communisis

2 August 2018

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

Interim Results for the six months ended 30 June 2018

Leading provider of integrated business services, Communisis plc (LSE: CMS) reports interim results for the half year ended 30 June 2018.

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

"Communisis traded positively in the first half of 2018 and total sales were up 9%. Outbound statement volume grew with an increasing digital proportion but the volume of marketing communication has seen an initial reduction as an effect of the introduction of the General Data Protection Regulation (GDPR) in May. The Group won two significant contracts; the first with Zurich, a new insurance client, and the second with an existing client in Fast Moving Consumer Goods (FMCG) for a major expansion of services. Trading saw good free cash flow and net debt materially lowered. There was also a marked reduction in the pension deficit. Overall expectations for FY 2018 are unchanged."

FINANCIAL HIGHLIGHTS

Positive trading

- Total revenue of £188.6m (H1 2017 £173.5m).
- Overseas revenue at 34% of total (H1 2017 33%).
- Adjusted profit before tax of £6.5m (H1 2017 £6.4m).
- Profit before tax of £4.0m (H1 2017 £4.8m).
- Adjusted earnings per share of 2.5p (H1 2017 2.4p).

Good free cash flow and net debt materially lowered

- Net operating cash flow at £8.4m (H1 2017 £7.5m).
- Free cash flow at £5.5m (H1 2017 £6.5m) after increased capital expenditure of £2.9m (H1 2017 £1.0m).
- Net debt reduced to £23.7m (H1 2017 £28.3m).
- 5% proposed increase in interim dividend to 0.93p (H1 2017 0.89p).

Marked reduction in the pension deficit

- Pension deficit reduced to £32.4m from £42.0m at 30 June 2017.

All financial comparatives have been restated to reflect the changes as a result of the transition to IFRS 15 Revenue from Contracts with Customers (IFRS 15).

FINANCIAL RESULTS

	H1 2018	**H1 2017 (restated)#**	
Total revenue (£m)	**188.6**	173.5	+9%
Adjusted operating profit (£m)*	**7.7**	8.3	-7%
Adjusted profit before tax (£m)*	**6.5**	6.4	+2%
Profit before tax (£m)	**4.0**	4.8	-16%
Adjusted earnings per share (p)*	**2.5**	2.4	+6%
Proposed interim dividend per share (p)	**0.93**	0.89	+5%
Net operating cash flow (£m)**	**8.4**	7.5	+11%
Free cash flow (£m)**	**5.5**	6.5	-16%
Net debt (£m)	**23.7**	28.3	-16%

 # The 2017 figures are restated to reflect the changes as a result of the transition to IFRS 15.

** 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.*

*** Net operating cash flow represents net cash flows from operating activities before investments in new contracts. Free cash flow represents net operating cash flow less net capital expenditure.*

STRATEGY UPDATE AND OPERATIONAL HIGHLIGHTS

VALUE ENHANCEMENT PROGRAMME (VEP)

Encouraging progress has been made against the Value Enhancement Programme launched in March 2018:

DIGITAL FIRST

- We continue to transform our clients' customer communications, with the emphasis primarily on digital within a multi-channel delivery. As an example, Communisis has won a five-year contract with Zurich Insurance in the UK for the provision of these services.
- During H1 2018, 14% of outbound communications were delivered via digital channels vs 9% in H1 2017.
- New technology partnerships in place with the company Striata to further enhance our digital transactional delivery and with Idomoo for personalised video.
- Implementation of the cloud-based software platform Noosh is progressing to support the next phase of growth in Brand Deployment. The system will be ready for launch and rollout from September through to Q4 2018.
- Further rollout of our proprietary digital fraud prevention technology, eUCN, in our security printing business – now adopted by the majority of major UK retail banks.

GLOBAL REACH

- New contract: Communisis has won a major expansion of its relationship with a global FMCG brand owner for a three-year term. Existing coverage in Poland, Portugal and Spain will now expand to include Italy and the Middle East, the latter serviced from our Dubai hub. Sales will start to increase from the second half of this year and we expect this client account to scale rapidly.
- A contract has been renewed with Bacardi for a further three years, operating in nine European countries, expanding our scope of services to include permanent point of sale.
- Editions Financial, the content marketing agency, continues to grow US clients from its New York base, with recent wins in the banking sector.
- The Hong Kong operation is now live for the direct sourcing of Premiums (gifts with purchase), with a local team recruited and a direct supply chain established.
- Overseas revenue now represents 34% of Group revenue (H1 2017 33%).

EMPOWERED ORGANISATION

- We have significantly reshaped our approach to marketing insight and commercial decision making with a number of senior hires and the appointment of third parties in support.
- A more rigorous approach has been adopted to the way we manage our new business pipeline and we have established a detailed process for managing prospects through to award.

OUTLOOK

Overall, the strong order book of long-term client commitments plus the new contract wins we are announcing, give us good visibility for the second half. Expectations for the full year are therefore unchanged.

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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.

FINANCIAL PERFORMANCE

SUMMARY

- Total revenue increased by 9% to £188.6m (H1 2017 £173.5m) with overseas revenue now representing 34% of total Group revenue (H1 2017 33%).
- Adjusted operating profit is 7% lower than in the first half of 2017 at £7.7m (H1 2017 £8.3m). The reported H1 2017 operating profit benefited from a £1.1m one-off reassessment of a historical provision, unrelated to the underlying trading in 2017. Group operating margin for the first half of 2018 was 4.1% (H1 2017 4.8%). Adjusted profit before tax increased to £6.5m from £6.4m, assisted by £0.7m lower net finance costs. Profit before tax was 16% lower at £4.0m (H1 2017 £4.8m) and, as a result, basic earnings per share is reduced to 1.52p (H1 2017 1.76p). Adjusted earnings per share, however, increased to 2.52p (H1 2017 2.37p), reflecting the impact of a lower net finance cost from retranslation gains and reduced interest on the pension deficit.
- The pension deficit closed the half year at £32.4m which is 15% lower than at the year end and 23% lower than June 2017.
- Net debt reduced 16% to £23.7m (H1 2017 £28.3m).
- Net operating cash flow at £8.4m (H1 2017 £7.5m).
- Free cash flow at £5.5m (H1 2017 £6.5m) is reported after capital expenditure.
- Capital expenditure of £2.9m (H1 2017 £1.0m), the majority being technology investment.

Following the introduction of IFRS 15, comparative numbers have been restated to reflect the full retrospective implementation of the change in accounting standard.

TRADING SUMMARY

Revenue, operating profit and margins before exceptional items are reported in two divisions, Customer Experience and Brand Deployment. From 1 January the trading activity of Psona and Psona Films was transferred into the Brand Deployment division. Unallocated Central and Corporate Costs are reported separately. The segmental reporting comparatives have been restated to reflect these changes.

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

	HY 2018	HY 2017 (restated)#
	£m	£m
Revenue		
Customer Experience	**87.7**	79.2
Brand Deployment	**100.9**	94.3
	188.6	173.5
Adjusted profit from operations		
Customer Experience	**12.0**	11.9
Brand Deployment	**5.6**	5.2
Central Costs	**(6.8)**	(6.1)
Corporate Costs	**(3.1)**	(2.7)
Adjusted operating profit	**7.7**	8.3
Amortisation of acquired intangibles	**(0.4)**	(0.4)
Profit from operations before exceptional items	**7.3**	7.9
Exceptional items	**(2.1)**	(1.2)
Net finance costs	**(1.2)**	(1.9)
Profit before tax	**4.0**	4.8
Tax	**(0.8)**	(1.1)
Profit after tax	**3.2**	3.7
Earnings per share		
Basic (p)	**1.52**	1.76
Adjusted diluted (p)	**2.52**	2.37
Adjusted profit before tax	**6.5**	6.4
Adjusted EBITDA	**11.0**	11.6
Adjusted operating margin	**4.1%**	4.8%

 # The 2017 figures are restated to reflect the changes as a result of the transition to IFRS 15.

CUSTOMER EXPERIENCE
Revenues ended 11% higher than prior year, driven by our Transactional and CE Technology business units and adjusted operating margins remained strong at 13.7%.

