



28 June 2010

Creston plc

Unaudited Preliminary Financial Results for the Year Ended 31 March 2010

Outperformance relative to sector leads to gain in market share

Creston plc (“Creston” or “the Group”) (LSE: CRE), the insight and communications group, today announces its preliminary financial results for the year ended 31 March 2010.

Financial Highlights

- Revenue decreased by 4% to £80.5 million (2009: £83.8 million)
- Revenue in digital and online increased by 6%, now representing 31% of Group revenues (2009: 28%)
- Headline¹ operating profit margin at 18% after head office costs (2009: 19%)
- Headline PBT² decreased by 3% to £13.8 million (2009: £14.2 million)
- Headline PAT³ increased by 2% to £10.4 million (2009: £10.1 million)
- Operating cash flow at £18.0 million (2009: £20.8 million) and cash conversion to Headline EBITDA⁴ of 113% (2009: 116%)
- A £16.0 million decrease in total debt resulted in a ratio of total debt to Headline EBITDA of 1.6 (2009: 2.3)
- Proposed full year dividend of 1.00 pence per share (2009: 0.73 pence per share)

Post Year End

- Proposed disposal of the advertising agency DLKW for a cash consideration of £28.0 million

Financial Results	Headline results			Reported results		
	2010	2009	Change	2010	2009	Change
	£m	£m		£m	£m	
Revenue	80.5	83.8	-4%	80.5	83.8	-4%
PBIT ⁵	14.3	15.6	-9%	9.0	12.3	-27%
Pre-tax profit	13.8	14.2	-3%	8.2	10.0	-19%
Post-tax profit	10.4	10.1	+2%	5.1	6.6	-22%
Diluted EPS (pence)	17.65	18.46	-4%	8.74	12.02	-27%

¹ Headline results reflect the underlying performance of the Group and excludes goodwill write-off, restructuring and deemed remuneration charges from the Reported results. A full reconciliation is presented in note 4 to the preliminary results announcement.

² Profit before Taxation (PBT).

³ Profit after Taxation (PAT).

⁴ Earnings before finance income, finance costs, income from financial assets, taxation, depreciation and amortisation (EBITDA).

⁵ Profit before Interest and Tax (PBIT) is defined as Profit before finance income, finance costs, income from financial assets and taxation.

Commenting on today's announcement, Don Elgie, Group Chief Executive, said:

"We have delivered a resilient performance against a challenging economic backdrop, however, this does not allow us to be complacent about ongoing change in our industry. We continue to build our capabilities to meet increased demand for digital marketing, insight and health marketing. The disposal of our advertising agency DLKW announced this morning will help us ensure that our Group is correctly structured and well funded to develop into the areas of marketing services that offer the greatest opportunity of growth.

The new financial year has started in line with management's expectations. We are currently ahead of the same period last year and have been boosted by a number of high profile new business wins."

A meeting for analysts will be held today at 9.30 am at Investec, 2 Gresham Street, London, EC2V 7QP. Please contact Elly Williamson at M Communications on telephone: 020 7920 2330 for details.

For further information, please contact:

Creston plc

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Chief Executive's Statement

At the end of a financial year that began with widespread predictions of the most serious recession for 70 years, Creston plc has once again strongly outperformed its market. Revenue for the financial year ending 31 March 2010 declined by just 3.9 per cent compared with our peer group, the majority of whom reported revenue declines ranging between 7 and 12 per cent. The excellent performance of our Insight and Health Divisions has contributed to this strong set of results. As predicted, the Communications Division was the most affected by the downturn with a decline in revenue of 5 per cent; however, this was still a good performance relative to our competition. We have continued to improve our balance sheet significantly, reducing total debt by £16.0 million to £24.9 million, which represents a multiple of total debt to Headline EBITDA of 1.6 (2009: 2.3).

Competitive advantage

The drivers of the Group's resilience can be found in the cultural and structural advantages that have previously enabled it to deliver eight years of uninterrupted growth. In short, we have a business model that is fit for purpose in the 21st century whether the economic conditions are fair or challenging. Advertising, the area of marketing communications that is traditionally hit hardest in a downturn, represented only 18 per cent (2009: 20 per cent) of Group revenues. Our international network accounted for 19 per cent (2009: 21 per cent) of Group revenues, both through international affiliate arrangements and services delivered virtually through digital channels. Our strategy has delivered a complementary agency line-up, an entrepreneurial culture and a group structure delivering synergies. As a result we have been able to respond efficiently and effectively to the challenges of the last 12 months, as well as to the opportunities for growth that a rapidly evolving media landscape continues to present.

Building capabilities

With digital media accelerating the rate of change in communications services, building new capabilities in a rapid, effective and low-risk manner is essential for success. For new developments in the digital landscape, we believe that start-ups rather than acquisitions represent the most effective means of building our skill set. Under our Centres of Excellence strategy, the Group supports the launch of specialist start-ups within the most appropriate agency environments by bearing investment costs for an agreed period of time. The capabilities of the start-ups are then available for use by agencies across the Group. Within the past year, this approach has led to the successful launch of new agency units specialising in social media, search engine optimisation and mobile marketing. The Digital Forum continues to co-ordinate our Group-wide approach to digital media, with our newly created Group Head of Digital role helping to identify further opportunities for synergies to deliver best-in-class solutions and win new business.

