

COMPANY REGISTRATION NUMBER 01006371

COMMUNISIS UK LIMITED
FINANCIAL STATEMENTS
31 DECEMBER 2014

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COMMUNISIS UK LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

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COMMUNISIS UK LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

The board of directors

Mr N G Howes
Mr A M Blundell
Mr D Rushton
Mr M A Stoner

Company secretary

Mrs S L Caddy

Registered office

Communis House
Manston Lane
Leeds
England
LS15 8AH

Auditor

Ernst & Young LLP
1 Bridgewater Place
Water Lane
Leeds
LS11 5QR

COMMUNISIS UK LIMITED

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2014

The directors present their Strategic Report for the year ended 31 December 2014.

RESULTS

The turnover for the year was £269,192k (2013 £220,672k). The profit before taxation was £17,222k (2013 £8,149k).

The profit for the year after taxation was £13,719k (2013 £5,922k).

STRATEGY AND IMPLEMENTATION

What we do

Communis is a leading provider of personalised customer communication services that specialises in helping clients communicate with their customers more effectively and more profitably in fast-changing markets.

The Company has a reputation for production excellence and innovation and is trusted by many leading, consumer-facing brands to design, produce and deploy multi-channel personalised customer communications accurately, securely, reliably and at scale.

Services are focused on the integrated design, production and deployment of personalised customer communications. These communications are typically of a marketing, regulatory or transactional nature and can be distributed either on paper or in digital formats, through email, text message, mobile content or social media.

There are three operational segments supported by centrally managed service functions.

- Design segment services support brand strategies by utilising creative, data analytic and digital marketing skills to devise and implement marketing campaigns that captivate and engage customers
- Produce segment services are mostly provided under multi-year contracts and comprise the specialist, high volume and predominantly personalised printing of outgoing customer communications of an operational nature, such as direct mail, invoices, statements and chequebooks, the processing of incoming customer correspondence and the production of shareholder mailings such as AGM notices and dividend cheques
- Deploy segment services provide brand deployment support through the management of third party supply chains for the sourcing and distribution of in-store marketing collateral, mainly in overseas markets.

The Company offers a broad range of services that can be delivered either separately or in combination to make its clients' communications more targeted, efficient and more profitable. Many of these services are business critical and of operational necessity for clients thus providing a degree of stability and predictability in revenue streams irrespective of macro-economic and other market conditions.

COMMUNISIS UK LIMITED

STRATEGIC REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2014

Competitive differentiation is built on the breadth of the Company's portfolio of customer communication services, which is matched by few competitors, its market-leading technology, the depth of its embedded expertise and innovative capabilities, its closeness to clients and the strength of its leadership team. Clients can draw on the combined skills within Communisis to improve their customer experience and ensure that it is positive and consistent at every touch point.

Technology

The Company's commitment to market-leading technology is a source of competitive advantage, notably its deployment of Hewlett Packard (HP) T series high-speed digital platforms. The installed fleet of eight machines, all of which are provided under operating leases but which represent an aggregate capital value of approximately £30m, is unmatched in the UK and the largest in Europe for operational applications. The scale of the capital commitment, together with operational know-how gained over several years represent real barriers to entry.

The HP technology uses white paper rather than pre-printed base stock in the production process, thus reducing stockholding requirements and production costs. Its flexibility allows any colour image to be produced and personalised in high definition, at speed and at scale, enabling marketing messages to be superimposed on substantial volumes of operational documents. This is an emerging market that facilitates product innovation and enhances returns on clients' marketing spend through lower production and postage costs and improved response rates on promotional offers.

Other technology developments during the year included work on:

- production automation, to enable value to be driven from the HP technology investments;
- the replacement of legacy systems to improve productivity and support overseas growth;
- multi-channel document management, supporting client needs to provide a seamless customer experience regardless of channel; and
- analytics and decision-making tools that increase clients' return on investment and help them to target their customers more effectively.

Aspiration

The Company's aspiration is to be a market leader in providing personalised customer communication services both in the UK and internationally.

COMMUNISIS UK LIMITED

STRATEGIC REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2014

Strategic Initiatives

The Company's aspiration will be pursued through a number of strategic initiatives including:

- growing sales both organically and through niche acquisitions;
- extending activities to broaden and deepen the service offering;
- further diversifying the client portfolio beyond the financial services sector;
- following international clients into overseas markets;
- investing in specialist, market leading technologies; and
- continuing to optimise the direct cost and overhead base.

Improvement in margins is delivered through the combined effect of better capacity utilisation, the benefit of cost reduction programmes, synergies from acquisitions and a focus on growing volumes of higher-margin services.

Improving the capital structure and managing the exposure to the pension deficit are also priorities.

Market Dynamics

Economy

The domestic economy continued to recover in 2014, providing a welcome boost to business confidence and marketing budgets. Ongoing cost and profitability pressures, especially within the financial services sector, stimulated further outsourcing of customer communication activities, leading to new business opportunities both in the UK and overseas. However, these beneficial effects need to be weighed against the uncertainties surrounding the outcome of the UK General Election in 2015, from economic weakness in the eurozone and further afield and from the many causes of political and social unrest elsewhere in the world.

Meanwhile, recent falls in commodity prices have allowed pay rate increases to move ahead of price inflation so that there should be less immediate pressure on household budgets and consumer spending. This could be beneficial for the Company's clients as they seek to maintain or improve their own margins. Any improvement in the profitability of their customer communications should flow from better returns on their marketing spend and from improved cost effectiveness of their operational communications, both areas in which Communisis can make significant contributions.

Market Trends

The Company operates in an overall market that is attractive and fast-moving. There are growing trends toward:

- the outsourcing of outbound customer communication services;
- precision marketing through personalised communications;
- more consistent messaging in global campaigns;
- a reduction by clients in the number of their service providers with the winners being those with scale and a broad range of services; and
- client-led differentiation of creative service providers

COMMUNISIS UK LIMITED

STRATEGIC REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2014

There is an underlying volume erosion in some of the Company's more mature markets, such as those for chequebooks, but margins are maintained through tiered pricing mechanisms and adjustments to the cost base. The progressive switch from paper to digital communications is an important trend and the Company is adapting its business model accordingly. In particular Communisis aims to present innovative propositions to clients that deliver value both for them and for the Company.

There is also a growing client need to demonstrate improved returns on transactional processing and marketing spend.

In this context, the proliferation of marketing channels, the rapid expansion of "big data", the rise in demand for content marketing, a growing recognition by clients of the importance both of engaging more with their customers and of measuring, analysing and understanding their responses to marketing campaigns, are creating demand for innovative propositions and new market opportunities.

With a broad range of services and a growing reputation as a trusted supplier, Communisis is well-positioned to capitalise on these trends and gain market share.

Clients

The Company has a traditional strength in the financial services sector but has been diversifying the client portfolio in recent years. Clients now span a number of sectors and contain many leading consumer brands. They include all the major UK banks, the top ten building societies, major telecoms and media groups, utilities, global consumer goods distributors, high street retailers and supermarkets, Government departments and charities.

Financial services accounted for 53% of total revenues in 2014 (2013 45%) a percentage that increased as the new contracts in the sector, with Nationwide Building Society and LBG, became fully operational, offsetting volume erosion from the more mature products. A notable trend is the growing proportion of total revenues derived from the public sector which increased to 9% in 2014 (2013 4%).