Adjusted operating profit for the segment ended in line with H1 2017 at £12.0m (H1 2017 £11.9m), but from a different sales mix. Direct Mail has had a challenging first half following the introduction of GDPR which has had the initial effect of reducing the volume of marketing communication, as clients confirmed the integrity of their customer data. The overall Transactional output business and CE Technology were both ahead of prior year, with increases in digital output.

BRAND DEPLOYMENT
Total revenues increased to £100.9m (H1 2017 £94.3m). Adjusted operating margins remained consistent at 5.5%. The adjusted operating profit for the segment ended the half year at £5.6m (H1 2017 £5.2m). Margins are forecast to improve across H2 with the introduction of the Noosh operating platform and the full benefits coming through associated restructuring activities.

CENTRAL AND CORPORATE COSTS
We intend to recharge Central Costs internally to the operating divisions by activity and with effect from our full year 2018 results we intend to report adjusted profit from operations on a fully recharged basis with the previous year's results restated like for like for comparison purposes. Corporate Costs, which relate primarily to the overheads of the public company and are not determined by divisional operational activity, will continue to be shown separately.

Overall central and corporate costs have increased by £1.1m in H1 2018 against H1 2017 driven by a series of key appointments to enhance the capabilities across all shared functions including Technology, Commercial Services, Group Finance and Financial Shared Services along with increased spend on GDPR and professional advisory fees.

EXCEPTIONAL ITEMS
The exceptional charge of £2.1m can be broken down into internal and external categories. The internal category totalled £0.8m and was reduced from the £1.2m recorded at H1 2017. The internal charges relate to restructuring within Brand Deployment and the financial shared services centre (£0.4m), one off costs relating to the introduction of GDPR (£0.3m) and the write down of certain acquired client relationship assets (£0.1m). External charges were £1.3m and relate to the Value Enhancement Programme, being primarily professional fees incurred in support of corporate activity towards an optimal Group structure.

NET FINANCE COSTS
Net finance costs decreased to £1.2m from £1.9m in H1 2017, due to a £0.4m beneficial impact on retranslation of non-Sterling-related balances, £0.2m lower interest charge on the defined benefit pension scheme deficit and £0.1m of lower interest paid on borrowings.

TAX
The effective tax rate in the Income Statement was 21.02% (H1 2017 23.06%). During the period, the effective tax rate has benefited from a credit which related to prior years. The balance has been adjusted through the current year Income Statement, as management considers 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 24.71% which is higher than the UK rate of corporation tax due to the proportion of profits generated in overseas jurisdictions with higher tax rates.

DIVIDEND
Dividends of 1.77p per share were paid in the first half of 2018 in respect of 2017, resulting in a year-on-year increase of £0.3m in dividend payments to £3.7m. The Board has proposed an interim dividend of 0.93p, which represents an increase of 5% on the prior year. The interim dividend will be paid on 12 October 2018 to shareholders on the register at the close of business on 14 September 2018.

PENSION SCHEME
At 30 June 2018, the deficit related to the defined benefit pension scheme on an IAS 19 basis has reduced to £32.4m compared with £38.2m at 31 December 2017. Gross scheme liabilities were £188.2m and assets were £155.8m. The deficit reduction is primarily due to a £12.7m reduction in liabilities resulting from an increased discount rate and lower inflation, along with a £6.9m reduction in assets.

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.

CASH AND NET DEBT

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

	HY 2018	**HY 2017 (restated)#**
	£m	**£m**
Profit from operations before exceptional items	**7.3**	7.9
Depreciation and other non-cash items	**4.4**	4.4
Increase in working capital	**(0.1)**	(0.1)
Pension scheme contributions	**(0.3)**	(0.6)
Interest and tax	**(2.1)**	(2.5)
Net operating cash flow before exceptional items	**9.2**	9.1
Exceptional items	**(0.8)**	(1.6)
Net operating cash flow	**8.4**	7.5
Net capital expenditure	**(2.9)**	(1.0)
Free cash flow	**5.5**	6.5
Investment in new contracts	**(0.5)**	(0.3)
Repayment of promissory loan notes	**-**	(9.3)
Dividends paid	**(3.7)**	(3.4)
Share issues	**0.1**	-
Other	**(0.3)**	0.3
Decrease/(increase) in bank debt	**1.1**	(6.2)
Opening bank debt	**(22.8)**	(19.7)
Closing bank debt	**(21.7)**	(25.9)
Bank debt	**(21.7)**	(25.9)
Unamortised borrowing costs	**0.5**	0.1
Net bank debt	**(21.2)**	(25.8)
Finance lease creditor	**(2.5)**	(2.5)
Net debt	**(23.7)**	(28.3)

 # The 2017 figures are restated to reflect the impact of IFRS 15.

The Group's focused approach to cash generation continued during 2018. Free cash flow was £5.5m (H1 2017 £6.5m). The principal movements within the period were increased capital expenditure to £2.9m (H1 2017 £1.0m), offset by lower tax and interest payments of £2.1m (H1 2017 £2.5m).

Net debt reduced 16% to £23.7m (H1 2017 £28.3m).

Bank debt was £21.7m, representing 31% of the Group's facilities. Bank debt at the period end was 0.83 times adjusted EBITDA for the twelve months to June 2018 and average bank debt during the period was £37.5m, 1.43 times adjusted EBITDA. Covenants remain well covered.

BOARD APPOINTMENTS

On 1 June 2018 Helen Sachdev was appointed as Non-executive Director. On 6 June 2018 Helen Keays stepped down from the role of Non-executive Director and Chair of the Board's Remuneration Committee. On 7 June 2018 Jane Griffiths assumed the role of Chair of the Board's Remuneration Committee.