International strategy

We take a very cautious, low-risk approach to international investment. Our networks of affiliated healthcare and market research agencies are delivering strongly against client expectations. The success of our virtual network demonstrates that expensive multi-national infrastructure is far from essential for many clients. It remains our strategy to commit investment to international expansion in the event of clear, long-term demand from existing clients.

Aligning overheads with revenue

Our robust performance has not removed the requirement to act quickly and effectively where individual companies have been significantly impacted by the downturn. During the year we took the decision to close our smallest research business, the qualitative research agency CML. We also moved to cut overheads in the communications agencies that have been most affected by the reduction in advertising and traditional marketing activity.

Employee development and leadership training

We remain proud of our high retention rate for company principals, which we believe demonstrates the strength of our entrepreneurial culture. At the same time, we are continuing to promote and build a strong second tier of management talent across the Group. During the year we launched a new development programme, in association with Ashridge Business School, for Managing Directors and other leaders within our agencies.

We are deeply grateful for the efforts of all employees during a challenging year for our sector. We are nothing without their talent and hard work and our strong performance this year is testament to both. We are determined

not to take the engagement of our people for granted. This year we extended our internal employee survey, 'Your Voice', across all agencies for the first time and implemented a new performance management system to help recognise the value delivered by our people.

Sale of subsidiary

Today we announce our proposed disposal of DLKW for £28.0 million in cash. A separate announcement sets out the Board's recommendation of sale, conditional, inter alia, upon the approval of shareholders. With this disposal we will have the resources available to accelerate Creston's ability to meet the needs of the fast-changing marketplace demanding communications in the digital age.

The year ahead

On a macro level, we believe the economy will show only modest growth over the coming 12 months. On a micro level, the same advantages that have allowed the Group to outperform its sector during a challenging year position it well for a return to growth. The final quarter of the year saw an increase in new business for the companies in our Communications Division, which had suffered from a sector-wide decline in new business during the first half of last year. The spend by our blue chip clients has held up strongly and is likely to continue to support our performance in the year ahead.

We remain well placed to gain further market share as conditions improve, with our integrated offer and rapidly evolving digital capabilities delivering the solutions that clients demand. The new financial year has started in line with management's expectations. We are currently ahead of the same period last year and have been boosted by a number of high profile new business wins.

Don Elgie
Chief Executive Officer

Financial Review

Highlights

In the financial year to 31 March 2010, revenue decreased by 4 per cent (2009: 4 per cent increase) to £80.5 million (2009: £83.8 million). This resilient performance was partly due to an improvement of business in the second half of the year. In our Interim Results published on 30 November 2009, the Group reported a revenue decline of 6 per cent and this rate of decline fell to 1 per cent in respect of the second half of the financial year.

Despite the pressure on clients' budgets and lower new business activity in 2009, the industry shift towards on-line marketing continued. We have kept pace with this structural shift and our digital and on-line revenue grew by 6 per cent during the year and now represents 31 per cent of the Group's revenue.

We responded quickly to the downturn by re-aligning and reducing our resource base and closing CML, our smallest research company, which did not have the critical mass to trade through the recession. This meant that just 41 per cent of the revenue decline impacted Headline PBIT. Our Headline PBIT margin after all head office costs remained one of the best in the industry at 18 per cent (2009: 19 per cent), consequently, Headline PBIT decreased by only 9 per cent to £14.3million (2009: £15.6 million).

Throughout the year, we maintained a high level of focus on working capital management and cash conversion. This resulted in positive cash management, which combined with lower interest rates, meant our Headline net finance cost was £0.9 million below the previous year. Headline PBT decreased by 3 per cent to £13.8 million (2009: £14.2 million).

A reconciliation of the Group's Headline to Reported results is presented in note 4 to the preliminary results announcement. Reported PBIT decreased by 27 per cent to £9.0 million (2009: £12.3 million). This rate of decline is greater than the Headline PBIT decline, because of the closure of CML and the subsequent write-off of £3.7 million associated goodwill. Reported PBT decreased by 19 per cent to £8.2 million (2009: £10.0 million).

Key Performance Indicators

The Group continues to manage its operational performance through a number of key performance indicators (KPIs) and although these have been impacted by the contraction of the market during the year, the Group's performance remains in the upper quartile for the industry.

Revenue per head decreased by 4 per cent to £87,700 (2009: £91,300); Headline PBIT per head decreased 9 per cent to £15,500 (2009: £17,000); the Group achieved a strong Headline PBIT margin of 17.7 per cent (2009: 18.6 per cent); while Headline diluted EPS declined 4 per cent to 17.65 pence (2009: 18.46 pence). Reported diluted EPS declined 27 per cent to 8.74 pence (2009: 12.02 pence). The principal difference between Headline diluted EPS and Reported diluted EPS is the write-off of the CML goodwill.

Divisional Review

Insight Division

The Insight Division accounts for 20 per cent of Group revenue (2009: 20 per cent) and 30 per cent of Group Headline PBIT (2009: 24 per cent). The Division has contributed revenue of £16.0 million (2009: £16.7 million) and Headline PBIT of £4.9 million (2009: £4.5 million). On a Reported basis, PBIT is £0.7 million (2009: £4.3 million). As mentioned above, the primary reason for the difference between Headline and Reported PBIT is the closure of CML. The Headline PBIT margin increased to 31 per cent (2009: 27 per cent) and remains above the industry average. The continuing companies delivered like-for-like revenue growth of 1 per cent.