Many of the Company's largest clients are blue-chip companies. The credit risk is perceived to be very low and there has been little bad debt history in recent years. The top five clients accounted for approximately 57% of total revenues in 2014 but with no undue concentration on any one client.

The average contract life is currently five years. Many of the contracts are for personalised, business critical communications, such as invoices, statements and chequebooks, so that moving them to other suppliers would be a complex exercise with both cost and risk implications. Consequently the Company normally expects to extend or renew them as long as demanding service levels are met, making an average contract life much longer in practice.

COMMUNISIS UK LIMITED

STRATEGIC REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2014

Clients are showing an increased willingness to enter into much longer contractual terms. This reflects the scale of the investment on both sides and a move toward the implementation of sustainable commercial models that share risk and reward. The longer contract terms are expected to lead to more embedded relationships and a continuing need for the Company to act flexibly, promoting innovative propositions for consideration and implementation.

Growth

The Company's growth strategy is generally focused on organic opportunities within existing client relationships where long-term contracts are already in place for a broad range of services. The approach to new business is highly selective where long-term contracts are available because of the extended sales lead times and the need for client culture to be aligned with that of Communisis. Two major new contracts with LBG and AXA, that will underpin revenues in the UK for many years, have been announced, either during the year or after the year-end.

Major New contracts

Lloyds Banking Group

In February 2014 the Company was awarded a further new outsourcing arrangement with LBG for the imaging and processing of incoming mail from customers. The arrangement is for an initial ten-year term with a five-year renewal option. It involved an investment of about £7.5m in working capital and mobilisation costs, approximately £3.2m of which was paid during 2014, with the balance falling due in 2015 and 2016.

Under the arrangements, Communisis is handling more than 30 million incoming customer documents annually for LBG and for all other brands within the Bank including TSB, Halifax and Scottish Widows. Documents are scanned and digitised with the content being indexed for archiving and onward distribution and processing by the Bank. Communisis is also responsible for the design and creation of operational customer-facing documents.

The arrangement brought a new service line to the Company and resulted in the acquisition of fourteen existing LBG sites in the UK, with the main operational centres being in Edinburgh, Leeds and Andover.

This outsourcing contract followed a similar award in the previous year for LBG's outgoing customer communications. Combining the outsourcing of both incoming and outgoing communications with a single strategic provider offers LBG an end-to-end service, with considerable scope for optimising customer communication, and provides the Group with a significantly expanded client relationship and substantial new capabilities and growth opportunities.

AXA UK

In February 2015, Communisis was awarded a new six-year contract with AXA for the provision of incoming and outgoing marketing and operational customer communication services including creative, print, digital and postal distribution and document management services. The contract covers all AXA's UK brands including SunLife, Wealth, Insurance and PPP healthcare.

COMMUNISIS UK LIMITED

STRATEGIC REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2014

Under the outsourcing arrangements, the Group will assume responsibility for a number of AXA's existing UK inbound and print centres including those at Lytham St Anne's, Ipswich, Bristol and Basingstoke with around 115 staff transferring to Communisis under TUPE regulations.

Acquisitions

On 30 June 2014 the beneficial title to the shares in Communisis Digital Limited (formerly Kieon Limited) were transferred to Communisis UK Limited from another Group company.

Operational excellence

The Company made a substantial commitment to the development of a second transactional centre of excellence within LBG's facility at Copley, West Yorkshire to mirror that at Liverpool, and to allow the transfer of production from, and the closure of, the other LBG transactional site at Crawley. Net capital expenditure during the year has consequently been higher than normal at £14.2m of which £3m was provided under finance leases. Of this £14.2m, £9.2m relates to Copley, including £3m of capital equipment purchased from LBG. Additional expenditure of £1.4m to complete the facility will be incurred in 2015. Two market-leading HP T400 and one T300 high-speed colour digital platforms were also commissioned as part of this overall investment in Copley, all under operating leases.

FINANCIAL KEY PERFORMANCE INDICATORS

Profit measures

Profit after taxation is calculated after all exceptional items and taxation.

Profit from operations before exceptional items is calculated by excluding material and infrequently occurring gains and losses.

NON-FINANCIAL KEY PERFORMANCE INDICATORS

Health and safety measures

Accident incidence rate is the total number of accidents reported in the year.

KEY PERFORMANCE INDICATORS

	2014	2013
FINANCIAL		
Profit after taxation (£000s)	13,719	5,922
Profit from operations before exceptional items (£000's)	21,689	12,403
Sales to financial services clients (%)	53	45
NON-FINANCIAL		
Accident incident rate	105	82

COMMUNISIS UK LIMITED

STRATEGIC REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2014

RISKS AND UNCERTAINTIES

The principal risk and uncertainties facing the business are taken directly from the risk registers and are detailed below. The Company 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.

Risk Area	Commentary	Mitigating Actions and Management
<i>The Company must be able to respond to market and technological change</i>	<p>The Company is a provider of marketing services to businesses, which in turn supply goods and services to consumers.</p> <p>Faster communication systems, increasing physical mobility and enhanced access to information have combined and are reshaping the way in which communication messages are used. Clients' and their consumer's progressive adoption of diverse digital formats and channels may therefore impact Company strategy and market demand for products and services.</p> <p>This may also result in a risk that the systems and equipment utilised by the Company could be superseded earlier than anticipated by management.</p>	<ul style="list-style-type: none"> Continued investment in technology and new services maintains and enhances the Company's competitive position. Specific teams have been introduced within the business to lead Change and Innovation. The Company is committed to developing or procuring new types of technology in order to be able to provide the latest services to clients and therefore maintain its competitive position.
<i>Deterioration in the economic environment may decrease profitability</i>	<p>There is a risk that macro-economic issues may quickly and detrimentally affect consumer expenditure, which could impact the trading performance of the Company's clients and reduce their discretionary market spend with Communisis. This could potentially result in lower sales and profitability for the Company.</p>	<ul style="list-style-type: none"> Market trends are monitored and factored into the Company's business planning, budgeting and management processes. Volume erosion protection is included in contract terms where possible.
<i>Clients rely upon proven resilient business operations</i>	<p>The Company's operations depend upon the uninterrupted delivery of products and services that rely on complex computer networks and systems.</p> <p>There is a risk that the Company may face a significant Business Continuity incident that will materially affect its ability to deliver products or services to its clients.</p>	<ul style="list-style-type: none"> A Business Continuity Management (BCM) System and BCM plans are in place and audited by clients for core areas of the Company

