8 March 2018

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

Preliminary Results for the year ended 31 December 2017

Strong trading in 2017; launch of strategy for next phase of growth.

Leading provider of integrated business services, Communisis plc (LSE: CMS), reports preliminary results for the year ended 31 December 2017.

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

"Strong trading in 2017 saw Communisis generating profitable growth with good levels of free cash flow and a significant reduction in net debt. Long-term contracts have been secured with a major UK Bank and with Proximity Ltd to provide communication services to the BBC for the TV Licensing programme. A strategy for the Group's next phase of growth is being launched today: a focused, three year plan to create enhanced returns to shareholders as we raise the value we provide to our clients."

FINANCIAL HIGHLIGHTS

- **Adjusted earnings per share up 5% to 6.4p (2016 6.1p)**
- **Adjusted profit before tax up 3% to £17.2m (2016 £16.7m)**
- **Profit before tax up 24% to £14.4m (2016 £11.6m)**
- **Strong free cash flow at £12.5m (2016 £12.9m)**
- **Net debt reduced by £6.1m to £24.3m (2016 £30.4m)**
- **Full year dividend per share increased by 10% to 2.66p (2016 2.42p)**

FINANCIAL RESULTS

	2017	**2016**	**As Reported**
Total revenue (£m)	375.9	361.9	+4%
Adjusted operating profit (£m)*	21.2	19.5	+9%
Adjusted profit before tax (£m)*	17.2	16.7	+3%
Profit before tax (£m)	14.4	11.6	+24%
Adjusted earnings per share (p)*	6.4	6.1	+5%
Proposed final dividend per share (p)	1.77	1.61	+10%
Free cash flow (£m) **	12.5	12.9	-3%
Net debt (£m)	24.3	30.4	-20%

** Adjusted metrics are stated before exceptional items and the amortisation of acquired intangibles to give a better understanding of the underlying performance of the Group. Adjusted earnings per share is diluted and excludes the after tax effects of exceptional items, amortisation of acquired intangibles and certain tax items in respect of prior years.*

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

VALUE ENHANCEMENT PROGRAMME (VEP) 2020 - THREE YEAR PLAN HIGHLIGHTS

- The financial target is to create sustainable shareholder value over the next three years (2018-2020) by growing adjusted diluted earnings per share (EPS) within a range of 5-10% CAGR.
- The VEP is a three year plan to deliver enhanced returns to our shareholders by raising the demonstrable value we deliver to our clients.

- There will be a deliberate focus on margin improvement and related pricing initiatives.
- The VEP will be driven by three key strategic themes: Digital First, Global Reach and Empowered Organisation.
- The target has now been built into in our senior management remuneration policy and the design of 2018 Long Term Incentive Plans (LTIPs).

OPERATIONAL HIGHLIGHTS

- Major UK Bank: a new contract was won for marketing communication and an existing contract for transactional communication was renewed, both for five year terms.
- Proximity: the partnership contract to provide communication services to the BBC for TV Licensing was renewed for a six year term.
- HMRC (Her Majesty's Revenue and Customs): good progress in the implementation of the contract for all outbound printed customer communication and forms fulfilment. Following successful migration of all fulfilment activity to our Newcastle operation in May 2017, Communisis assumed full accountability for all printed customer communications with the transition of circa 180 million packs annually into our Halifax and Liverpool transactional facilities beginning in October 2017.
- Overseas sales now represent 30% of total turnover (2016 26%).
- New York: good progress made with our US Editions office established in May 2017 to service clients in the financial services sector with content marketing services.
- Hong Kong: Communisis will open an office in Hong Kong in April 2018 for the sourcing of "premiums"; the gifts which accompany many purchases of luxury goods.
- Technology investment: the programme to install a single platform for the management of our international supply chain for marketing execution is planned to go live in Q2 2018.

OUTLOOK

Communisis is at an exciting stage in its development with a bedrock of solid performance and deep client relationships to build upon. The growth strategy for the next phase is highly focused and we already have clear evidence of the themes of Digital First, Global Reach and Empowered Organisation, resonating in our key markets.

The Board is looking forward to another positive year for the Group.

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ABOUT COMMUNISIS

Communisis is an integrated business services company which drives client value and sustainable profit improvement, through the provision of increasingly digitally enabled solutions for regulated transactional communication and marketing execution.

CHAIRMAN'S STATEMENT

Communisis delivered a strong set of results in 2017. It was especially pleasing to see further growth in adjusted diluted EPS, solid free cash flow and a significant reduction in net debt.

The final dividend for the year is proposed at 1.77p which added to the interim dividend of 0.89p gives a total of 2.66p, a 10% increase on the previous year.

I joined the Communisis Board last March and was appointed to the chair at the AGM in May. These Preliminary results are therefore my first as Chairman of your Company.

The past twelve months have confirmed my initial views about the strength of the business. A track record of growth backed by strong cash generation has been established over several years. We perform mission critical work at scale for very substantial clients across the Financial Services and Fast-Moving Consumer Goods (FMCG) sectors. We are significantly invested in our people, systems and infrastructure to fulfill data-sensitive, regulation-mandated customer communications, at high volumes and to manage complex, time-critical multinational product programmes for some of the world's biggest brands. We are differentiated from our competitor/comparator set in many ways. Our long-term client retention levels are sector-leading.

The foundation for further success is therefore in place. To build upon it we have now set ourselves one key priority which is to raise the underlying profitability of the business in a sustainable way.

The Value Enhancement Programme (VEP) which we are launching today, is a three year plan to deliver enhanced returns to our shareholders by raising the demonstrable value we deliver to our clients.

Under the VEP we will launch a series of digital and data-led client initiatives which will include providing complete format and channel flexibility for client communications; building out added value services in allied areas such as fraud protection and data security and developing data analytics driven insight programmes to give clients greater visibility of enhancement opportunities. We also continue our commitment to embrace process innovation to deliver cost efficiency without compromising effectiveness of output.

The core aim of the VEP will be to evidence consistently that our clients will drive higher returns on their investment with us than they can either with alternative providers or by retaining in house the activity in which we specialise. Communisis will not be the lowest price option - we are not a commodity level provider - but we will partner with our clients to deliver the highest returns on their spend.

The VEP is our practical response to three key strategic themes of our business: *Digital First*, *Global Reach* and *Empowered Organisation*.

- ***Digital First*** recognises that an increasing proportion of the customers of our clients now prefer to communicate online. This now established trend will have a notable effect on our transactional business over time. It is our intention to take a still more pro-active lead with Digital and put it at the forefront of our transactional business. We will do that by accelerating existing organic developments, working with a range of technology partners and where appropriate acquiring the necessary skills and experience to strengthen our core propositions. We believe the time is ripe to enrich customer dialogue through the meaningful application of Digital - it is about a lot more than saving postage costs.

  Digital transformation will have other positive impacts on Communisis. For example it will allow us to extend the application of data analytics as a service and capture opportunities for the digitisation of our services for marketing execution.