Communications Division

The Communications Division accounts for 69 per cent of Group revenue (2009: 70 per cent) and 54 per cent of Headline PBIT (2009: 62 per cent). The Division has contributed revenue of £55.7 million (2009: £58.7 million) and Headline PBIT of £8.9 million (2009: £11.6 million). On a Reported basis, PBIT is £8.1 million (2009: £9.3 million). The Headline PBIT margin remains strong at 16 per cent (2009: 20 per cent). This Division was impacted most from the general economic decline. New business opportunities declined whilst existing clients reduced or delayed budgets.

Health Division

The Health Division accounts for 11 per cent of Group revenue (2009: 10 per cent) and 16 per cent of Group Headline PBIT (2009: 14 per cent). The Division has contributed revenue of £8.8 million (2009: £8.4 million) and Headline PBIT of £2.7 million (2009: £2.7 million). On a Reported basis, PBIT is £2.7 million (2009: £2.7 million). The Headline PBIT margin remains above industry norms at 31 per cent (2009: 32 per cent).

Cash flow performance

In 2010, the Group delivered operating cash flow of £18.0 million (2009: £20.8 million). The cash conversion ratio of operating cash flow to Headline EBITDA was 113 per cent (2009: 116 per cent), which is above management's long-term target of 95 per cent.

The Group's free cash flow (defined as operating cash flow after taxation, net finance income/(cost), income from financial assets and capital expenditure) of £13.7 million (2009: £14.5 million) plus the revolving credit facility and the £3.2 million net proceeds from the share issue conducted in July 2009 were used to settle deferred acquisition consideration liabilities due to TMW, ICM and RDC (£20.1 million).

Capital expenditure for 2010 was £1.2 million (2009: £1.4 million) with the main categories of investment being system hardware and software.

Balance sheet, net debt and gearing

Total debt reduced by £16.0 million from £40.9 million to £24.9 million at 31 March 2010. This represents a gearing level to total equity of 26 per cent (2009: 47 per cent) and a total debt to Headline EBITDA multiple of 1.6 (2009: 2.3). In the year, all remaining deferred acquisition consideration liabilities were settled and, therefore, net debt and total debt are equal.

The balance sheet continued to strengthen during the year: total equity rose by £8.1 million to £96.0 million, as a result of the increase in earnings and proceeds from the share issue.

In addition to the strong operating cash flow, the Group raised £3.3 million (gross of fees) in July 2009 from a fully subscribed Equity Placing with existing shareholders. The new Ordinary Shares represent approximately 10 per cent of the Company's issued share capital.

Net finance costs

Headline net finance costs fell to £0.7 million (2009: £1.6 million). This decrease was driven by the positive cash performance of the Group during the year and the reduction in LIBOR. The Group's average margin paid over LIBOR was 1.3 per cent during the year. Headline net finance costs were covered by Headline EBITDA 24 times (2009: 11 times). The Reported net finance cost was £1.1 million (2009: £2.4 million), which includes notional finance costs relating to the deferred acquisition consideration payments of £0.4 million (2009: £0.9million).

Effective tax rate

The Group's effective Headline tax rate was 25 per cent (2009: 29 per cent). This rate is lower than the current statutory rate of 28%, as a result of a prior year adjustment to reflect the resolution of discussions with HMRC on the deductibility of goodwill in earlier periods. This lower tax rate has contributed to the increase in Headline post-tax profits of 2 per cent (2009: 8 per cent increase). The Reported effective tax rate was 37 per cent (2009: 34 per cent).

Banking Facility and Covenants

In June 2008, the Group agreed a revised £40 million banking facility, which is made up of a £15 million term loan amortising until 31 March 2011 and a £25 million revolving credit facility available until 31 March 2012.

At 31 March 2010, the term loan had amortised to £11.6 million and £13.0 million had been drawn against the revolving credit facility. Alongside the £2.8 million cash balance, the Group had £14.8 million undrawn committed banking facility at that date. There are three key banking covenants and the Group maintains headroom under each of them.

Dividends

The Board recommends a final dividend for the year of 1.00 pence per share (2009: nil) for shareholder approval at the Annual General Meeting on 1 September 2010, giving a total proposed dividend for 2010 of 1.00 pence per share (2009: 0.73 pence per share). In 2009 only an interim dividend was paid and no final dividend was recommended, since the Board believed it prudent and appropriate at the time to conserve cash and reduce gearing levels.

Basis of Headline results

Creston has presented Headline results as the key performance indicators because they eliminate non-recurring or exceptional charges incurred during the year and therefore, in the opinion of the Directors, provide a truer picture of the underlying ongoing operational performance of the Group year-on-year. The Headline results in 2010 exclude the following items (as detailed in note 4 to the preliminary results announcement):

1. Notional finance costs on future deferred consideration payments¹;
2. Future acquisition payments due to employees deemed as remuneration;
3. Restructuring costs (non-recurring operational costs associated with discontinued operations and redundancies); and
4. Goodwill write-off¹.

Note: ¹ indicates a non-cash item.