COMMUNISIS UK LIMITED

STRATEGIC REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2014

Risk Area	Commentary	Mitigating Actions and Management
<i>Safeguarding of data</i>	<p>The Company processes personal and sensitive data on behalf of clients as part of its core services.</p> <p>The risks are that:</p> <ul style="list-style-type: none"> • A failure to maintain a secure and fully functional IT infrastructure could result in an inability to meet contractual service obligations; and • The confidentiality, integrity and availability of information processed by the Company could be compromised by human error, systems failure, equipment malfunction or deliberate unauthorised action, any of which could result in reputational damage and financial loss. 	<ul style="list-style-type: none"> • 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. • Processes to deal with Cloud Computing assessment and risk management have been implemented. • Core areas of the Company are subject to Certification including ISO/IEC 27001.
<i>Talent and skills shortage</i>	<p>If it fails to deliver succession planning and motivation this will affect the Company's ability to deliver effective business strategy.</p> <p>Without learning and development resource there is also risk that the Company will be unable to develop and retain employees that have the necessary skills to support operations, essential policy, procedures and legislation.</p>	<ul style="list-style-type: none"> • The Company actively monitors senior leadership to ensure that motivation is maintained, that succession plans are in place and that it is applied to the relevant team members. • To motivate and support senior leadership the Group to which the Company belongs will again be holding a Leadership conference in 2015. • To support the need for appropriately skilled staff the Company has a policy and procedures in place for training and development. Business operational expansion and acquisitions also help to ensure that the Company has the right skills.
<i>Existing client concentration may mean that the loss of a major client could materially decrease sales</i>	<p>A substantial percentage of the Company's revenues are derived from a relatively small number of clients and therefore the loss of one or more of these clients could have a material impact on the Company's sales. This could result in a material decrease in profitability whilst new contracts are sought and excess capacity reduced.</p> <p>In the year ended 31 December 2014 the top five clients of the Company accounted for approximately 57 per cent of sales.</p>	<ul style="list-style-type: none"> • A strategic account management programme operates to preserve client relationships, monitor compliance with service level agreements and expand the services offered to key clients. • Business development activities continue to promote the Company'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 are developed.

COMMUNISIS UK LIMITED

STRATEGIC REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2014

Risk Area	Commentary	Mitigating Actions and Management
<i>Due to high operational gearing, a reduction in revenues could significantly impact profitability</i>	<p>The risks are that the Company will not:</p> <ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> The Company's cost base is regularly reviewed and aligned with projected demand to avoid margin erosion. Sufficient financing facilities are arranged with a reasonable degree of headroom over projected funding requirements. Client credit is closely monitored and controlled to minimise the amount of overdue debt. Credit insurance is obtained against larger non-financial services sector debts. Working capital and capital expenditure are actively managed to ensure that banking covenants are not breached.
<i>A change in pension scheme assumptions could increase the pension deficit</i>	<p>The risk 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 Company's ability to expand the business through continued investment or to pay dividends to shareholders.</p>	<ul style="list-style-type: none"> The Company 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.
<i>Potential lease liabilities from past disposals could result in high cash costs to the Company</i>	<p>The Company has contingent liabilities arising from lease commitment guarantees on past corporate disposals.</p> <p>The principal risk is that current leasehold occupants will become insolvent and that guarantees will be called, resulting in a material cash cost to the Company.</p>	<ul style="list-style-type: none"> The financial status of the leasehold occupants is monitored on a regular basis. Action will be taken to minimise the cost to the Company when default is anticipated. Break clauses are reviewed and exercised where possible.
<i>The Company continues to pursue international expansion</i>	<p>The Company now operates in 14 countries outside the UK. International exposure to geo-political volatility and social instability may put the Company operations at risk.</p>	<ul style="list-style-type: none"> The Company has implemented a Work Stream Forum team that specifically deals with management of operations that are carried out in territories outside the UK. A country Risk Assessment process is in the early stages of development.

Signed on behalf of the directors



Mr A M Blundell

Director

Approved by the directors on 22 June 2015

COMMUNISIS UK LIMITED

DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2014

The directors present their report and the financial statements of the Company for the year ended 31 December 2014.

FUTURE DEVELOPMENTS

The Company is expected to trade on the same basis for the foreseeable future in line with the Company's strategic initiatives as set out in the Strategic Report on page 4.

DIVIDENDS

Dividends paid during the year amounted to £5,000,000 (2013 £nil).

DIRECTORS

The directors who served the company during the year were as follows:

Mr N G Howes

Mr A M Blundell

Mr D Rushton

Mr M A Stoner (Appointed 16 September 2014)

Mr D Connery resigned as Company Secretary on 12 May 2014.

DIRECTORS' INDEMNITY INSURANCE

Communis plc has granted an indemnity to each of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity remains in force as at the date of approving the Directors' Report. The indemnity is controlled and paid centrally by the ultimate parent company.

GOING CONCERN

As at 31 December 2014 the Company had net current liabilities of £35,792k (2013 £39,884k) of which £38,953k is payable to other Group companies. The Accounts have been prepared on the going concern basis as the ultimate parent company, Communis plc, has agreed to provide financial support to the Company for the foreseeable future.

EMPLOYEES

The Company is an equal opportunity employer and maintained accreditation to the Commitment to Equality standard throughout 2014. As part of our ongoing commitment to equality and diversity there has been a focus on educating our employees on their responsibilities under the Equality Act 2010 and this has been supported by the roll-out of revised Company policies that promote and support equal opportunities.

The Company gives full consideration to the applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

COMMUNISIS UK LIMITED

DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2014

Where existing employees become disabled, it is the Company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

The Company keeps all employees informed about matters affecting them, through consultation and information on the general financial and economic factors affecting the Company's performance. We use several types of employee communications such as weekly and monthly briefings, employee newsletters, roadshows, staff notice boards, intranet and regular e-mails to all employees. Any employees without access to the internet or e-mail are provided with copies of these communications.

The Communisis Information and Consultation Forum has been in place for the last six years. Business units elect forum members, who attend update meetings with the Chief Executive, Andy Blundell.

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

COMMUNISIS UK LIMITED

DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2014

STRATEGIC REPORT

The Companies Act 2006 requires us to present a fair review of the business during the year to 31 December 2014 and of the position of the Company at the end of the financial period along with a description of the principal risks and uncertainties faced. The Strategic Report can be found on pages 2 to 10.

AUDITOR

Ernst & Young LLP have been re-appointed as auditor for the ensuing year in accordance with section 485 of the Companies Act 2006.

Each of the persons who is a director at the date of approval of this report confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- each director has taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Registered office:
Communis House
Manston Lane
Leeds
England
LS15 8AH

Signed on behalf of the directors

Mrs S L Caddy

Company Secretary



Approved by the directors on 24th June 2015

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF COMMUNISIS UK LIMITED

We have audited the financial statements of Communisis UK Limited for the year ended 31 December 2014 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Reconciliation of Shareholders' Funds, Balance Sheet and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF COMMUNISIS
UK LIMITED** *(continued)*

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

CHRISTABEL COWLING (Senior Statutory Auditor)

For and on behalf of ERNST & YOUNG LLP, Statutory Auditor

Leeds

26-6-15

COMMUNISIS UK LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2014

	Note	2014 £000	2013 £000
TURNOVER	2	269,192	220,672
Cost of sales		<u>(137,913)</u>	<u>(116,240)</u>
GROSS PROFIT		131,279	104,432
Administrative expenses		(115,585)	(95,634)
Other operating income	3	<u>3,000</u>	<u>-</u>
OPERATING PROFIT	4	18,694	8,798
Attributable to:			
Operating profit before exceptional items		21,686	12,403
Exceptional items	4	<u>(2,992)</u>	<u>(3,605)</u>
		18,694	8,798
Amounts written off investments	7	(13)	-
Interest payable and similar charges	8	(1,213)	(831)
Other finance (costs)/income	9	<u>(246)</u>	<u>182</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		17,222	8,149
Tax on profit on ordinary activities	10	<u>(3,503)</u>	<u>(2,227)</u>
PROFIT FOR THE FINANCIAL YEAR		13,719	5,922

All of the activities of the company are classed as continuing.

The notes on pages 19 to 43 form part of these financial statements.