- ***Global Reach*** is the recognition that many of our clients are truly international businesses and expect our services to be available in an increasing number of territories. We already have 30% of our sales in overseas markets and a prudent approach in EMEA has seen our network expand through our main hubs in Paris, Madrid, Rome, Warsaw and Frankfurt and eastward as far as Istanbul and Dubai. We have today announced that we will be opening an office in Hong Kong for the sourcing of "premiums"; the gifts which accompany many purchases of luxury goods. This move will make us more responsive in this growth area and contribute to increased margins by taking more direct control of these supply chains. Heartened by the good progress Editions has made in New

York in 2017 with financial services clients, we aim to significantly enhance our presence in the USA. The three main opportunity areas we have identified are: further growth for Editions in content marketing, mostly in financial services; scope to access marketing execution services under our existing master relationships with brand owners and digital transactional communications.

- ***Empowered Organisation*** covers a range of initiatives designed to make Communisis progressively more efficient and valuable. From a client perspective it is about our becoming still more integrated into client workflows to give them greater visibility and understanding of the impact of their communication and marketing execution choices and surfacing opportunities to enhance their efficiency or effectiveness or both. From a Communisis commercial perspective, this involves driving fresh marketing and commercial initiatives to deliver the right pipeline of growth opportunities. Communisis will selectively target the business it is best equipped to deliver and where it can retain more of the value which it creates for its clients. The structure of contracts will adapt accordingly. From an organisational perspective we are fueling this by devolving more direct P&L responsibility into the hands of our local site and country managers, empowering them to drive the profitability of their discrete business units entrepreneurially.

Communisis remains committed to delivering enhanced returns to its shareholders. The announcement today of our three year VEP is a new expression of that commitment. Alongside investing capital in pursuit of that growth, we will continue to ensure that a strong dividend remains a key component of our total shareholder returns policy.

BOARD COMPOSITION

Having reviewed the Board structure to enact these future plans, we announced in December 2017 that Steve Rawlins was joining us as Chief Financial Officer (CFO). Steve has extensive experience of the digital media, business services and FMCG sectors in both the UK and overseas markets. Most recently Steve was CFO of EDC Communications, a Private Equity backed group of digital media agencies. Previously he held senior finance roles at Vendia UK Ltd, Uniq PLC, Caradon PLC and The Gillette Company.

Non-executive Director Helen Keays is to step down from the Board and from her role as Chair of the Remuneration Committee on 6 June 2018, due to other commitments. We thank Helen for her significant contribution since 2014. Our attention now turns to finding her replacement and we will update investors in due course.

David Gilbertson

Chairman

Communisis plc

CHIEF EXECUTIVE'S STATEMENT

MARKET TRENDS

The UK Financial Services industry remains the primary market for our Customer Experience division. Our clients and prospects within this market continue to see lower headline growth due to saturation and are therefore primarily focused on retention of market share and enriching their customer relationships. The continued migration to digital channels, improving customer experience and emphasis on quality of customer communications are central to this and our solutions and services are well placed to fulfil client needs.

Within the insurance market, organisations are more focused on gaining market share over retention and are proactively acquiring the capability to shift to channels of customer preference. Digital channels are therefore preferred, and communications are typically complex and highly personalised. The utilities sector again is typified by lower headline growth but customer habits are changing and moving more digital to take personal control of consumption and respond to environmental concerns.

Demand for specialist content marketing capability, such as that provided by our Editions Financial business, is strong in the UK and US. Experience during 2017 suggests that high quality content delivered by genuine sector specialists is being favoured by Chief Marketing Officers to enable brands to speak with authority.

Within the international Fast Moving Consumer Goods (FMCG) market, the challenge for most brand owners in 2017 was the fluctuation of currency and how this has affected the repatriation of Euros or Pounds to Dollars (typically). This has caused some pressure on marketing budgets. In store marketers are responding to the trend to cheaper, own brand alternatives and online shopping. There has been a drive towards standardisation to increase production leverage and efficiency and a desire for displays to be more permanent. There is still a focus on supply chain efficiencies and eliminating waste/failed delivery with some market estimates at up to 20% of pre-filled free-standing display units not making it to their intended shop floor destination. Such challenges represent opportunity for our Brand Deployment division.

With the increased sales in the craft drinks sector (whether that be beers, gins etc.), major brand businesses have needed to respond to keep on-shelf presence in supermarkets. Brands are therefore offering more events or Gift with Purchase (GWP) to keep their in-store presence and increase sales. As a result, we have seen a marked increase in the requirement for fast turnaround co-packing of GWP for major shopping events (Christmas, Father's Day and other anniversaries). We expect to see this trend increase in 2018.

The broader agency market dynamic is changing significantly at present, driven largely by the entrance of consultancy-based businesses into the sector. This has increased commoditisation of service and has led to a reduction of fees. That said, with the increased pushback on the lack of transparency online, agencies are being asked to deliver more demonstrable sales and can charge for that effectiveness. In addition, there are increased calls to design products for instore that can be used efficiently as well as effectively to reduce costs and increase sales. There remain strong opportunities in brand awareness and product launches and this is where, for example, our agency, Twelve, has been successful.

We still anticipate further consolidation within our sectors. As we focus increasingly on provision of digital products and services, our competitor set has shifted somewhat. This now includes technology-based competitors, as well as consultancy businesses.

We continue to monitor the impact of Brexit negotiations on the economies in which we operate. There are not yet any clear political outcomes but given our activity in the wider supply chain for staple consumer goods and employment of foreign nationals, in-country, we continue to believe that we are relatively well protected from potential negative economic impacts Brexit may have.

RISK / GDPR / REGULATION

The Group has a formal approach to risk management. In considering the risk to the business over the past 18 months, the Group has reviewed and refined its approach to data protection in line with the changing global landscape and new legislation.

The EU General Data Protection Regulation (GDPR) is of particular focus and is a regulation which updates rights and provides opportunities for individuals and companies in the 21st century. The primary objective of the GDPR is to give back control of personal data and to simplify the regulatory environment for international business. When it is implemented in May 2018, in the words of the Information Commissioner, GDPR will be 'a game changer for us all' by:

- Putting the spotlight on accountability
- Emphasising transparency
- Extending the scope of data protection
- Introducing fines for non-compliance
- Realising the business benefits of this changing environment

Communisis' activities as both a Data Controller and a Data Processor have required us to review our operations against the new regulations and put in place actions to address the risk of non-compliance. As part of our on-going investment that supports the business, we have integrated Data Protection within the Group as part of our Information Security Management System. This investment, comprising £0.8m capital and £0.8m operational expenditure in 2018, includes:

- Dedicated Data Protection Compliance Officers, who are experienced subject matter experts, bringing in skills and experience from both the public and private sectors.
- Developing 'Records of Processing Activities' models which are used to assess the processing Communisis undertakes as both a Data Controller and Data Processor and feed into an updated risk assessment procedure and Data Processing Impact Assessment.
- Implementing enhancements in technology to support new regulations.
- Undertaking work, in compliance with the Information Commissioner's Office (ICO) guidance on contracts and liabilities, to assist clients in their compliance.