Sale of subsidiary

At the General Meeting to be held in mid July 2010 the Directors will be recommending to shareholders the sale of Delaney Lund Knox Warren and Partners, Dialogue DLKW and The Composing Room (“DLKW Group”) for £28.0 million. Details setting out the strategic reasons and financial information, relating to this disposal are being announced separately. If the shareholders approve the sale, a loss on disposal of approximately £3.2 million (subject to any net asset adjustment) would be recognised in the financial year ending 31 March 2011. This loss is the difference between the net proceeds and the goodwill and intangible assets relating to the DLKW Group. The Directors do not regard the carrying value as impaired at 31 March 2010 and they believe the value in use to exceed the carrying value at that date. The Directors are recommending the sale at a value below the carrying value for strategic reasons, which will be disclosed in a separate announcement detailing the disposal. The reportable segment for the DLKW Group is the Communications Division.

Summary

The results for the year represent a resilient performance in a difficult economic environment. The Group has performed better than the industry average, which means, in real terms, it has grown market share. We have maintained industry-leading margins and KPIs and continued the ongoing reduction in total debt by a further £16 million to 31 March 2010. During the year, the Group continued to invest in its people and new products and this investment ensures we are well placed to continue growing market share.

Barrie Brien
Chief Operating and Financial Officer

Consolidated income statement

		Unaudited Before Headline items 2010 £'000	Headline items (note 4) £'000	Unaudited Total 2010 £'000	Audited Before Headline items 2009 £'000	Headline Items (note 4) £'000	Audited Total 2009 £'000
	Note						
Turnover (billings)	3	136,822	-	136,822	138,472	-	138,472
Revenue	3	80,500	-	80,500	83,795	-	83,795
Operating costs		(66,243)	(5,225)	(71,468)	(68,190)	(3,302)	(71,492)
Profit before finance income, finance costs, income from financial assets and taxation	3	14,257	(5,225)	9,032	15,605	(3,302)	12,303
Finance income		6	-	6	45	-	45
Finance costs		(676)	(404)	(1,080)	(1,607)	(880)	(2,487)
Income from financial assets		195	-	195	150	-	150
Profit before taxation	3	13,782	(5,629)	8,153	14,193	(4,182)	10,011
Taxation		(3,412)	392	(3,020)	(4,065)	651	(3,414)
Profit for the financial year		10,370	(5,237)	5,133	10,128	(3,531)	6,597
Basic earnings per share (pence) ¹	5	17.66		8.75	18.63		12.13
Diluted earnings per share (pence) ¹	5	17.65		8.74	18.46		12.02

¹ In July 2009 the Group issued new shares as part of an Equity Placing. In accordance with IAS 33 this required a retrospective adjustment to the weighted average number of shares and consequently the earnings per share.

All profits arose from continuing operations.

Consolidated statement of comprehensive income

	Note	Unaudited 2010 £'000	Audited 2009 £'000
Profit for the year		5,133	6,597
Other comprehensive (expenses)/income			
Cash flow hedge:			
Fair value loss in the year		(188)	-
Tax effect of fair value		53	-
Other comprehensive (expense) for the year, net of tax		(135)	-
Total comprehensive income for the year		4,998	6,597

Consolidated balance sheet

	Note	Unaudited As at 31 March 2010 £'000	Audited As at 31 March 2009 £'000
Non-current assets			
Intangible assets			
Goodwill	7	119,081	122,856
Other		1,551	1,582
Property, plant and equipment		2,065	2,514
Financial assets – available for sale		550	550
Deferred tax asset		766	800
		124,013	128,302
Current assets			
Inventories and work in progress		2,937	1,665
Trade and other receivables		32,346	30,814
Cash and short term deposits		2,778	2,828
		38,061	35,307
Current liabilities			
Trade and other payables		(35,884)	(29,984)
Corporation tax payable		(2,398)	(2,026)
Obligations under finance leases		(8)	(8)
Bank overdraft, loans and loan notes		(27,687)	(9,823)
Derivative financial instrument		(135)	-
Provisions for other liabilities and charges		-	(19,413)
		(66,112)	(61,254)
Net current liabilities		(28,051)	(25,947)
Total assets less current liabilities		95,962	102,355
Non current liabilities			
Bank loans and loan notes		-	(11,600)
Provision for other liabilities and charges		-	(2,887)
Obligations under finance leases		(8)	-
		(8)	(14,487)
Net assets		95,954	87,868
Equity			
Called up share capital		6,134	5,576
Share premium account		35,943	33,345
Own shares		(801)	(1,054)
Shares to be issued		1,461	2,706
Other reserves		31,357	31,357
Retained earnings		21,860	15,938
Total equity		95,954	87,868

