9 March 2017

Communisis plc

(“Communisis” or the “Group”)

Preliminary Results for the year ended 31 December 2016

Strengthened UK position and extending global reach

Leading provider of integrated marketing services, Communisis plc (LSE: CMS), reports preliminary results for the year ended 31 December 2016.

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

“Success in 2016 came from a focus on core activities and translated into a number of significant, new multi-year contracts. We have succeeded in strengthening our position as the leader in UK transactional communications and further extended our Brand Deployment services in overseas territories. These twin themes will continue to underpin our growth strategy going forward.”

Financial Highlights

- **Adjusted earnings per share up 17% to 6.07p (2015 5.18p)**
- **Adjusted profit before tax up 15% to £16.7m (2015 £14.5m)**
- **Free cash flow 7% higher at £12.9m (2015 £12.0m)**
- **Net debt reduced by £9m to £30m (2015 £39m)**
- **Full year dividend per share increased by 10% to 2.42p (2015 2.20p)**

Financial Results

	2016	**2015**	**As Reported**	**Constant Currency***
Total revenue (£m)	361.9	354.2	+2%	0%
Adjusted operating profit (£m)**	19.5	18.3	+6%	+2%
Adjusted profit before tax (£m)**	16.7	14.5	+15%	+9%
Adjusted earnings per share (p)**	6.07	5.18	+17%	+10%
Profit before tax (£m) (Note 1)	11.6	17.3	-33%	-36%
Proposed final dividend per share (p)	1.61	1.47	+10%	
Free cash flow (£m) ***	12.9	12.0	+7%	
Net debt (£m)	30.4	39.4	-23%	

Note 1: Profit before tax during 2015 included a significant £6.7m one off release of contingent consideration. Adjusted measures are presented and used by Communisis to give a better understanding of the underlying performance of the Group by excluding the effect of exceptional gains and losses from each year.

** Constant currency: the reported numbers excluding the effects of changes in exchange rates on the translation into sterling of results denominated in foreign currencies.*

*** Adjusted metrics are stated before exceptional items and the amortisation of acquired intangibles. Adjusted earnings per share is fully diluted and excludes the after tax effects of exceptional items and the amortisation of acquired intangibles*

**** Free cash flow represents net operating cash flow less net capital expenditure*

Operational highlights

Growth

• Significant new multi-year contractual relationships:
- LV= (Liverpool Victoria Friendly Society) for a six year term for customer fulfilment services from March 2016;
- Her Majesty's Revenue and Customs (HMRC) for all outbound customer communication, commencing July 2017 for a five year term;
- Global healthcare client for marketing print management across EMEA (Europe, the Middle East and Africa), with a staged roll-out commencing from the Middle East and then multiple territories, for a three year term;
- Sony Europe for a range of customer communication services, commenced October 2016 for a three year term.

• Increased international presence:
- International sales now 26% of Group revenue (2015 18%);
- First presence in USA market to be established through an office in New York, expected to open by June 2017, initially providing content-marketing services to our Client, Linked-In.

Efficiency

• Implemented a simplified two divisional structure to align with our target Clients and main markets.

• Continued to optimise cost base:
- Reduction in Corporate costs as a result of simplified Group structure;
- Operational efficiency programmes delivering benefits in all main manufacturing locations.

People

• Entered into a partnership with Randstad Sourceright, a global leader in recruitment solutions, to improve our recruitment processes;

• Continued investment in our learning and development function.

Outlook

Communisis is well placed to respond to opportunities for client service extension, the application of technology and geographic expansion in our existing and new Client relationships. Our simplified structure is also helping us to optimise our cost base and operational efficiency programmes are delivering benefits in our manufacturing locations.

Trading in the early months of this year has started in line with expectations and the board is looking forward to another positive year for the Group.

For further information please contact:

Communisis plc **020 7224 3456**
Andy Blundell / Mark Stoner

FTI Consulting **020 3727 1000**
Matt Dixon / Emma Appleton / Niamh Fogarty

About Communisis

Communisis is an integrated marketing services company which improves communication between brands and their customers. We create engaging content and deliver it across multiple customer touch-points; in digital, broadcast and print channels.

Chairman's statement

Results

Communisis delivered a strong set of results in 2016, which was our seventh consecutive year of growth.

Adjusted profit before tax increased 15% to £16.7m (2015 £14.5m) on revenue that was 2% ahead at £361.9m (2015 £354.2m). Free cash generation was strong, increasing to £12.9m (2015 £12.0m). Year-end net debt reduced by 23% to £30.4m (2015 £39.4m). Adjusted earnings per share was up 17% at 6.07p (2015 5.18p).

These results came about through a focus on our core activities, driven from a simplified Group structure that effectively aligns to our main target Clients and markets. In 2016 Communisis won several important new contracts, which assist visibility against our longer-term growth plans.

The Customer Experience division consolidated its market leadership in the UK transactional arena, with important new contracts with Her Majesty's Revenue and Customs (HMRC) and LV= Group. There are interesting opportunities for our company to help its Clients respond through multiple channels, to a more demanding customer base, whilst navigating regulation.

The Brand Deployment division continued to grow rapidly in overseas markets; these territories now account for 26% of Group turnover. In 2016 Communisis secured a major contract with a global healthcare provider and separately a new contract with Sony Europe; both arrangements are multi-year agreements across several countries in EMEA. Brand owners are increasingly concerned to control and co-ordinate their spend in marketing execution on an international basis, which translates as a significant, continued growth opportunity for Communisis.

Successful delivery of the Group's strategy is dependent upon attracting, developing and retaining a high calibre team. The Board would like to thank everyone who has contributed to another successful year for the Group.

Dividend

The proposed final dividend has been increased by 10% to 1.61p per share, bringing the total dividend for the year to 2.42p per share. The dividend will be payable on 26 May 2017 to shareholders on the register at 28 April 2017.

Board changes

David Gilbertson was appointed as Non-Executive Director and Chairman Designate on 1 March 2017. After nine years in the role, I have taken the decision to retire and David will assume the role of Chairman, following the AGM on 11 May.

I am proud to have served Communisis and its shareholders for the past nine years. During this time the Group has established itself as a market leader in customer communication. Our growth has seen us enter new service areas, win major long-term outsourcing contracts and create a meaningful presence in international markets. I very much welcome David as my successor and wish him well in the role.

Peter Hickson

Chairman
9 March 2017

What do we do?

Communisis specialises in integrated marketing services that improve communications between brands and their customers.

The company has recently completed a detailed review to refine its Client propositions and how it is positioned in the market.

The new proposition simplifies the go-to-market approach and uses marketing discipline to create demand and preference for our services. The Company has also revitalised its brand identity. More details are available at www.communisis.com.

The New Proposition - *Shaping the future of customer communication.*

Purpose

Clients are facing unprecedented change, whether regulatory, technological or in consumer behaviour. It is the role of Communisis to help them stay ahead of these challenges.

Communisis creates engaging content and delivers it across multiple customer touch-points; in digital, broadcast and print channels, using a combination of unique strategic insight, customer communications, technology and transformational expertise.

How this is delivered for Clients

"One to One" – the Customer Experience Division

Creating lasting and profitable personal customer relationships - in all direct, digital and social channels.

This involves mission-critical personalised communications: customer engagement, corporate video communications, specialised content, "transactional" (being billing, statements, cheques and inbound services) and regulatory communications.

Customer Experience's clients include Lloyds Banking Group, Centrica, AXA, American Express, Amazon, Scottish Power, BP and HMRC.

"One to Many" - the Brand Deployment Division

Creating activation communications in Retail and Fast Moving Consumer Goods (FMCG) channels that motivate consumers to experience and buy brands.