DETAILED TRADING REVIEW PER DIVISION FOR 2017

Customer Experience

2017 was a positive year for Customer Experience with a strong overall increase in profitability. The Direct Mail business performed well, showing significant improvement on prior year numbers. This was largely driven by increased insourcing of work and stringent cost control. The overall transactional business (outbound and inbound) improved profitability against prior year, driven by new contracts and increased volumes. Our technology business also outperformed 2016. This was related to transition activity on-boarding a new client to our Connect™ digital platform for customer communications management. The Security Print business (predominantly cheque book production) was down on volume but demand for our new digital technology for fraud prevention has increased with a number of bank clients now using our system for eUCN, a patented cheque fraud feature exclusive to Communisis.

We refocused our general creative agency Psona onto Communisis' core client bases in Financial Services and FMCG and restructured to integrate its ongoing and future client activity.

Brand Deployment

This division achieved proportionately less profit growth than revenue growth, mainly in our core Managed Services business, driven by country mix and investment in new markets. The Campaign Fulfilment business outperformed expectations as it brought various new contracts on-board and we expanded our services in the drinks sector. The Agencies finished ahead of prior year, mainly due to projects relating to the telecommunications sector within Twelve.

TECHNOLOGY

The continued importance of technology in the delivery of services to our clients and supporting our operating model, provided focus to improve capability, control and visibility of services and systems in 2017. To enable this, we made a number of significant industry hires in the year. We implemented a best practice approach to enterprise architecture enabling us to align people, process and technology with specific expertise from the financial services sector. Amongst other benefits, this approach allowed us to develop a scalable, multi-tenanted product for digital asset management and workflow during 2017 which now supports five clients, with capacity and capability for further on-boarding. This allows marketing teams access to creative content for action and approval.

Formal service reviews with stakeholders are now embedded, creating dialogue which enables transformation plans aligned to business need and strategic priorities. This is supported by an internal customer satisfaction survey, providing quantitative understanding of the service we deliver and assisting us to shape our future planning. Through systematic selection and contracting with 3rd party vendors (the latter being increasingly pertinent as we continue to develop real time digital products), we have improved services received from our technology supply base, in addition to generating important savings in the year.

We have also prioritised investment in technology solutions and services. This includes major software expenditure over two years with ‘Noosh’, a product which allows Communisis to support marketing services and print procurement in a more operationally efficient and expedient way, a significant step in the digitisation of our business processes in Brand Deployment. We also adopted ‘Solarwinds’ in the year for service & incident management and products for internal and external collaboration. This extends to federation with clients to improve lines of communication and manage costs more effectively.

PEOPLE

Our progress with People related matters remains strong and supports our strategic agenda. We are delighted to have retained with an improved result, our Gold Level accreditation from the ‘Committed to Equality’ organisation. In 2017 we also made significant strides with managing and developing our talent, boosted by a strong focus on personal performance management and leadership development programmes, with 32 candidates completing a leadership programme in the year.

Andy Blundell
Chief Executive
8 March 2018

STRATEGIC REPORT

'Shaping the future of Customer Communications'

OUR PURPOSE
Growing value, sustainably.

We measure value by how well our solutions meet our clients' needs and how willing they are to pay for them. This is reflected in our ability to earn an improved and sustainable margin**.** Through consistent and predictable performance, we continue to generate free cash which has enabled a strong dividend stream for shareholders.

OUR MISSION
To drive client value and sustainable profit improvement through the provision of increasingly digitally enabled solutions for regulated transactional communication and marketing execution.

VALUE FOR CLIENTS
Across the markets in which we operate, common themes which enable clients to maximise the benefits of the products, services and insight we provide have enabled us to define our strategic priorities and the optimal divisional structure to deliver them.

Our clients need innovation in their supply chain, enabling them to future proof, focus on their core activities and grow return on investment and market share. They need simplicity in their supply chain, reducing the number of key suppliers to a smaller number of proactive, strategic partners. Resilience of service and regulatory compliance are critical.

Understanding these needs, Communisis delivers security, accuracy, integrity and reliability with the cost competitive scale of our pan-European network and UK operations. We provide multi-channel delivery and digital leadership to our clients as well as our unique expertise.

This allows our clients to increase sales at a premium and improve speed to market, being lean, standardised and simplified. We help them stay safe, manage risk, keeping them informed and able to make better decisions. This all builds loyalty and trust.

HOW WE GENERATE REVENUE

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, specialised content, "transactional" (ie billing, statements, cheques and inbound services) and regulatory communications.
- Customer Experience's clients include Lloyds Banking Group, Centrica, AXA and BP.

THE BRAND DEPLOYMENT DIVISION
- Creating activation communications in Retail and 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, Kellogg's and Bacardi.

Supported by our BRAND VALUES:
- Being TRUSTED
- Being a LEADER
- Being IMAGINATIVE

- Being AGILE

WHY CLIENTS CHOOSE COMMUNISIS

We quantify the value we create for our clients and are specific about what differentiates us from our competitors, be that our people, products, processes or performance.

PEOPLE

We recruit, retain and develop the very best talent in our industry. We attract great people and invest in them to deliver exceptional results.

Experience

- 50 change management professionals with 500 combined years of business transformation and transition experience.
- Successfully managed 31 TUPE transfers in total. Of these, six have been in the last five years and involved on-boarding 800 new employees.
- Favoured employer in our industry in the UK with more sector professionals than any competitor
- CIPS (Chartered Institute of Purchasing and Supply) Advance standard - a leading level held by fewer than 20 organisations globally.

Qualifications

- 80% of our senior managers are degree or masters qualified and accredited by recognised professional bodies.

Diversity

- Presence in 20 countries, with 22 languages spoken across our teams and over 150 professionals based in our European network.
- ‘Committed to Equality’ accredited business for five years.

PRODUCT

We operate at scale and to the highest standards. Our clients trust the products we deliver, the services we provide and the solutions we develop.

End to end capability

Customer Experience

- Enterprise content management (including Inbound)
- Customer communication management
- Professional services
- Security communications
- Creative and agency services
- Film

Brand Deployment

- Creative services
- Creative production
- Brand and shopper strategy
- Procurement
- Campaign management
- Warehousing, fulfilment & logistics
- Installation and analytics

Investment

- Technology strategic partners: Hewlett Packard, Pitney Bowes, Noosh & Quadient (GMC).
- Capital investment running at a rate of between £5m and £6m each year, predominantly software/technology.

- eUCN (unique cheque numbering) developed as a Communisis proprietary patented service to combat cheque fraud.

PROCESS
Process is the foundation of repeatable outputs and consistent performance; absolute necessities as far as our clients are concerned. So not only do we hold ourselves to account, we seek and maintain accreditation wherever relevant and value adding.

Managing risk

- Accredited to 11 different ISO or industry standards.
- Full disaster recovery/business continuity plans in place; we conducted 55 client specific end to end tests and trained 200 employees in the last year.
- Interoperable locations European network ensuring continuity of service.
- Strong risk management framework to ensure we support our clients to communicate within regulation.
- Corporate governance – Communisis is a PLC, listed on the London Stock Exchange.

Technical capability

- State of the art resilience delivered through tier 3 & 4 data centres.
- End to end governance process supports seamless integration between our own IT and 3rd party solutions.