Andy Blundell
Chief Executive

Steve Rawlins
Chief Financial Officer

Consolidated Income Statement
for the half year ended 30 June 2018

	Note	Half year ended 30 June 2018 (unaudited)			Half year ended 30 June 2017 (restated)* (unaudited)			Year ended 31 December 2017 (restated)* (unaudited)		
		Before amortisation of acquired intangibles and exceptional items £000	Amortisation of acquired intangibles and exceptional items (Note 5) £000	Total £000	Before amortisation of acquired intangibles and exceptional items £000	Amortisation of acquired intangibles and exceptional items (Note 5) £000	Total £000	Before amortisation of acquired intangibles and exceptional items £000	Amortisation of acquired intangibles and exceptional items (Note 5) £000	Total £000
Revenue	3	**188,641**	**-**	**188,641**	173,484	-	173,484	350,664	-	350,664
Changes in inventories of finished goods and work in progress		**81**	**-**	**81**	133	-	133	22	-	22
Raw materials and consumables used		**(99,547)**	**-**	**(99,547)**	(91,548)	-	(91,548)	(176,490)	-	(176,490)
Employee benefits expense		**(45,937)**	**(350)**	**(46,287)**	(47,560)	(556)	(48,116)	(91,597)	(1,570)	(93,167)
Other operating expenses		**(32,208)**	**(1,794)**	**(34,002)**	(22,909)	(659)	(23,568)	(56,914)	(482)	(57,396)
Depreciation and amortisation expense		**(3,334)**	**(347)**	**(3,681)**	(3,350)	(375)	(3,725)	(6,435)	(733)	(7,168)
Profit from operations		**7,696**	**(2,491)**	**5,205**	8,250	(1,590)	6,660	19,250	(2,785)	16,465
Finance revenue	6	**234**	**-**	**234**	-	-	-	1	-	1
Finance costs	6	**(1,405)**	**-**	**(1,405)**	(1,877)	-	(1,877)	(3,943)	-	(3,943)
Profit before taxation		**6,525**	**(2,491)**	**4,034**	6,373	(1,590)	4,783	15,308	(2,785)	12,523
Income tax expense	7	**(1,057)**	**209**	**(848)**	(1,414)	311	(1,103)	(2,911)	586	(2,325)
Profit for the period attributable to equity holders of the parent		**5,468**	**(2,282)**	**3,186**	4,959	(1,279)	3,680	12,397	(2,199)	10,198
Earnings per share	8									
On profit for the period attributable to equity holders and from continuing operations										
- basic		**2.54p**		**1.52p**	2.38p		1.76p	5.65p		4.88p
- diluted		**2.52p**		**1.51p**	2.37p		1.76p	5.62p		4.86p
Dividend per share	9									
- paid				**1.77p**			1.61p			2.50p
- proposed				**0.93p**			0.89p			1.77p

**Restated to reflect the changes as a result of the transition to IFRS 15 (Note 2).*

Dividends paid and proposed during the period were £3.7m and £2.0m respectively (30 June 2017 £3.4m and £1.9m respectively; 31 December 2017 £5.2m and £3.7m 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 2018

	Half year ended 30 June 2018 (unaudited) £000	Half year ended 30 June 2017 (restated)* (unaudited) £000	Year ended 31 Dec 2017 (restated)* (unaudited) £000
Profit for the period	**3,186**	3,680	10,198
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Exchange (loss)/gain differences on translation of foreign operations	**(223)**	341	415
Gain on cash flow hedges taken directly to equity	**80**	67	134
Income tax thereon	**(14)**	(12)	(23)
Items not to be reclassified to profit or loss in subsequent periods:			
Adjustments in respect of prior years due to change in tax rate	**-**	-	824
Actuarial gains on defined benefit pension plans	**5,949**	13,645	14,805
Income tax thereon	**(1,011)**	(2,320)	(2,517)
Other comprehensive income for the period, net of tax	**4,781**	11,721	13,638
Total comprehensive income for the period, net of tax	**7,967**	15,401	23,836
Attributable to:			
Equity holders of the parent	**7,967**	15,401	23,836

**Restated to reflect the changes as a result of the transition to IFRS 15 (Note 2).*

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

Consolidated Balance Sheet
30 June 2018

	Half year ended 30 June 2018 (unaudited) £000	Half year ended 30 June 2017 (restated)* (unaudited) £000	Year ended 31 Dec 2017 (restated)* (unaudited) £000
ASSETS			
Non-current assets			
Property, plant and equipment	**19,150**	20,275	19,296
Intangible assets	**177,515**	176,508	177,683
Contract fulfilment assets	**1,692**	1,026	1,802
Trade and other receivables	**8,361**	8,189	8,452
Contract assets	**1,390**	631	571
Deferred tax assets	**4,858**	5,134	5,669
	212,966	211,763	213,473
Current assets			
Inventories	**8,504**	6,649	7,756
Contract fulfilment assets	**874**	923	993
Trade and other receivables	**67,398**	64,456	62,896
Contract assets	**14,815**	15,050	15,136
Cash and cash equivalents	**37,247**	37,088	30,182
	128,838	124,166	116,963
TOTAL ASSETS	**341,804**	335,929	330,436
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the parent			
Equity share capital	**52,433**	52,346	52,405
Share premium	**109**	2	75
Merger reserve	**519**	519	519
ESOP reserve	**(75)**	(215)	(163)
Cumulative translation adjustment	**519**	668	742
Retained earnings	**85,460**	74,078	80,817
Total equity	**138,965**	127,398	134,395
Non-current liabilities			
Interest-bearing loans and borrowings	**59,954**	1,559	53,604
Trade and other payables	**2,302**	1,347	245
Contract liabilities	**1,923**	2,814	5,268
Provisions	**-**	161	42
Financial liabilities	**-**	165	-
Retirement benefit obligations	**32,417**	42,033	38,217
	96,596	48,079	97,376
Current liabilities			
Interest-bearing loans and borrowings	**989**	63,866	884
Trade and other payables	**95,107**	88,423	88,268
Contract liabilities	**8,937**	5,949	8,005
Income tax payable	**1,154**	2,140	1,414
Provisions	**42**	74	-
Financial liabilities	**14**	-	94
	106,243	160,452	98,665
Total liabilities	**202,839**	208,531	196,041
TOTAL EQUITY AND LIABILITIES	**341,804**	335,929	330,436

**Restated to reflect the changes as a result of the transition to IFRS 15 (Note 2).*

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

Consolidated Cash Flow Statement
for the half year ended 30 June 2018

	Note	Half year ended 30 June 2018 (unaudited) £000	Half year ended 30 June 2017 (restated)* (unaudited) £000	Year ended 31 Dec 2017 (restated)* (unaudited) £000
Cash flows from operating activities				
Cash generated from operations	10	**9,956**	9,644	21,944
Interest paid		**(814)**	(922)	(1,800)
Interest received		**11**	-	1
Income tax paid		**(1,313)**	(1,539)	(3,419)
Net cash flows from operating activities		**7,840**	7,183	16,726
Cash flows from investing activities				
Purchase of property, plant and equipment		**(1,130)**	(236)	(1,559)
Proceeds from the sale of property, plant and equipment		**11**	54	283
Purchase of intangible assets		**(1,774)**	(853)	(3,684)
Net cash flows from investing activities		**(2,893)**	(1,035)	(4,960)
Cash flows from financing activities				
Share issues net of directly attributable expenses		**62**	4	136
New borrowings under existing loan facility		**6,000**	-	-
New borrowings under old loan facility		**-**	5,000	5,000
Repayment of borrowings under old loan facility		**-**	-	(63,000)
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		**-**	(9,300)	(9,300)
Debt arrangement fees		**-**	-	(657)
Dividends paid	9	**(3,704)**	(3,362)	(5,222)
Net cash flows from financing activities		**2,358**	(7,658)	(20,043)
Net increase/(decrease) in cash and cash equivalents		**7,305**	(1,510)	(8,277)
Cash and cash equivalents at 1 January		**30,182**	38,294	38,294
Exchange rate effects		**(240)**	304	165
Cash and cash equivalents at end of period		**37,247**	37,088	30,182
Cash and cash equivalents consist of:				
Cash at bank		**37,247**	37,088	30,182