COMMUNISIS UK LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

YEAR ENDED 31 DECEMBER 2014

	2014 £000	2013 £000
Profit for the financial year		
attributable to the shareholders	13,719	5,922
Actuarial loss in respect of defined benefit pension scheme	(11,456)	(7,440)
Dividends paid	(5,000)	-
Movement on deferred tax relating to pension liability	2,291	866
Total losses recognised since the last annual report	<u>(446)</u>	<u>(652)</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2014 £000	2013 £000
Profit for the financial year	13,719	5,922
Equity dividends	(5,000)	-
Actuarial loss in respect of defined benefit pension scheme	(11,456)	(7,440)
Movement on deferred tax relating to pension liability	2,291	866
Net reduction to shareholders' funds	<u>(446)</u>	<u>(652)</u>
Opening shareholders' funds	5,583	6,235
Closing shareholders' funds	<u>5,137</u>	<u>5,583</u>

The notes on pages 19 to 43 form part of these financial statements.

COMMUNISIS UK LIMITED

BALANCE SHEET

31 DECEMBER 2014

	Note	2014 £000	2013 £000
FIXED ASSETS			
Intangible assets	12	16,460	13,769
Tangible assets	13	34,090	27,984
Investments	14	19,491	18,546
		<u>70,041</u>	<u>60,299</u>
CURRENT ASSETS			
Stocks	15	7,640	8,930
Debtors due within one year	16	51,100	48,918
Debtors due after one year	16	248	27
Cash at bank		13,697	4,738
		<u>72,685</u>	<u>62,613</u>
CREDITORS: Amounts falling due within one year	18	(108,477)	(102,497)
NET CURRENT LIABILITIES		<u>(35,792)</u>	<u>(39,884)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>32,249</u>	<u>20,415</u>
CREDITORS: Amounts falling due after more than one year	19	(4,258)	-
NET ASSETS EXCLUDING PENSION LIABILITY		<u>29,991</u>	<u>20,415</u>
Defined benefit pension scheme liability	22	(24,854)	(14,832)
NET ASSETS INCLUDING PENSION LIABILITY		<u>5,137</u>	<u>5,583</u>
CAPITAL AND RESERVES			
Called-up equity share capital	26	200	200
Profit and loss account	27	4,937	5,383
SHAREHOLDERS' FUNDS		<u>5,137</u>	<u>5,583</u>

These accounts were approved by the directors and authorised for issue on 22 June 2015 and are signed on their behalf by:



Mr A M Blundell

Director

Company Registration Number: 01006371

The notes on pages 19 to 43 form part of these financial statements.

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom law and accounting standards. The accounting policies of the Company have been consistently applied over both the current and preceding year. The Company has prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

These Accounts comprise the Accounts of Communisis UK Limited including all its UK divisions as at 31 December each year. The results of divisions prepared for the same reporting year as the Company are included in these Accounts, using consistent accounting policies. All intra-Company balances and transactions, including unrealised profits arising from intra-Company transactions, have been eliminated in full.

Businesses are included from the date on which control is transferred to the Company and cease to be included from the date on which control is transferred out of the Company. Where there is a change of control of a business, the Accounts include the results for the part of the reporting year during which Communisis UK Limited has control.

Judgment is taken as to whether a transaction including outsourcing represents a business combination on a case by case basis. In particular, a business is considered to be an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors. Consideration is given to whether the transaction includes employees, processes, and goodwill.

The accounts present information about the Company as an individual undertaking and not about its group, as the company has taken advantage of the exemption provided by section 400 of the Companies Act 2006 not to prepare consolidated financial statements as it is included by full consolidation in the consolidated financial statements of the largest UK group, Communisis plc, a company incorporated in England and Wales.

Going Concern

As at 31 December 2014 the Company had net current liabilities of £35,792k (2013 £39,884k) of which £38,953 is payable to other Group companies. The Accounts have been prepared on the going concern basis as the ultimate parent company, Communisis plc, has agreed to provide financial support to the Company for the foreseeable future.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes a consolidated cash flow statement.

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

1. ACCOUNTING POLICIES *(continued)*

Turnover

Revenue is recognised at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably; this is usually on dispatch by the Company.

Provision of services

The provision of print sourcing services includes the sourcing and supply of printed and other marketing material. Revenue from such services is recognised when the significant risks and rewards of ownership of the printed material have passed to the customer and the amount of revenue can be measured reliably; this is usually on despatch by the supplier.

Revenue from Creative, Data & Analysis services is recognised when the service has been provided and customer acknowledgement of completion has been received. Revenue from Campaign Management services is recognised when the services has been provided under the terms of the contract, on a time basis which is either a monthly or annual charge, or on a management fee basis.

Revenue from Postal Sortation services is recognised on despatch of the post to the postal carrier.

Revenue from software licences is recognised over the period of the license.

Revenue from delivery of customer projects is recognised by reference to the stage of completion. Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each project. Where the project outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Goodwill

Positive goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight-line basis over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. If a business is subsequently sold or closed, any goodwill arising on acquisition that has not been amortised through the Profit and Loss Account is taken into account in determining the profit or loss on sale or closure.

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

1. ACCOUNTING POLICIES *(continued)*

Customer relationships

Amounts paid to secure customer contracts are capitalised and amortised over the length of the contract. An impairment review is carried out when events or changes in circumstances indicate that the carrying value may not be recoverable.

Amortisation

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Goodwill - 20 years

Fixed assets

Tangible fixed assets are stated at cost, less accumulated depreciation and any provision for impairment.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Freehold Property - 25 or 55 years
Leasehold Property - 10 to 50 years
Plant & Machinery - 4 to 20 years

Freehold land is not depreciated.

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks

Finished goods and work in progress are stated at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Work in progress

Raw materials are stated at purchase cost on a first-in, first-out basis. For finished goods and work-in-progress, costs include directly attributable material and labour costs and certain overhead costs that contribute in bringing the stock to their present location and condition. Selling expenses and other administrative overhead expenses are excluded.

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

1. ACCOUNTING POLICIES *(continued)*

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts, are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Pension costs and other post-retirement benefits

The company operates defined contribution and defined benefit pension plans.

Payments to defined contribution pension plans are charged as an expense to the Profit and Loss Account as incurred when the related employee service is rendered. The Company has no further legal or constructive payment obligations once the contributions have been made.

The defined benefit pension plan is a Company scheme. The Company's share of the costs and deficit of the scheme has been allocated on a consistent basis.

For the defined benefit pension plan, the cost of providing benefits is determined using the Projected Unit Method and the service cost relating to the benefit earned in the period is recognised in staff costs in the Profit and Loss Account. An interest cost representing the unwinding of the discount rate on the scheme's liabilities, net of the expected return on scheme assets, is charged to the Profit and Loss Account. The liability recognised in the Balance Sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets net of deferred tax. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of AA rated corporate bonds that have terms of maturity approximating to the terms of the relevant pension liability.

All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognised immediately in the Statement of Total Recognised Gains and Losses.

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

1. ACCOUNTING POLICIES *(continued)*

Provisions for liabilities

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation, but there is some uncertainty about the timing of the future expenditure required in settlement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Deferred taxation

Deferred tax is recognised as a liability or asset in respect of all timing differences that have originated but not reversed if the transactions or events that give rise to an obligation to pay more tax in future, or a right to pay less tax in future, have occurred by the balance sheet date. Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Share-based payments

Certain directors and management are eligible to participate in share-based payment schemes all of which are equity settled.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using an appropriate model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of Communisis plc ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity shown, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest, based on the achievement or otherwise on non market based performance conditions.

