On profit for the year attributable to equity holders and from continuing operations							
- basic		**5.56p**		**3.75p**	4.68p		2.96p
- diluted		**5.38p**		**3.63p**	4.52p		2.86p
Dividend per share	7						
- paid				**1.55p**			1.36p
- proposed				**1.10p**			1.00p

Dividends paid and proposed during the year were £2.1 million and £2.1 million respectively (2011 £1.9 million and £1.4 million respectively).

All income and expenses relate to continuing operations.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2012

	2012	2011
	£000	£000
Profit for the year	**5,180**	4,071
Exchange differences on translation of foreign operations	**(40)**	(19)
Adjustments in respect of prior years due to change in tax rate	**(284)**	(194)
Actuarial losses on defined benefit pension plans	**(9,160)**	(8,868)
Income tax thereon	**2,107**	2,217
(Loss) / gain on cash flow hedges taken directly to equity	**(64)**	26
Income tax thereon	**15**	(7)
Other comprehensive loss for the year, net of tax	**(7,426)**	(6,845)
Total comprehensive loss for the year, net of tax	**(2,246)**	(2,774)
Attributable to:		
Equity holders of the parent	**(2,246)**	(2,774)

Consolidated Balance Sheet
31 December 2012

	2012 £000	2011 £000
ASSETS		
Non-current assets		
Property, plant and equipment	**19,853**	21,003
Intangible assets	**166,846**	162,675
Trade and other receivables	**69**	124
Deferred tax assets	**2,215**	1,571
	188,983	185,373
Current assets		
Inventories	**7,423**	7,914
Trade and other receivables	**41,527**	34,545
Cash and cash equivalents	**21,548**	13,280
	70,498	55,739
TOTAL ASSETS	**259,481**	241,112
EQUITY AND LIABILITIES		
Equity attributable to the equity holders of the parent		
Equity share capital	**35,251**	34,663
Share premium	**22**	22
Merger reserve	**11,427**	11,427
ESOP reserve	**(346)**	(535)
Capital redemption reserve	**1,375**	1,375
Cumulative translation adjustment	**(221)**	(181)
Retained earnings	**77,679**	82,021
Total equity	**125,187**	128,792
Non-current liabilities		
Interest-bearing loans and borrowings	**40,518**	37,107
Trade and other payables	**766**	223
Retirement benefit obligations	**21,713**	14,186
Provisions	**761**	1,127
	63,758	52,643
Current liabilities		
Interest-bearing loans and borrowings	**1,030**	903
Trade and other payables	**67,650**	56,224
Income tax payable	**471**	644
Provisions	**1,321**	1,798
Financial liability	**64**	108
	70,536	59,677
Total liabilities	**134,294**	112,320
TOTAL EQUITY AND LIABILITIES	**259,481**	241,112

Consolidated Cash Flow Statement

for the year ended 31 December 2012

	Note	2012 £000	2011 £000
Cash flows from operating activities			
Cash generated from operations	9	**14,512**	8,773
Interest paid		**(1,954)**	(1,882)
Interest received		**229**	108
Income tax (paid) / received		**(730)**	788
Net cash flows from operating activities		**12,057**	7,787
Cash flows from investing activities			
Acquisition of subsidiary undertakings (net of cash acquired)		**(1,278)**	(7,749)
Disposal of subsidiary undertakings		**450**	-
Purchase of property, plant and equipment		**(3,139)**	(3,305)
Purchase of intangible assets		**(2,206)**	(1,058)
Proceeds from the sale of property, plant and equipment		**10**	308
Net cash flows from investing activities		**(6,163)**	(11,804)
Cash flows from financing activities			
Purchase of own shares		**-**	(197)
Sharesave options exercised		**588**	12
New borrowings		**13,000**	50,000
Repayment of borrowings		**(9,000)**	(33,000)
Debt arrangement fees		**-**	(790)
Dividends paid		**(2,137)**	(1,879)
Net cash flows from financing activities		**2,451**	14,146
Net increase in cash and cash equivalents		**8,345**	10,129
Cash and cash equivalents at 1 January		**13,280**	3,202
Exchange rate effects		**(77)**	(51)
Cash and cash equivalents at 31 December		**21,548**	13,280
Cash and cash equivalents consist of:			
Cash and cash equivalents		**21,548**	13,280

