3 August 2017

Communisis plc
("Communisis" or the "Group")

Interim Results for the six months ended 30 June 2017

Leading provider of integrated marketing services Communisis plc (LSE: CMS), reports interim results for the half year ended 30 June 2017.

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

"Solid progress continues at Communisis, notably on free cash generation and debt reduction. We are pleased to have reached positive outcomes on both our bank refinance and negotiations on the pension deficit, delivering certainty for the medium term. Trading expectations for 2017 are unchanged."

Highlights

Financial

- Revenue increased 6% to £186.0m
- Overseas revenue increased to 30% of total Group revenue from 24% in H1 2016
- Adjusted operating profit increased by 10% to £8.5m
- Adjusted earnings per share up 2% to 2.46p
- Free cash flow increased to £6.5m, delivering a reduction in net debt to £28.3m
- Interim dividend increased 10% to 0.89pps
- Bank refinancing completed in August with a new five year facility secured on improved terms
- Settlement reached in principle with pension trustees in July after the triennial valuation, to agree annual base company contributions for the next three years

	As reported H1 2017	As reported H1 2016	As Reported	Constant Currency*
Total revenue (£m)	**186.0**	174.9	+6%	+4%
Adjusted operating profit (£m)**	**8.5**	7.7	+10%	+6%
Adjusted profit before tax (£m) **	**6.6**	6.5	+1%	+8%
Adjusted earnings per share (p)**	**2.46**	2.42	+2%	+11%
Profit before tax (£m)	**5.0**	4.4	+13%	+25%
Interim dividend per share (p)	**0.89**	0.81	+10%	
Free cash flow (£m)***	**6.5**	6.1	+6%	
Net debt (£m)	**28.3**	34.9	-19%	

** 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.*

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

Operational

- Significant new contract win with HSBC for marketing communications for a five year term. The Group already provides transactional, content marketing and fulfilment services to the bank.
- Multi-year contract renewals completed for Nationwide, Virgin Money and Co-op, for various transactional and marketing communication services.
- Continued expansion in international sales, which now account for 30% of total revenue (H1 2016 24%). Territories that performed strongly included Spain, Poland and the Netherlands.
- Shopper Marketing (LIFE and Twelve agencies) performed strongly.
- The Group is increasing investment in technology both to deliver more digital services to Clients and to make its own operations more efficient. This includes the move to a single platform for the international supply chain management activity within the Brand Deployment division.

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About Communisis

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

STRATEGY & IMPLEMENTATION

Shaping the future of client communication.

Purpose

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

Strategy

Our growth strategy continues to focus on our two main engines being the transactional business in our Customer Experience division and the management of the point of sale supply chain, in our Brand Deployment division. They represent a balanced portfolio; the former being UK based and more mature; the latter an international business, younger and growing rapidly.

Customer Experience; trend to services and digital communication.

Customer Experience is seeing consolidation amongst competitors in the analogue/paper markets and ultimate headline volume erosion in print of around 4%. Communisis is the UK market leader, primarily because of focus and previous targeted investment. The space is being increasingly influenced by regulation which builds barriers to entry, for example we are presently devoting significant resources to General Data Protection Regulation (GDPR). Outsourcing continues to represent an important growth opportunity. Customer Experience's key vertical segments are financial services, insurance, utilities/telecommunications and the public sector.

Brand Deployment; trend to international supply chain management.

Brand Deployment is growing quickly and it is likely that our current footprint, which extends as far east as Istanbul and Dubai, will extend further. International Clients want international solutions and new territories such as Russia and Africa are presently being considered. The business model for new territories will remain relatively capital-light and move into profitability within short order. In addition to geographic expansion, Brand Deployment can access additional service areas related to the core management of the supply chain for point of sale; such opportunities will include the expansion of our Premiums business (items that brand owners offer free against selected purchases) and specialist design services for permanent point of sale installations. Digital display is starting to have an impact in higher-end retail environments.

The Group sees a significant opportunity for margin improvement through the adoption of value-added pricing and structural changes are being made in the Marketing and Commercial functions to apply these principles.

The Group's service and digital based revenues accounted for 60% of overall revenues during the period (H1 2016 57%). Direct print manufacturing revenues reduced to 40% (H1 2016 43%) of overall revenues.

FINANCIAL PERFORMANCE

Revenue, operating profit and margins before exceptional items are reported in two segments, Customer Experience and Brand Deployment. Unallocated Central and Corporate Costs are reported separately. Certain of these central costs were reallocated on a directly attributable basis to the operating segments during the period and the comparatives have been restated on a consistent basis accordingly.

The translation of foreign currency results into sterling has continued to have some favourable impact on trading in 2017 due principally to further weakening of sterling.