Providing brand activation strategy, shopper marketing, marketing supply chain management, fulfilment, logistics and Point Of Sale (POS) procurement. Brand Deployment's clients include Procter & Gamble, Coty, Müller, Heineken, Nokia, Kellogg's and Bacardi.

Market Dynamics

Market trends previously identified continue to pertain to the Group as a whole:

- Outsourcing of incoming and outgoing customer communication and associated services;
- Clients reducing the number of service providers: the winners being those with scale and a broad range of services;
- Regulation: increasingly important influence on Clients in areas such as Financial Services;
- De-regulation: affecting Clients in areas such as Utilities, to encourage switching between providers;
- The rising importance of customer experience to most Clients
- Precision marketing through personalised communications;
- More consistent messaging in global campaigns;
- The emphasis being placed on content and the desire to transmit that content by the channel most relevant to the customer.

Customer Experience

All analogue activities in this Division happen in the UK, the transactional outbound and inbound services needing to be within the postal jurisdiction. Digital can go cross-border and we have taken a first step with the establishment of a small office in New York to offer content marketing to our Client, Linked-In.
By vertical Client segment, observations include:

- Banks - looking to protect market share and promote loyalty. Ring-fencing legislation will create opportunities for Communisis;

- Insurance - 50% of Insurers' product investment budgets to be aimed at customer experience. There is tension between the Direct and Aggregator providers;

- Retail - increasing digital influence. Clients' Marketers challenged with digital overload;

- Public Sector - more momentum after Government's Communications Plan for 2016/17 published with a "Digital by Default" agenda.

Brand Deployment

Brand Deployment is emerging as a new strategic market, defined by the realisation that brand owners can outsource marketing execution to managed service providers to deliver on an International basis. Previously such services had been in-house and frequently devolved, regionally. At present managed service providers tend to be focussed by geographic groupings in say, EMEA, Latin America or the USA but longer term it is likely that more truly Global solutions will be sought. The main product is point-of-sale (POS) but brand owners are expecting associated services to be provided alongside, for example Premiums, experiential and merchandising. There is an important trend within POS toward more semi-permanent or permanent displays, sometimes incorporating digital. This mix is dependent upon geography and relative retail sophistication.

Three clear strategies, creating value for stakeholders

GROWTH	EFFICIENCY	PEOPLE
• Grow sales organically • Extend activities to broaden and deepen the service offering • Increase international presence	• Optimise direct cost and overhead base, capitalising on synergies • Improve capacity utilisation	• Attract and retain the best people • Engage, develop and reward

How have we performed?

Good progress was made during the year against all three strategic initiatives.

GROWTH

Our growth strategy will continue to focus on the UK market for transactional communications and marketing execution in overseas territories.

Grow sales organically

The following significant contracts have been announced in 2016:

- A six year contract with LV= (Liverpool Victoria Friendly Society) for the provision of customer fulfilment services including document composition, digital archiving and transactional output.
- Her Majesty's Revenue and Customs (HMRC) for all outbound customer communication. Awarded in December 2016 for a term of five years with an initial three years and the option of a further two year extension. Implementation planning is in hand and working towards a go-live date in mid-2017.
- A three year multi-territory agreement with a new global healthcare client awarded in May for marketing print management provision within EMEA including premiums, point-of-sale and shopper/creative insight services.
- Sony Europe for a range of customer communication services including marketing collateral and point-of-sale across Europe. The arrangement went live in October 2016 for a term of three years.

The business wins in the year further diversify the Group away from its traditional strength in servicing the Financial Services sector, with FMCG/Retail now represented to a similar level. As well as further developing the insurance, healthcare and technology sectors, the recent HMRC contract brings a significant move into the public sector. Many of the Group's largest Clients are leaders in their sectors.

Due to the contractual arrangements in place, there is good medium-term visibility in the business. The average contract life is currently five years. Many of the contracts are for personalised, business-critical communications, such as billing, statements, cheque books and inbound services, or for multi-territory marketing campaigns. As a result of the nature of these services, Communisis becomes deeply embedded with its Clients, with our best relationships taking the form of trusted partnerships. The Group normally negotiates to extend or renew relationships as long as service levels are met, far extending the average contract life.

Extend activities to broaden and deepen the service offering

The new structure allows Communisis to provide a visibly more cohesive service offering to existing and new Clients. For example, the new contract with a global healthcare brand within our Brand Deployment division draws heavily on both point-of-sale deployment and shopper marketing propositions from that division. Similarly, the new LV= contract spans multiple offerings from the Customer Experience division, encompassing transactional print, digital archiving and document composition.

Our closeness to Clients, often through having on-site teams with Communisis staff sitting alongside Clients marketing teams, facilitates the identification and development of new opportunities which both grows revenue and improves the range of offering we have to our clients.

Several new products and services have been developed during 2016, including:

- e-UCN, a Communisis patented system which provides increased security for our cheque Clients within the Banking sector, with positive initial take-up

- investment emphasis on technology to support Client requirements in areas such as Enterprise Content Management (ECM) and Document Composition software

Increase international presence

With 26% (2015 18%) of Group revenue now generated overseas, the Group continues to expand and widen what has become a successful international footprint. New operations for Brand Deployment opened within Dubai during 2016, and a third German presence has been established in Berlin to complement our existing operations in Frankfurt and Dusseldorf.

Additional Clients continue to be added within the already established European network further extending the Brand Deployment segment. This further reduces the risk of Client concentration in any one location and allows for cost efficiencies to be leveraged.

Our Clients take an increasingly global approach to marketing services and to meet this we continue to assess new opportunities both within EMEA and beyond. Extending into new territories on a “sponsored” basis from brand owners has facilitated becoming established and profitable in new territories in a much quicker timeframe than we could have achieved without these valuable Client relationships. We expect to continue this approach outside EMEA during 2017, responding to the needs of our Client base.

Furthermore, our first presence in the USA market will be established this year through an office in New York. Expected to open by June 2017, it will initially provide content-marketing services to our Client, Linked-In.

We now have 160 people based overseas servicing 50 overseas clients and representing 8% of our worldwide workforce.

EFFICIENCY

Driving efficient operations will underpin the future success of the Group.

Optimise direct cost and overhead base, capitalising on synergies

The new two divisional structure adopted in the year has allowed for significant efficiencies and cost savings including a reduction in the size of the Corporate office, de-layering of management and restructuring of the Agency offerings. Further efficiencies have been gained through consolidation of the Chiswell Street, London office into Little Portland Street, London, outsourcing of non-core activities and a reduction in the overall level of Corporate costs.

As part of our previously announced initiative to move to a Shared Service operation, we outsourced the majority of our legal function, facilities management and recruitment activity to third party suppliers during the year. In addition, IT development activity formerly performed by our Indian based development team was transferred to a specialist software provider, accelerating delivery of Client solutions.

Through de-layering and restructuring the workforce, the Group has continued to grow while at the same time reducing headcount and hence further optimising the ongoing cost base.

Total Group employees reduced from 2,242 in December 2015 to 2,073 by December 2016.

Improve capacity utilisation

The Group continues to invest in the automation of processes in both segments and has reconfigured the asset base within the transactional area to reduce the amount of leased printing equipment, facilitating a flexible and appropriately geared organisation. Our ability to work in an interconnected manner has improved across our production sites, facilitating the transfer of work between locations. This allows appropriate workload balancing and resource management.

The Group is becoming less capital-intensive with future expenditure now largely focussed on technology to support the delivery of workflow and facilitate multi-channel output as part of our digital strategy. The investment emphasis is on technology to support Client requirements in areas such as Enterprise Content Management (ECM) and Document Composition.

PEOPLE

We recognise that our people are an essential and valuable element in delivering our growth plans and our focus is on attracting, retaining and developing the best individuals.

Attract and retain the best people

We communicate our strategic goals to all of our managers and empower them to develop both themselves and those for whom they are responsible through focussed training to ensure they can best deliver those goals.