Consolidated Statement of Changes in Equity
for the year ended 31 December 2012

	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 2011	34,651	22	11,427	(338)	1,375	(162)	86,523	133,498
Profit for the year	-	-	-	-	-	-	4,071	4,071
Other comprehensive loss	-	-	-	-	-	(19)	(6,826)	(6,845)
Total comprehensive loss	-	-	-	-	-	(19)	(2,755)	(2,774)
Employee share option schemes - value of services provided	-	-	-	-	-	-	132	132
Shares issued – exercise of options	12	-	-	-	-	-	-	12
Purchase of own shares	-	-	-	(197)	-	-	-	(197)
Dividends paid	-	-	-	-	-	-	(1,879)	(1,879)
As at 31 December 2011	**34,663**	**22**	**11,427**	**(535)**	**1,375**	**(181)**	**82,021**	**128,792**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**5,180**	**5,180**
Other comprehensive loss	**-**	**-**	**-**	**-**	**-**	**(40)**	**(7,386)**	**(7,426)**
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**

1 Segmental information

Business segments

Management has determined the operating segments based on the reports reviewed by the Board that are used to make strategic decisions. The Group's activities are focused in two main areas which are:

- Intelligence Driven Communications ("IDC") which aims to help businesses increase the revenue that they generate from their customer base, utilising data to deliver more targeted and relevant marketing programmes across a range of different channels. Four key services are offered under the IDC banner – Data & Analysis, Campaign Management, Creative and Postal Sortation.

- Specialist Production and Sourcing ("SPS") which aims to help businesses improve the efficiency and quality of their supply chains at reduced cost. Four key services are offered under the SPS banner – Print Sourcing, Direct Mail, Transactional Services and Cheques.

Certain revenues are classed as pass through revenues, which are 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. Where it is agreed that these revenues will be recharged at cost, management classifies these items as pass through for internal reporting purposes.

The Communisis Board considers the performance of IDC and SPS 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, Group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

A software asset with a net book value of £1,514,000 (2011 £1,831,000) has been allocated to segment assets as follows: IDC £509,000, SPS £925,000 and Corporate Costs £80,000. The amortisation charge on the asset for 2012 has been allocated to segments as follows: IDC £38,000, SPS £259,000 and Corporate Costs £20,000.

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 2012 are as follows:

	Continuing operations				
	IDC £000	SPS £000	Pass Through £000	Corporate Costs £000	Total £000
Revenue	**30,075**	**148,749**	**50,950**	**-**	**229,774**
Profit from operations before amortisation of acquired intangibles and exceptional items	**4,092**	**11,744**	**-**	**(3,505)**	**12,331**
Amortisation of acquired intangibles	**(328)**	**(449)**	**-**	**-**	**(777)**
Profit from operations before exceptional items	**3,764**	**11,295**	**-**	**(3,505)**	**11,554**
Exceptional items	**(541)**	**(1,499)**	**-**	**(700)**	**(2,740)**
Profit from operations	**3,223**	**9,796**	**-**	**(4,205)**	**8,814**
Net finance costs					**(2,037)**
Profit before tax					**6,777**
Income tax expense					**(1,597)**
Profit for the year					**5,180**

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.

Inter-segment sales amounting to £9,655,000 were made to SPS from IDC, and sales of £13,000 were made to IDC from SPS during the year.

The segment results for the year ended 31 December 2011 are as follows:

	Continuing operations				
	IDC £000	SPS £000	Pass Through £000	Corporate Costs £000	Total £000
Revenue	25,016	144,791	38,469	-	208,276
Profit from operations before amortisation of acquired intangibles and exceptional items	3,405	10,259	-	(3,742)	9,922
Amortisation of acquired intangibles	(228)	(288)	-	-	(516)
Profit from operations before exceptional items	3,177	9,971	-	(3,742)	9,406
Exceptional items	(422)	(3,529)	-	(382)	(4,333)
Profit from operations	2,755	6,442	-	(4,124)	5,073
Net finance costs before exceptional items					(913)
Profit before tax					4,160
Income tax expense					(89)
Profit for the year					4,071

Revenue includes sales to four customers who each individually represent more than 10% of the Group's total revenue. Sales to Customer 1 were £30.5m, Customer 2 £26.2m, Customer 3 £23.9m and Customer 4 £29.0m, and included transactions with each business segment.

Inter-segment sales amounting to £6,875,000 were made to SPS from IDC, and sales of £2,000 were made to IDC from SPS during the year.