Profitability

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

	HY 2017 £m	HY 2016 £m
Revenue		
Customer Experience	**93.5**	95.1
Brand Deployment	**92.5**	79.8
	186.0	174.9
Adjusted profit from operations		
Customer Experience	**11.2**	9.4
Brand Deployment	**6.1**	6.4
Central Costs	**(6.1)**	(5.5)
Corporate Costs	**(2.7)**	(2.6)
Adjusted operating profit	**8.5**	7.7
Amortisation of acquired intangibles	**(0.4)**	(0.4)
Profit from operations before exceptional items	**8.1**	7.3
Exceptional items	**(1.2)**	(1.7)
Net finance costs	**(1.9)**	(1.2)
Profit before tax	**5.0**	4.4
Tax	**(1.1)**	(1.0)
Profit after tax	**3.9**	3.4
Earnings per share		
Basic (p)	**1.85**	1.62
Adjusted fully diluted (p)	**2.46**	2.42

Group

Total revenue increased 6% to £186.0m (H1 2016 £174.9m). The proportion derived from overseas has also increased to 30% (H1 2016 24%). Revenues are now reported gross within each of the two divisions, inclusive of any revenue previously classified as Pass Through. Group operating margin (calculated on gross revenues), has increased to 4.6% (H1 2016 4.4%).

Adjusted operating profit increased 10% to £8.5m (H1 2016 £7.7m), principally as a result of improved performance in Customer Experience. Adjusted profit before tax has increased from £6.5m to £6.6m. The prior year included £0.7m of non-recurring, unrealised foreign exchange gain. Excluding that gain, the underlying adjusted profit before tax result increased by £0.8m. Adjusted diluted earnings per share increased 2% from 2.42p to 2.46p.

Profit before tax increased by 13% to £5.0m (H1 2016 £4.4m), and hence basic earnings per share is higher at 1.85p (H1 2016 1.62p).

Segmental performance

Customer Experience

Revenues ended 2% lower than prior year, primarily due to the continued impact of conversion from print to digital and service based revenues. However, margins improved considerably to 12.0% (H1 2016 9.9%) due to higher profitability arising from service and digital based activities, the impact of volume erosion on printed materials and realisation of efficiencies following the 2016 restructuring activity within the Psona agency and the production units.

Adjusted operating profit for the segment ended £1.8m higher than H1 2016 at £11.2m, with particularly strong results within Direct Mail, Transactional and Inbound service lines.

Brand Deployment

Total revenues increased to £92.5m (H1 2016 £79.8m), with the overseas proportion growing to 30% of Group revenue. Increases in revenue were notable within the territories of Spain, Poland, the Netherlands and the full year impact of Dubai. However, higher levels of input costs adversely impacted the first half result, reducing margins from 8.0% to 6.6% on gross revenue. This reduced operating profit from this segment to £6.1m (H1 2016 £6.4m). H2 is forecast to recover based on phasing and cost reduction initiatives.

Shopper Marketing had a very strong first half due to a high conversion rate on new business opportunities, with high profile product launches in the mobile phone and consumer goods markets.

*Central and Corporate Cost*s

Central Costs increased by £0.6m as a result of increased spend relating to cyber security and technology, including preparation for the introduction of GDPR from May 2018. Such investment differentiates Communisis for Clients in highly regulated markets. Corporate Costs were £0.1m higher in H1 2017, primarily due to higher pension and share option costs.

Exceptional items, interest and foreign exchange gains

The exceptional charge of £1.2m includes £0.6m of organisational restructuring costs within the Psona agency and the Brand Deployment division, plus £0.2m of site closure costs of the Glasgow office. Within exceptional items is a further £0.4m following the write off of unsupported assets which will not be recovered, offset by a £0.1m release of contingent consideration. In addition, £0.1m related to the write-down of certain acquired client relationship assets.

Net finance costs increased to £1.9m, primarily due to the prior year experiencing a non-recurring gain of £0.7m relating to a revaluation benefit of translation of non-sterling related balances.

Tax

The 2017 tax charge is based on the estimated effective rate for the year of 22.86%, which is higher than the UK standard rate of 19.25%, as it includes the taxation of certain overseas profits generated in jurisdictions with higher tax rates.

Dividend

Dividends of 1.61p per share were paid in the first half of 2017 in respect of 2016, resulting in an increase of £0.3m in dividend payments to £3.4m. The Board has proposed an interim dividend of 0.89p, which represents an increase of 10% on the prior year. The interim dividend will be paid on 13 October 2017 to shareholders on the register at the close of business on 15 September 2017.