Transitional capability

- Customer Experience: 52 large, 72 medium and 104 small projects managed over the last 12 months with total project budgets of £21m.
- Brand Deployment: 10 pan–European contracts transferred into the business in the last five years and a further 20 into single markets, delivering savings of £48m for our clients.

PERFORMANCE
The performance of our business units is meticulously tracked and we are always looking for ways to improve them. That means investment in technology to make our business even better.

Scale

- Customer Experience: UK sites producing each day 4 million mail packs & 3.4 million encoded documents, mail sorting 1.2 million items and processing 95 thousand inbound cases.
- Brand Deployment: manage marketing execution for our clients through 700 fully approved suppliers.
- Leverage from European print spend.

Integrity

- Accuracy: 0.71 recorded non-conformances per million units despatched.
- Delivery: industry leading 99.4% SLA performance.
- Tracking: every personalised communication is tracked through our business from composition to despatch.

Client retention

- Five year average contract term and >90% retention rate.

STRATEGIC PRIORITIES

DIGITAL FIRST

Core to our strategy is the need to adopt a 'Digital First' approach to business, developing our professional services capability and ensuring we excel at systems integration and building communications. Digitisation is focused both in developing and enhancing delivery channels for our clients as well as our own internal business processes to provide operational efficiency.

- New product development with greater emphasis on data analytics to support digital leadership and channel capability.
- Marketing insight and innovation to inform strategic decision making.
- Digitally enabled business processes delivering automation, simplification and efficiency as well as reducing risk.
- Increased use of technology to manage the interface between Communisis and our clients, raising visibility of activity and making us easier to do business with.

Achievements

- The Group is increasing investment in technology to deliver more digital services to clients and to make its own operations more operationally effective.
- Within the Customer Experience division, we have invested in a new processing facility for our Enterprise Content Management digitisation platform in Leeds which gives us further capacity and capability to grow our inbound service line.
- We are also moving to a single technology platform for the international supply chain management activity within the Brand Deployment division.
- We are making our services GDPR resilient on behalf of our clients and a significant proportion of our investment overall in future to be in technology and risk-related areas.

GLOBAL REACH

Our international reach has increased year on year and this continues to form a core element of our growth strategy. Where this has been largely EMEA marketing activation activity, we are committed to growing both our Brand Deployment and Customer Experience divisions.

- Targeted insight into prospect markets and territories which support further expansion and profitable growth.
- Increased international representation in our middle and top management reflecting our increasing overseas revenues and presence.
- Increased use of technology to facilitate centralised sourcing and consistency throughout the supply chain interface.
- Leveraging established locations to drive other services to maximise investment.

Achievements

- Overseas revenue now represents 30% of total revenue.
- We now have 700 fully approved suppliers outside the UK providing a comprehensive partner network.
- Our content marketing agency, Editions, expanded operations to the US. This represents a new market for Communisis and the first non-UK activity for the Customer Experience division.

EMPOWERED ORGANISATION

We recognise the importance of high performing and motivated leaders across our business and are committed to ensure they have the structure and support needed to lead our business units to success

- Increased ownership and accountability for delivery with enhanced support and access to specialised resource.
- Promoting locally driven business development to improve capacity utilisation and mix
  Systematic annual cost efficiency reviews across our divisions to drive operating margin.

Achievements

- Invested additional resource in our commercial and marketing insight functions and adopted a methodology and process for defining prospects and vertical sectors which will deliver improved profitability.
- Developed a value creation programme to ensure our teams have the tools to sell Communisis services on the basis of value and differentiation.
- Salesforce.com now adopted as the central knowledge hub for all of our sales and performance marketing activities and we have a richer insight into our commercial and client relationships.

FINANCIAL RESULTS

SUMMARY

- The Group continues to grow in both revenues and profit generation across both divisions, resulting in an adjusted operating profit of £21.2m (2016 £19.5m) and adjusted diluted earnings per share of 6.37p (2016 6.07p).
- Strong conversion of profits to cash generated a free cash flow of £12.5m (2016 £12.9m), leading to further net debt reduction by £6.1m to £24.3m (2016 £30.4m).
- The Group's adjusted operating margin increased to 5.6% (2016 5.4%).

TRADING SUMMARY

2017 was a further year of growth in revenues and profits within both divisions with strong free cash generation and continued reduction in net debt.

Total revenue grew by 4% to £375.9m (2016 £361.9m), driven by expansion of international operations with overseas revenues now representing 30% of group revenue (2016 26%). Adjusted operating profits rose 9% to £21.2m (2016 £19.5m) from growth across both divisions. Customer Experience grew from the integration of new business wins and strong performance across both traditional revenue streams and newer digital outputs. Brand Deployment saw further development within its overseas network and an increased level of Campaign Fulfilment activity. Together, this delivered adjusted profit before tax of £17.2m (2016 £16.7m) and adjusted diluted earnings per share of 6.37p, up from 6.07p in 2016, an increase of 5%.

Free cash flow of £12.5m (2016 £12.9m) remained strong, despite increased tax payments and higher pension deficit repair payments, as a result of higher underlying earnings and lower capital expenditure. Net debt as a result reduced by £6.1m to £24.3m.

The segmental reporting is aligned with the Group's strategic direction and the way in which activities are managed. Revenue and operating profit before exceptional items are reported in two divisions: Customer Experience and Brand Deployment. Central costs that support the full group are reported separately.

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

	2017	**2016#**
Revenue	£m	£m
Customer Experience	189.3	185.0
Brand Deployment	186.6	176.9
Total Group Revenue	**375.9**	**361.9**
Adjusted profit from operations		
Customer Experience	22.4	19.9
Brand Deployment	16.5	16.2
Central Costs	(11.8)	(11.0)
Corporate Costs	(5.9)	(5.6)
Adjusted operating profit	**21.2**	**19.5**
Amortisation of acquired intangibles	(0.7)	(0.8)
Profit from operations before exceptional items	**20.5**	**18.7**
Exceptional items	(2.1)	(4.3)
Profit from operations	**18.4**	**14.4**
Net finance costs including revaluation gains/(losses)	(4.0)	(2.8)
Profit before tax	**14.4**	**11.6**
Tax	(2.6)	(3.0)
Profit after tax	**11.8**	**8.6**

Earnings per share		
Basic (p)	5.64	4.12
Adjusted diluted (p)	**6.37**	**6.07**
Adjusted profit before tax (£m)	**17.2**	**16.7**
Adjusted EBITDA (£m)	29.8	29.4
Adjusted operating margin (on gross revenue)	**5.6%**	**5.4%**

Account management and service costs relating to Customer Experience clients, previously included within central costs, have now been recognised within the Customer Experience division from 2017. The 2016 comparatives have been adjusted to show this on a like for like basis.

CUSTOMER EXPERIENCE

Gross revenue for the division was £189.3m, increased from £185.0m in 2016. This was due to the integration of new business wins and a strong year across both digital revenue streams and the traditional areas of direct mail and statements where volume erosion across transactional print channels continues but at lower levels than expected.