**Restated to reflect the changes as a result of the transition to IFRS 15 (Note 2).*

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 2018

	Issued capital £000	Share premium £000	Merger reserve £000	ESOP reserve £000	Cumulative translation adjustment £000	Retained earnings (restated)* £000	Total equity (restated)* £000
As at 1 January 2018	**52,405**	**75**	**519**	**(163)**	**742**	**80,817**	**134,395**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**3,186**	**3,186**
Other comprehensive income/(loss)	**-**	**-**	**-**	**-**	**(223)**	**5,004**	**4,781**
Total comprehensive income	**-**	**-**	**-**	**-**	**(223)**	**8,190**	**7,967**
Employee share option schemes - value of services provided	**-**	**-**	**-**	**-**	**-**	**245**	**245**
Shares issued - exercise of options	**28**	**34**	**-**	**-**	**-**	**-**	**62**
Shares issued from ESOP	**-**	**-**	**-**	**88**	**-**	**(88)**	**-**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**(3,704)**	**(3,704)**
As at 30 June 2018 (unaudited)	**52,433**	**109**	**519**	**(75)**	**519**	**85,460**	**138,965**
As at 1 January 2017	52,344	-	519	(297)	327	62,155	115,048
Profit for the period	-	-	-	-	-	3,680	3,680
Other comprehensive income	-	-	-	-	341	11,380	11,721
Total comprehensive income	-	-	-	-	341	15,060	15,401
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	74,078	127,398
As at 1 January 2017	52,344	-	519	(297)	327	62,155	115,048
Profit for the period	-	-	-	-	-	10,198	10,198
Other comprehensive income	-	-	-	-	415	13,223	13,638
Total comprehensive income	-	-	-	-	415	23,421	23,836
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)
As at 31 December 2017 (unaudited)	52,405	75	519	(163)	742	80,817	134,395

**Restated to reflect the changes as a result of the transition to IFRS 15 (Note 2).*

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 2018

1 Corporate information

The Interim Condensed Consolidated Financial Statements of Communisis plc and its subsidiaries for the six months ended 30 June 2018 were authorised for issue in accordance with a resolution of the Directors on 2 August 2018.

Communisis plc is a public limited company incorporated and domiciled in England and Wales whose shares are traded on the London Stock Exchange. The registered office is located at Communisis House, Manston Lane, Leeds LS15 8AH.

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 2018 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 2017.

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 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. As the Group has elected to apply a full retrospective approach to adoption of IFRS 15, a restatement of previous Consolidated Financial Statements is required. As per IAS 34, the nature and effect of these changes are disclosed below. Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the Interim Condensed Consolidated Financial Statements of the Group.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Group's new revenue accounting policy is detailed in Note 2.3.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 using the full retrospective method of adoption in accordance with IFRS 15:C3(a), restating the prior period's comparatives and electing to use the following expedients:

- in respect of completed contracts, the Group will not restate contracts that: (i) begin and end within the same annual reporting period; or (ii) were completed contracts at the beginning of the earliest period presented (IFRS 15:C5(a));
- in respect of completed contracts that had variable consideration, the Group has used the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative periods (IFRS 15:C5(b));
- contract modifications which occurred before the beginning of the earliest period presented have been reflected in aggregate (IFRS 15:C5(c)); and
- for all reporting periods presented before the date of initial application, the Group will not disclose in its 2018 Annual Report and Financial Statements the amount of the transaction price allocated to the remaining performance obligations or an explanation of when the Group expects to recognise that amount as revenue (IFRS 15:C5(d)).

The effect of adopting IFRS 15 is as follows:

Impact on the Consolidated Balance Sheet (increase/(decrease)) as at 30 June 2017:

	Adjustments	£000
ASSETS		
Intangible assets	C	(9,553)
Contract fulfilment assets	D	1,026
Trade and other receivables	C,E	7,089
Contract assets	E	631
Deferred tax assets	F	734
Total non-current assets		(73)
Contract fulfilment assets	D	923
Trade and other receivables	C,D,E	(14,012)
Contract assets	E	15,050
Total current assets		1,961
Total assets		**1,888**
EQUITY AND LIABILITIES		
Retained earnings	B,F	(3,343)
Total equity		(3,343)
Contract liabilities	B	2,814
Total non-current liabilities		2,814
Trade and other payables	E	(3,532)
Contract liabilities	B,E	5,949
Total current liabilities		2,417
Total equity and liabilities		**1,888**

Notes to the Consolidated Financial Statements
for the half year ended 30 June 2018 (continued)

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

2.2 New standards, interpretations and amendments adopted by the Group (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

Impact on the Consolidated Income Statement (increase/(decrease)) for the six months ended 30 June 2017:

	Adjustments	£000
Revenue	A,B,C	(12,475)
Raw materials and consumables used	A,B,D	11,145
Depreciation and amortisation expense	C	1,115
Profit from operations/profit before taxation	B,D	(215)
Income tax expense	F	39
Profit for the period attributable to equity holders of the parent		(176)

The impact on adjusted basic and adjusted diluted EPS for the six months ended 30 June 2017 is a decrease of 0.08p and 0.09p respectively. There is no material impact on other comprehensive income or the Consolidated Cash Flow Statement for the six months ended 30 June 2017.

Impact on the Consolidated Balance Sheet (increase/(decrease)) as at 31 December 2017:

	Adjustments	£000
ASSETS		
Intangible assets	C	(8,441)
Contract fulfilment assets	D	1,802
Trade and other receivables	C,E	6,486
Contract assets	E	571
Deferred tax assets	F	1,033
Total non-current assets		1,451
Contract fulfilment assets	D	993
Trade and other receivables	C,D,E	(14,479)
Contract assets	E	15,136
Total current assets		1,650
Total assets		**3,101**
EQUITY AND LIABILITIES		
Retained earnings	B,F	(4,741)
Total equity		(4,741)
Trade and other payables	E	(706)
Contract liabilities	B,E	5,268
Total non-current liabilities		4,562
Trade and other payables	E	(4,725)
Contract liabilities	B,E	8,005
Total current liabilities		3,280
Total equity and liabilities		**3,101**

Impact on the Consolidated Income Statement (increase/(decrease)) for the twelve months ended 31 December 2017:

	Adjustments	£000
Revenue	A,B,C	(25,201)
Raw materials and consumables used	A,B,D	21,061
Depreciation and amortisation expense	C	2,228
Profit from operations/profit before taxation	B,D	(1,912)
Income tax expense	F	338
Profit for the period attributable to equity holders of the parent		(1,574)

The impact on adjusted basic and adjusted diluted EPS for the twelve months ended 31 December 2017 is a decrease of 0.75p. There is no material impact on other comprehensive income or the Consolidated Cash Flow Statement for the twelve months ended 31 December 2017.

An extensive exercise was undertaken to consider the Group's major contractual arrangements as part of the implementation of IFRS 15. A number of significant areas have been identified for adjustment which include:

A Recognition of revenue by the Group as agent or principal
Prior to the adoption of IFRS 15, based on the existence of credit risk, the Group concluded that it had an exposure to significant risks and rewards associated with the postage services and licence sales within the Customer Experience segment and hence reported these sales on a principal basis. Upon the adoption of IFRS 15, which focuses on control of which risk and reward is just one indicator, the Group determined that it does not always control these goods/services before they are transferred to the customer. Where this is the case the revenue is now reported on an agent basis; therefore, revenue is recorded at a net amount reflecting the margin earned. When the Group acts as principal in a transaction with a customer, revenue is recorded on a gross basis. There is no impact on the Consolidated Balance Sheets at 30 June 2017 or 31 December 2017. The Consolidated Income Statements for the six months ended 30 June 2017 and twelve months ended 31 December 2017 were restated resulting in decreases to both revenue and raw materials and consumables used amounting to £10,843,000 and £19,843,000 respectively.

B Recognition of revenue for transition services
Prior to the adoption of IFRS 15, revenue for transition services was recognised on completion of key milestones outlined in the contract. This reflected the timing, nature and value of the benefits provided and assumed that there was no significant uncertainty over its collection. Under IFRS 15, however, the Group is required to identify the distinct performance obligations in a contract which in some situations does not equate to the key milestones previously recognised. Where this is the case revenue is now recognised over the term of the contract. All contracts which are open at the date of transition to IFRS 15 have been restated to reflect this. As a consequence the Consolidated Balance Sheets at 30 June 2017 and 31 December 2017 were restated resulting in recognition of contract liabilities totalling £5,230,000 and £7,842,000 respectively. These contract liabilities have been aged accordingly. Retained earnings at 1 January 2017 were restated by a reduction of £4,710,000. The Consolidated Income Statements for the six months ended 30 June 2017 and twelve months ended 31 December 2017 were restated resulting in a decrease to revenue of £517,000 and £3,130,000 respectively.