Cash and net debt

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

	HY 2017	HY 2016
	£m	**£m**
Profit from operations before exceptional items	**8.1**	7.3
Depreciation and other non-cash items	**5.3**	5.4
Increase in working capital	**(1.2)**	(1.1)
Pension scheme contributions	**(0.6)**	(0.6)
Interest and tax	**(2.5)**	(1.6)
Net operating cash flow before exceptional items	**9.1**	9.4
Exceptional items	**(1.6)**	(1.1)
Net operating cash flow	**7.5**	8.3
Net capital expenditure	**(1.0)**	(2.2)
Free cash flow	**6.5**	6.1
Investment in new contracts	**(0.3)**	(0.6)
Acquisition of subsidiary undertakings	**-**	(0.1)
Repayment of promissory loan notes	**(9.3)**	-
Dividends paid	**(3.4)**	(3.1)
Share issues/purchase of shares	**-**	(0.1)
Other	**0.3**	2.1
Decrease / (Increase) in bank debt	**(6.2)**	4.3
Opening bank debt	**(19.7)**	(28.3)
Closing bank debt	**(25.9)**	(24.0)
Bank debt	**(25.9)**	(24.0)
Unamortised borrowing costs	**0.1**	0.3
Net bank debt	**(25.8)**	(23.7)
Finance lease creditor	**(2.5)**	(1.9)
Promissory loan notes	**-**	(9.3)
Net debt	**(28.3)**	(34.9)

The Group's focussed approach to cash generation continued during 2017, with free cash flow improving to £6.5m (H1 2016 £6.1m). The principal movements within the period were reduced capital expenditure to £1.0m (H1 2016 £2.2m), offset by higher tax payments of £1.6m (H1 2016 £0.6m).

During the period, the Group repaid a £9.3m two year promissory loan note from normal borrowing facilities.

Net debt reduced by £2.1m since 31 December 2016 to £28.3m, and ended £6.6m lower than at the corresponding point in the prior year. This reflects bank debt of £25.9m, representing 37% of the Group's facilities.

Bank debt at the period end was 0.85 times EBITDA for the twelve months to June 2017 and average bank debt during the period was £45.2m, 1.48 times EBITDA. Covenants remain well covered.

The Group successfully completed the refinancing of its revolving credit facility in August 2017, with three participants within the banking club. Renewal has been delivered at an unchanged borrowing level of £65m for a five year term ending August 2022, at improved commercial borrowing rates. These facilities continue to be provided on an unsecured basis, and provide a solid financial platform for the Group.

Pension Scheme

At 30 June 2017, the deficit related to the defined benefit pension scheme on an IAS 19 basis has reduced to £42.0m compared with £55.5m at 31 December 2016. Gross scheme liabilities were £195.9m, and assets were £153.9m. The deficit reduction is primarily due to reduced liability figures from the 31 March 2017 actuarial valuation, alongside updated base tables for mortality assumptions.

The triennial actuarial valuation for the Pension Scheme as at 31 March 2017 has been concluded, with agreement in principle on the associated deficit repair payments. The funding deficit is expected to be valued around £29.8m (31 March 2014 £19.5m). Deficit repair contributions to the Scheme will be £2.55m, increasing in line with dividend increases, or 3% if higher, plus rental payments which remain unchanged at £1.15m through the Central Asset Reserve arrangement. We believe this is a balanced outcome for the Group and Pension Scheme Trustees, and provides certainty over cash payments for the next three years. The Board continues to work with the Trustees to seek opportunities to reduce the deficit and liability exposure, and accelerate progress to the goal of "self-sufficiency" for the defined benefit pension scheme.

Board Appointments

On 1 March 2017, David Gilbertson was appointed as Non-Executive Director and Chairman Designate. David assumed the role of Chairman on 11 May 2017, with Peter Hickson retiring from the Board at that time.

Andy Blundell
Chief Executive

Mark Stoner
Finance Director

Consolidated Income Statement
for the half year ended 30 June 2017

	Note	Half year ended 30 June 2017 (unaudited) Before amortisation of acquired intangibles and exceptional items £000	Amortisation of acquired intangibles and exceptional items (Note 4) £000	Total £000	Half year ended 30 June 2016 (unaudited) Before amortisation of acquired intangibles and exceptional items £000	Amortisation of acquired intangibles and exceptional items (Note 4) £000	Total £000	Year ended 31 Dec 2016 (audited) Before amortisation of acquired intangibles and exceptional items £000	Amortisation of acquired intangibles and exceptional items (Note 4) £000	Total £000
Revenue	3	**185,959**	**-**	**185,959**	174,942	-	174,942	361,932	-	361,932
Changes in inventories of finished goods and work in progress		**133**	**-**	**133**	(154)	-	(154)	(291)	-	(291)
Raw materials and consumables used		**(102,693)**	**-**	**(102,693)**	(90,719)	-	(90,719)	(191,210)	-	(191,210)
Employee benefits expense		**(47,560)**	**(556)**	**(48,116)**	(48,093)	(1,332)	(49,425)	(95,094)	(3,525)	(98,619)
Other operating expenses		**(22,909)**	**(659)**	**(23,568)**	(23,237)	(324)	(23,561)	(45,921)	(742)	(46,663)
Depreciation and amortisation expense		**(4,465)**	**(375)**	**(4,840)**	(5,024)	(432)	(5,456)	(9,945)	(809)	(10,754)
Profit from operations	3	**8,465**	**(1,590)**	**6,875**	7,715	(2,088)	5,627	19,471	(5,076)	14,395
Finance revenue	5	**-**	**-**	**-**	711	-	711	963	-	963
Finance costs	5	**(1,877)**	**-**	**(1,877)**	(1,928)	-	(1,928)	(3,765)	-	(3,765)
Profit before taxation		**6,588**	**(1,590)**	**4,998**	6,498	(2,088)	4,410	16,669	(5,076)	11,593
Income tax expense	6	**(1,453)**	**311**	**(1,142)**	(1,430)	409	(1,021)	(3,956)	990	(2,966)
Profit for the period attributable to equity holders of the parent		**5,135**	**(1,279)**	**3,856**	5,068	(1,679)	3,389	12,713	(4,086)	8,627
Earnings per share	7									
On profit for the period attributable to equity holders and from continuing operations										
- basic		**2.46p**		**1.85p**	2.42p		1.62p	6.08p		4.12p
- diluted		**2.46p**		**1.85p**	2.42p		1.62p	6.07p		4.12p
Dividend per share	8									
- paid				**1.61p**			1.47p			2.29p
- proposed				**0.89p**			0.81p			1.61p