Adjusted operating profit for Customer Experience at £22.4m was £2.5m higher than 2016 with very strong performances across the business. Significant improvements were seen in Direct Mail as a result of insourcing and strong cost control within the production environment, in Inbound due to increased volumes, and in our transactional business due to new business wins and the associated transition income relating to the integration into our transactional centres. A challenging year in Cheques, but mitigated through strong cost control with some initial take up of eUCN, boding well for 2018. Editions Financial had another strong year and successfully established the New York office as planned, initially providing content marketing to our client, LinkedIn, and on-boarding further large financial services clients. The Agencies performed at similar levels to 2016 but underwent a significant restructuring during the year with the closure of the Glasgow operation and full restructure of the London based teams, entering 2018 leaner and more focussed on the its core services and clients.

BRAND DEPLOYMENT

Gross revenue grew to £186.6m from £176.9m during the year, with Managed Services benefitting from strong sales growth across Germany, Poland, France, Spain, Italy and Dubai, which saw its first full year of operations.

Adjusted operating profit showed some growth to £16.5m (2016 £16.2m). In Managed Services the margin did not increase proportionately in line with revenue as a result of country mix together with investment in new countries as we build out the international operations. The focus going forwards is on operating margin improvement through both operational efficiencies and continued investment in systems along with integration of new client wins. Campaign Fulfilment, performed by our Newcastle based operation, had a very successful year with growth in revenues and profits from a number of new contracts. The agencies Life and Twelve together had a strong year, with further growth and their most profitable year to date since acquisition.

CENTRAL AND CORPORATE COSTS

Central costs are £0.8m higher than in 2016, driven by increased spend on technology and increased focus on marketing and development of the Communisis brand. In addition, pension costs in 2017 included within Corporate Costs did not benefit from £0.4m of one-off settlement gains experienced in 2016.

EXCEPTIONAL ITEMS

Total exceptional costs charged in the year were £2.1m, including £1.7m associated with restructuring across the agency and managed service businesses, restructuring of the Group marketing function and closure of the Bangalore and Glasgow offices. In addition there was a £0.2m non-cash write off relating to customer relationship assets, offset by a £0.3m fair value revaluation release of contingent consideration in respect of recent acquisitions. The Group also incurred a £0.5m write off in respect of unsupported assets which will not be recovered.

NET FINANCE COSTS

Finance costs were £1.2m higher than the prior year due to a swing on the impact of foreign currency translation of non-trading balances. 2016 had benefitted from a £0.9m gain whereas there was a £0.4m loss in 2017. Both pension and bank finance charges were at a consistent level in both years.

TAXATION

The effective tax rate in the Income Statement was 18.4% (2016 25.6%).

During the year, the effective tax rate has benefitted from a number of credits which related to prior years. The balance has been adjusted through the current year income statement, as management consider that the adjustment is immaterial in the context of an understanding of the Group's financial performance for users of the financial statements.

Excluding this adjustment the tax rate would have been 22.7% which is higher than the UK rate of corporation tax due to the proportion of profits generated in overseas jurisdictions with higher tax rates.

CASH FLOW AND NET DEBT

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

	2017	**2016**
	£m	£m
Profit from operations before exceptional items	20.5	18.7
Depreciation and other non-cash items	10.0	11.2
Decrease in working capital	(1.1)	(0.5)
Pension scheme contributions	(4.0)	(2.8)
Interest and tax	(5.2)	(4.3)
Net operating cash flow before exceptional items	**20.2**	**22.3**
Exceptional items	(2.7)	(3.7)
Net operating cash flow	**17.5**	**18.6**
Net capital expenditure	(5.0)	(5.7)
Free cash flow	**12.5**	**12.9**
Investment in new contracts	(0.7)	(1.2)
Acquisition of subsidiary undertakings	-	(0.3)
Repayment of promissory loan note relating to acquisition of subsidiary undertakings	(9.3)	-
Dividends paid	(5.2)	(4.8)
Share issues net of directly attributable expenses	0.1	-
Debt arrangement fees	(0.7)	-
Purchase of shares	-	(0.4)
Revaluation	0.2	2.4
(Increase)/decrease in net bank debt	(3.1)	8.6
Opening net bank debt	(19.7)	(28.3)
Closing net bank debt	(22.8)	(19.7)
Unamortised borrowing costs	0.6	0.2
Net bank debt	(22.2)	(19.5)
Finance lease creditor	(2.1)	(1.6)
Promissory loan notes	-	(9.3)
Net debt	**(24.3)**	**(30.4)**

Generating strong free cash flow and continued debt reduction remains a priority for the Group, and during 2017 we are pleased to report a further 20% reduction in net debt of £6.1m to £24.3m.

Free cash flow remained strong at £12.5m (2016 £12.9m) with increased pension deficit repair payments, higher tax payments and increased working capital being offset by higher underlying profitability, lower capital expenditure and lower exceptional items.

Dividends paid to shareholders increased by £0.4m to £5.2m.

Promissory loan notes of £9.3m in respect of the Life Marketing Consultancy acquisition in January 2015 were repaid during January 2017 from normal facilities. The overall movement in bank debt including this was a net cash outflow of £3.1m. Excluding this repayment the cash improvement during the year was £6.2m.

The net bank debt at the end of the year was £22.8m (2016 £19.7m), with significant headroom within the Group's facilities of £70m. Average net bank debt during the year was £41.9m (2016 £32.7m), at a higher level than 2016 following the repayment of the promissory loan notes.

During the year the banking facilities were renewed through to August 2022. 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 with significant headroom.

DIVIDENDS

The Board has proposed a final dividend of 1.77p per share bringing the total dividend for the year to 2.66p per share, an increase of 10% over 2016.

PENSIONS

The pension scheme accounting deficit at the year end decreased to £38.2m (2016 £55.5m). This reflects both an improvement in asset valuations and a reduction in liabilities. The reduction in liabilities incorporates changes in mortality assumptions following the 31 March 2017 triennial valuation. Discount rates in 2017 reduced to 2.5% from 2.7% with RPI/CPI rates remaining static.

Cash contributions to the pension scheme are determined by reference to the triennial actuarial valuation. During the year the 31 March 2017 triennial valuation was completed with deficit repair payments being set for future years. The contributions paid in 2017 towards the accounting deficit were £2.9m plus rental payments of £1.1m through the Central Asset Reserve arrangement. The next triennial valuation will be in 2020.

BALANCE SHEET AND NET ASSETS

Net assets as at 31 December 2017 have increased by £20.9m since the prior year. This increase does however include the benefit of a £17.3m reduction in the pension scheme deficit. Excluding this, Group net assets increased by £3.6m during the year.

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.

Steve Rawlins

Chief Financial Officer

8 March 2018

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	**Steve Rawlins**
Chief Executive	Chief Financial Officer
8 March 2018	8 March 2018

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 Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, and Consolidated Cash Flow Statement, and selected notes for the year ended 31 December 2017 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 2017 was approved by the Board on 8 March 2018. Statutory accounts for the year ended 31 December 2017 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.

MANAGING RISK TO DELIVER STRATEGIC OBJECTIVES

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 ongoing 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 five year forecasts of profitability and cash flow as part of the goodwill impairment testing and, with average contract lives of five 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, and consistent with the Value Enhancement Programme, the Group has produced a viability assessment based on the three year period to December 2020, 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 2020 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 2017 the Group's banking facilities were renewed and are in place until August 2022. Availability of bank facilities 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.