Notes to the Consolidated Financial Statements
for the half year ended 30 June 2018 (continued)

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

2.2 New standards, interpretations and amendments adopted by the Group (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

C Reclassification of contract premiums
Amounts paid to secure customer contracts are held within other receivables and unwound over the life of the contract as a reduction to the transaction price. Previously they were held as intangible assets on the Consolidated Balance Sheet and amortised over the life of the contract. As a consequence the Consolidated Balance Sheets at 30 June 2017 and 31 December 2017 were restated resulting in a decrease to intangible assets of £9,553,000 and £8,441,000 respectively and a corresponding increase to other receivables. The other receivables element was then aged accordingly. The Consolidated Income Statements for the six months ended 30 June 2017 and twelve months ended 31 December 2017 were restated resulting in a decrease to revenue and a decrease to amortisation of £1,115,000 and £2,228,000 respectively.

D Recognition, utilisation and derecognition of contract fulfilment assets
Prior to the adoption of IFRS 15, costs relating directly to the setup of various long-term contracts were expensed within the Customer Experience segment in relation to transition services. These costs, however, relate directly to the contract, generate or enhance resources used by the entity in satisfying the performance obligation and are expected to be recovered. They were therefore capitalised as contract fulfilment assets following the adoption of IFRS 15. These assets are amortised on a straight-line basis over the term of the specific contract, which is consistent with the Group's transfer of related goods or services. As a consequence the Consolidated Balance Sheets at 30 June 2017 and 31 December 2017 were restated resulting in recognition of contract fulfilment assets amounting to £1,154,000 and £2,068,000 respectively. Retained earnings at 1 January 2017 were restated by an increase of £848,000. The Consolidated Income Statements for the six months ended 30 June 2017 and twelve months ended 31 December 2017 were restated resulting in a decrease to raw materials and consumables used of £302,000 and £1,218,000 respectively. These contract fulfilment assets have been aged accordingly.

In addition, at 30 June 2017 and 31 December 2017, £795,000 and £727,000 respectively were reallocated from other receivables to contract fulfilment assets in relation to capitalised expenses within the Brand Deployment segment to comply with the presentational requirements of IFRS 15. These contract fulfilment assets have been aged accordingly.

E Presentation of contract assets and contract liabilities
The Group has voluntarily changed the presentation of certain amounts on the face of the Consolidated Balance Sheet to reflect the terminology of IFRS 15:
- Contract assets recognised in relation to unbilled revenue were previously presented as accrued income within trade and other receivables. As a consequence the Consolidated Balance Sheets at 30 June 2017 and 31 December 2017 were restated resulting in an increase to contract assets and a decrease to other receivables of £15,681,000 and £15,707,000 respectively. These balances have been aged accordingly.
- Contract liabilities were previously presented as deferred income within trade and other payables. As a consequence the Consolidated Balance Sheets at 30 June 2017 and 31 December 2017 were restated resulting in an increase to contract liabilities and a decrease to other payables of £3,532,000 and £5,431,000 respectively. These balances have been aged accordingly.

F Impact on tax balances
Under the principles of IAS 12, the restated Consolidated Balance Sheets for 30 June 2017 and 31 December 2017 reflect a net increase in deferred tax assets arising from the recognition of contract fulfilment assets and contract liabilities in relation to transition services. The deferred tax asset has been calculated on the basis of the tax rates which are currently anticipated to be ruling at the time in which the reversal will take place. As a consequence, retained earnings at 1 January 2017 were restated by an increase of £695,000. The Consolidated Income Statements for the six months ended 30 June 2017 and twelve months ended 31 December 2017 were restated resulting in a credit to the corporation tax charge of £39,000 and £338,000 respectively. The Consolidated Balance Sheets at 30 June 2017 and 31 December 2017 were restated resulting in an increase to deferred tax assets of £39,000 and £338,000 respectively.

G Presentation and disclosure requirements
As required for the Interim Condensed Consolidated Financial Statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment in Note 3.

IFRS 9 Financial Instruments
IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The adoption of IFRS 9 did not have a material impact on the Group; therefore, no restatement of the prior years' results was required. IFRS 9 did, however, lead to changes in accounting policies (see Note 2.3), the basis of which are discussed below.

Classification and measurement
IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale. The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial instruments and derivative financial instruments. For derivatives that are used as hedging instruments, see 'hedge accounting' below.

Impairment
The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

For contract assets and trade and other receivables, the Group has applied IFRS 9's simplified approach to measuring ECLs which uses a lifetime expected loss allowance. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking estimates that are specific to the economic environment. At each reporting date, the Group updates the observed default history and forward-looking estimates in calculating the impairment provision.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. The adoption of the ECL requirements of IFRS 9 had no significant impact on the Group's Consolidated Financial Statements.

Hedge accounting
The Group applied hedge accounting prospectively. At the date of the initial application, the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. Consistent with prior periods, the Group has continued to designate the change in fair value of the interest rate swaps in the Group's cash flow hedge relationships and, as such, the adoption of the hedge accounting requirements of IFRS 9 had no significant impact on the Group's Consolidated Financial Statements.

IFRS 16 Leases
The adoption of IFRS 16 Leases is mandatory for the Group for the financial year beginning 1 January 2019 and is expected to have a material impact on the amounts reported and disclosures made in the Group's Consolidated Financial Statements. It will result in almost all leases being recognised on the Group's Consolidated Balance Sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The standard will affect primarily the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of £35,995,000. The Group has, however, not yet determined to what extent these commitments will result in the recognition of an asset and liability for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases under IFRS 16.

Notes to the Consolidated Financial Statements
for the half year ended 30 June 2018 (continued)

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

2.3 Accounting policies applied from 1 January 2018

Revenue
The Group provides integrated business services. The goods and services provided as part of this offering are sold in separately identified contracts with customers.

Under IFRS 15, revenue is recognised based on delivery of performance obligations and an assessment of when a customer obtains control of the goods or services. Determining the timing of the transfer of control, at a point in time or over time, requires a number of key judgements. In addition, the Group also exercises a number of judgements in recognising related Balance Sheet items in the period (such as contract fulfilment assets, capitalisation of costs to obtain a contract, trade receivables, contract assets and contract liabilities). The significant judgements taken are discussed in Note 2.4.

For all contracts, the Group determines if the arrangement with a customer creates enforceable rights and obligations. This assessment results in some Master Service Agreements (MSAs) not meeting the definition of a contract under IFRS 15 on their own. As such, the individual project briefs/purchase orders linked to the MSAs are treated as individual contracts.

For contracts with multiple components to be delivered such as short-term customer projects and transition services, management applies judgement to consider whether those promised goods and services are:
(i) distinct - to be accounted for as separate performance obligations;
(ii) not distinct - to be combined with other promised goods or services until a bundle is identified that is distinct; or
(iii) part of a series of distinct goods and services that are substantially the same and have the same pattern of transfer to the customer.

At contract inception the total transaction price is estimated, being the amount to which the Group expects to be entitled and has rights to under the present contract. Once the total transaction price is determined, the Group allocates this to the identified performance obligations in proportion to their relative standalone selling prices and recognises revenue when (or as) those performance obligations are satisfied.