Dividends paid and proposed during the period were £3.4 million and £1.9 million respectively (30 June 2016 £3.1 million and £1.7 million respectively, 31 December 2016 £4.8 million and £3.4 million respectively).

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

All income and expenses relate to continuing operations.

Consolidated Statement of Comprehensive Income
for the half year ended 30 June 2017

	Half year ended 30 June 2017 (unaudited)	Half year ended 30 June 2016 (unaudited)	Year ended 31 Dec 2016 (audited)
	£000	£000	£000
Profit for the period	**3,856**	3,389	8,627
Other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations	**341**	1,074	1,129
Gain / (loss) on cash flow hedges taken directly to equity	**67**	(119)	(29)
Income tax thereon	**(12)**	28	3
Items not to be reclassified to profit or loss in subsequent periods:			
Adjustments in respect of prior years due to change in tax rate	**-**	-	(411)
Actuarial gains / (losses) on defined benefit pension plans	**13,645**	(3,319)	(15,972)
Income tax thereon	**(2,320)**	664	2,715
Other comprehensive income / (loss) for the period, net of tax	**11,721**	(1,672)	(12,565)
Total comprehensive income / (loss) for the period, net of tax	**15,577**	1,717	(3,938)
Attributable to:			
Equity holders of the parent	**15,577**	1,717	(3,938)

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

Consolidated Balance Sheet
30 June 2017

	Half year ended 30 June 2017 (unaudited) £000	Half year ended 30 June 2016 (unaudited) £000	Year ended 31 Dec 2016 (audited) £000
ASSETS			
Non-current assets			
Property, plant and equipment	**20,275**	21,923	21,638
Intangible assets	**186,061**	189,535	187,903
Trade and other receivables	**1,100**	784	821
Deferred tax assets	**4,400**	4,979	6,406
	211,836	217,221	216,768
Current assets			
Inventories	**6,649**	6,960	6,968
Trade and other receivables	**78,468**	68,688	66,203
Cash and cash equivalents	**37,088**	34,019	38,294
	122,205	109,667	111,465
TOTAL ASSETS	**334,041**	326,888	328,233
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the parent			
Equity share capital	**52,346**	52,340	52,344
Share premium	**2**	5,996	-
Merger reserve	**519**	15,600	519
ESOP reserve	**(215)**	(10)	(297)
Capital redemption reserve	**-**	1,375	-
Cumulative translation adjustment	**668**	272	327
Retained earnings	**77,421**	50,023	65,322
Total equity	**130,741**	125,596	118,215
Non-current liabilities			
Interest-bearing loans and borrowings	**1,559**	58,974	58,751
Trade and other payables	**1,347**	1,427	1,511
Provisions	**165**	42	42
Financial liabilities	**161**	306	228
Retirement benefit obligations	**42,033**	44,265	55,479
	45,265	105,014	116,011
Current liabilities			
Interest-bearing loans and borrowings	**63,866**	600	614
Trade and other payables	**91,955**	93,526	90,968
Income tax payable	**2,140**	2,115	2,210
Provisions	**74**	25	215
Financial liabilities	**-**	12	-
	158,035	96,278	94,007
Total liabilities	**203,300**	201,292	210,018
TOTAL EQUITY AND LIABILITIES	**334,041**	326,888	328,233