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, a period not less than 12 months from the date of the financial statements. 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 and the 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 but until we have more visibility of the eventual outcome it is difficult to fully evaluate the impact on the Group's activities.

RISK AREA	IMPACT	MITIGATING ACTIONS AND MANAGEMENT	CHANGE IN LEVEL OF RISK
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 potentially be superseded earlier than anticipated by management. A disruptive technological change has not been anticipated as a result of a lack of investment in new products and services. We may not adequately identify and protect our IP.	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. Where appropriate we have protected IP through patents.	The level of risk is increasing
The Group continues to pursue international expansion	The Group now operates in 18 countries outside of the UK (2016 17). 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.	The Group has a work stream forum team that specifically deals with the management of operations that are carried out in non-UK locations. 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 in Euro denominated territories. Advice is sought from expert legal and tax partners.	The level of risk is increasing
Deterioration in the economic environment may decrease	The impact is that that macro-economic issues may quickly and detrimentally affect consumer expenditure, which could impact the trading performance of the	Market trends are monitored and factored into the Group's business planning, budgeting and management processes. This is especially pertinent with regard to	The level of risk is stable

profitability	Group’s clients and reduce their discretionary spend resulting on lower sales and profitability.	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 which is now integrated fully within the Group with appropriate cost base control. The ongoing risk is that in the longer term the acquisitions may not achieve the revenues anticipated within the business case on acquisition.	The Group has clear strategy for ensuring growth. This includes assessment of the alignment of the products and services supported by positive and robust integration. We have adopted a two-divisional structure with the benefit of reducing complexity and providing a clearer market proposition to our client base.	The level of risk is stable
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 for core areas of the Group. The Group Operates from multiple office, inbound and manufacturing facilities which helps to mitigate against natural disasters. Appropriate business interruption insurance is maintained. Key areas of the Group have been integrated in to ISO/IEC 22301 certification.	The level of risk is stable
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 • A failure to maintain a secure and fully functional IT infrastructure could result in an inability to meet contractual service obligations; and • New GDPR (General Data Protection Regulation) fines are to be implemented in 2018, of up to 4% of global revenue.	• 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 changing legislation is assessed and actioned, this includes GDPR.	The level of risk is increasing
People, talent and skills; recruitment and retention; support	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 wellbeing 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, that succession plans are in place and applied to relevant team members. A growing range of benefits and incentives are provided by the group to its staff. 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.	The level of risk is stable
Existing client concentration may mean that	A substantial percentage of the Group’s revenues are derived from a relatively small number of clients and therefore the	A strategic account management programme operates to preserve client relationships, monitor compliance with	The level of risk is stable

the loss of a major client could materially decrease sales	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 2017 the top five clients of the Group accounted for approximately 48 per cent of sales (2016 56%).	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 prepares regular financial forecasts to evaluate its funding and liquidity requirements for the foreseeable future. These forecasts are reviewed and approved by the Board. Based on these forecasts appropriate funding and liquidity solutions are put in place to ensure that appropriate headroom is maintained. A range of financing facilities are utilised with a reasonable degree of headroom over projected funding requirements. The Group's lending arrangements have been renewed, and are in place until August 2022. 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.	The level of risk in increasing
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 is £38.2m as at 31 December 2017. 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 triennial valuation was completed in 2017 with a funding deficit of £29.8m. Following this, deficit repair payments have been set at a base of £2.55m in addition to the £1.15m annual payments under the Central Asset Reserve scheme. The next triennial valuation will be in 2020.	The level of risk is stable
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 will become insolvent and that guarantees will be called, resulting in a material cash cost to the Group.	The financial status of the leasehold occupants is monitored on a regular basis. Action will be taken to minimise the cost to the Group when default is anticipated.	Decreasing

Consolidated Income Statement

for the year ended 31 December 2017

	Note	**2017 Before amortisation of acquired intangibles and exceptional Items £000**	**2017 Amortisation of acquired intangibles and exceptional items (Note 3) £000**	**2017 Total £000**	2016 Before amortisation of acquired intangibles and exceptional items £000	2016 Amortisation of acquired intangibles and exceptional items (Note 3) £000	2016 Total £000
Revenue	1	**375,865**	**–**	**375,865**	361,932	–	361,932
Changes in inventories of finished goods and work in progress		**22**	**–**	**22**	(291)	–	(291)
Raw materials and consumables used		**(197,551)**	**–**	**(197,551)**	(191,210)	–	(191,210)
Employee benefits expense		**(91,597)**	**(1,570)**	**(93,167)**	(95,094)	(3,525)	(98,619)
Other operating expenses		**(56,914)**	**(482)**	**(57,396)**	(45,921)	(742)	(46,663)
Depreciation and amortisation expense		**(8,663)**	**(733)**	**(9,396)**	(9,945)	(809)	(10,754)
Profit from operations		**21,162**	**(2,785)**	**18,377**	19,471	(5,076)	14,395
Finance revenue	2	**1**	**–**	**1**	963	–	963
Finance costs	2	**(3,943)**	**–**	**(3,943)**	(3,765)	–	(3,765)
Profit before taxation		**17,220**	**(2,785)**	**14,435**	16,669	(5,076)	11,593
Income tax expense	4	**(3,249)**	**586**	**(2,663)**	(3,956)	990	(2,966)
Profit for the year attributable to equity holders of the parent		**13,971**	**(2,199)**	**11,772**	12,713	(4,086)	8,627
Earnings per share	6						
On profit for the year attributable to equity holders and from continuing operations							
– basic		**6.40p**		**5.64p**	6.08p		4.12p
– diluted		**6.37p**		**5.61p**	6.07p		4.12p
Dividend per share							
– paid during the year				**2.50p**			2.29p
– proposed				**1.77p**			1.61p

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

	2017 £000	2016 £000
Profit for the year	**11,772**	8,627
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent years:		
Exchange differences on translation of foreign operations	**415**	1,129
Gain/(loss) on cash flow hedges taken directly to equity	**134**	(29)
Income tax thereon	**(23)**	3
Items not to be reclassified to profit or loss in subsequent years:		
Adjustments in respect of prior years due to change in tax rate	**824**	(411)
Actuarial gains/(losses) on defined benefit pension plans	**14,805**	(15,972)
Income tax thereon	**(2,517)**	2,715
Other comprehensive income/(loss) for the year, net of tax	**13,638**	(12,565)
Total comprehensive income/(loss) for the year, net of tax	**25,410**	(3,938)
Attributable to:		
Equity holders of the parent	**25,410**	(3,938)