2 Finance costs and finance revenue by category of financial instruments

	2012 £000	2011 £000
Interest on financial assets measured at amortised cost	**25**	122
Interest on financial liabilities measured at amortised cost	**(2,296)**	(2,089)
Net interest from financial assets and financial liabilities not at fair value through Income Statement	**(2,271)**	(1,967)
Change in fair value of derivatives	**108**	203
Loss on foreign currency liabilities	**(19)**	(16)
Retirement benefit related income	**145**	867
	(2,037)	(913)

3 Exceptional items

	2012 £000	2011 £000
Profit from operations is arrived at after charging the following items:		
Acquisition and set up costs	**700**	236
Exceptional restructuring costs	**1,712**	3,697
Impairment of intangible assets	**328**	-
Pension deficit reduction project	**-**	400
Exceptional items	**2,740**	4,333

Acquisition and set up costs in 2011 and 2012 relate to non-recurring professional fees for acquisition related activities.

During 2012 the Group incurred £1,712,000 (2011 £3,697,000) in respect of organisational restructuring which included further site consolidation, headcount reduction across the Group and a further £120,000 relating to the closure of Orchestra Bristol Limited. Of this amount, £1,514,000 is unpaid at 31 December 2012.

A customer relationship with a cost of £410,000 and accumulated amortisation of £82,000 has been written down to £nil in the year due to the loss of a customer.

The pension deficit reduction costs relate to legal and consultancy expenses of £400,000 for a project undertaken during 2011. This has been fully paid at 31 December 2012.

4 Income tax

The major components of income tax expense for the years ended 31 December 2012 and 2011 are:

	2012 £000	2011 £000
Tax charged in the Income Statement		
Current income tax		
UK Corporation Tax	**1,864**	557
Adjustments in respect of prior years	**(332)**	(1,350)
Overseas tax on profits for the year	**144**	41
Total current income tax charge / (credit)	**1,676**	(752)
Deferred income tax		
Origination and reversal of temporary differences	**(202)**	758
Adjustments in respect of prior years	**178**	144
Adjustments in respect of prior years – due to change in tax rate	**(55)**	(61)
Total deferred tax (credit) / charge	**(79)**	841
Tax charge in the Consolidated Income Statement	**1,597**	89
Tax relating to items charged or credited to other comprehensive income		
Deferred income tax		
Actuarial losses on pension scheme current year credit	**(2,107)**	(2,217)
Adjustment in respect of prior years – due to change in tax rate	**284**	194
Tax on financial liability	**(15)**	7
Income tax credit reported in Consolidated Statement of Comprehensive Income	**(1,838)**	(2,016)

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 (2011 lower) than the average standard rate of Corporation Tax in the UK of 24.5% (2011 26.5%). The differences are reconciled below:

	2012 £000	2011 £000
Profit before income tax	**6,777**	4,160
At UK statutory income tax rate of 24.5% (2011 26.5%)	**1,660**	1,102
Expenses not deductible for tax purposes	**264**	299
Unrelieved overseas losses	**3**	4
Untaxed overseas profits	**-**	(22)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1)**	(32)
Share-based payments	**(70)**	40
Change in deferred tax in respect of rolled over capital gains	**(50)**	(35)
Adjustments in respect of prior years	**(154)**	(1,206)
Adjustment in respect of prior years – due to change in tax rate	**(55)**	(61)
Tax charge in the Consolidated Income Statement	**1,597**	89

Unrecognised tax losses

The Group has unrecognised losses, which arose outside of the UK, of £797,000 (2011 £820,000) 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 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 has been accounted for by the acquisition method of accounting.

	Fair value to Group £000
Property, plant and equipment	**17**
Trade names	**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 cash 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.

At 31 December 2012 the amount of deferred consideration outstanding was £21,000. A further £198,000 of payments to the vendors which are linked to future service will be expensed through the Income Statement in line with IFRS3 Business Combinations. £65,000 has been expensed in the year and is included in employee benefits expense.

The results of this business are included within the 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 have been expensed and are included in exceptional items.

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
Property, plant and equipment	**5**
Software assets	**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 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 have been expensed and are included in exceptional items.

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 holds a call option to purchase the remaining 51% of the voting shares for a consideration of £543,000.

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.

Details of the consideration paid and book values of assets and liabilities acquired are set out below. This transaction has been accounted for by applying the acquisition method under IFRS 3, as despite only currently holding 49% of voting rights, the Group has the power to control TGML by virtue of the call option held, and clauses in TGML's Articles of Association. In the consolidated financial statements TGML is accounted for as though it was 100% owned and no minority interest is shown as the Group has present access to the economic benefits associated with 100% ownership of TGML by virtue of the call option's fixed price, and the terms of a Shareholder's agreement. A financial liability of £543,000 is recognised in respect of the amount due to the non-controlling shareholders under the call option.

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 IDC segment.