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

Consolidated Cash Flow Statement
for the half year ended 30 June 2017

	Note	Half year ended 30 June 2017 (unaudited) £000	Half year ended 30 June 2016 (unaudited) £000	Year ended 31 Dec 2016 (audited) £000
Cash flows from operating activities				
Cash generated from operations	10	**9,984**	9,944	22,909
Interest paid		**(922)**	(1,050)	(2,065)
Interest received		**-**	12	18
Income tax paid		**(1,539)**	(583)	(2,250)
Net cash flows from operating activities		**7,523**	8,323	18,612
Cash flows from investing activities				
Acquisition of subsidiary undertakings (net of cash acquired)		**(9,300)**	(139)	(252)
Purchase of property, plant and equipment		**(236)**	(941)	(3,225)
Proceeds from the sale of property, plant and equipment		**54**	10	118
Purchase of intangible assets		**(1,193)**	(1,861)	(3,808)
Net cash flows from investing activities		**(10,675)**	(2,931)	(7,167)
Cash flows from financing activities				
Share issues net of directly attributable expenses		**4**	48	49
Purchase of shares		**-**	(148)	(442)
Drawdown from existing loan facility		**5,000**	5,000	5,000
Repayment to existing loan facility		**-**	(8,000)	(8,000)
Dividends paid	8	**(3,362)**	(3,077)	(4,773)
Net cash flows from financing activities		**1,642**	(6,177)	(8,166)
Net (decrease) / increase in cash and cash equivalents		**(1,510)**	(785)	3,279
Cash and cash equivalents at 1 January		**38,294**	32,719	32,719
Exchange rate effects		**304**	2,085	2,296
Cash and cash equivalents at end of period		**37,088**	34,019	38,294
Cash and cash equivalents consist of:				
Cash and cash equivalents		**37,088**	34,019	38,294

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

Consolidated Statement of Changes in Equity
for the half year ended 30 June 2017

	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 2017	**52,344**	**-**	**-**	**519**	**(297)**	**-**	**327**	**65,322**	**118,215**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,856**	**3,856**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**341**	**11,380**	**11,721**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**341**	**15,236**	**15,577**
Employee share option schemes - value of services provided	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**307**	**307**
Shares issued - exercise of options	**2**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**4**
Shares issued from ESOP	**-**	**-**	**-**	**-**	**82**	**-**	**-**	**(82)**	**-**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,362)**	**(3,362)**
As at 30 June 2017 (unaudited)	**52,346**	**2**	**-**	**519**	**(215)**	**-**	**668**	**77,421**	**130,741**

	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 2016	52,302	5,986	-	15,600	(10)	1,375	(802)	52,363	126,814
Profit for the period	-	-	-	-	-	-	-	3,389	3,389
Other comprehensive income / (loss)	-	-	-	-	-	-	1,074	(2,746)	(1,672)
Total comprehensive income	-	-	-	-	-	-	1,074	643	1,717
Employee share option schemes - value of services provided	-	-	-	-	-	-	-	242	242
Shares issued - exercise of options	38	10	-	-	-	-	-	-	48
Purchase of own shares	-	-	-	-	-	-	-	(148)	(148)
Dividends paid	-	-	-	-	-	-	-	(3,077)	(3,077)
As at 30 June 2016 (unaudited)	52,340	5,996	-	15,600	(10)	1,375	272	50,023	125,596

	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 2016	52,302	5,986	-	15,600	(10)	1,375	(802)	52,363	126,814
Profit for the year	-	-	-	-	-	-	-	8,627	8,627
Other comprehensive income / (loss)	-	-	-	-	-	-	1,129	(13,694)	(12,565)
Total comprehensive income / (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 (audited)	52,344	-	-	519	(297)	-	327	65,322	118,215

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

Notes to the Consolidated Financial Statements
for the half year ended 30 June 2017

1 Corporate information

The interim condensed Consolidated Financial Statements of Communisis plc and its subsidiaries for the six months ended 30 June 2017 were authorised for issue in accordance with a resolution of the directors on 3 August 2017.

Communisis plc is a public limited company incorporated and domiciled in England and Wales whose shares are traded on the London Stock Exchange.

2 Basis of preparation and changes to the Group's accounting policies

2.1 Basis of preparation
The interim condensed Consolidated Financial Statements for the six months ended 30 June 2017 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed Consolidated Financial Statements do not include all the information and disclosures required in the annual Consolidated Financial Statements and should therefore be read in conjunction with the Group's annual Consolidated Financial Statements as at 31 December 2016.

2.2 New standards, interpretations and amendments adopted by the Group
The accounting policies adopted in the preparation of the interim condensed Consolidated Financial Statements are consistent with those followed in the preparation of the Group's annual Consolidated Financial Statements for the year ended 31 December 2016. There are no IFRS or IFRIC (IFRS Interpretations Committee of the IASB) interpretations effective for the first time this financial year that have had a material impact on the Group.

A number of standards have an effective date on or after 1 January 2018. With the exception of IFRS 15 *Revenue from Contracts with Customers* (effective 1 January 2018 and replaces IAS 18 *Revenue)* and the new leases standard IFRS 16 *Leases* (effective 1 January 2019 and replaces IAS 17 *Leases*), the Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's Consolidated Financial Statements, other than additional disclosures in the period of initial application.