Consolidated Balance Sheet

31 December 2017

	2017 £000	2016 £000
Assets		
Non-current assets		
Property, plant and equipment	**19,296**	21,638
Intangible assets	**186,124**	187,903
Trade and other receivables	**1,966**	821
Deferred tax assets	**4,636**	6,406
	212,022	216,768
Current assets		
Inventories	**7,756**	6,968
Trade and other receivables	**77,375**	66,203
Cash and cash equivalents	**30,182**	38,294
	115,313	111,465
Total assets	**327,335**	328,233
Equity and liabilities		
Equity attributable to the equity holders of the parent		
Equity share capital	**52,405**	52,344
Share premium	**75**	–
Merger reserve	**519**	519
ESOP reserve	**(163)**	(297)
Cumulative translation adjustment	**742**	327
Retained earnings	**85,558**	65,322
Total equity	**139,136**	118,215
Non-current liabilities		
Interest-bearing loans and borrowings	**53,604**	58,751
Trade and other payables	**951**	1,511
Provisions	**42**	42
Financial liabilities	**–**	228
Retirement benefit obligations	**38,217**	55,479
	92,814	116,011
Current liabilities		
Interest-bearing loans and borrowings	**884**	614
Trade and other payables	**92,993**	90,968
Income tax payable	**1,414**	2,210
Provisions	**–**	215
Financial liabilities	**94**	–
	95,385	94,007
Total liabilities	**188,199**	210,018
Total equity and liabilities	**327,335**	328,233

Consolidated Cash Flow Statement

for the year ended 31 December 2017

	Note	**2017 £000**	2016 £000
Cash flows from operating activities			
Cash generated from operations	8	**22,624**	22,909
Interest paid		**(1,800)**	(2,065)
Interest received		**1**	18
Income tax paid		**(3,419)**	(2,250)
Net cash flows from operating activities		**17,406**	18,612
Cash flows from investing activities			
Acquisition of subsidiary undertakings (net of cash acquired)		**–**	(252)
Purchase of property, plant and equipment		**(1,559)**	(3,225)
Purchase of intangible assets		**(4,364)**	(3,808)
Proceeds from the sale of property, plant and equipment		**283**	118
Net cash flows from investing activities		**(5,640)**	(7,167)
Cash flows from financing activities			
Share issues net of directly attributable expenses		**136**	49
Purchase of shares		**–**	(442)
New borrowings under old loan facility		**5,000**	5,000
Repayment of borrowings under old loan facility		**(63,000)**	(8,000)
New loan facility		**63,000**	–
Repayment of borrowings under new loan facility		**(10,000)**	–
Repayment of promissory loan note in respect of acquisition of subsidiary undertakings	5	**(9,300)**	–
Debt arrangement fees		**(657)**	–
Dividends paid	7	**(5,222)**	(4,773)
Net cash flows from financing activities		**(20,043)**	(8,166)
Net (decrease)/increase in cash and cash equivalents		**(8,277)**	3,279
Cash and cash equivalents at 1 January		**38,294**	32,719
Exchange rate effects		**165**	2,296
Cash and cash equivalents at 31 December		**30,182**	38,294

Consolidated Statement of Changes in Equity

for the year ended 31 December 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
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 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)
At 31 December 2016	**52,344**	**–**	**–**	**519**	**(297)**	**–**	**327**	**65,322**	**118,215**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**11,772**	**11,772**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**415**	**13,223**	**13,638**
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**415**	**24,995**	**25,410**
Employee share option schemes – value of services provided	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**597**	**597**
Shares issued – exercise of options	**61**	**75**	**–**	**–**	**–**	**–**	**–**	**–**	**136**
Shares issued from ESOP	**–**	**–**	**–**	**–**	**134**	**–**	**–**	**(134)**	**–**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5,222)**	**(5,222)**
At 31 December 2017	**52,405**	**75**	**–**	**519**	**(163)**	**–**	**742**	**85,558**	**139,136**

Notes to the Consolidated Financial Statements

for the year ended 31 December 2017

1. Segmental information

Business segments

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

- Customer Experience; and
- 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.

Pension scheme costs are included in the Corporate Costs segment.

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.

The segment results for the year ended 31 December 2017 are as follows:

	Customer Experience £000	Brand Deployment £000	Central Costs £000	Corporate Costs £000	Total £000
Revenue	**189,279**	**186,586**	**–**	**–**	**375,865**
Profit from operations before amortisation of acquired intangibles and exceptional items	**22,373**	**16,497**	**(11,759)**	**(5,949)**	**21,162**
Amortisation of acquired intangibles	**(570)**	**(163)**	**–**	**–**	**(733)**
Profit from operations before exceptional items	**21,803**	**16,334**	**(11,759)**	**(5,949)**	**20,429**
Exceptional items	**(1,315)**	**(734)**	**(289)**	**286**	**(2,052)**
Profit from operations	**20,488**	**15,600**	**(12,048)**	**(5,663)**	**18,377**
Net finance costs					**(3,942)**
Profit before tax					**14,435**
Income tax expense					**(2,663)**
Profit for the year					**11,772**

2. Net finance costs

	2017 £000	2016 £000
Interest on financial assets measured at amortised cost	**1**	18
Interest on financial liabilities measured at amortised cost	**(2,030)**	(2,289)
Net interest on financial assets and financial liabilities not at fair value through Income Statement	**(2,029)**	(2,271)
(Loss)/gain on foreign currency liabilities	**(425)**	945
Retirement benefit related cost	**(1,488)**	(1,476)
	(3,942)	(2,802)

3. Amortisation of acquired intangibles and exceptional items

	2017 £000	2016 £000
Profit from operations is arrived at after charging the following items:		
Exceptional restructuring costs	**1,737**	4,260
Customer relationship asset write off	**170**	118
Contingent consideration write off	**(361)**	(452)
Write off of unsupported assets	**506**	–
Capital restructure costs	**–**	109
Trade name impairment	**–**	232
Exceptional items	**2,052**	4,267
Non-exceptional amortisation of acquired intangibles	**733**	809
	2,785	5,076

During 2017 the Group incurred £1,737,000 in respect of organisational restructuring to reduce the cost base, deliver efficiency improvements and outsource non-core activities. The restructuring costs included £1,570,000 relating to staff restructuring and £167,000 in respect of the site closures at the Bangalore office and Bothwell Street, Glasgow, and associated legal costs. Of the £1,737,000, £140,000 is unpaid at 31 December 2017.

The £170,000 customer relationship asset write off 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 £361,000 reduction in contingent consideration relates to fair value revisions of the contingent consideration in respect of the acquisitions of Life Marketing Consultancy Limited (“Life”) and Psona Films Limited, being £300,000 and £61,000 respectively. 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 and The Meaningful Marketing Group Limited, being £200,000 and £252,000 respectively.

The Group also incurred a charge of £506,000 in respect of the write off of unsupported assets which will not be recovered.

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 2015. Trading with 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 relates to non-recurring professional fees in relation to the capital reduction exercise undertaken during that year to create additional distributable reserves.