Consolidated statement of changes in equity

	Share capital £'000	Share premium £'000	Own shares £'000	Shares to be issued £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Changes in equity for 2010 (Unaudited)							
At 1 April 2009	5,576	33,345	(1,054)	2,706	31,357	15,938	87,868
Profit for the year	-	-	-	-	-	5,133	5,133
Other comprehensive income:							
Fair value loss on financial liability	-	-	-	-	-	(188)	(188)
Tax effect of fair value loss	-	-	-	-	-	53	53
Total comprehensive income for the year	-	-	-	-	-	4,998	4,998
Credit for share-based incentive schemes	-	-	-	11	-	-	11
Exercise of share award	-	-	253	(1,202)	-	-	(949)
Loss on treasury scheme / employee benefit trust	-	-	-	-	-	(11)	(11)
Gain on treasury scheme / employee benefit trust	-	-	-	-	-	185	185
Fair value adjustment of own shares	-	-	-	-	-	696	696
Proceeds from shares issued	558	2,788	-	-	-	-	3,346
Costs associated with shares issued	-	(190)	-	-	-	-	(190)
Transfer of lapsed options	-	-	-	(54)	-	54	-
At 31 March 2010	6,134	35,943	(801)	1,461	31,357	21,860	95,954

	Share capital £'000	Share premium £'000	Own shares £'000	Shares to be issued £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Changes in equity for 2009 (Audited)							
At 1 April 2008	5,576	33,345	(233)	2,447	31,357	10,412	82,904
Profit/comprehensive income for the year	-	-	-	-	-	6,597	6,597
Credit for share-based incentive schemes	-	-	-	654	-	-	654
Exercise of share award	-	-	114	(355)	-	-	(241)
Loss on treasury scheme / employee benefit trust	-	-	-	-	-	(74)	(74)
Gain on treasury scheme / employee benefit trust	-	-	-	-	-	13	13
Fair value adjustment of own shares	-	-	-	-	-	315	315
Own shares purchased	-	-	(935)	-	-	-	(935)
Transfer of lapsed option costs	-	-	-	(40)	-	40	-
Dividends (note 6)	-	-	-	-	-	(1,365)	(1,365)
At 31 March 2009	5,576	33,345	(1,054)	2,706	31,357	15,938	87,868

Consolidated statement of cash flows

	Note	Unaudited 2010 £'000	Audited 2009 £'000
Operating cash flow	8	18,047	20,829
Tax paid		(2,605)	(3,447)
Net cash inflow from operating activities		15,442	17,382
Investing activities			
Finance income		6	45
Income from financial assets		195	150
Purchase of subsidiary undertakings		(20,058)	(15,284)
Purchase of property, plant and equipment		(1,003)	(1,149)
Sale of property, plant and equipment		12	37
Purchase of intangible assets		(227)	(284)
Decrease in restricted cash deposits		22	-
Proceeds from vendors under sale and purchase agreement		-	935
Net cash (outflow) from investing activities		(21,053)	(15,550)
Financing activities			
Proceeds from issuance of ordinary shares (net of issue costs)		3,156	-
Finance costs		(766)	(1,703)
Share repurchases		-	(935)
Increase in borrowings (net)	9	3,200	1,243
Dividends paid	6	-	(1,365)
Capital element of finance lease payments		(7)	(29)
Net cash inflow / (outflow) from financing		5,583	(2,789)
(Decrease) in cash and cash equivalents	9	(28)	(957)
Cash and cash equivalents at start of year	9	2,806	3,763
Cash and cash equivalents at end of year		2,778	2,806

Notes:

1. Basis of Preparation

The financial information set out herein does not constitute the company's statutory accounts for the years ended 31 March 2010 or 2009, within the meaning of section 434 of the Companies Act 2006, Statutory accounts for 2009 have been delivered to the registrar of companies. The auditors have reported on these 2009 accounts and their report was (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain statements under section 498(2) or (3) of the Companies Act 2006. Copies of the statutory accounts for 31 March 2010 will be distributed to shareholders in advance of the Annual General Meeting and will be delivered to the registrar of companies upon approval.

The information has been prepared in accordance with the EU-adopted International Financial Reporting Standards (IFRS) and IFRIC interpretations and with those parts of the Companies Act 2006 which are applicable to companies reporting under IFRS, however, this preliminary announcement in itself does not contain sufficient information to comply with IFRS.

2. Accounting policies

The preliminary results were prepared in accordance with the prior year accounting policies subject to the following standards, amendment and interpretations which were effective in 2010:

- (i) IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of 'non-owner changes in equity' in the statement of changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement. Under the revised standard, entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present two statements: the income statement and the statement of comprehensive income.
- (ii) IFRS 8, 'Operating segments' replaces IAS 14, 'Segment reporting', and requires a 'management approach' to be adopted, under which segment information is presented on the same basis as that used for internal reporting purposes. The new standard, combined with the management divisional restructuring, has resulted in a new segmental format being presented by the Group.

The following standards and interpretations are effective in 2010 but are not relevant to the Group's financial statements:

- (iii) IFRS 2 (amendment), 'Share-based payment';
- (iv) IFRS 5 (amendment), Non-current assets held for sale and discontinued operations;
- (v) IFRS 7 (amendment), 'Financial instruments: Disclosure';
- (vi) IAS 16 (amendment), Property, plant and equipment;
- (vii) IAS 19 (amendment), Employee benefits;
- (viii) IAS 20 (amendment), Accounting for government grants and disclosure of government assistance;
- (ix) IAS 23 (amendment), 'Borrowing costs';
- (x) IAS 28 'Investments in associates';
- (xi) IAS 31 (amendment), 'Interests in joint ventures';
- (xii) IAS 32 (amendment), Financial Instruments;
- (xiii) IAS 38 (amendment), Intangible assets;

- (xiv) IAS 39 (amendment), The fair value option; and
- (xv) IAS 40 (amendment), Investment property;

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group:

- (xvi) IAS 27 (Revised), Consolidated and separate financial statements;
- (xvii) IFRS 3 (Revised), 'Business combinations – Comprehensive revision on applying the acquisition method' (effective from 1 July 2009); and
- (xviii) IFRIC 18, Transfers of assets from customers (effective on all transactions from 1 July 2009).