The introduction of IFRS 15 *Revenue from Contracts with Customers* may have a material impact on the amounts reported and disclosures made in the Group's accounts. The Group has started a project to assess all streams of revenue and the impact of IFRS 15. This project will be concluded within the second half of the year. It is not practical to provide a reasonable estimate of the effect of IFRS 15 until this project has been completed.

The introduction of IFRS 16 *Leases* is expected to have a material impact on the amounts reported and disclosures made in the Group's accounts. It is not practical to provide a reasonable estimate of the effect of IFRS 16 until the Group has performed a detailed review.

3 Segmental information

The Group's activities are predominantly focused in two main areas which are:
- Customer Experience
- Brand Deployment

During the year there have been two changes to cost allocations within the segments as follows:
- 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 is now reported directly within the Customer Experience and Brand Deployment segments. This change has been made to allow the full underlying segmental split of gross revenue to be better understood.
- Account management and service costs relating to Customer Experience Clients, previously included within Central Costs have now been recognised within the Customer Experience segment.

The segment results for the half year ended 30 June 2017 are as follows:

	Customer Experience £000	Brand Deployment £000	Central Costs £000	Corporate Costs £000	Total £000
Revenue	**93,466**	**92,493**	**-**	**-**	**185,959**
Profit from operations before amortisation of acquired intangibles and exceptional items	**11,184**	**6,069**	**(6,130)**	**(2,658)**	**8,465**
Amortisation of acquired intangibles	**(290)**	**(85)**	**-**	**-**	**(375)**
Profit from operations before exceptional items	**10,894**	**5,984**	**(6,130)**	**(2,658)**	**8,090**
Exceptional items	**(913)**	**(302)**	**-**	**-**	**(1,215)**
Profit from operations	**9,981**	**5,682**	**(6,130)**	**(2,658)**	**6,875**

The segment results for the half year ended 30 June 2016 are as follows:

	Customer Experience £000	Brand Deployment £000	Central Costs £000	Corporate Costs £000	Total £000
Revenue	95,156	79,786	-	-	174,942
Profit from operations before amortisation of acquired intangibles and exceptional items	9,436	6,375	(5,491)	(2,605)	7,715
Amortisation of acquired intangibles	(307)	(125)	-	-	(432)
Profit from operations before exceptional items	9,129	6,250	(5,491)	(2,605)	7,283
Exceptional items	(1,299)	(343)	(14)	-	(1,656)
Profit from operations	7,830	5,907	(5,505)	(2,605)	5,627

Notes to the Consolidated Financial Statements
for the half year ended 30 June 2017 (continued)

3 Segmental information (continued)

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

	Customer Experience £000	Brand Deployment £000	Central Costs £000	Corporate Costs £000	Total £000
Revenue	185,053	176,879	-	-	361,932
Profit from operations before amortisation of acquired intangibles and exceptional items	19,915	16,216	(11,080)	(5,580)	19,471
Amortisation of acquired intangibles	(599)	(210)	-	-	(809)
Profit from operations before exceptional items	19,316	16,006	(11,080)	(5,580)	18,662
Exceptional items	(3,128)	(495)	(29)	(615)	(4,267)
Profit from operations	16,188	15,511	(11,109)	(6,195)	14,395

4 Amortisation of acquired intangibles and exceptional items

	Half year ended 30 June 2017 £000	Half year ended 30 June 2016 £000	Year ended 31 Dec 2016 £000
Profit from operations is arrived at after charging the following items:			
Exceptional restructuring costs	**788**	1,332	4,260
Customer relationship write off	**105**	92	118
Write off of unsupported assets	**383**	-	-
Contingent consideration write off	**(61)**	-	(452)
Trade name impairment	**-**	232	232
Capital restructure costs	**-**	-	109
Exceptional items	**1,215**	1,656	4,267
Non-exceptional depreciation and amortisation – amortisation of acquired intangibles	**375**	432	809
	1,590	2,088	5,076

During the first half of 2017 the Group incurred £788,000 in respect of organisational restructuring to reduce the cost base and deliver efficiency improvements. The restructuring costs included £556,000 relating to staff restructuring and £232,000 in respect of the office closure at Bothwell Street, Glasgow, and associated legal costs. Of the £788,000, £360,000 is unpaid at 30 June 2017.

The £105,000 customer relationship write off (and the £118,000 in the year ended 31 December 2016) 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 Group also incurred a charge of £383,000 in respect of the write off of unsupported assets which will not be recovered.

The £61,000 reduction in contingent consideration relates to fair value revisions of the contingent consideration in respect of the acquisition of Psona Films Limited. The £452,000 reduction in contingent consideration in the year ended 31 December 2016 relates to fair value revisions of the contingent consideration in respect of the acquisitions of Life Marketing Consultancy Limited (“Life”) and The Meaningful Marketing Group Limited, being £200,000 and £252,000 respectively.