In 2016 we launched the Communisis Academy. This is our online learning and development hub which provides all of our employees with access to tools and materials to support their ongoing developmental needs. This is a cloud based system, available 24/7 regardless of where our employees are based.

Our apprenticeship programme continues to grow. This now encompasses roles available in IT, business administration and digital marketing. Plans are in place to have apprentices over four sites: Liverpool, Edinburgh, Leeds and Andover. In 2016, we partnered with two additional Apprenticeship training providers in anticipation and preparation for the new Apprenticeship Levy, which is due to come into effect in May 2017.

Succession plans have been reviewed during the year and are in place for all senior and business critical roles.

Recruiting the best talent is critical to our ongoing success. In 2016, we implemented a Recruitment Process Outsourcing agreement with Randstad Sourceright. This model has gone live in Q1 2017, and allows us access to best practice recruitment tools and practices to support our line managers in finding the best people for their teams. In addition, this approach will enhance our commitment to diversity and equality during the recruitment process.

Engage, develop and reward

In Communisis we understand that the success of our business strategy is critically dependent upon the involvement of all employees. We appreciate that employee engagement and wellbeing not only benefits our employees, but also has a direct impact upon the performance of our business and we seek to achieve that engagement in a number of ways. During 2016 we:

- held information and consultation forums, focus groups and internal surveys to listen to our teams;
- acted upon that feedback at local and company levels;
- used various high-quality digital channels to ensure timely and effective flows of information;
- developed improved and engaging visual communications to support our digital channels.

A healthy and safe working environment is central to everything we do. We are committed to providing our employees with a safe place to work combined with excellent occupational health services.

Our employees also receive regular wellbeing communications and have the opportunity to engage in various advice and training initiatives on Wellbeing Days which involve bringing experts in to the sites to give advice and guidance on a variety of topics. Our aim is to ensure that our people work within an environment which is conducive to good health and wellbeing and that our programmes and initiatives positively affect our employees’ lives both inside and outside of work.

Creating value

The segmental reporting is aligned with the Group's strategic direction and the way in which the activities are managed. Revenue, operating profit and margins before exceptional items are reported in two segments: Customer Experience and Brand Deployment. 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.

Clients can access services either from a single segment or on an integrated basis across both segments. The Group's account management process encourages the delivery of a broader range of services by targeting the Client's total available market.

Group

2016 has been a year of solid growth in Group revenue, adjusted operating profit and free cash generation with significant new business wins to underpin growth plans into 2017 and beyond.

Total revenue has grown by 2% to £361.9m (2015 £354.2m), driven by expansion within the international business. Adjusted operating profit rose 6% to £19.5m as a result of growth in Brand Deployment, including £0.9m from favourable exchange rates. This delivered adjusted diluted earnings per share of 6.07p, up from 5.18p in 2015, an increase of 17%.

Higher underlying earnings and lower capital expenditure delivered improving free cash flow of £12.9m (2015 £12.0m) with net debt reducing over the year by £9.0m to £30.4m.

Financial overview

Results

The table below is an extract from the Group's segmental Income Statement with Pass Through further split by operating segment.

	2016	2015
Revenue	**£m**	**£m**
Customer Experience	**169.3**	180.2
Pass Through	**15.7**	29.6
Total Customer Experience Revenue	**185.0**	209.8
Brand Deployment	**127.3**	60.6
Pass Through	**49.6**	83.8
Total Brand Deployment Revenue	**176.9**	144.4
Total Group Revenue	**361.9**	354.2
Adjusted profit from operations		
Customer Experience	**22.2**	23.6
Brand Deployment	**16.2**	14.1
Central Costs	**(13.3)**	(13.0)
Corporate Costs	**(5.6)**	(6.4)
Adjusted operating profit	**19.5**	18.3
Amortisation of acquired intangibles	**(0.8)**	(1.2)
Profit from operations before exceptional items	**18.7**	17.1
Exceptional items	**(4.3)**	4.0
Net finance costs including revaluation gains / (losses)	**(2.8)**	(3.8)
Profit before tax	**11.6**	17.3
Tax	**(3.0)**	(2.8)
Profit after tax	**8.6**	14.5
Earnings per share		
Basic (p)	**4.12**	6.98
Adjusted fully diluted (p)	**6.07**	5.18
Adjusted profit before tax (£m)	**16.7**	14.5
Adjusted EBITDA (£m)	**29.4**	29.2
Adjusted operating margin (on gross revenue)	**5.4%**	5.2%

Customer Experience
Gross revenue for the division, including Pass Through, ended at £185.0m, down from £209.8m in 2015, primarily due to the continued impact of conversion from print to digital communication channels, lower Agency spend and the reduction of £14m of non-margin generating Pass Through revenue. Volume erosion was seen across transactional print channels although at lower levels than expected, reflecting ongoing customer reluctance to migrate completely from paper to digital formats.

Adjusted operating profit for the segment at £22.2m was £1.4m lower than 2015. A strong performance from the transactional and service units was delivered through successful implementation of efficiency and automation projects, alongside lower than expected volume erosion in transactional. This was offset by lower Cheques and Agency profitability. Cheque revenue eroded by 7%, however this business unit remains profitable and cash generative. The Agency, principally Psona, and Cross Media Production design activities, experienced a challenging year as marketing budgets came under pressure impacting revenue and margins. The Agency elements of the division were reorganised during the year, moving from ten separate business units to four, delivering a more integrated offering providing Clients with a comprehensive value proposition.

Brand Deployment
Gross revenue including Pass Through grew to £176.9m from £144.4m during the year, impacted positively by a full year of trading in additional countries from 2015 and £6.3m from favourable exchange rates. Non UK revenue accounted for 53% (2015 47%) of Brand Deployment revenue during 2016.

Adjusted operating profit was 15% higher than 2015 at £16.2m. This included a strong recovery within shopper marketing, and a favourable currency translation from overseas profits of £0.9m.

Growth continued in the principal markets of Germany, Italy and Spain where the initial hub investment is delivering rewards as additional Clients are added to the network. Operations in Eastern Europe (Poland and Romania) delivered improvements on full year impact. In addition, Shopper Marketing improved profitability due to a significant improvement in conversion of new wins and a lower cost base.

Our new office in Dubai performed well during its inaugural year and is already showing signs of growth.

Central and Corporate costs
Central costs were slightly higher than 2015, driven by increased investment in technology to support the Group's growth plans. This was offset by reductions in the cost of plc corporate office due to a reduced number of executive directors.

Exceptional items
In 2016, the Group undertook a number of activities to reduce the cost base of the organisation and outsource non-core activities. Total exceptional costs charged in the year were £4.3m, including £3.6m associated with efficiency improvements within the production units and restructuring within the Agency, Psona. A further £0.7m of the total charge related to site exit costs at Chiswell Street, London and the Bangalore office following the outsourcing of IT development. In addition £0.4m was a non-cash write off relating to customer relationship assets and certain acquired trade names, offset by a £0.5m fair value revaluation release of contingent consideration in respect of acquisitions in the former Design segment.

In the prior year, the exceptional credit of £4.0m principally consisted of a credit of £6.7m in respect of the renegotiation of the Life acquisition earn-out agreement, a release of £0.4m in respect of a property provision, £2m relating to restructuring activities and £0.5m write off of customer relationship assets. The combined effect of a current year exceptional charge following a prior year exceptional credit has resulted in a decrease in basic earnings per share from 6.98p to 4.12p, despite an increase in operating results.

Net finance costs including revaluation gains / (losses)
Lower year end foreign currency rates impacted revaluation of non-sterling related balances, delivering a positive £0.9m profit impact within net finance costs.