For each performance obligation, the Group determines if revenue will be recognised over time or at a point in time. For each performance obligation to be recognised over time, the Group applies a revenue recognition method that faithfully depicts the Group's performance in transferring control of the goods or services to the customer.

The Group disaggregates revenue from contracts with customers by contract type (previously goods and services), as this best depicts how the nature, amount, timing and uncertainty of the Group's revenue and cash flows are affected by economic factors. The Group therefore now presents revenue in three categories: long-term services, short-term customer projects and transition services.

Long-term services
The Group performs a range of services across the Customer Experience segment under customer contracts with a duration, on average, of five years. The main service lines within this category are as follows:
- Transactional Print
- Inbound Servicing and Response Handling
- Security Communications

The nature of performance obligations categorised within this revenue stream is diverse; however, the general principle is that revenue is recognised over time. The Group considers that the services provided meet the definition of a series of distinct goods and services as they are: (i) substantially the same; and (ii) have the same pattern of transfer, and therefore treats the series as one performance obligation. Even if the underlying activities performed by the Group to satisfy a promise vary significantly throughout the day and from day to day, that fact, by itself, does not mean the distinct goods or services are not substantially the same. The Group measures progress towards completion and hence recognises revenue using output methods, namely units produced/delivered, as this best reflects the nature in which the Group is transferring control of the goods/services to the customer.

Short-term customer projects
The Group performs a range of services across the Customer Experience segment and Brand Deployment segment under customer contracts with project durations of typically less than one year. The main service lines within this category are as follows:
- Managed Services
- Campaign Fulfilment
- Print Sourcing
- Direct Mail
- Agency and Creative Services
- Document Design and Change

Agency projects are predominantly recognised over time using output methods, namely a combination of time elapsed and milestones, as this best reflects the nature in which the Group is transferring control of the goods/services to the customer. Campaign type work, however, is recognised at a point in time, when the performance obligation has been satisfied and control is passed to the customer.

Transition services
Transition revenue occurs within the Customer Experience segment, relating to the delivery of business process optimisation solutions and transformational services for significant new contracts secured. Revenue from transition services is assessed on a contract by contract basis to determine the number of distinct performance obligations in the contract and the point at which control is passed on to the customer. Where there is one identified performance obligation, namely the full integration of work into existing production facilities and systems, the total revenue is recognised over the term of the contract regardless of whether an advanced payment is received. Transition revenue may, however, also include payment for template design where the right to use the template is passed on to the customer. Any revenue in respect of this is recognised at a point in time when the performance obligation is satisfied and control transferred.

Contract premiums
Amounts paid to secure customer contracts are held within trade and other receivables and unwound over the life of the contract as a reduction to the transaction price.

Principal versus agent
The Group has arrangements with some of its customers whereby it needs to determine if it acts as a principal or an agent as more than one party is involved in providing the goods and services to the customer. In making this assessment the Group considers the overall performance obligation in the contract and whether the individual services provided in satisfying the performance obligation are distinct.

The Group acts as a principal if it controls a promised good or service before transferring that good or service to the customer. The Group is an agent if its role is to arrange for another entity to provide the goods or services. Other indicators considered in making this assessment are most notably the discretion the Group has in establishing the price for the specified good or service, whether the Group has inventory risk and whether the Group is primarily responsible for fulfilling the promise to deliver the service or good.

Where the Group has determined that it is acting as principal in a transaction with a customer, revenue is recorded on a gross basis. Where the Group is acting as an agent, revenue is recorded at a net amount reflecting the margin earned.

Notes to the Consolidated Financial Statements
for the half year ended 30 June 2018 (continued)

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

2.3 Accounting policies applied from 1 January 2018 (continued)

Revenue (continued)
Capitalisation of costs to obtain a contract
The Group recognises as an asset the incremental costs of obtaining a contract with a customer where those costs are expected to be recovered. Costs incurred to obtain a contract that are not incremental are expensed as incurred. Judgement is therefore applied by the Group when determining what costs qualify to be capitalised. These assets are referred to as 'contract acquisition assets' and are included as a separate class of intangible asset.

Capitalisation of contract fulfilment costs
Contract fulfilment costs are divided into: (i) costs that give rise to an asset; and (ii) costs that are expensed as incurred. When determining the appropriate accounting treatment for such costs, the Group firstly considers any other applicable standards. If those other standards preclude capitalisation of a particular cost, then an asset is not recognised under IFRS 15.

If other standards are not applicable to contract fulfilment costs, the Group applies the following criteria which, if met, result in capitalisation:
(i) the costs directly relate to a contract or to a specifically identifiable anticipated contract;
(ii) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
(iii) the costs are expected to be recovered.

Contract fulfilment assets relate directly to the Group's performance under the contract and are identified separately on the Consolidated Balance Sheet and aged accordingly. The related utilisation is shown within cost of sales to reflect its nature.

Utilisation, derecognition and impairment of capitalised costs to obtain and fulfil contracts with customers
The Group amortises capitalised costs to obtain and fulfil a contract over the expected contract period using a systematic basis that mirrors the pattern in which the Group transfers control of the service to the customer. In the absence of any known phasing a straight-line basis over the life of the contract is used as the closest proxy. If the revenue stream ceases and no further economic benefits are expected to flow from its use then the costs would be deemed as impaired and written off.

At each reporting date, the Group determines whether or not the contract acquisition assets or contract fulfilment assets are impaired by comparing the carrying amount of the asset to the remaining amount of consideration that the Group expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Group uses the same principles as it does to determine the contract transaction price.

Where there are indicators of impairment such as the relevant contracts demonstrating marginal profitability, judgement is required to determine whether or not the future economic benefits from these contracts are sufficient to recover these assets. Management is required to make an assessment of the costs to complete the contract in performing this impairment assessment. The ability to accurately forecast such costs involves estimates around cost savings to be achieved over time, anticipated profitability of the contract, as well as future performance.

Financial instruments
Financial assets and financial liabilities are recognised in the Consolidated Balance Sheet when the Group becomes party to the contractual provisions of the instrument. The Group's principal financial instruments comprise bank loans and overdrafts, cash and short-term deposits and interest rate swaps. The main purpose of these financial instruments is to raise finance for the Group's operations and to manage interest rate risk. The Group also has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

Financial assets
On initial recognition, a financial asset is classified into one of three categories: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL), based on the business model in which the financial asset is managed and its contractual cash flow characteristics. The Group's financial assets are currently all classified within IFRS 9's amortised cost model and comprise contract assets, trade and other receivables and cash and cash equivalents. The Group's financial assets are therefore initially recognised at fair value plus transaction costs that are directly attributable to their acquisition and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment. Impairment losses and any gain or loss on derecognition are recognised in the Consolidated Income Statement.

When calculating impairment provisions the Group assesses on a forward-looking basis the expected credit losses associated with its financial assets. For contract assets and trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from the initial recognition of the receivable.

Financial liabilities
On initial recognition the Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired: fair value through profit and loss (FVTPL) and amortised cost. Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at amortised cost unless the fair value option is applied. The Group's financial liabilities include borrowings and trade and other payables. They are initially measured at fair value, net of transaction costs and then subsequently measured using the amortised cost model applying the effective interest rate method.

Hedge accounting
Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge; and
- The hedge relationship meets all of the hedge effectiveness requirements including that an economic relationship exists between the hedged item and the hedging instrument and the hedge ratio is designated based on actual quantities of the hedged item and hedging instrument.

Cash flow hedges that qualify for hedge accounting
The Group uses derivative financial instruments, namely interest rate swaps, to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The fair value of interest rate swaps is calculated based on the future cash flows, discounted to present value. The cash flows are determined by the difference between the agreed fixed rate and the relevant future LIBOR rates implied at the Balance Sheet date.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement. Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as such, the gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss within finance cost at the same time as the interest expense on the hedged borrowings.