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

1. ACCOUNTING POLICIES *(continued)*

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The Company has taken advantage of the transitional provisions of FRS 20 'Share-based payments' in respect of equity-settled awards and has applied FRS 20 only to equity-settled awards granted after 7 November 2002 that had not vested on or before 31 December 2004.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the Profit and Loss Account for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the Profit and Loss Account.

Where an equity-settled award is forfeited, the total cost recognised in the Profit and Loss Account to date for the award is reversed.

Financial instruments

The directors have taken advantage of the exemption in FRS 25 'Financial Instruments: Disclosure and Presentation' and have excluded disclosures relating to financial instruments from the Accounts on the basis that the financial instruments of the Company are disclosed in the Consolidated Accounts of the Group.

Segmental reporting

The Company has taken up the exemption available under SSAP 25 'Segmental Reporting' from providing such disclosures, as these disclosures are provided by Communisis plc, its parent undertaking.

Fixed asset investments

Fixed asset investments are shown at cost less provision for impairment.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Profit and Loss Account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Borrowing costs are expensed as incurred.

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

1. ACCOUNTING POLICIES *(continued)*

Dividend recognition

The Company recognise final dividends on approval by the Board of Directors.

Exceptionals

The Company presents separately, on the face of the Profit and Loss Account, those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year. This facilitates comparison with prior periods and to better assess trends in financial performance.

2. TURNOVER

The turnover and profit before tax are attributable to the principal activities of the company, being the design, production and deployment of personalised customer communication.

An analysis of turnover is given below:

	2014 £000	2013 £000
United Kingdom	262,000	211,835
Overseas	7,192	8,837
	<u>269,192</u>	<u>220,672</u>

3. OTHER OPERATING INCOME

	2014 £000	2013 £000
Dividend income	<u>3,000</u>	<u>-</u>

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

4. OPERATING PROFIT

Operating profit is stated after charging / (crediting):

	2014	2013
	£000	£000
Amortisation of intangible assets	3,809	2,795
Depreciation of owned fixed assets	6,280	5,350
Depreciation of assets held under hire purchase agreements	877	511
Profit on disposal of fixed assets	(15)	-
Operating lease costs:		
- Plant and equipment	6,683	3,976
- Land and Buildings	2,314	2,044
Auditor's remuneration	133	127
Exceptional restructuring costs	2,963	3,500
Exceptional acquisition and set up costs	<u>29</u>	<u>105</u>

During 2014 the Company incurred £2,963,000 (2013 £3,500,000) in respect of organisational restructuring which included further costs in relation to the closure of the Company's cheque production facility at Trafford Wharf. Of the £2,963,000, £527,000 is unpaid at 31 December 2014.

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

	2014	2013
	£000	£000
Auditor's remuneration - audit of the financial statements	<u>133</u>	<u>127</u>

The company is exempt from giving the disclosures of non-audit remuneration which would otherwise be required by regulation 5(1)(b) of The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 ('the Regulations') as it is included in the group financial statements of its parent, Communisis plc which are required to comply with regulation 6(1) of the Regulations.

5. PARTICULARS OF EMPLOYEES

The average number of staff employed by the company during the financial year amounted to:

	2014	2013
	No	No
Number of production staff	1,212	754
Number of administrative staff	<u>634</u>	<u>713</u>
	<u>1,846</u>	<u>1,467</u>

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

5. PARTICULARS OF EMPLOYEES *(continued)*

The aggregate payroll costs of the above were:

	2014	2013
	£000	£000
Wages and salaries	63,331	48,896
Social security costs	5,398	5,802
Other pension costs	2,531	1,622
Equity-settled share-based payments	323	192
Exceptional restructuring costs	2,963	3,500
	<u>74,546</u>	<u>60,012</u>

Other pension costs are amounts charged to operating profit and do not include amounts credited to finance income and charged to finance costs (see note 8), and amounts recognised in the statement of recognised gains and losses.

6. DIRECTORS' REMUNERATION

The total emoluments of the directors of the Company (including those paid through other Group Companies) were as follows:

	2014	2013
	£000	£000
Remuneration receivable	<u>1,602</u>	<u>1,592</u>

Remuneration of highest paid director:

	2014	2013
	£000	£000
Total remuneration	<u>599</u>	<u>625</u>

None of the directors exercised share options during the year ended 31 December 2014 (2013 three). None of the directors had benefits accruing under the Group's personal pension schemes during the period ended 31 December 2014 (2013 none).

It is not practicable to apportion the emoluments of the directors amongst subsidiary entities in relation to their qualifying services provided.

7. AMOUNTS WRITTEN OFF INVESTMENTS

	2014	2013
	£000	£000
Amounts written off investments	<u>13</u>	<u>-</u>

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2014	2013
	£000	£000
(Gain)/loss on foreign currency financial liabilities	320	(23)
Finance charges	92	81
Interest on other loans	60	1
Other retirement benefit related costs	741	772
	<u>1,213</u>	<u>831</u>

9. OTHER FINANCE (COSTS)/INCOME

	2014	2013
	£000	£000
Expected return on pension scheme assets	<u>(246)</u>	<u>182</u>

10. TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of charge in the year

	2014	2013
	£000	£000
Current tax:		
In respect of the year:		
UK Corporation tax based on the results for the year at 21.50% (2013 23.25%)	2,916	1,508
Total current tax	<u>2,916</u>	<u>1,508</u>
Deferred tax:		
Origination and reversal of timing differences	587	719
Tax on profit on ordinary activities	<u>3,503</u>	<u>2,227</u>

The tax credit included in the above charge which is attributable to exceptional items is:

	2014	2013
	£000	£000
Tax credit on exceptional items	(647)	(817)

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

10. TAXATION ON ORDINARY ACTIVITIES *(continued)*

(b) Tax included in statement of total recognised gains and losses

The tax relating to items charged or credited to equity is as follows:

	2014 £000	2013 £000
Deferred tax relating to the Actuarial gains on pension scheme	(2,291)	(1,446)
Adjustment in respect of prior periods - due to change in tax rate	-	580
	<u>(2,291)</u>	<u>(866)</u>

(c) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 21.50% (2013 23.25%).