Tax
The underlying tax rate in 2016 was 23.3% (2015 23.9%), which is above the UK standard rate due primarily to the increasing proportion of profits that are generated in overseas jurisdictions with higher tax rates.

Dividend
The Board has proposed a final dividend of 1.61p per share bringing the total dividend for the year to 2.42p per share, an increase of 10% over 2015. Dividend remains well covered at 2.5 times.

Cash Flow and Net Debt
The table below summarises the cash flows for the year and the closing net debt position.

	2016	2015
	£m	£m
Profit from operations before exceptional items	**18.7**	17.1
Depreciation and other non-cash items	**11.2**	12.2
Decrease in working capital	**(0.5)**	0.2
Pension scheme contributions	**(2.8)**	(2.9)
Interest and tax	**(4.3)**	(3.7)
Net operating cash flow before exceptional items	**22.3**	22.9
Exceptional items	**(3.7)**	(2.6)
Net operating cash flow	**18.6**	20.3
Free cash flow	**12.9**	12.0
Net capital expenditure	**5.7**	8.8
Acquisition costs included in exceptional items	**-**	(0.5)
Net operating cash flow	**18.6**	20.3
Net capital expenditure	**(5.7)**	(8.8)
Investment in new contracts	**(1.2)**	(2.2)
Acquisition of subsidiary undertaking	**(0.3)**	-
Dividends paid	**(4.8)**	(4.3)
Share issues net of directly attributable expenses	**-**	0.6
Purchase of shares	**(0.4)**	-
Revaluation	**2.4**	(0.4)
Decrease in bank debt	**8.6**	5.2
Opening bank debt	**(28.3)**	(33.5)
Closing bank debt	**(19.7)**	(28.3)
Bank debt	**(19.7)**	(28.3)
Unamortised borrowing costs	**0.2**	0.3
Net bank debt	**(19.5)**	(28.0)
Finance lease creditor	**(1.6)**	(2.1)
Promissory loan notes	**(9.3)**	(9.3)
Net debt	**(30.4)**	(39.4)

Generating improving amounts of free cash flow and consequent debt reduction has been a priority for the Group, and this has been delivered during 2016 with net debt reducing by 23% to £30.4m during the year.

Free cash flow continued to improve with £12.9m being generated in 2016 (2015 £12.0m). This was as a result of higher underlying earnings, controlled working capital and a reduction in capital expenditure to £5.7m (2015 £8.8m), offset by higher exceptional cash spend of £3.7m (2015 £2.6m). £1.1m of the 2016 exceptional costs are carried forward as 2017 cash outflows.

Dividends paid to shareholders increased by £0.5m to £4.8m.

A net cash inflow of £8.6m (2015 £5.2m) was used to reduce net bank debt at the year end to £19.7m (2015 £28.3m), comfortably within the Group’s facilities of £70m. Average net bank debt during the year was £32.7m (2015 £43.5m). As part of the facility, Communisis has to comply with a number of covenants, including maintaining a multiple of net bank debt to EBITDA and EBITA to net finance costs, both of which were in compliance.

Net debt ended 2016 at £30.4m, £9.0m lower than the prior year. This included £2.4m from the favourable conversion of non-sterling denominated balances, delivering an underlying £6.6m debt improvement. Banking covenants remain well covered with significant headroom.

Promissory loan notes of £9.3m in respect of the Life Marketing acquisition of January 2015 were repaid during January 2017 from normal facilities.

Bank facilities remain in place until 31 March 2018 and the Group will seek renewal of these facilities during 2017.

Pensions
The Pension Scheme accounting deficit at the year-end increased to £55.5m (2015 £41.1m). This is primarily due to a reduction in the year in UK corporate bond yields resulting in a significant decrease in discount rates from 3.75% to 2.7%, together with higher inflation assumptions which are used in the actuarial calculation of the Pension Scheme liabilities.

Cash contributions to the Pension Scheme are determined by reference to the triennial actuarial valuation, the latest of which was performed as at 31 March 2014, when the deficit was £19.5m. The contributions paid in 2016 towards the accounting deficit were £1.7m plus rental payments of £1.1m through the Central Asset Reserve arrangement. The next triennial valuation is scheduled for the end of March 2017.

Reserves
In response to the economic environment and volatility of the accounting pension deficit, the Group completed a capital reduction exercise on 7 December 2016 which generated an additional £22.5m distributable reserves from the former share premium account, capital redemption reserve and the merger reserve.

Net Assets
Net assets as at 31 December 2016 decreased by £8.6m since the prior year. This reduction is due to the adverse movement on the pension scheme which, net of tax, reduced net assets by £13.3m. Excluding this, the underlying improvement in net assets which, after payment of dividends, was £4.7m.

Key Performance Indicators
The key performance indicators, that are commented upon individually elsewhere in this Strategic Report comprise:

	2016	2015
Financial		
Adjusted operating profit (£million)	**19.5**	18.3
Adjusted operating margin on gross revenue (%)	**5.4**	5.2
Profit before tax (£million)	**11.6**	17.3
Free cash flow (£million)	**12.9**	12.0
Net debt (£million)	**30.4**	39.4
Pension accounting deficit (£million)	**55.5**	41.1

Risks and Uncertainties
The Group is subject to a number of risks and uncertainties that bring both challenge and opportunity. The Group's principal risks and uncertainties, together with the mitigating actions, are set out in the Risks and Uncertainties section.

Corporate Social Responsibility
The Group embraces corporate social responsibility and our policies make Communisis more resilient, more productive and more predictable in performance, whilst delivering economic and environmental benefits to society as a whole.

Directors' Responsibility Statement

We confirm to the best of our knowledge that the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profits of the Group; and that the Chairman's Report, Operating and Financial Review and Risk Management Report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that the Group faces.

By order of the Board

Andy Blundell	Mark Stoner
Chief Executive	Finance Director
9 March 2017	9 March 2017

Directors' Statement on the Basis of Preparation - Preliminary Announcement

The preliminary announcement has been prepared in accordance with applicable International Financial Reporting Standards as adopted by the EU and applied in accordance with the Companies Act 2006. The accounting policies adopted are included in this preliminary announcement.

These financial results do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. The Group Income Statement, Group Statement of Comprehensive Income, Group Statement of Financial Position, Group Statement of Changes in Equity, and Group Statement of Cash Flows, and selected notes for the year ended 31 December 2016 have been extracted from the Group's audited Financial Statements for the year then ended.

The audited financial information contained within the preliminary announcement for the year ended 31 December 2016 was approved by the Board on 9 March 2017. Statutory accounts for the year ended 31 December 2016 were approved on the same date and will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditors have reported on these Financial Statements. Their report was unqualified and did not contain a statement under s.498 (2) or (3) of the Companies Act 2006.

Delivering our Strategy by Managing Risk

To successfully deliver against the Group's strategic initiatives, we must first understand the risks faced and plan to manage them to an acceptable level.

Our Approach

The Board is accountable for ensuring the identification and appropriate management of potential risks faced by the Group. The internal audit function's responsibilities include overseeing the effectiveness of the internal control environment of the Group and its on-going risk management programme. This process is designed to identify, evaluate and manage the principal risks faced by the business in line with the Group Risk Policy Statement. Risk management is the extent to which the Group responds to the opportunities faced, whilst at the same time understanding and seeking to control any threats that could prevent its achievement of business objectives and successful execution of our business strategy.

The aim of the Group's risk management programme is therefore to improve the awareness of the consequences of risk-taking activities, reduce the frequency of damaging events occurring and minimise the severity of the consequences if they do occur. Part of this approach includes operation in line with or certification to a number of standards. This helps the business to work to legal, regulatory and contractual requirements using a set of clearly defined frameworks and management systems.