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

6 Earnings per share

	2012 000	2011 000
Weighted average number of ordinary shares (excluding ESOP shares) for basic earnings per share	**138,263**	137,765
Effect of dilution:		
Share options	**4,583**	4,739
Weighted average number of ordinary shares (excluding ESOP shares) adjusted for the effect of dilution	**142,846**	142,504

573,730 (2011 886,138) shares were held in trust at 31 December 2012.

Share options in issue for which exercise is currently unlikely (as the option price is higher than the average market price) total 583,306 (2011 1,324,250) options. As a consequence, these options have not been included in the diluted earnings per share in the current year.

	2012 £000	2011 £000
Basic and diluted earnings per share is calculated as follows:		
Profit attributable to equity holders of the parent	**5,180**	4,071
Earnings per share		
Basic	**3.75p**	2.96p
Diluted	**3.63p**	2.86p

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:

	2012 £000	2011 £000
Profit after taxation from continuing operations	**5,180**	4,071
Exceptional costs (Note 3)	**2,740**	4,333
Taxation on exceptional items	**(633)**	(1,116)
Amortisation of acquired intangibles	**777**	516
Taxation on amortisation of acquired intangibles	**(220)**	(154)
Taxation – adjustments in respect of prior years (Note 4)	**(154)**	(1,206)
Profit after taxation from continuing operations excluding exceptional items and amortisation of acquired intangibles	**7,690**	6,444
Adjusted earnings per share		
Basic	**5.56p**	4.68p
Diluted	**5.38p**	4.52p

The basis of measurement of adjusted EPS has been changed during the year to reflect more accurately the measure of EPS used by the market and the comparative has been updated accordingly.

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

7 Dividends paid and proposed

Declared and paid during the year	**2012 £000**	**2011 £000**
Amounts recognised as distributions to equity holders in the year:		
Final dividend of the year ended 31 December 2010 of 0.86p per share	**-**	1,190
Interim dividend of the year ended 31 December 2011 of 0.50p per share	**-**	689
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**	-
	2,137	1,879
Proposed for approval at AGM (not recognised as a liability as at 31 December)		
Final equity dividend on ordinary shares of 1.10p (2011 1.00p) per share (based on issued share capital at the date of approval of the Financial Statements)	**2,095**	1,378

8 Events after the balance sheet date

Equity raise
The Board announced on 14 February 2013 the details of a Firm Placing, Placing and Open Offer to raise £20 million (approximately £18.9 million net of expenses) through the issue of 50,000,000 New Ordinary Shares at an issue price of 40 pence per New Ordinary Share, subject to Shareholder approval. This was given at the General Meeting on 5 March 2013.

Bank facilities extension
On 14 February 2013, Communisis increased its committed bank facilities by £10 million to a total of £55 million. The new facilities comprise two new tranches to the multi-currency revolving credit facility, being (i) a £5.0 million tranche and (ii) a further £5 million tranche which Communisis may utilise by way of an overdraft facility (with such overdraft being provided on a committed basis).

It is a requirement of the facility agreement that the net proceeds of the equity raise are used to repay the facilities extension. On completion of the equity raise and repayment of the £10 million additional facilities it is expected that Barclays Bank PLC will provide an uncommitted overdraft facility of £5 million to replace it, such that the amount of the overdraft facilities available to the Company will remain unchanged. The Group's bank facilities will then total £50 million, comprising a £45 million multi-currency revolving credit facility (committed until 24 August 2014) and an uncommitted £5 million overdraft facility.

9 Cash generated from operations

	2012 £000	**2011 £000**
Continuing operations		
Profit before tax	**6,777**	4,160
Adjustments for:		
Amortisation of intangible assets arising on business acquisitions	**777**	516
Depreciation and other amortisation	**6,682**	6,408
Excess of contributions paid over Income Statement pension costs	**(99)**	(95)
Exceptional items	**2,740**	4,333
Profit on sale of property, plant & equipment	**(10)**	(240)
Share-based payment charge	**190**	132
Net finance costs	**2,037**	913
Additional contribution to the defined benefit pension plan	**(863)**	(2,975)
Cash cost of exceptional items	**(3,663)**	(3,926)
Changes in working capital:		
Decrease / (increase) in inventories	**483**	(567)
Increase in trade and other receivables	**(8,472)**	(7,431)
Increase in trade and other payables	**7,933**	7,545
Cash generated from operations	**14,512**	8,773

10 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 2012 and 31 December 2011 is abridged and has been extracted from the 2011 statutory accounts of Communisis plc which were approved by the Board of Directors on 1 March 2012, 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 2012 statutory accounts. The 2011 statutory accounts have been delivered to the Registrar of Companies. The auditors' report on the 2011 statutory accounts was unqualified.