4. Income tax

The major components of income tax expense for the years ended 31 December 2017 and 2016 are:

	2017 £000	2016 £000
Tax charged in the Income Statement		
Current income tax		
UK corporation tax	**2,738**	2,736
Adjustments in respect of prior years	**(555)**	197
Overseas tax on profits for the year	**1,256**	787
Total current income tax charge	**3,439**	3,720
Deferred income tax		
Origination and reversal of temporary differences	**(740)**	(636)
Adjustments in respect of prior years	**(36)**	(105)
Adjustments in respect of prior years – due to change in tax rate	**–**	(13)
Total deferred tax credit	**(776)**	(754)
Tax charge in the Consolidated Income Statement	**2,663**	2,966
Tax relating to items charged or credited to other comprehensive income		
Deferred income tax		
Actuarial gains/(losses) on pension scheme current year credit	**2,517**	(2,715)
Adjustment in respect of prior years – due to change in tax rate	**(824)**	411
Tax on financial liability	**23**	(3)
Income tax charge/(credit) reported in the Consolidated Statement of Comprehensive Income	**1,716**	(2,307)

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

Reconciliation of the total tax charge

The tax expense in the Income Statement for the year is lower (2016 higher) than the average standard rate of corporation tax in the UK of 19.25% (2016 20%). The differences are reconciled below:

	2017 £000	2016 £000
Profit before income tax	**14,435**	11,593
At UK statutory income tax rate of 19.25% (2016 20%)	**2,779**	2,319
Expenses not deductible for tax purposes	**297**	317
Non-taxable income	**(138)**	(97)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**424**	204
Unrecognised tax losses in overseas territories	**7**	60
Share-based payments	**(92)**	110
Change in deferred tax in respect of rolled over capital gains	**(23)**	(26)
Adjustments in respect of prior years	**(591)**	92
Adjustment in respect of prior years – due to change in tax rate	**–**	(13)
Tax charge in the Consolidated Income Statement	**2,663**	2,966

The Group has unrecognised losses amounting to £380,000 (2016 £200,000), which arose outside of the UK and which are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. No deferred tax asset has been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group and there is no evidence of recoverability in the near future. If the Group were able to recognise all unrecognised deferred tax assets, the profit would have been increased by £96,000.

Deferred tax

Deferred tax included in the Consolidated Balance Sheet is as follows:

	2017 £000	2016 £000
Accelerated capital allowances	**(777)**	(925)
Other short-term timing differences	**50**	185
Losses available for offset against future taxable income	**353**	387
Capital gains rolled over into replacement assets	**(413)**	(436)
Share-based payments	**383**	176
Pensions	**5,221**	7,331
Financial liabilities	**15**	39
Customer relationship intangible assets	**(196)**	(351)
Deferred tax asset	**4,636**	6,406

The realisation of the above current year deferred tax asset is dependent upon the anticipated continuing profitability of the Group. The deferred tax asset is recognised as the Directors foresee future profits adequate to assume recovery.

The deferred tax credit included in the Consolidated Income Statement is as follows:

	2017 £000	2016 £000
Accelerated capital allowances	**(141)**	(149)
Other short-term timing differences	**116**	(19)
Losses available against future taxable income	**27**	166
Held-over capital gains	**–**	(153)
Capital gains rolled over into replacement assets	**(23)**	(31)
Share-based payments	**(207)**	9
Pensions	**(393)**	(337)
Customer relationship intangible assets	**(155)**	(240)
Deferred tax credit	**(776)**	(754)

The provision for deferred tax at 31 December 2017 has been made at rates between 17% and 19% depending upon the anticipated time of reversal. This reflects the legislation included in Finance Act 2016 reducing the rate of corporation tax to 17% from April 2020.

5. Acquisition of business
In the year ended 31 December 2017 there have been movements in contingent consideration in relation to Psona Films Limited and Life as outlined below.

Psona Films Limited
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 10% 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 2017, a total of £139,000 had been paid out under this arrangement for the earn-out periods ended 30 April 2015 and 30 April 2016. However, as the conditions of the contingent consideration arrangement were not met in the final earn-out period, the remaining balance at 30 April 2017 was written off to the Income Statement. A reconciliation of the fair value of the contingent consideration liability is provided below:

	2017 **£000**
At 1 January 2017	**61**
Fair value revision	**(61)**
At 31 December 2017	**–**

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

Life Marketing Consultancy Limited
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 2016, the fair value of all contingent consideration was revised to £300,000. The final contingent consideration liability will be quantified and settled in 2019.

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 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:

	2017 **£000**
At 1 January 2017	**300**
Fair value revision	**(300)**
At 31 December 2017	**–**

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

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

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

6. Earnings per share

	2017 **Number** **000**	2016 Number 000
Weighted average number of ordinary shares (excluding treasury shares) for basic earnings per share	**208,804**	209,211
Effect of dilution:		
Share options	**1,008**	336
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution	**209,812**	209,547

441,223 (2016 806,319) shares were held in trust at 31 December 2017.

Share options in issue total 2,470,608 (2016 4,395,426) options.

	2017 £000	2016 £000
Basic and diluted earnings per share is calculated as follows:		
Profit attributable to equity holders of the parent	**11,772**	8,627
Earnings per share:		
Basic	**5.64p**	4.12p
Diluted	**5.61p**	4.12p

Adjusted earnings per share

Adjusted earnings per share are derived from net profit from continuing operations before exceptional items, amortisation of acquired intangibles and certain tax items in respect of prior years, attributable to equity holders of the parent is derived as follows:

	2017 £000	2016 £000
Profit after taxation from continuing operations	**11,772**	8,627
Exceptional items (Note 3)	**2,052**	4,267
Taxation on exceptional items	**(461)**	(819)
Amortisation of acquired intangibles (Note 3)	**733**	809
Taxation on amortisation of acquired intangibles	**(125)**	(171)
Taxation – adjustments in respect of prior years	**(609)**	–
Profit after taxation from continuing operations excluding exceptional items and amortisation of acquired intangibles	**13,362**	12,713
Adjusted earnings per share:		
Basic	**6.40p**	6.08p
Diluted	**6.37p**	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.

7. Dividends paid and proposed

Declared and paid during the year	2017 £000	2016 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2015 of 1.47p per share	**–**	3,077
Interim dividend for the year ended 31 December 2016 of 0.81p per share	**–**	1,696
Final dividend for the year ended 31 December 2016 of 1.61p per share	**3,362**	–
Interim dividend for the year ended 31 December 2017 of 0.89p per share	**1,860**	–
	5,222	4,773
Proposed for approval at AGM (not recognised as a liability as at 31 December)		
Final equity dividend on ordinary shares of 1.77p (2016 1.61p) per share		
(based on issued share capital at the date of approval of the Financial Statements)	**3,704**	3,358

8. Cash generated from operations

	2017 £000	2016 £000
Continuing operations		
Profit before tax	**14,435**	11,593
Adjustments for:		
Amortisation of intangible assets arising on business acquisitions	**733**	809
Depreciation and other amortisation	**8,663**	9,945
Exceptional items	**2,052**	4,267
Loss on sale of property, plant & equipment	**7**	25
Share-based payment charge	**597**	505
Net finance costs	**3,942**	2,802
Additional contribution to the defined benefit pension plan	**(3,988)**	(2,836)
Cash cost of exceptional items	**(2,704)**	(3,700)
Changes in working capital:		
(Increase)/decrease in inventories	**(761)**	904
Increase in trade and other receivables	**(15,546)**	(9,912)
Increase in trade and other payables	**15,194**	8,507
Cash generated from operations	**22,624**	22,909

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.