Policy requires that Business Unit heads demonstrate that they conform to the requirements of the Communisis Group risk management programme. Assessments must be undertaken, risks identified, controls identified and action managed for all activities that are identified as being critical to Communisis. During the year, all business units are required to report their material risks on a monthly basis to the internal audit function enabling independent review and reporting to the Board and senior management teams. Impact assessments are carried out to ascertain the likelihood of occurrence of each risk and the potential impact on the Group.

In addition, the Board also carries out a regular top down risk assessment of the most significant strategic risks that are linked to the achievement of the Group's strategic initiatives.

Viability Statement

The Group has prepared 5 year forecasts of profitability and cash flow as part of the goodwill impairment testing and, with average contract lives of 5 years, the Group has good medium term visibility of the business. Despite this, there will always be uncertain factors outside the control of Communisis and forecasting can never take into account unknown future economic, legal or regulatory changes which could impact the business and the markets in which it operates. In recognition of this, the Group has produced a viability assessment based on the three-year period to December 2019, and can confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities as they fall due for the next three years.

In making this statement the Directors have considered forecasts for the next three years, which include the Group's key financial ratios and cash flows over the period, and formed an opinion over the resilience of the Group. This takes into account the current position, the principal risks facing the business in severe but plausible scenarios, and the effectiveness of any mitigating actions. This assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the three-year period. The Directors consider the period to December 2019 to be appropriate as this is in line with the period covered by the Group's financial and strategic planning. Clients have shown an increased willingness to enter into longer contractual terms resulting in improved visibility for the Group from a financial perspective. With more emphasis being placed internally on identifying and managing pervasive risk, the Directors are confident that the Group will operate in line with the three year forecasts.

Whilst the review has considered all the principal risks identified in the table below, three have been identified for enhanced stress testing where they are considered to have the most significant plausibility and impact. These are: safeguarding of data and cyber risk, response to technological change and the loss of major Clients. Testing in isolation was considered inappropriate, as ultimately the occurrence of a severe data incident or adverse impact from technological change could lead to loss of major Clients (either through reputational damage or failure to respond to the Client's progressive adoption of digital communication channels). From May 2018 the impact of a data incident may also result in fines from the Information Commissioner's Office, due to General Data Protection Regulation (GDPR). The three year forecasts have therefore been stress tested by considering these data and technological risks and then overlaying the impact of the loss of the Group's top three customers.

During the period covered by the three year assessment, the Group's banking facilities are due for renewal. This is not expected to present any risk to the viability of the Group and has not therefore featured within the viability stress testing.

Whilst the occurrence of these risks is plausible, the Group are confident that the mitigating actions detailed in the table below are sufficient to minimise the impact. Accordingly, the Board continues to adopt and consider appropriate the going concern basis in preparing the Annual Report and Financial Statements.

Going concern

The Directors, after making enquiries, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the Financial Statements.

Risks and Uncertainties

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

The Group continues to monitor the impact of the UK's decision to exit the EU and other political changes that may affect its operations. Although the UK Government will have two years to renegotiate its terms of trading and other relevant matters with the EU, continued uncertainty about the process, the timing and the consequences of changes makes contingency planning challenging. We therefore aim to assess items that can result in uncertainty potentially causing damage to the business. Where this occurs, a plan will be drawn up to understand the impact and prevent, or at least limit, the loss.

Risk Area	Impact	Mitigating Actions and Management
The Group must be able to respond to market and technological change	Clients' and their customers' progressive adoption of digital formats and channels may impact Group strategy and market demand for products and services. The impact is that the systems and equipment utilised by the Group could be superseded earlier than anticipated by management.	• Continued investment in technology and new services maintains and enhances the Group's competitive position. • Specific teams are embedded within the business to lead change and innovation. • The Group is committed to procuring new types of technology in order to be able to provide the latest services to Clients and therefore maintain its competitive position.
The Group continues to pursue international expansion	The Group now operates in 17 countries (2015 16) outside the UK. International exposure to geo-political volatility and social instability may put the Group operations at risk. Movements in foreign exchange rates can impact the Group's sterling reported financial statements. The Group operates in a range of jurisdictions where non-compliance with local laws may expose the company to fines or other restrictions.	• A country Risk Assessment process has been developed along with Country Management Manuals. • Foreign currency balances and cash flow forecasts are regularly reviewed to monitor exposure. Principal exposure is Euro denominated territories. • Advice is sought from expert, in-territory, legal and tax partners. • Management review and audits are in place for International territories.
Deterioration in the economic environment may decrease profitability	The impact is that that macro-economic issues may quickly and detrimentally affect consumer expenditure, which could impact the trading performance of the Group's Clients and reduce their discretionary spend resulting in lower sales and profitability.	• Market trends are monitored and factored into the Group's business planning, budgeting and management processes. This is especially pertinent with regard to Brexit. • Volume erosion protection is included in contract terms where possible.

The Group continues to integrate acquisitions to meet its strategic objectives	The Group's last acquisition was in January 2015. With the new two divisional structure, the recent acquisitions are now more integrated within the respective divisions with appropriate cost base control in place. The ongoing risk is non-achievement of the full benefits anticipated within the business cases.	• The Group has a clear strategy for ensuring growth and integrating acquisitions. This includes assessing the alignment of products and services supported by positive and robust integration. • During 2016 we have adopted a two divisional structure with the benefit of reducing complexity and providing a clearer market proposition to our Client base.
Clients rely upon proven resilient business operations	Certain Group operations depend upon the uninterrupted delivery of products and services that rely on complex computer networks and systems. The impact is that the Group may face a significant business continuity incident that will materially affect its ability to deliver products or services to its Clients, and associated financial penalties.	• A Business Continuity Management (BCM) System and BCM plans are in place. These are exercised and audited in core areas of the Group. • Key areas of the Group have been integrated in to ISO/IEC 22301 certification.
Safeguarding of data and cyber risk	The Group processes personal and sensitive data on behalf of Clients as part of its core services. The impacts are that: • a failure to maintain a secure and fully functional IT infrastructure could result in an inability to meet contractual service obligations; and • the confidentiality, integrity and availability of information processed by the Group could be compromised by human error, systems failure, equipment malfunction or deliberate unauthorised action, any of which could result in reputational damage and financial loss.	• Continued investment in IT infrastructure, security and monitoring, guards against the inappropriate use of Client data and maintains and enhances the effectiveness of controls. • Established information and security standards are subject to regular third-party audits. • Core areas of the Group are subject to certification including ISO/IEC 27001. • Alignment with new legislation regarding Data Protection is well underway.
Talent and skills recruitment and retention	Without learning, development, resource and succession planning, there is a risk that the Group will be unable to develop, retain and motivate highly skilled employees that are necessary to support operations, expand and build Client relationships. There is also a possible impact to employee morale and well-being from a failure by the Group to maintain a safe and compliant working environment.	• The Group actively monitors senior leadership to ensure motivation is maintained and that succession plans are in place and applied to relevant team members. • The Group has policies and procedures in place for training and development. • Business operational expansion and acquisitions also help to ensure that the Group has the right skills. • The Group provides regular training on health and safety for all employees and monitors performance to ensure compliance with all relevant regulations and employment laws across all jurisdictions in which the Group operates.
Existing Client concentration may mean that the loss of a major Client could materially decrease sales	A substantial percentage of the Group's revenues are derived from a relatively small number of Clients and therefore the loss of one or more of these Clients could have a material impact on the Group's sales. This could result in a material decrease in profitability whilst new contracts are sought and excess capacity reduced. In the year ended 31 December 2016 the top five Clients of the Group accounted for approximately 56% of sales (2015 57%).	• A strategic account management programme operates to preserve Client relationships, monitor compliance with service level agreements and expand the services offered to key Clients. • Business development activities continue to promote the Group's services in a broad range of market sectors and into international markets, reducing the historical reliance on the financial services sector. • Long-term Client relationships and associated contractual commitments are developed.