The trade name impairment of £232,000 in the year ended 31 December 2016 is in relation to Life. The trade name was assigned a value of £512,000 at acquisition on 5 January 2016. Trading within this business has been lower than expected resulting in the trade name impairment.

The £109,000 capital restructure costs in the year ended 31 December 2016 relate to non-recurring professional fees in relation to the capital reduction exercise undertaken during the prior year to create additional distributable reserves.

5 Net finance costs

	Half year ended 30 June 2017 £000	Half year ended 30 June 2016 £000	Year ended 31 Dec 2016 £000
Interest on financial assets measured at amortised cost	**-**	12	18
Interest on financial liabilities measured at amortised cost	**(1,000)**	(1,164)	(2,289)
Net interest from financial assets and financial liabilities not at fair value through Income Statement	**(1,000)**	(1,152)	(2,271)
(Loss) / gain on foreign currency liabilities	**(126)**	699	945
Retirement benefit related cost	**(751)**	(764)	(1,476)
Net finance costs	**(1,877)**	(1,217)	(2,802)

6 Income tax

The tax charge on continuing operations for the period is based upon an effective rate of 22.86% (2016 23.16%). The provision for deferred tax has been made at rates between 17% and 19% depending upon the anticipated time of reversal. This reflects the legislation included in Finance Act 2015 and Finance Act 2016 reducing the rate of Corporation Tax to 19% from 1 April 2017 and 17% from 1 April 2020.

Notes to the Consolidated Financial Statements
for the half year ended 30 June 2017 (continued)

7 Earnings per share

	Half year ended 30 June 2017 £000	Half year ended 30 June 2016 £000	Year ended 31 Dec 2016 £000
Basic and diluted earnings per share are calculated as follows:			
Profit attributable to equity holders of the parent	**3,856**	3,389	8,627

	Half year ended 30 June 2017 Number 000	Half year ended 30 June 2016 Number 000	Year Ended 30 Dec 2016 Number 000
Weighted average number of ordinary shares (excluding treasury shares) for basic earnings per share	**208,741**	209,328	209,211
Effect of dilution:			
Share options	**219**	-	336
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution	**208,960**	209,328	209,547

584,270 (30 June 2016 6,316, 31 December 2016 806,319) shares were held in trust at 30 June 2017.

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:

	Half year ended 30 June 2017 £000	Half year ended 30 June 2016 £000	Year ended 31 Dec 2016 £000
Profit after taxation from continuing operations	**3,856**	3,389	8,627
Exceptional items	**1,215**	1,656	4,267
Taxation on the above	**(247)**	(331)	(819)
Amortisation of acquired intangibles	**375**	432	809
Taxation on the above	**(64)**	(78)	(171)
Profit after taxation from continuing operations excluding exceptional items and amortisation of acquired intangibles	**5,135**	5,068	12,713
Adjusted earnings per share:			
Basic	**2.46p**	2.42p	6.08p
Diluted	**2.46p**	2.42p	6.07p

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.

8 Dividends paid and proposed

	Half year ended 30 June 2017 £000	Half year ended 30 June 2016 £000	Year ended 31 Dec 2016 £000
Declared and paid during the period			
Amounts recognised as distributions to equity holders in the period:			
Final dividend of the year ended 31 December 2015 of 1.47p per share	**-**	3,077	3,077
Interim dividend of the year ended 31 December 2016 of 0.81p per share	**-**	-	1,696
Final dividend of the year ended 31 December 2016 of 1.61p per share	**3,362**	-	-
	3,362	3,077	4,773
Proposed for approval by the Board **(not recognised as a liability at period end)** Interim equity dividend on ordinary shares for 2017 of 0.89p (30 June 2016 interim 0.81p, 31 December 2016 final 1.61p) per share	**1,864**	1,695	3,358

9 Trade receivables

During the period, certain trade receivables previously fully provided against became recoverable, resulting in a reduction in the doubtful debt provision of £1.1m. This release has been recognised in the Customer Experience segment.

Notes to the Consolidated Financial Statements
for the half year ended 30 June 2017 (continued)

10 Cash generated from operations

	Half year ended 30 June 2017 £000	Half year ended 30 June 2016 £000	Year ended 31 Dec 2016 £000
Continuing operations			
Profit before tax	**4,998**	4,410	11,593
Adjustments for:			
Amortisation of intangible assets arising on business acquisitions	**375**	432	809
Depreciation and amortisation	**4,465**	5,024	9,945
Non-cash pension settlements	**-**	(278)	-
Exceptional items	**1,215**	1,656	4,267
Loss on sale of property, plant and equipment	**113**	17	25
Share-based payment charge	**307**	242	505
Net finance costs	**1,877**	1,217	2,802
Additional contribution to the defined benefit pension plan	**(575)**	(575)	(2,836)
Cash cost of exceptional items	**(1,646)**	(1,089)	(3,700)
Changes in working capital:			
Decrease in inventories	**337**	874	904
Increase in trade and other receivables	**(12,637)**	(12,629)	(9,912)
Increase in trade and other payables	**11,155**	10,643	8,507
Cash generated from operations	**9,984**	9,944	22,909

11 Acquisitions

In the period ending 30 June 2017, there have been no changes to valuation inputs or movements in deferred consideration of prior year acquisitions. There has, however, been movements in contingent consideration in relation to Psona Films Limited, as outlined below.