The Group does not consider that these Standards and Interpretations will have a significant impact on the financial statements of the Group except for additional disclosures when the relevant standards come into effect for periods commencing on or after 1 April 2010.

3. Segmental Analysis

The Group's operational framework consists of a three divisional structure consisting of the Insight, Communications and Health Divisions.

Segmental analysis by business

Turnover, revenue, Headline and Reported profit before finance income, finance costs, income from financial assets and taxation (PBIT), and profit before tax attributable to Group activities are shown below.

2010 (Unaudited)	Insight £'000	Communications £'000	Health £'000	Head Office £'000	Group £'000
Turnover (billings)	27,839	98,138	10,845	-	136,822
Revenue	15,956	55,698	8,846	-	80,500
Headline profit/ (loss) before finance income, finance costs, income from financial assets and taxation (segment result)	4,883	8,900	2,711	(2,237)	14,257
Restructuring costs	(354)	(568)	-	-	(922)
Goodwill write-off	(3,786)	-	-	-	(3,786)
Future acquisition payments to employees deemed as remuneration	(36)	(215)	(5)	(261)	(517)
Reported profit/ (loss) before finance income, finance costs, income from financial assets and taxation (segment result)	707	8,117	2,706	(2,498)	9,032
Finance income	-	-	-	6	6
Finance costs	-	-	-	(676)	(676)
Notional finance costs on future deferred consideration	(204)	(193)	(7)	-	(404)
Income from financial assets	-	195	-	-	195
Profit before taxation	503	8,119	2,699	(3,168)	8,153
Taxation					(3,020)
Profit for the financial year					5,133

2009 (Audited)	Insight £'000	Communications £'000	Health £'000	Head Office £'000	Group £'000
Turnover (billings)	28,213	100,206	10,053	-	138,472
Revenue	16,679	58,690	8,426	-	83,795
Headline profit/ (loss) before finance income, finance costs, income from financial assets and taxation (segment result)	4,498	11,597	2,677	(3,167)	15,605
Restructuring costs	(78)	(706)	-	-	(784)
TRA Asia investment impairment	-	(64)	-	-	(64)
Advisor fees on aborted offer	-	-	-	(160)	(160)
Future acquisition payments to employees deemed as remuneration	(148)	(1,513)	51	(684)	(2,294)
Reported profit/ (loss) before finance income, finance costs, income from financial assets and taxation (segment result)	4,272	9,314	2,728	(4,011)	12,303
Finance income	-	-	-	45	45
Finance costs	-	-	-	(1,607)	(1,607)
Notional finance costs on future deferred consideration	(298)	(648)	66	-	(880)
Income from financial assets	-	150	-	-	150
Profit before taxation	3,974	8,816	2,794	(5,573)	10,011
Taxation					(3,414)
Profit for the financial year					6,597

The new requirements under IFRS 8, 'operating segments', combined with the management divisional restructuring, has resulted in a new segmental format being presented by the Group, and therefore the comparatives for 2009 have been reported under the new segmental format.

The chief operating decision-maker has been identified as the Board of Directors ('the Board') who make the strategic decisions. The Board has determined the operating segments in a manner consistent with the internal reporting provided to the Board. The Board considers the business from a divisional perspective, that being Insight, Communications and Health.

The principal activities of the three Divisions are as follows:

Insight

The Insight Division performs a complete range of market research services on behalf of its clients, through both qualitative and quantitative means, using the mediums of face-to-face, telephone and online techniques.

Communications

The Communications Division offers clients an integrated approach to their marketing and communication strategy; offering a range of services which include advertising, brand strategy, channel marketing, relationship marketing (CRM), digital marketing, direct marketing, promotional marketing and public relations.

Health

The Health Division provides an integrated communications solution to the healthcare and pharmaceuticals sector and offers services which include advertising, direct marketing, digital marketing, public relations, issue management, market research and medical education.

The Board assesses the performance of the operating segments based on a measure of revenue and Headline PBIT. This measurement basis excludes the effects of non-recurring charges from the operating segments, such

as restructuring costs, goodwill write-off, notional finance costs on future deferred consideration and future acquisition payments to employees deemed as remuneration.

Accounting policies are consistent across the reportable segments.

All significant assets and liabilities are located within the UK. The Board does not review the assets and liabilities of the Group on a divisional basis and therefore have chosen to adopt early amendments to IFRS 8 of not segmenting the assets of the Group.

Other information provided to the Board of Directors is measured in a manner consistent with that in the financial statements.

Segmental analysis by geography

The following table provides an analysis of the Group's turnover and revenue by geographical market, irrespective of the origin of the services.