Due to high operational gearing, a reduction in revenues could significantly impact profitability	The impacts are that the Group will not: • adapt sufficiently quickly to any technological change or downturn in demand, with a consequent loss of competitiveness and profitability; • have adequate resources to invest in new technology and services; • retain its major Client portfolio, without replacement, or recover debts; and • diversify sufficiently into other market sectors.	• The Group's cost base is regularly reviewed and aligned with projected demand to avoid margin erosion. • A range of financing facilities are utilised with a reasonable degree of headroom over projected funding requirements. • Client credit is closely monitored and controlled to minimise the amount of overdue debt. Credit insurance is obtained against larger non-financial services sector debts. • Working capital and capital expenditure are actively managed to ensure that banking covenants are not breached. • Business development activities in a range of sectors have reduced the historic reliance on the financial services sector.
A change in pension scheme assumptions could increase the pension deficit	Communisis has continuing obligations under a defined benefit pension scheme that is now closed to new entrants. The IAS 19 accounting pension deficit was £55 million as at 31 December 2016 and the funding deficit was approximately £45m at the same date. The impact is that any changes in 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. • The next triennial valuation will occur in 2017, at which point the future deficit payments will be agreed to provide certainty of cash flows for the Group for the next 3 years. • Until this valuation is complete, the deficit payments agreed in the 2014 triennial valuation will be maintained.
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 impact is that current leasehold occupants may become insolvent and that guarantees will be called, resulting in a material cash cost to the Group.	• The financial status of the leasehold occupants is monitored on a regular basis. • Action will be taken to minimise the cost to the Group when default is anticipated. • Break clauses are reviewed and exercised where possible.

Consolidated Income Statement

for the year ended 31 December 2016

	Note	2016 Before amortisation of acquired intangibles and exceptional items £000	2016 Amortisation of acquired intangibles and exceptional items £000	2016 Total £000	2015 Before amortisation of acquired intangibles and exceptional items £000	2015 Amortisation of acquired intangibles and exceptional items £000	2015 Total £000
Revenue	1	**361,932**	-	**361,932**	354,220	-	354,220
Changes in inventories of finished goods and work in progress		**(291)**	-	**(291)**	(284)	-	(284)
Raw materials and consumables used		**(191,210)**	-	**(191,210)**	(181,363)	-	(181,363)
Employee benefits expense		**(95,094)**	**(3,525)**	**(98,619)**	(94,605)	(2,043)	(96,648)
Other operating expenses		**(45,921)**	**(742)**	**(46,663)**	(48,709)	6,024	(42,685)
Depreciation and amortisation expense		**(9,945)**	**(809)**	**(10,754)**	(10,967)	(1,174)	(12,141)
Profit from operations		**19,471**	**(5,076)**	**14,395**	18,292	2,807	21,099
Finance revenue	2	**963**	-	**963**	81	-	81
Finance costs	2	**(3,765)**	-	**(3,765)**	(3,915)	-	(3,915)
Profit before taxation		**16,669**	**(5,076)**	**11,593**	14,458	2,807	17,265
Income tax expense	4	**(3,956)**	**990**	**(2,966)**	(3,701)	911	(2,790)
Profit for the year attributable to equity holders of the parent		**12,713**	**(4,086)**	**8,627**	10,757	3,718	14,475
Earnings per share On profit for the year attributable to equity holders and from continuing operations	6						
- basic		**6.08p**		**4.12p**	5.19p		6.98p
- diluted		**6.07p**		**4.12p**	5.18p		6.97p
Dividend per share							
- paid during the year				**2.29p**			2.04p
- proposed				**1.61p**			1.47p

Dividends paid and proposed during the year were £4.8 million and £3.4 million respectively (2015 £4.3 million and £3.1 million respectively).

All income and expenses relate to continuing operations.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2016

	2016 £000	2015 £000
Profit for the year	**8,627**	14,475
Other comprehensive loss to be reclassified to profit or loss in subsequent years:		
Exchange differences on translation of foreign operations	**1,129**	(167)
(Loss) / gain on cash flow hedges taken directly to equity	**(29)**	74
Income tax thereon	**3**	(19)
Items not to be reclassified to profit or loss in subsequent years:		
Adjustments in respect of prior years due to change in tax rate	**(411)**	(782)
Actuarial losses on defined benefit pension plans	**(15,972)**	(3,559)
Income tax thereon	**2,715**	641
Other comprehensive loss for the year, net of tax	**(12,565)**	(3,812)
Total comprehensive (loss) / income for the year, net of tax	**(3,938)**	10,663
Attributable to:		
Equity holders of the parent	**(3,938)**	10,663

Consolidated Balance Sheet

31 December 2016

	2016 £000	2015 £000
ASSETS		
Non-current assets		
Property, plant and equipment	**21,638**	23,083
Intangible assets	**187,903**	192,367
Trade and other receivables	**821**	631
Deferred tax assets	**6,406**	3,906
	216,768	219,987
Current assets		
Inventories	**6,968**	7,775
Trade and other receivables	**66,203**	55,106
Cash and cash equivalents	**38,294**	32,719
	111,465	95,600
TOTAL ASSETS	**328,233**	315,587
EQUITY AND LIABILITIES		
Equity attributable to the equity holders of the parent		
Equity share capital	**52,344**	52,302
Share premium	**-**	5,986
Merger reserve	**519**	15,600
ESOP reserve	**(297)**	(10)
Capital redemption reserve	**-**	1,375
Cumulative translation adjustment	**327**	(802)
Retained earnings	**65,322**	52,363
Total equity	**118,215**	126,814
Non-current liabilities		
Interest-bearing loans and borrowings	**58,751**	62,189
Trade and other payables	**1,511**	11,474
Provisions	**42**	42
Financial liability	**228**	162
Retirement benefit obligations	**55,479**	41,145
	116,011	115,012
Current liabilities		
Interest-bearing loans and borrowings	**614**	592
Trade and other payables	**90,968**	71,756
Income tax payable	**2,210**	1,351
Provisions	**215**	25
Financial liability	**-**	37
	94,007	73,761
Total liabilities	**210,018**	188,773
TOTAL EQUITY AND LIABILITIES	**328,233**	315,587

Consolidated Cash Flow Statement
for the year ended 31 December 2016

	2016	2015
	£000	£000
Cash flows from operating activities		
Cash generated from operations	**22,909**	24,153
Interest paid	**(2,065)**	(2,318)
Interest received	**18**	33
Income tax paid	**(2,250)**	(1,557)
Net cash flows from operating activities	**18,612**	20,311
Cash flows from investing activities		
Acquisition of subsidiary undertakings (net of cash acquired)	**(252)**	(42)
Purchase of property, plant and equipment	**(3,225)**	(4,349)
Purchase of intangible assets	**(3,808)**	(6,841)
Proceeds from the sale of property, plant and equipment	**118**	196
Net cash flows from investing activities	**(7,167)**	(11,036)
Cash flows from financing activities		
Share issues net of directly attributable expenses	**49**	570
Purchase of shares	**(442)**	-
New borrowings	**5,000**	3,000
Repayment of borrowings	**(8,000)**	-
Debt arrangement fees	**-**	(10)
Dividends paid	**(4,773)**	(4,273)
Net cash flows from financing activities	**(8,166)**	(713)
Net increase in cash and cash equivalents	**3,279**	8,562
Cash and cash equivalents at 1 January	**32,719**	24,503
Exchange rate effects	**2,296**	(346)
Cash and cash equivalents at 31 December	**38,294**	32,719
Cash and cash equivalents consist of:		
Cash and cash equivalents	**38,294**	32,719

