

Chairman and Chief Executive's Statement



David Grigson Non-Executive Chairman
from 1 April 2010

Don Elgie Chief Executive Officer

David Marshall Non-Executive Chairman
to 31 March 2010

We are driving a strategy for growth based on the natural advantage that our structure, business model and approach give us.

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 only 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

On 28 June 2010 we announced our proposed disposal of DLKW for £28.0 million in cash. A separate circular 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

David Grigson
Non-Executive Chairman