	2014 £000	2013 £000
Profit on ordinary activities before taxation	<u>17,222</u>	<u>8,149</u>
Profit on ordinary activities by rate of tax	3,703	1,895
Expenses not deductible for tax purposes (including ineligible depreciation)	316	341
Depreciation for period in excess of capital allowances	67	(50)
Adjustments to tax charge in respect of previous periods	-	(97)
Other timing differences	3	5
Tax arising on share based payments	69	51
Special contributions made to pension plan	(597)	(637)
Sundry tax adjusting items	(645)	-
Total current tax (note 9(a))	<u>2,916</u>	<u>1,508</u>

11. DIVIDENDS

Equity dividends

	2014 £000	2013 £000
Paid during the year:		
Dividends on equity shares	<u>5,000</u>	<u>-</u>

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

12. INTANGIBLE FIXED ASSETS

	Goodwill £000	Customer Relationships £000	Total £000
COST			
At 1 January 2014	8,112	15,296	23,408
Additions	-	6,500	6,500
At 31 December 2014	8,112	21,796	29,908
AMORTISATION			
At 1 January 2014	6,826	2,813	9,639
Charge for the year	850	2,959	3,809
At 31 December 2014	7,676	5,772	13,448
NET BOOK VALUE			
At 31 December 2014	436	16,024	16,460
At 31 December 2013	1,286	12,483	13,769

13. TANGIBLE FIXED ASSETS

	Freehold Property £000	Leasehold Property £000	Plant & Machinery £000	Total £000
COST				
At 1 January 2014	9,498	2,451	91,200	103,149
Additions	9	209	13,047	13,265
Disposals	-	(283)	(14,326)	(14,609)
At 31 December 2014	9,507	2,377	89,921	101,805
DEPRECIATION				
At 1 January 2014	3,999	806	70,360	75,165
Charge for the year	281	115	6,761	7,157
On disposals	-	(282)	(14,325)	(14,607)
At 31 December 2014	4,280	639	62,796	67,715
NET BOOK VALUE				
At 31 December 2014	5,227	1,738	27,125	34,090
At 31 December 2013	5,499	1,645	20,840	27,984

Hire purchase agreements

Included within the net book value of £34,090,000 is £388,000 (2013 £1,272,000) relating to assets held under hire purchase agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £877,000 (2013 £511,000).

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

14. INVESTMENTS

	Investments in subsidiaries £000
COST	
At 1 January 2014	18,682
Additions	958
At 31 December 2014	<u>19,640</u>
AMOUNTS WRITTEN OFF	
At 1 January 2014	136
Written off in year	13
At 31 December 2014	<u>149</u>
NET BOOK VALUE	
At 31 December 2014	<u>19,491</u>
At 31 December 2013	<u>18,546</u>

On 30 June 2014 the beneficial title to the shares in Communisis Digital Limited were transferred to Communisis UK Limited from another Group company.

The Company's main, directly held subsidiaries at 31 December 2014 were:

	% Shareholding 2014	% Shareholding 2013
Communisis Ireland Limited	100	100
Communisis Data Intelligence Limited	100	100
Editions Publishing Limited	100	100
Communisis Digital Limited	100	-

The above Companies were all incorporated in England.

The company has taken advantage of section 410(2) of the Companies Act 2006 to list only its principal subsidiary undertakings.

15. STOCKS

	2014 £000	2013 £000
Raw materials	1,879	4,834
Work in progress	4,689	2,691
Finished goods	1,072	1,405
	<u>7,640</u>	<u>8,930</u>

The directors consider that the difference between the replacement cost of stocks and the amounts included in the accounts is not material.

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

16. DEBTORS

	2014	2013
	£000	£000
Trade debtors	27,020	26,440
Amounts owed by group undertakings	435	68
Corporation tax repayable	3,519	3,200
Other debtors	898	1,384
Prepayments and accrued income	14,023	14,104
Deferred taxation (note 17)	5,453	3,749
	<u>51,348</u>	<u>48,945</u>

The debtors above include the following amounts falling due after more than one year:

	2014	2013
	£000	£000
Prepayments and accrued income	<u>248</u>	<u>27</u>

17. DEFERRED TAXATION

The deferred tax included in the Balance sheet is as follows:

	2014	2013
	£000	£000
Included in debtors (note 16)	<u>5,453</u>	<u>3,749</u>

The movement in the deferred taxation account during the year was:

	2014	2013
	£000	£000
Balance brought forward	3,749	3,602
Profit and loss account movement arising during the year	(587)	(719)
Statement of total recognised gains and losses movement arising during the year	<u>2,291</u>	<u>866</u>
Balance carried forward	<u>5,453</u>	<u>3,749</u>

The balance of the deferred taxation account consists of the tax effect of timing differences in respect of:

	2014	2013
	£000	£000
Excess of depreciation over taxation allowances	170	156
Tax losses available	115	112
Deferred tax asset offset against actuarial deficit	5,134	3,442
Other timing differences	<u>34</u>	<u>39</u>
	<u>5,453</u>	<u>3,749</u>

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

18. CREDITORS: Amounts falling due within one year

	2014	2013
	£000	£000
Overdrafts	1,998	10,273
Trade creditors	33,413	35,506
Amounts owed to group undertakings	39,313	25,325
Other taxation and social security	2,388	1,229
Hire purchase agreements	730	847
Other creditors	15,071	15,639
Accruals and deferred income	15,564	13,678
	<u>108,477</u>	<u>102,497</u>

19. CREDITORS: Amounts falling due after more than one year

	2014	2013
	£000	£000
Hire purchase agreements	2,128	-
Other creditors	2,130	-
	<u>4,258</u>	<u>-</u>

20. COMMITMENTS UNDER HIRE PURCHASE AGREEMENTS

The Company entered into hire purchase contracts for various items of plant and machinery with a purchase option at the end of the lease term, for a nominal fee. Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

	2014	2014	2013	2013
	Minimum	Present	Minimum	Present
	lease	value of	lease	value of
	payments	payments	payments	payments
	£000	£000	£000	£000
Within one year	838	730	705	677
Between two and five years	<u>2,288</u>	<u>2,128</u>	<u>173</u>	<u>170</u>
Total minimum lease payments	3,126	2,858	878	847
Less amounts representing finance charges	<u>(268)</u>	<u>-</u>	<u>(31)</u>	<u>-</u>
Present value of minimum lease payments	<u>2,858</u>	<u>2,858</u>	<u>847</u>	<u>847</u>

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

21. SHARE-BASED PAYMENTS

The Communisis Long Term Incentive Plan 2007

Certain directors and managers are eligible to participate in this plan at the discretion of the Remuneration Committee. The exercise price in respect of options granted under the scheme is £nil.

For all options granted up to 31 December 2009, up to 50% of the options vest if the Total Shareholder Return ("TSR") of the Company, as compared to the TSR performance of all companies in the Support Services sector of the FTSE All Share Index (excluding FTSE 100 companies), is at or above the median level over a three-year period. The other 50% of the options may vest if the TSR of the Company, as compared to the TSR performance of all companies in the FTSE Small Cap Index (excluding investment trusts), is at or above the median level over a three-year period. 30% of each tranche of options will vest for performance at the median of the comparator group rising, on a straight-line basis, to 100% vesting for performance in the top decile of the comparator group. If the performance conditions are not fulfilled within the three-year period from the date of grant, the options lapse. The contractual life of each option granted is five years. There are no cash settlement alternatives.

For options granted under this scheme in 2010, the options will vest if the share price of the Company attains certain thresholds measured by reference to a rolling three month average at any time within three years of the date of award. If the share price increases to 30p 10% of the options vest, at 50p 30% vest, at a share price of 70p 60% will vest and 100% vesting will be attained if the share price exceeds 90p.

For the options granted under this scheme in 2011, no options will vest unless the three month rolling average share price increases to more than 32.742p. At 50p 19.78% of the awards will vest, at a share price of 70p 52.78% will vest and 100% vesting will be attained if the share price exceeds 90p. For the options granted in 2010 and 2011 vesting occurs on a straight-line pro rata basis between the thresholds outlined above.

No vested shares arising under the grants made in 2010 or 2011 can be released before the third anniversary of the award date and no vested shares will be released for at least two years after the attainment of the threshold.