When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is formally designated and documented at its inception. This documentation identifies the risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration (including sources of ineffectiveness and how the hedge ratio is determined). Such hedges are expected to be highly effective in offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Notes to the Consolidated Financial Statements
for the half year ended 30 June 2018 (continued)

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

2.4 Significant accounting judgements and estimates
In preparing these Interim Condensed Consolidated Financial Statements, management have made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. These assumptions could have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last Annual Consolidated Financial Statements, except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 15. These are described below:

Judgements
Revenue recognition: principal or agent basis
The Group acts as principal if it controls a promised good or service before transferring that good or service to the customer. This assessment of control requires judgement, in particular in relation to certain service contracts. An example is the provision of licensing and postage services where the Group may be assessed to be agent or principal dependent upon the facts and circumstances of the arrangement and the nature of the services being delivered.

Costs to fulfil a contract
The Group recognises as an asset certain costs which are incurred in fulfilling a contract. In order to qualify for capitalisation the costs must meet the criteria outlined in IFRS 15. The assessment of this criteria requires the application of judgement, in particular when considering if costs generate or enhance resources to be used to satisfy future performance obligations and whether costs are expected to be recoverable.

3 Revenue

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	For the six months ended 30 June 2018		
	Customer Experience £000	**Brand Deployment £000**	**Total £000**
Contract type			
Long-term services	**52,314**	**-**	**52,314**
Short-term customer projects	**32,320**	**100,902**	**133,222**
Transition services	**3,105**	**-**	**3,105**
Total revenue from contracts with customers	**87,739**	**100,902**	**188,641**
Geographical markets			
United Kingdom	**87,030**	**38,252**	**125,282**
Overseas	**709**	**62,650**	**63,359**
Total revenue from contracts with customers	**87,739**	**100,902**	**188,641**
Timing of revenue recognition			
Transferred at a point in time	**22,223**	**95,927**	**118,150**
Transferred over time	**65,516**	**4,975**	**70,491**
Total revenue from contracts with customers	**87,739**	**100,902**	**188,641**

	For the six months ended 30 June 2017		
	Customer Experience £000	**Brand Deployment £000**	**Total £000**
Contract type			
Long-term services	48,238	-	48,238
Short-term customer projects	29,614	94,302	123,916
Transition services	1,330	-	1,330
Total revenue from contracts with customers	79,182	94,302	173,484
Geographical markets			
United Kingdom	78,279	38,710	116,989
Overseas	903	55,592	56,495
Total revenue from contracts with customers	79,182	94,302	173,484
Timing of revenue recognition			
Transferred at a point in time	21,182	90,102	111,284
Transferred over time	58,000	4,200	62,200
Total revenue from contracts with customers	79,182	94,302	173,484

Notes to the Consolidated Financial Statements
for the half year ended 30 June 2018 (continued)

3 Revenue (continued)

	For the twelve months ended 31 December 2017		
	Customer Experience £000	Brand Deployment £000	Total £000
Contract type			
Long-term services	100,788	-	100,788
Short-term customer projects	56,633	189,495	246,128
Transition services	3,748	-	3,748
Total revenue from contracts with customers	161,169	189,495	350,664
Geographical markets			
United Kingdom	159,522	77,752	237,274
Overseas	1,647	111,743	113,390
Total revenue from contracts with customers	161,169	189,495	350,664
Timing of revenue recognition			
Transferred at a point in time	40,690	180,596	221,286
Transferred over time	120,479	8,899	129,378
Total revenue from contracts with customers	161,169	189,495	350,664

Contract balances
The following table provides information about receivables, contract fulfilment assets, contract assets and contract liabilities from contracts with customers.

	Half year ended 30 June 2018 £000	Half year ended 30 June 2017 £000	Year ended 31 Dec 2017 £000
Receivables, which are included in 'Trade and other receivables'	**52,533**	48,180	49,951
Contract fulfilment assets	**2,566**	1,949	2,795
Contract assets	**16,205**	15,681	15,707
Contract liabilities	**10,860**	8,763	13,273

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the end of the reporting period. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer. The contract liabilities primarily relate to the advance consideration received from customers.

4 Segmental information

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

During the year there have been two changes to the previously reported segments as follows:
- The Psona and Psona Films business units (previously part of the Customer Experience segment) are being reported within the Brand Deployment segment as the trade from these businesses since the re-segmentation in 2016 has become more affiliated with the Brand Deployment segment.
- The prior year reported results have been restated to reflect the changes as a result of the transition to IFRS 15 as discussed in Note 2.

Pension scheme costs are included in the Corporate Costs segment.

The segment results for the half year ended 30 June 2018 are as follows:

	Customer Experience £000	Brand Deployment £000	Central Costs £000	Corporate Costs £000	Total £000
Revenue	**87,739**	**100,902**	**-**	**-**	**188,641**
Profit from operations before amortisation of acquired intangibles and exceptional items	**12,047**	**5,557**	**(6,761)**	**(3,147)**	**7,696**
Amortisation of acquired intangibles	**(169)**	**(178)**	**-**	**-**	**(347)**
Profit from operations before exceptional items	**11,878**	**5,379**	**(6,761)**	**(3,147)**	**7,349**
Exceptional items	**(381)**	**(475)**	**(310)**	**(978)**	**(2,144)**
Profit from operations	**11,497**	**4,904**	**(7,071)**	**(4,125)**	**5,205**

Notes to the Consolidated Financial Statements
for the half year ended 30 June 2018 (continued)

4 Segmental information (continued)

The restated and re-segmented 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	79,182	94,302	-	-	173,484
Profit from operations before amortisation of acquired intangibles and exceptional items	11,870	5,168	(6,130)	(2,658)	8,250
Amortisation of acquired intangibles	(170)	(205)	-	-	(375)
Profit from operations before exceptional items	11,700	4,963	(6,130)	(2,658)	7,875
Exceptional items	-	(1,215)	-	-	(1,215)
Profit from operations	11,700	3,748	(6,130)	(2,658)	6,660

The restated and re-segmented 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	161,169	189,495	-	-	350,664
Profit from operations before amortisation of acquired intangibles and exceptional items	22,403	14,555	(11,759)	(5,949)	19,250
Amortisation of acquired intangibles	(339)	(394)	-	-	(733)
Profit from operations before exceptional items	22,064	14,161	(11,759)	(5,949)	18,517
Exceptional items	(51)	(1,998)	(289)	286	(2,052)
Profit from operations	22,013	12,163	(12,048)	(5,663)	16,465

5 Amortisation of acquired intangibles and exceptional items

	Half year ended 30 June 2018 £000	Half year ended 30 June 2017 £000	Year ended 31 Dec 2017 £000
Profit from operations is arrived at after charging the following items:			
Exceptional restructuring costs	**420**	788	1,737
Customer relationship write off	**125**	105	170
Introduction of General Data Protection Regulation (GDPR)	**310**	-	-
Value Enhancement Programme	**1,289**	-	-
Write off of unsupported assets	**-**	383	506
Contingent consideration write off	**-**	(61)	(361)
Exceptional items	**2,144**	1,215	2,052
Non-exceptional amortisation of acquired intangibles	**347**	375	733
	2,491	1,590	2,785

During the first half of 2018 the Group incurred £420,000 in respect of organisational restructuring to reduce the cost base and deliver efficiency improvements. The restructuring costs included £350,000 relating to staff restructuring. Of the £420,000, £44,000 is unpaid at 30 June 2018.

