

Insight Operating review



Keith Bates Deputy Head of Insight

Our Insight division delivered a strong performance during the financial year, maintaining like-for-like revenue levels. Headline PBIT increased by 9 per cent in a declining market.

At a time of challenge and transition for the research industry, our Insight division has outperformed its market, increasing Headline PBIT by 9 per cent and gaining market share in a changing sector.

Market overview

The past financial year has seen the research industry encountering both short-term challenges and longer-term shifts. The project-led nature of research makes it particularly vulnerable to the economic cycle and the impact of the downturn on client budgets has been predictable, with sector-wide turnover down approximately 6 per cent. Yet the immediate cutting of budgets should not mask the longer-term trends that are transforming this sector. Research is changing: from a discipline that measures and records subjects' opinions to one that analyses and predicts actual behaviour; from a reporting service to one offering strategic consultancy, and from loyalty to tried and tested techniques to a demand for innovative new approaches, led by digital media. The scope for growth is changing too: the UK research market is the world's second largest but also its most mature, and only those agencies capable of gaining market share will continue to deliver growth. The international market offers far greater scope for expansion, and with the research budgets of large multinationals controlled from a few key regional hubs, efficient micro networks are well placed to take advantage of this opportunity.

Operating review

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). The primary reason for the difference between Headline and Reported PBIT is the closure of CML and the associated £3.8 million goodwill write-off. Revenue per head increased by 2 per cent to £112,400 (2009: £109,700), whilst Headline PBIT per head increased by 16 per cent to £34,400 (2009: £29,600). 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.

The division delivered a strong performance during the financial year, maintaining like-for-like revenue levels and increasing Headline PBIT by 9 per cent in a declining market. Our outperformance of the sector and resulting increase in market share has been delivered through a combination of strong, resilient clients, continued new business success in a tough environment, our previous investments in innovation and the synergies between our two major research agencies that have been developed over the last two to three years. We have evolved rapidly to deliver the results that clients demand, whilst increasing the efficiency with which we do so.

Financial highlights

Revenue

£16.0m

(2009: £16.7m)

Headline PBIT

£4.9m

(2009: £4.5m)

Reported PBIT

£0.7m

(2009: £4.3m)

Operational highlights

- Like-for-like revenue and Headline PBIT (i.e. excluding CML and MSTs) of +1 per cent and +3 per cent respectively
- CML closed during the year as it was severely affected by the recession
- newvista research now accounts for 28 per cent of the division's revenue (2009: 26 per cent)

Operating businesses



FieldWork UK



face to face specialists



The Insight division consists of the ICM Group and Marketing Sciences. The ICM Group, which includes ICM Research, ICM Direct and FieldWork UK, has a client base largely focused on financial and technology and also runs a high-profile political polling operation; the business of Marketing Sciences is primarily consumer, retail and healthcare research. With their non-competing areas of expertise, the two agencies are able to share key resources such as data collection services and online research, increasing the efficiency with which we can develop new techniques and new services for clients. newvista research, our division-wide Centre of Excellence for online research, works across both agencies. It delivered a strong performance over the year and now accounts for 28 per cent of the division's revenue.

Where necessary, we have acted to restructure areas of the division that have been most affected by the economic downturn, retaining skills within our two major agencies whilst increasing efficiencies for the division as a whole. We took the decision to close CML, our agency specialising in qualitative research for the development of advertising campaigns, which was severely affected by the sharp reduction in new advertising activity. During the year we also completed the successful integration of our former sensory marketing agency, MSTs, into Marketing Sciences, adding new skills in early-stage product development to the Marketing Sciences agency offer. We are pleased to report that this area of the business has performed strongly over the last 12 months, delivering year-on-year growth.

The division's performance reflects the advantages of a blue chip client list, for which research has a well-established role in their business models. With minimal exposure to low-margin, cyclical sectors such as Travel, activity has held up strongly across the division's operations. We gained new business from Aviva, and are in a good position to expand our scope of work for Tesco, following a review of their research roster.

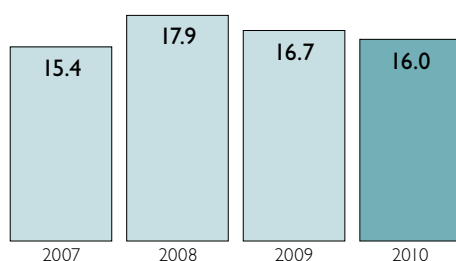
Future growth prospects

The competitive advantages enjoyed by the division within the research sector position it strongly to continue to gain market share over the coming year.

The launch of our new Centre of Excellence in qualitative research, Inspired, will significantly expand the scope of research solutions that we offer to consumer clients. The launch responds to a well-established client demand for qualitative approaches to product development and will accelerate the growth of our already established qualitative business.