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

21. SHARE-BASED PAYMENTS *(continued)*

For options granted under this scheme in 2013 a maximum of 60% of the options will vest on the attainment of certain share price thresholds and the remaining 40% will vest on the attainment of Return on Sales targets in the year ended 31 December 2015. The share price measure is calculated by reference to the average share price in the final three months of the three year performance period in comparison with the average share price in the three months immediately preceding grant ("Base Share Price"). If the closing average share price is 10p above the Base Share Price 25% of this tranche of options will vest; if the closing average share price exceeds 90p 100% of this tranche will vest; for attainment between these thresholds vesting will occur on a straight-line pro rata basis. The Return on Sales performance will be measured as the profit from operations before exceptional items as a percentage of total revenue excluding pass through revenue for the Group in the year ended 31 December 2015. If the return on sales reaches 7.5% 25% of this tranche of options will vest increasing to 100% vesting if the measure exceeds 10%; for attainment between these thresholds vesting will occur on a straight-line pro rata basis.

For options granted under this scheme in 2014 a maximum of 60% of the options will vest on the attainment of certain share price thresholds and the remaining 40% will vest on the attainment of growth in earnings per share over the financial years 2014-16. The share price measure is calculated by reference to the average share price in the final three months of the three year performance period in comparison with the average share price in the three months immediately preceding grant ("Base Share Price"). If the closing average share price is 10p above the Base Share Price 25% of this tranche of options will vest; if the closing average share price exceeds 105p 100% of this tranche will vest; for attainment between these thresholds vesting will occur on a straight-line pro rata basis. The Earnings per Share performance will be measured on the basis of Adjusted Basic Earnings per Share (being earnings per share from continuing operations before exceptional items and amortisation of acquired intangible assets and the tax effect of these items). Vesting will be calculated by comparing Earnings per Share at the end of financial year 2016 to the Earnings per share at 31 December 2013 and calculating the compound annual growth rate. If the compound Earnings per Share growth reaches 7.5% per annum 25% of this tranche of options will vest increasing to 100% vesting if Earnings per Share growth exceeds 15% per annum; for attainment between these thresholds vesting will occur on a straight-line pro rata basis.

The Remuneration Committee will only sanction vesting of the awards granted since 2010 if they are satisfied as to the Company's underlying financial performance in the performance period.

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

21. SHARE-BASED PAYMENTS *(continued)*

The fair value of options granted under the Long Term Incentive Plan 2007 in the year to 31 December 2014 was estimated on the date of grant using a binomial simulation option pricing model, taking into account the terms and conditions upon which the options were granted. The following weighted average assumptions were used in that model: an expected life of three years; share price at the date of grant of £0.5983 (2013 £0.5225); estimated annualised dividend yield of approximately 3.375% (2013 4.1%); risk-free interest rate of 1.3% (2013 2.3%) and expected volatility of 44% (2013 16.0%). The weighted average fair value of the share options granted in the year ended 31 December 2014 under this plan was £0.3575 (2013 £0.21).

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns which may occur. The expected volatility reflects historical volatility adjusted for future trends, which may also not necessarily be the actual outcome. Both the historical and expected volatilities reflect the volatility of the share prices of Communisis plc and comparator companies.

The Executive Share Option Scheme 2010

Certain directors and managers are eligible to participate in this scheme at the discretion of the Remuneration Committee. The exercise price of the options granted under this scheme is equal to the market value of the shares on the date of grant. No options were granted under this scheme in the year ended 31 December 2014 nor in the year ended 31 December 2013.

The Sharesave Scheme

All UK employees (including directors) are eligible to participate in the Communisis Sharesave Scheme. The exercise price of the options is usually equal to the market price of the shares at the date of invitation to participate less a maximum discount of 20%. The options vest on the third anniversary of the commencement of the savings period. Any options which have not been exercised within six months of the vesting date lapse.

The weighted average fair value of Sharesave options granted in the year ended 31 December 2014 was estimated at the date of grant using the Black-Scholes option pricing model. The following weighted average assumptions were used in that model: option holders will exercise their option at expiry; share price at the date of grant of £0.66; estimated annualised dividend yield of approximately 2.57%; risk-free interest rate of 1.44% and expected volatility of 43.16%. The volatility has been determined by reference to Communisis plc's and comparative companies' historical volatility over a three-year period, adjusted for expected future trends, to reflect the share price of Communisis plc in the future. The exercise price is £0.575 for options exercisable three years after the date of grant. The weighted average fair value of the share options granted under this scheme in the year ended 31 December 2014 was £0.204. There were no options granted under this scheme in the year ended 31 December 2013.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

21. SHARE-BASED PAYMENTS *(continued)*

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year.

	2014		2013	
	No	WAEP £	No	WAEP £
Outstanding at the beginning of the year	5,240,844	0.20	6,014,738	0.22
Granted during the year	3,831,343	0.50	1,500,000	-
Forfeited during the year	(524,670)	0.32	(340,239)	0.31
Exercised during the year	(1,264,707)	0.26	(471,246)	0.10
Expired during the year	(137,866)	0.37	(1,462,409)	0.07
Outstanding at the end of the year	<u>7,144,944</u>		<u>5,240,844</u>	
Exercisable at the end of the year	<u>75,718</u>		<u>275,718</u>	

The weighted average remaining contractual life for the share options outstanding as at 31 December 2014 is 2.565 years (2013 2.606 years).

The weighted average fair value of all options granted during the year was £0.2239 (2013 £0.2107).

The range of exercise prices for options outstanding at the end of the year was £nil - £0.575 (2013 £nil - £0.3168). The number of share options for which the exercise price is £nil total £2,075,718 (2013 £1,755,718).

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

22. PENSIONS AND OTHER POST RETIREMENT BENEFITS

	2014	2013
	£000	£000
Pension Liability	(24,854)	(14,832)
Deferred Tax	5,134	3,442
Closing defined benefit obligation	<u>(19,720)</u>	<u>(11,390)</u>

The company has complied with the requirements of FRS 17 in the current and preceding year. These accounts include a proportion of the company pension deficit and charge which has been allocated to the company.

The company operates defined contribution and defined benefit pension plans.

Defined contribution scheme

The company operates UK defined contribution arrangements. The assets of the arrangements are held separately from those of the company.

The company is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the company with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to income of £2,531,089 (2013 £1,695,000) represents contributions payable to these arrangements by the company at specified rates. As at 31 December 2014, all contributions due in respect of the current reporting period had been paid over to the arrangements (2013 all paid over).

The company expects to contribute £2.5 million to the defined contribution pension arrangements in 2015.

Defined benefit schemes

The defined benefit pension scheme closed to new members on 6 April 2005.

Following the statutory consultation period, the defined benefit pension plan closed to future accrual from 1 December 2007. The scheme was closed for all members. As the final salary link is to be preserved, the pension calculation will continue to be based on the final salary, and not the salary when the closure took effect.

The defined benefit schemes are as follows:

Final salary

The final salary section provides a pension of one sixtieth or one eightieth (depending on the level of employee contribution) of final salary at normal retirement age for each year of pensionable service. This is subject to the benefit not exceeding one thirtieth of the scheme specific earnings cap, which applies to members who joined the Plan on or after 1 June 1989, for each year of pensionable service. Normal retirement age is 65.

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

22. PENSIONS AND OTHER POST RETIREMENT BENEFITS *(continued)*

Career average revalued earnings

The career average revalued earnings section provides an accrual each year of a unit of one forty-fifth, one sixtieth or one eightieth (depending on the level of employee contribution) of pensionable salary for that year. The unit is then revalued in each subsequent year by the rate of growth in the Retail Prices Index until normal retirement age. The normal retirement age under this section is sixty-five except for certain executives, where the accrual rate is one forty-fifth, whose normal retirement age is set at sixty-two.