On 25 April 2014, the Group acquired the entire issued share capital of Jacaranda Productions Limited. 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 will be payable to the sellers at the end of each of the three earn-out periods, being the years ended 30 April 2015, 2016 and 2017. The total contingent consideration shall in no circumstance exceed the value of £500,000. As at the date of acquisition, the fair value of the contingent consideration was estimated at £200,000, determined using a discounted cash flow method. To date £139,000 has been paid under this arrangement.

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 30 June 2017, using this methodology, the fair value of the contingent consideration was revised to £nil. A reconciliation of the fair value of the contingent consideration liability is provided below:

	Half year ended 30 June 2017 £000
As at 1 January 2017	**61**
Fair value revision	**(61)**
As at 30 June 2017	**-**

In January 2017 the Group repaid the £9,300,000 two year promissory loan note which was agreed as part of the initial consideration for the acquisition of Life Marketing Consultancy Limited.

12 Directors' responsibility statement

The Directors are responsible for preparing the condensed set of Consolidated Financial Statements, in accordance with applicable law and regulations. The Directors confirm that, to the best of their knowledge:

- the condensed set of Consolidated Financial Statements on pages 8 to 18 has been prepared in accordance with IAS 34 *Interim Financial Reporting*, as adopted by the European Union; and

- the information set out on this page and on pages 1 to 7 includes a fair review of the information required by Sections DTR 4.2.7R and DTR 4.2.8R of the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

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

13 Risks and Uncertainties

Communisis has a robust internal control and risk management process outlined on page 44 of the Corporate Governance Report in the 2016 Annual Report. The Group continues to monitor the impact of the UK's decision to leave the EU and other political changes that may affect its operations.

The principal risks and uncertainties relating to the business at 31 December 2016 were set out in the Strategic Report on pages 22 to 25 of the 2016 Annual Report. These include the ability of the Group to adapt products and services to technological change, the degree of customer concentration within the Group, managing international exposure from expansion outside the UK, the smooth and uninterrupted operation of the Group's IT networks to ensure safeguarding of data and uninterrupted delivery of products/services, talent and skills shortage, deterioration in the economic environment which may decrease the Group's profitability, a high operational gearing which means that a reduction in revenues could significantly impact profitability, the Group being able to successfully integrate the operations of new acquisitions, the Group's continuing obligations under defined benefit pension scheme arrangements and contingent liabilities arising from lease commitment guarantees on past disposals.

The view of the Board of Directors is that the nature of the risks has not changed since 9 March 2017 and that they represent our current best understanding of the situation faced by the Group. In terms of risk mitigation, management will continue to be alert to the need for action in respect of any problems caused or exacerbated by the current economic climate, especially as it affects our ability to forecast reliably the market demand for some of our newer services.

14 Additional information

General information

The information for the year ended 31 December 2016 does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The financial information for the year ended 31 December 2016 has been extracted from the Group Consolidated Financial Statements for that period. Those Consolidated Financial Statements were prepared in accordance with IFRS as adopted by the EU. The auditors reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The financial information for the half year ended 30 June 2017 and for the equivalent period in 2016 has not been audited. It has been prepared in accordance with IAS 34 *Interim Financial Reporting* and on the basis of the accounting policies as set out in the 2016 Annual Report and Financial Statements.

Pension

At 30 June 2017, the pension deficit had reduced to £42.0m compared with £55.5m at 31 December 2016. Further details regarding the reason for the reduction can be found on page 7.

Bank facilities

At 30 June 2017 the Group had a £65,000,000 bank loan facility in place which was due for renewal in March 2018. As a result of the repayment date falling within 12 months of the Balance Sheet date, the £63,000,000 borrowing under this facility is reported within current liabilities.

In August 2017 the £65,000,000 bank loan facility was renewed and the Group now has borrowing facilities in place until August 2022.

Going concern

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

INDEPENDENT REVIEW REPORT TO COMMUNISIS PLC

Introduction

We have been engaged by the Company to review the condensed set of Financial Statements in the half-yearly financial report for the six months ended 30 June 2017 which comprises the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related Notes 1 to 14. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of Financial Statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in Note 2, the annual Financial Statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of Financial Statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*, as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of Financial Statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of Financial Statements in the half-yearly financial report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
Leeds
3 August 2017