Consolidated Statement of Changes in Equity
for the year ended 31 December 2016

	Issued capital £000	Share premium £000	Capital reduction shares £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 2015	49,757	8,036	-	11,427	(72)	1,375	(635)	45,818	115,706
Profit for the year	-	-	-	-	-	-	-	14,475	14,475
Other comprehensive loss	-	-	-	-	-	-	(167)	(3,645)	(3,812)
Total comprehensive income	-	-	-	-	-	-	(167)	10,830	10,663
Employee share option schemes - value of services provided	-	-	-	-	-	-	-	148	148
Shares issued – exercise of options	548	120	-	-	-	-	-	(98)	570
Shares issued from ESOP	-	-	-	-	62	-	-	(62)	-
Acquisition of subsidiary	1,997	-	-	2,003	-	-	-	-	4,000
Transfer between reserves	-	(2,170)	-	2,170	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	(4,273)	(4,273)
As at 31 December 2015	**52,302**	**5,986**	**-**	**15,600**	**(10)**	**1,375**	**(802)**	**52,363**	**126,814**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8,627**	**8,627**
Other comprehensive loss	**-**	**-**	**-**	**-**	**-**	**-**	**1,129**	**(13,694)**	**(12,565)**
Total comprehensive loss	**-**	**-**	**-**	**-**	**-**	**-**	**1,129**	**(5,067)**	**(3,938)**
Employee share option schemes - value of services provided	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**505**	**505**
Shares issued – exercise of options	**42**	**10**	**-**	**-**	**-**	**-**	**-**	**(3)**	**49**
Shares issued from ESOP	**-**	**-**	**-**	**-**	**155**	**-**	**-**	**(155)**	**-**
Purchase of own shares	**-**	**-**	**-**	**-**	**(442)**	**-**	**-**	**-**	**(442)**
Issue of capital reduction shares	**-**	**-**	**15,081**	**(15,081)**	**-**	**-**	**-**	**-**	**-**
Capital reduction	**-**	**(5,996)**	**(15,081)**	**-**	**-**	**(1,375)**	**-**	**22,452**	**-**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4,773)**	**(4,773)**
As at 31 December 2016	**52,344**	**-**	**-**	**519**	**(297)**	**-**	**327**	**65,322**	**118,215**

Notes to the Consolidated Financial Statements
for the year ended 31 December 2016

1. Segmental information

Business segments

The Group's activities are now predominantly focussed in two main areas which are:

- Customer Experience; and
- Brand Deployment

The key changes to the previously reported segments are:

- The activities of the previously named Design segment (with the exception of Shopper Marketing) are now included under the new Customer Experience segment along with Direct Mail, Cheques, Statements and Inbound.
- Included within the new Brand Deployment segment are Print Sourcing, Managed Services and Shopper Marketing.
- 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, continues to be reported separately.
- Central Costs, comprising Marketing, IT, Sourcing and Strategic Accounts, continue to be reported separately.
- Corporate Costs, representing the cost of the head office and other plc related costs continue to be reported separately.

The Communisis Board, being the Chief Operating Decision Maker, considers the performance of Customer Experience and Brand Deployment 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 profit from operations and is measured consistently with profit from operations in the income statement. However, Corporate Costs and Central Costs are managed on a Group basis and are not allocated to operating segments.

Transfer pricing between business segments is set on an arm's length basis in a manner similar to transactions with third parties.

The revenue and operating profit figures reviewed by the Chief Operating Decision Maker exclude sales between business segments and, as such, sales between business segments are excluded from the figures in the segmental results tables below.

Revenue from external customers disclosed in geographical information is based on the customers' geographical location.

The segment results for the year ended 31 December 2016 are as follows:

	Customer Experience £000	Brand Deployment £000	Pass Through £000	Central Costs £000	Corporate Costs £000	Total £000
Revenue	169,292	127,297	65,343	-	-	361,932
Profit from operations before amortisation of acquired intangibles and exceptional items	22,184	16,216	-	(13,349)	(5,580)	19,471
Amortisation of acquired intangibles	(599)	(210)	-	-	-	(809)
Profit from operations before exceptional items	21,585	16,006	-	(13,349)	(5,580)	18,662
Exceptional items	(3,128)	(495)	-	(29)	(615)	(4,267)
Profit from operations	18,457	15,511	-	(13,378)	(6,195)	14,395
Net finance costs						(2,802)
Profit before tax						11,593
Income tax expense						(2,966)
Profit for the year						8,627

2. Net finance costs

	2016 £000	2015 £000
Interest on financial assets measured at amortised cost	**18**	33
Interest on financial liabilities measured at amortised cost	**(2,289)**	(2,493)
Net interest from financial assets and financial liabilities not at fair value through Income Statement	**(2,271)**	(2,460)
Gain on foreign currency liabilities	**945**	48
Retirement benefit related cost	**(1,476)**	(1,422)
	(2,802)	(3,834)

3. Amortisation of acquired intangibles and exceptional items

	2016 £000	2015 £000
Profit from operations is arrived at after charging the following items:		
Exceptional restructuring costs	**4,260**	2,043
Trade name impairment	**232**	-
Customer relationship asset write off	**118**	486
Contingent consideration write off	**(452)**	(6,665)
Capital restructure costs	**109**	-
Release of exceptional provision	**-**	(382)
Acquisition and set up costs	**-**	537
Exceptional items	**4,267**	(3,981)
Non-exceptional depreciation and amortisation – amortisation of acquired intangibles	**809**	1,174
	5,076	(2,807)

During 2016 the Group incurred £4,260,000 (2014 £2,043,000) in respect of organisational restructuring to reduce the cost base, deliver efficiency improvements and outsource non-core activities. The restructuring costs included £3,606,000 relating to staff redundancies and the associated legal costs and £654,000 in respect of the site closures at Chiswell Street, London and the Bangalore office. Of the £4,260,000, £1,088,000 is unpaid at 31 December 2016.

The trade name impairment of £232,000 is in relation to Life Marketing Consultancy Limited (“Life”). The trade name was assigned a value of £512,000 at acquisition on 5 January 2015. Trading with this business has been lower than expected resulting in the trade name impairment.

The £118,000 customer relationship asset write off (2015 £486,000) relates to customer relationships valued as part of acquisition accounting in recent years. It is indicative of the current nature of Client turnover in agency businesses where revenues are project based and not usually underpinned by long term contracts.

The £452,000 reduction in contingent consideration relates to fair value revisions of the contingent consideration in respect of the acquisitions of Life Marketing Consultancy Limited and The Meaningful Marketing Group Limited, being £200,000 and £252,000 respectively. The £6,665,000 contingent consideration write off in 2015 related to the release of part of the contingent consideration following the renegotiation of the Life earn-out agreement.

The £109,000 capital restructure costs relate to non-recurring professional fees in relation to the capital reduction exercise undertaken during the year to create additional distributable reserves.

The £382,000 exceptional provision release in 2015 related to a property provision set up in 2008. This was settled in full in 2015.

Acquisition and set up costs in 2015 relate to non-recurring professional fees for acquisition related activities.

4. Income tax

The major components of income tax expense for the years ended 31 December 2016 and 2015 are:

	2016 £000	2015 £000
Tax charged in the Income Statement		
Current income tax		
UK Corporation Tax	**2,736**	2,553
Adjustments in respect of prior years	**197**	(133)
Overseas tax on profits for the year	**787**	994
Total current income tax charge	**3,720**	3,414
Deferred income tax		
Origination and reversal of temporary differences	**(636)**	(607)
Adjustments in respect of prior years	**(105)**	50
Adjustments in respect of prior years – due to change in tax rate	**(13)**	(67)
Total deferred tax credit	**(754)**	(624)
Tax charge in the Consolidated Income Statement	**2,966**	2,790
Tax relating to items charged or credited to other comprehensive income		
Deferred income tax		
Actuarial losses on pension scheme current year credit	**(2,715)**	(641)
Adjustment in respect of prior years – due to change in tax rate	**411**	782
Tax on financial liability	**(3)**	19
Income tax (credit) / charge reported in Consolidated Statement of Comprehensive Income	**(2,307)**	160

Current tax adjustments, in respect of prior years, relate to the release of provisions created in respect of prior years' tax submissions, agreed in the current year.