	Revenue		Turnover	
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
UK	65,345	66,312	113,953	110,093
Rest of Europe	13,141	15,208	20,053	25,650
Rest of the World	2,014	2,275	2,816	2,729
	80,500	83,795	136,822	138,472

4. Reconciliation of Headline profit to Reported profit

In order to enable a better understanding of the underlying trading of the Group, the Directors refer to Headline PBIT, PBT and PAT which eliminate non-recurring charges from the Reported figures. These break down into two parts:

- (i) Certain accounting policies which have a material impact and introduce volatility to the Reported figures. These are deferred consideration payments deemed as remuneration and notional finance costs on deferred consideration. These charges will cease once all the relevant earn-out and related obligations have been settled; and
- (ii) Exceptional non-recurring operating charges, which, in 2010, consist of restructuring costs, closure charges relating to CML and MSTs, and the goodwill write-off in respect of CML. In 2009 there were advisor fees incurred in connection with the aborted offer for the company and the impairment of TRA Asia investment.

2010 (Unaudited)	PBIT £'000	PBT £'000	PAT £'000
Headline	14,257	13,782	10,370
Restructuring costs	(922)	(922)	(922)
Goodwill write-off	(3,786)	(3,786)	(3,786)
Future acquisition payments to employees deemed as remuneration	(517)	(517)	(517)
Notional finance costs on future deferred consideration	-	(404)	(404)
Taxation impact			392
Reported	9,032	8,153	5,133

2009 (Audited)	PBIT £'000	PBT £'000	PAT £'000
Headline	15,605	14,193	10,128
Restructuring costs	(784)	(784)	(784)
TRA Asia investment impairment	(64)	(64)	(64)
Advisor fees on aborted offer	(160)	(160)	(160)
Future acquisition payments to employees deemed as remuneration	(2,294)	(2,294)	(2,294)
Notional finance costs on future deferred consideration	-	(880)	(880)
Taxation impact			651
Reported	12,303	10,011	6,597

5. Earnings per share

	2010 (Unaudited)			2009 (Audited)		
	Reported profit for the financial year £'000	Weighted average number of shares	Pence per share	Reported profit for the financial year £'000	Weighted average number of shares (1)	Pence per share (1)
Reported basis						
Basic earnings per share:						
Earnings attributable to ordinary shareholders	5,133	58,729,868	8.75	6,597	54,367,255	12.13
Dilutive effect of securities:						
Shares	-	32,047	(0.01)	-	507,041	(0.11)
Diluted earnings per share	5,133	58,761,915	8.74	6,597	54,874,296	12.02
Headline basis						
Basic earnings per share:						
Earnings attributable to ordinary shareholders	10,370	58,729,868	17.66	10,128	54,367,255	18.63
Dilutive effect of securities:						
Shares	-	32,047	(0.01)	-	507,041	(0.17)
Diluted earnings per share	10,370	58,761,915	17.65	10,128	54,874,296	18.46

(1) In July 2009 the Group issued new shares as part of an Equity Placing. In accordance with IAS 33 this required a retrospective adjustment to the weighted average number of shares and consequently the earnings per share.

Diluted earnings per share has been calculated based on the following dilutive elements:

- (i) There were no shares (2009: 507,041) issued to the Executive Directors in lieu of their annual cash bonus. In the prior year this represented 50 per cent of their annual bonus and the number of shares were estimated based on the average share price during the prior year; and
- (ii) 32,047 restricted shares which had vested but not been issued at the balance sheet date (2009: nil)

A reconciliation from Headline to Reported profit after tax is given in note 4.

6. Dividends

	2010 £'000 (Unaudited)	2009 £'000 (Audited)
Amounts recognised as distributions to shareholders in the year		
Prior year final dividend of nil pence per share (2009: 1.80 pence per share)	-	971
Interim dividend of nil pence per share (2009: 0.73 pence per share)	-	394
	-	1,365

A final dividend of 1.00 pence per share (2009: nil pence) equivalent to £613,373 is to be paid on 8 September 2010 to shareholders on the register on 6 August 2010. The final dividend will be recognised in the 2011 accounts, should it be approved by shareholders at the AGM.

7. Goodwill

	Purchased goodwill £'000	Goodwill on consolidation £'000	Total £'000
Cost			
At 1 April 2008 (Audited)	3,780	115,785	119,565
Adjustments to consideration	-	3,218	3,218
Fair value adjustments	6	67	73
At 1 April 2009 (Audited)	3,786	119,070	122,856
Goodwill write-off	(3,786)	-	(3,786)
Adjustments to consideration	-	11	11
At 31 March 2010 (Unaudited)	-	119,081	119,081
Net book amount			
31 March 2010 (Unaudited)	-	119,081	119,081
31 March 2009 (Audited)	3,786	119,070	122,856

The 'adjustments to consideration' relate to a change in the estimated deferred consideration for agencies in the earn-out period under the terms of the relevant sale and purchase agreements.

CML was closed during the year. This led to a goodwill write-off of £3,786,000.

In accordance with the Group's accounting policy, the carrying values of goodwill and other intangible assets not subject to systematic amortisation are reviewed semi-annually for impairment. The review assesses whether the carrying value of goodwill could be supported by the present value of future cash flows derived from operating activities. Future cash flows are calculated with reference to each subsidiary's two year business plan (approved in March 2010) which is subject to a rigorous review and challenge process. The residual growth rate thereafter has been reduced to a nominal rate of 3 per cent for all units.