Deferred pensions are revalued to retirement age in line with the plan's rules and statutory requirements.

The amounts recognised in the profit and loss account are as follows:

	2014 £000	2013 £000
<i>Amounts charged to operating profit:</i>		
Current service cost	-	24
Total operating charge	-	24
<i>Amounts included in other finance cost/(income):</i>		
Expected return on scheme assets	(5,964)	(6,036)
Interest on scheme liabilities	6,210	5,854
Other finance cost/(income)	246	(182)
Total charge/(credit) to the profit and loss account	246	(158)

Other finance income is included in the profit and loss account within interest receivable and similar income.

Actuarial losses of £11,456k (2013 £7,440k) have been recognised in the statement of total recognised gains and losses.

The amounts recognised in the balance sheet are as follows:

	2014 £000	2013 £000
Present value of funded obligations	(161,521)	(144,780)
Fair value of scheme assets	136,667	129,948
	(24,854)	(14,832)
Related deferred tax asset	5,134	3,442
Net pension liability	(19,720)	(11,390)

The defined benefit obligation comprises £162 million (2013 £145 million) arising from a partly funded plan.

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

22. PENSIONS AND OTHER POST RETIREMENT BENEFITS *(continued)*

Changes in the present value of the defined benefit obligation scheme are as follows:

	2014	2013
	£000	£000
Opening defined benefit obligation	144,780	139,941
Current service cost	-	24
Interest on scheme liabilities	6,210	5,854
Actuarial loss	16,383	5,175
Benefits paid	(5,852)	(6,214)
Closing defined benefit obligation	<u>161,521</u>	<u>144,780</u>

Changes in the fair value of scheme assets are as follows:

	2014	2013
	£000	£000
Opening fair value of scheme assets	129,948	130,335
Expected return on scheme assets	5,964	6,036
Contributions by employer	1,680	2,056
Actuarial gain/(loss)	4,927	(2,265)
Benefits paid	(5,852)	(6,214)
Closing fair value of scheme assets	<u>136,667</u>	<u>129,948</u>

The fair value of the major categories of scheme assets as a percentage of total scheme assets are as follows:

	2014	2013
	%	%
Diversified growth	55.00	57.00
Equities	16.00	9.00
UK corporate bonds	-	9.00
Cash	1.00	21.00
Insured liabilities	4.00	4.00
Liability driven investment	24.00	-

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

22. PENSIONS AND OTHER POST RETIREMENT BENEFITS *(continued)*

None of the above represents equities or bonds issued by the company, nor properties owned by the company.

In February 2012 the group and the trustees agreed to an arrangement involving the securitisation of a rental stream on one of the company's freehold properties to help address the pension fund deficit. In connection with the arrangement certain freehold property was transferred to a limited partnership established by the group. The partnership is controlled by, and its results are consolidated by the group. The fair value of the assets transferred was £9.8m and on the same date the pension scheme used the contribution to acquire an interest in the partnership for its fair value of £9.8m. The pension scheme's partnership interest entitles it to a distribution from the income of the partnership over 15 years. At inception the discounted value of the cash distributions was assessed at £9.8m which was recognised as a pension plan asset that reduced the funding deficit by the same amount. As part of the arrangement the trustees agreed that the £9.8m constituted a prepayment for the years 2012 to 2014 inclusive. Consequently the annual payments to the pension scheme will be limited to the annual rent on the property of £1.15m between 2012 and 2014.

Amounts for the current and previous four periods are as follows:

	2014	2013	2012	2011	2010
	£000	£000	£000	£000	£000
Defined benefit obligation	(161,521)	(144,780)	(139,941)	(127,241)	(123,928)
Fair value of scheme assets	136,667	129,948	130,335	114,482	115,119
Deficit in the scheme	<u>(24,854)</u>	<u>(14,832)</u>	<u>(9,606)</u>	<u>(12,759)</u>	<u>(8,809)</u>

Assumptions

The valuation has been based on a full assessment of the liabilities of the scheme according to preliminary results of the latest triennial valuation at 31 March 2014, updated by independent qualified actuaries to take account of the requirements of FRS17 employee benefits in order to assess the liabilities of the scheme at 31 December 2014.

The principal actuarial assumptions as at the balance sheet date were:

	2014	2013
	%	%
Discount rate	3.70	4.40
Other material actuarial assumptions	3.10	3.45

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

22. PENSIONS AND OTHER POST RETIREMENT BENEFITS *(continued)*

Mortality rates

Assumed life expectancy for a member aged 65 is as follows:

	2014 Years	2013 Years
Current pensioners:		
Male	21.1	21.5
Female	23.3	23.7
Future pensioners		
Male	22.7	23.3
Female	25.2	25.6

History of experience gains and losses

	2014 £000	2013 £000	2012 £000	2011 £000
Experience adjustments on plan assets	4,927	(2,265)	4,667	(5,774)
Experience adjustments on plan liabilities	(16,383)	(5,175)	(12,699)	(2,001)
Total amount recognised in the STRGL	<u>(11,456)</u>	<u>(7,440)</u>	<u>(8,032)</u>	<u>(7,775)</u>

23. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2014 the company had annual commitments under non-cancellable operating leases as set out below.

	2014		2013	
	Land and buildings £000	Other Items £000	Land and buildings £000	Other Items £000
Operating leases which expire:				
Within 1 year	-	179	26	526
Within 2 to 5 years	273	7,103	-	5,451
After more than 5 years	1,944	-	1,902	-
	<u>2,217</u>	<u>7,282</u>	<u>1,928</u>	<u>5,977</u>

24. CONTINGENCIES

The Company, together with its fellow Group undertakings, has given guarantees in respect of certain bank borrowings of Communisis plc, based on the business assets and liabilities of the Group operating companies. At 31 December 2014 total borrowings subject to the guarantee amounted to £58,000,000 (2013 £44,000,000).

COMMUNISIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

25. RELATED PARTY TRANSACTIONS

The Company is exempt under the terms of FRS8 from disclosing related party transactions with entities that are wholly-owned subsidiaries of the Communisis plc Group or investees of the Communisis plc Group.

During the year there were no other related party transactions that required disclosure under FRS8.

26. SHARE CAPITAL

Allotted, called up and fully paid:

	2014		2013	
	No	£000	No	£000
Ordinary shares of £1 each	<u>200,000</u>	<u>200</u>	<u>200,000</u>	<u>200</u>

27. PROFIT AND LOSS ACCOUNT

	2014	2013
	£000	£000
Balance brought forward	5,383	6,035
Profit for the financial year	13,719	5,922
Equity dividends	(5,000)	-
Defined pension benefit scheme	(11,456)	(7,440)
Movement on deferred tax relating to pension liability	2,291	866
Balance carried forward	<u>4,937</u>	<u>5,383</u>

28. ULTIMATE PARENT COMPANY

The ultimate parent undertaking and controlling party is Communisis plc, a company registered in England which prepares Group accounts. The only Company into which the results of the Company are consolidated is that headed by Communisis plc. Copies of the Group accounts of Communisis plc can be obtained by writing to:

The Secretary
Communisis plc
Communisis House
Manston Lane
Leeds
LS15 8AH