Reconciliation of the total tax charge

The tax expense in the Income Statement for the year is higher (2015 lower) than the average standard rate of Corporation Tax in the UK of 20% (2015 20.25%). The differences are reconciled below:

	2016 £000	2015 £000
Profit before income tax	**11,593**	17,265
At UK statutory income tax rate of 20% (2015 20.25%)	**2,319**	3,497
Expenses not deductible for tax purposes	**317**	275
Non-taxable income	**(97)**	(1,333)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**204**	290
Unrecognised tax losses in overseas territories	**60**	-
Share-based payments	**110**	234
Change in deferred tax in respect of rolled over capital gains	**(26)**	(23)
Adjustments in respect of prior years	**92**	(83)
Adjustment in respect of prior years – due to change in tax rate	**(13)**	(67)
Tax charge in the Consolidated Income Statement	**2,966**	2,790

5. Acquisition of business

In the year ending 31 December 2016, there have been no changes to valuation inputs of prior year acquisitions. There have, however, been movements in deferred consideration in respect of Psona Limited and movement in contingent consideration in relation to Psona Films Limited, Life Marketing Consultancy Limited ("Life") and The Meaningful Marketing Group Limited as outlined below.

On 9 June 2014, the Group acquired the entire issued share capital of The Communications Agency Limited. On 30 June 2014 the Company's name was changed to Psona Limited.

As part of the purchase agreement deferred consideration of £571,000 was agreed. As at 31 December 2016, a total of £381,000 of the deferred consideration had been paid. A reconciliation of the fair value of the deferred consideration liability is provided below:

	2016 £000
As at 1 January 2016	**383**
Total consideration paid during period	**(193)**
As at 31 December 2016	**190**

The results of this business are included within the Customer Experience division.

On 25 April 2014, the Group acquired the entire issued share capital of Jacaranda Productions Limited ("Jacaranda"). On 30 June 2014 the Company's name was changed to Psona Films Limited.

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

As at 31 December 2016, a total of £139,000 had been paid out under this arrangement for the earn-out periods ending 30 April 2015 and 30 April 2016. A reconciliation of the fair value of the contingent consideration liability is provided below:

	2016 £000
As at 1 January 2016	**120**
Total consideration paid during period	**(59)**
As at 31 December 2016	**61**

The final contingent consideration liability will be settled in 2017.

The results of this business are included within the Customer Experience division.

On 15 August 2014, the Group acquired the entire issued share capital of The Meaningful Marketing Group Limited ("Geronimo").

As part of the purchase agreement a contingent consideration was agreed. An amount of up to £625,000 was payable to the sellers, spread over the earn-out periods (being the 12 months to 14 August 2015, 2016, 2017, 2018 and 2019). The amount payable for each earn-out period was equal to 10% of Gross Profit between £1m and £1.5m, and 12.5% of Gross Profit over £1.5m. As at the date of acquisition, the fair value of the contingent consideration was estimated at £257,000, determined using a discounted cash flow method.

As at 31 December 2016, a total of £5,000 had been paid out under this arrangement for the earn-out periods ending 14 August 2015 and 14 August 2016. At 31 December 2016 the fair value of the contingent consideration was revised to £nil based on forecast profits from those parts of the company applicable to the earn-out calculation. A reconciliation of the fair value of the contingent consideration liability is provided below:

	2016 £000
As at 1 January 2016	**252**
Total consideration paid during period	**-**
Fair value revision	**(252)**
As at 31 December 2016	**-**

The results of this business are included within the Customer Experience division.

On 5 January 2015, the Group acquired the entire share capital of Life.

As part of the purchase agreement a contingent consideration was agreed, the mechanism for which was subsequently revised in 2015 to maintain incentivisation for the management of Life. As at 31 December 2015, the fair value of all contingent consideration was revised to £500,000.

An assessment of the likely contingent consideration payable was performed by looking at the relative likelihood of a range of outcomes of over or under achieving against the current forecasts over the earn-out period. As at 31 December 2016, using this methodology, the fair value of the contingent consideration was revised to £300,000. A reconciliation of the fair value of the contingent consideration liability is provided below:

	2016 £000
As at 1 January 2016	**500**
Fair value revision	**(200)**
As at 31 December 2016	**300**

The final contingent consideration liability will be quantified and settled in 2019.

The results of this business are included within the Brand Deployment division.

The Group has used Level 3 hierarchy valuation techniques to determine the fair value of the contingent consideration.

6. Earnings per share

	2016 000	2015 000
Weighted average number of ordinary shares (excluding treasury shares) for basic earnings per share	**209,211**	207,306
Effect of dilution:		
Share options	**336**	408
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution	**209,547**	207,714

806,319 (2015 18,722) shares were held in trust at 31 December 2016.

Share options in issue for which exercise is currently unlikely (as the option price is higher than the market price) total 4,395,426 (2015 2,443,158) options.

	2016 £000	2015 £000
Basic and diluted earnings per share is calculated as follows:		
Profit attributable to equity holders of the parent	**8,627**	14,475
Earnings per share:		
Basic	**4.12p**	6.98p
Diluted	**4.12p**	6.97p

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:

	2016 £000	2015 £000
Profit after taxation from continuing operations	**8,627**	14,475
Exceptional items (Note 3)	**4,267**	(3,981)
Taxation on exceptional items	**(819)**	(521)
Amortisation of acquired intangibles	**809**	1,174
Taxation on amortisation of acquired intangibles	**(171)**	(307)
Taxation – adjustments in respect of prior years	**-**	(83)
Profit after taxation from continuing operations excluding exceptional items and amortisation of acquired intangibles	**12,713**	10,757
Adjusted earnings per share:		
Basic	**6.08p**	5.19p
Diluted	**6.07p**	5.18p

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

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

7. Dividends paid and proposed

Declared and paid during the year	2016 £000	2015 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend of the year ended 31 December 2014 of 1.33p per share	**-**	2,758
Interim dividend of the year ended 31 December 2015 of 0.73p per share	**-**	1,515
Final dividend of the year ended 31 December 2015 of 1.47p per share	**3,077**	-
Interim dividend of the year ended 31 December 2016 of 0.81p per share	**1,696**	-
	4,773	4,273
Proposed for approval at AGM (not recognised as a liability as at 31 December)		
Final equity dividend on ordinary shares of 1.61p (2015 1.47p) per share (based on issued share capital at the date of approval of the Financial Statements)	**3,358**	3,076

8. Cash generated from operations

	2016 £000	2015 £000
Continuing operations		
Profit before tax	**11,593**	17,265
Adjustments for:		
Amortisation of intangible assets arising on business acquisitions	**809**	1,174
Depreciation and other amortisation	**9,945**	10,967
Exceptional items	**4,267**	(3,981)
Loss / (profit) on sale of property, plant & equipment	**25**	(7)
Share-based payment charge	**505**	148
Net finance costs	**2,802**	3,834
Additional contribution to the defined benefit pension plan	**(2,836)**	(2,941)
Cash cost of exceptional items	**(3,700)**	(2,553)
Changes in working capital:		
Decrease in inventories	**904**	845
(Increase) / decrease in trade and other receivables	**(9,912)**	3,311
Increase / (decrease) in trade and other payables	**8,507**	(3,909)
Cash generated from operations	**22,909**	24,153

9. Additional information

Communisis plc is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares are traded on the London Stock Exchange.