In assessing the discount rate applicable to the Group we have considered the following factors:

- (i) 12 month cost of debt; and
- (ii) The cost of equity based on a two year beta of 1.12. We consider this to be an appropriate period since the Group is of an acquisitive nature and therefore has changed significantly during the last five years. Since no acquisitions have taken place since December 2006, the Directors believe this period represents the most appropriate to the Group's circumstances.

The pre-tax discount rate, used to assess the carrying value of goodwill, is 9.6 per cent (2009: 7.9 per cent), which approximates the Group's weighted average cost of capital adjusted only to reflect the way in which the market would assess the specific risks associated with the estimated cash flows of the Group and excluding any risks that are not relevant to estimated cash flows of the Group. In arriving at this discount rate it was noted that interest rates had fallen significantly during the year. This is unlikely to be sustainable and therefore to arrive at our cost of debt we have used a higher rate in line with the markets expected increase in LIBOR.

The review performed at the year end did not result in the impairment of goodwill for any cash-generating unit as the estimated recoverable amount exceeded the carrying value in all cases.

At 31 March 2010, had the Group used an industry average beta of 1.5, the weighted average cost of capital would have been 11.2 per cent. At this level, the carrying value of goodwill could potentially be impaired by £250,000 or 0.2 per cent of the total.

If the budgeted 2011 and 2012 PBIT is 10 per cent lower than management's estimate at 31 March 2010 and there is zero growth thereafter, then the carrying value of goodwill could potentially be impaired by £437,000 or 0.4 per cent of the total.

Components of goodwill at 31 March 2010 and 2009 are:

	(Unaudited) 2010 £'000	(Audited) 2009 £'000
Insight		
ICM	19,030	19,021
MSL	7,633	7,633
CML	-	3,786
	26,663	30,440
Communications		
DLKW	30,533	30,533
TMW	28,541	28,539
NBC	6,434	6,434
Others	9,643	9,643
	75,151	75,149
Health		
PAN	9,599	9,599
RDC	7,668	7,668
	17,267	17,267
TOTAL	119,081	122,856

8. Reconciliation of profit for the year to operating cash flow

	(Unaudited) 2010 £'000	(Audited) 2009 £'000
Profit for the year	5,133	6,597
Taxation	3,020	3,414
Profit before taxation	8,153	10,011
Income from financial assets	(195)	(150)
Finance costs	1,080	2,487
Finance income	(6)	(45)
Profit before finance income, finance costs, income from financial assets and taxation	9,032	12,303
Depreciation of property, plant and equipment	1,376	1,946
Amortisation of intangible assets	323	413
Share-based Payments	(92)	109
Goodwill write-off	3,786	
Deemed remuneration	517	2,294
(Profit) / loss on disposal of property, plant and equipment	(1)	17
(Increase) / decrease in inventories and work in progress	(1,273)	267
(Increase) / decrease in trade and other receivables	(1,591)	2,834

Increase in trade and other payables	5,970	646
Operating cash flow	18,047	20,829

9. Analysis of net and total debt

	(Audited) At 31 March 2009 £'000	Other Movements £'000	Acquisition £'000	Cash flow £'000	(Unaudited) At 31 March 2010 £'000
Cash and short term deposits	2,806	-	-	(28)	2,778
Bank overdrafts and revolving credit facility	(7,000)	-	-	(6,000)	(13,000)
Acquisition loan notes	(23)	-	(19,682)	16,618	(3,087)
Bank loans	(14,400)	-	-	2,800	(11,600)
Finance leases	(8)	-	-	(8)	(16)
Net debt	(18,625)	-	(19,682)	13,382	(24,925)
Restricted cash deposits	22	-	-	(22)	-
Net debt including restricted cash deposits	(18,603)	-	(19,682)	13,360	(24,925)
Provision for deferred consideration	(22,300)	(822)	19,682	3,440	-
Total debt	(40,903)	(822)	-	16,800	(24,925)

At 31 March 2010, all earn-outs had been agreed, most of which have been paid (remaining balance of £3,087,000).

10. Business risks and uncertainties

Creston's principal operating risks and uncertainties are associated with the retention of key personnel and customers. In common with many businesses in the marketing services sector, the loss of certain key personnel could jeopardise the continuing success of the business. Many of these personnel have long-standing relationships with many of the Group's customers. The Group seeks to incentivise its key personnel through LTIP and other bonus arrangements and has a track record of retaining key personnel.

The Group derives a substantial amount of revenue from contracts with its major customers. The Group has a system of customer satisfaction reviews to identify areas for improving the service and are continuously working towards reducing client concentration.

11. Related Party Transactions

Mr D C Marshall is a Director of City Group P.L.C. and Western Selection P.L.C. which held 3,000,000 Ordinary Shares at 31 March 2010 (2009: 3,000,000). During the year total fees of £61,435 (2009: £65,143) were paid to City Group P.L.C., £31,435 (2009: £35,143) for the provision of secretarial services and £30,000 (2009: £30,000) for the services of Mr D C Marshall.

12. Availability of the Annual Report and Accounts

Copies of the Annual Report and Accounts will be sent to shareholders in due course and are available from the Company's registered office at City Group P.L.C., 30 City Road, London, EC1Y 2AG and on the company's website www.creston.com