The £125,000 customer relationship 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.

Costs totalling £310,000 have been incurred in preparing the business for the introduction of GDPR.

A further £1,289,000 has been incurred relating to the Value Enhancement Programme, being primarily professional fees incurred in support of corporate activity towards an optimal Group structure.

Notes to the Consolidated Financial Statements
for the half year ended 30 June 2018 (continued)

6 Net finance costs

	Half year ended 30 June 2018 £000	Half year ended 30 June 2017 £000	Year ended 31 Dec 2017 £000
Interest on financial assets measured at amortised cost	11	-	1
Interest on financial liabilities measured at amortised cost	(888)	(1,000)	(2,030)
Net interest from financial assets and financial liabilities not at fair value through Income Statement	(877)	(1,000)	(2,029)
Gain/(loss) on foreign currency liabilities	223	(126)	(425)
Retirement benefit related cost	(517)	(751)	(1,488)
	(1,171)	(1,877)	(3,942)

7 Income tax

The tax charge on continuing operations for the period is based upon an effective rate of 21.02% (H1 2017 23.06%). The provision for deferred tax at 30 June 2018 has been made at rates between 17% and 19% depending upon the anticipated time of reversal. This reflects the legislation included in the Finance Act 2016 reducing the rate of corporation tax to 17% from April 2020.

Impact of adoption of IFRS 15 on income tax balances
Due to the changes in assets, liabilities, income and expenses recognised as a result of the application of IFRS 15, there are consequent IAS 12 Income Taxes differences that arise and are reflected in the restated 30 June 2017 and 31 December 2017 balances.

Due to the changes in the pattern and timing of revenue recognition under IFRS 15, contract liabilities were recognised on the Consolidated Balance Sheet, which will be recognised through the Consolidated Income Statement in subsequent periods. Contract fulfilment assets were also recognised on the Consolidated Balance Sheet from 1 January 2017, which will be charged to the Consolidated Income Statement in subsequent periods.

Under the principles of IAS 12, the restated Consolidated Balance Sheet for 30 June 2017 and 31 December 2017 reflects a net increase in deferred tax assets of £734,000 and £1,033,000 respectively, arising from the recognition of contract fulfilment assets and contract liabilities as a result of the transition to IFRS 15. The deferred tax asset has been calculated on the basis of the tax rates which are currently anticipated to be ruling at the time at which the reversal will take place.

8 Earnings per share

	Half year ended 30 June 2018 £000	Half year ended 30 June 2017 (restated)* £000	Year ended 31 Dec 2017 (restated)* £000
Basic and diluted earnings per share are calculated as follows:			
Profit for the period	3,186	3,680	10,198
Weighted average number of ordinary shares (excluding treasury shares) for basic earnings per share ('000)	209,404	208,741	208,804
Effect of dilution:			
Share options	1,539	219	1,008
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution ('000)	210,943	208,960	209,812

**Restated to reflect the changes as a result of the transition to IFRS 15 (Note 2).*

204,473 (30 June 2017 584,270; 31 December 2017 441,220) shares were held in trust at 30 June 2018.

Notes to the Consolidated Financial Statements
for the half year ended 30 June 2018 (continued)

8 Earnings per share (continued)

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 as follows:

	Half year ended 30 June 2018 £000	Half year ended 30 June 2017 (restated)* £000	Year ended 31 Dec 2017 (restated)* £000
Profit after taxation from continuing operations	**3,186**	3,680	10,198
Exceptional items	**2,144**	1,215	2,052
Taxation on exceptional items	**(150)**	(247)	(461)
Amortisation of acquired intangibles	**347**	375	733
Taxation on amortisation of acquired intangibles	**(59)**	(64)	(125)
Taxation - adjustments in respect of prior years	**(150)**	-	(609)
Profit after taxation from continuing operations excluding exceptional items and amortisation of acquired intangibles	**5,318**	4,959	11,788
Adjusted earnings per share:			
Basic	**2.54p**	2.38p	5.65p
Diluted	**2.52p**	2.37p	5.62p

**Restated to reflect the changes as a result of the transition to IFRS 15 (Note 2).*

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.

9 Dividends paid and proposed

Declared and paid during the period	Half year ended 30 June 2018 £000	Half year ended 30 June 2017 £000	Year ended 31 Dec 2017 £000
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 31 December 2016 of 1.61p per share	**-**	3,362	3,362
Interim dividend for the year ended 31 December 2017 of 0.89p per share	**-**	-	1,860
Final dividend for the year ended 31 December 2017 of 1.77p per share	**3,704**	-	-
	3,704	3,362	5,222
Proposed for approval by the Board (not recognised as a liability at period end) Interim equity dividend on ordinary shares for 2018 of 0.93p (30 June 2017 interim 0.89p; 31 December 2017 final 1.77p) per share	**1,958**	1,864	3,704

Notes to the Consolidated Financial Statements
for the half year ended 30 June 2018 (continued)

10 Cash generated from operations

	Half year ended 30 June 2018 £000	Half year ended 30 June 2017 (restated)* £000	Year ended 31 Dec 2017 (restated)* £000
Continuing operations			
Profit before tax	**4,034**	4,783	12,523
Adjustments for:			
Amortisation of intangible assets arising on business acquisitions	**347**	375	733
Depreciation and amortisation	**3,334**	3,350	6,435
Utilisation of contract fulfilment assets	**490**	248	666
Exceptional items	**2,144**	1,215	2,052
Loss on sale of property, plant and equipment	**-**	113	7
Share-based payment charge	**245**	307	597
Net finance costs	**1,171**	1,877	3,942
Additional contribution to the defined benefit pension plan	**(288)**	(575)	(3,988)
Cash cost of exceptional items	**(776)**	(1,646)	(2,704)
Changes in working capital:			
(Increase)/decrease in inventories	**(751)**	337	(761)
Increase in contract fulfilment assets, trade and other receivables and contract assets	**(17,871)**	(12,004)	(15,202)
Increase in trade and other payables and contract liabilities	**17,877**	11,264	17,644
Cash generated from operations	**9,956**	9,644	21,944

**Restated to reflect the changes as a result of the transition to IFRS 15 (Note 2).*

11 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 6 to 22 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 5 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.

12 Risks and uncertainties

Communisis has a robust internal control and risk management process outlined on page 39 of the Corporate Governance Report in the 2017 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 2017 were set out in the Strategic Report on pages 19 to 21 of the 2017 Annual Report. These include the ability of the Group to adapt to market and 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, cyber risk 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'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 8 March 2018 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.

Notes to the Consolidated Financial Statements
for the half year ended 30 June 2018 (continued)

13 Additional information

General information

The information for the year ended 31 December 2017 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 2017 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 auditor reported on those Financial Statements: 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 Group has, however, made retrospective restatements during the current interim period as a result of adoption of new accounting standards. The Consolidated Balance Sheet of the Group for the preceding year (31 December 2017) presented with the Interim Financial Statements (30 June 2018) reflects the retrospective application of the new accounting principles. As the amounts differ from the amounts in the 2017 Financial Statements on which the Group's auditor previously reported, the 31 December 2017 Consolidated Balance Sheet is unaudited.

The financial information for the half year ended 30 June 2018 and for the equivalent period in 2017 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 2017 Annual Report and Financial Statements.

Pension

At 30 June 2018 the pension deficit had reduced to £32,417,000 compared with £38,217,000 at 31 December 2017. Further details regarding the reason for the reduction can be found on page 4.

Bank facilities

At 30 June 2018 the Group had a committed £65,000,000 bank loan facility in place which was due for renewal in August 2022 and an on-demand £5,000,000 overdraft facility.

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.