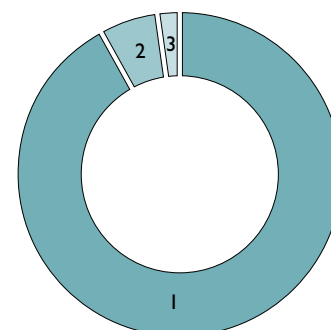
International markets currently represent 8 per cent of the division's revenue following a strong contribution over the past year. With growth prospects that surpass those of the UK, these markets will continue to represent a major opportunity for the Insight division. Over the next 12–18 months, we will pursue opportunities for opening divisional operations in the key regional hubs of the US and Asia, from which research projects in growth markets are increasingly co-ordinated. This expansion will be led by demand from existing clients.

Insight revenue (£m)



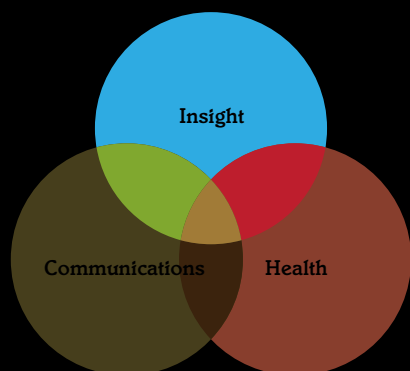
Insight geographical revenue

- 1 UK 92%
- 2 Rest of Europe 6%
- 3 Rest of the World 2%



Applying insight

The Insight division brings together two of the best agencies in market research, ICM and Marketing Sciences, each with its own unique brand position and core research skills.



A wholemeal approach

Marketing Sciences for Rank Hovis

The UK's largest flour miller may be best known for its Hovis® and Granary® bread flours, but its products are used in foods as diverse as fried chicken and chappatis. Marketing Sciences helped Rank Hovis to better understand the needs of its customers across 15 different market segments and to identify Rank Hovis' strengths and weaknesses. Sara Reid, Rank Hovis' marketing manager, said: "We got real actionable data, upon which we can make material changes to our commercial strategy."

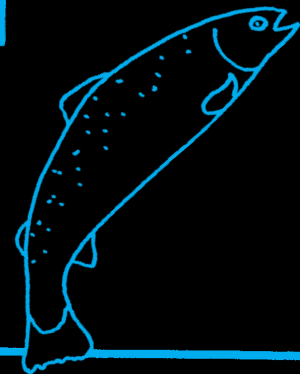




Pass the salt

Marketing Sciences for Danone Baby Nutrition

Danone Baby Nutrition (DBN) is the UK's premier supplier of baby food and milk. Marketing Sciences conducted a study with mums of babies aged 4 to 24 months to give DBN a full insight into how babies and toddlers are fed. A key finding that a large proportion of babies and toddlers have more than the recommended daily amount of salt in their diet has been used by DBN in their 'Salt Shaker' TV commercial for baby cereal – with no added salt.



Bear or Bull?

ICM Research for Friends Provident

ICM conducts a regular survey for the Friends Provident International Index which tracks attitudes to and confidence in various investment vehicles among investors in Hong Kong, Singapore and the UAE. The findings are published across Asia and the Middle East.



Communications Operating review

The division remains strongly positioned within the communications marketplace, with the opportunity to continue to gain market share as the sector recovers.



Chris Warren and Richard Warren Joint Heads of Communications

The performance delivered by our Communications division shows that we continue to have the right answers to the communications requirements of the 21st century. Our advertising and direct marketing agencies were unable to wholly avoid the impact of the recession and the very significant sector-wide drop in advertising spend, but their return to growth at the end of the year shows the strength of their positions in their respective markets.

Market overview

Recessions hit advertising hard. And this recession has been the most severe in living memory. Not only have existing advertisers cut back significantly on their spend, but the new advertisers that provide a significant proportion of new business opportunities had become a very rare species indeed. Many deferred activity altogether whilst waiting for the economy to improve.

The recession has not depressed activity across the board; rather it has accelerated the demand for new approaches to marketing. Online advertising spend has continued to increase and the range of digital solutions demanded by clients is expanding just as rapidly, with social media a particular area of growth. At the same time, major advertisers are embracing the concept of local advertising, using highly targeted campaigns to deliver more relevant messages to individual consumers. Our range of agency capabilities and the integrated approach driven through our Group-wide Centres of Excellence has given the division considerable exposure to these areas of growth.

Operating review

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 key performance measures remain in the upper quartile for the industry averages. Revenue per head remains high at £80,700 (2009: £86,300), whilst Headline PBIT per head decreased to £12,900 (2009: £17,000). The Headline PBIT margin remains strong at 16 per cent (2009: 20 per cent). This division was impacted most by the general economic decline. New business opportunities declined whilst existing clients reduced or delayed budgets.

Despite this backdrop, this has been a breakout year for EMO, our local marketing agency, which has doubled in size as it responds to rapidly broadening demand for the specialism. Brands may be national but consumers are local – and advertisers are increasingly looking to local communications to drive response and deepen engagement whilst increasing the efficiency of their marketing spend. EMO has built on its core portfolio of automotive retail networks with a high-profile role in the Department of Health's recent NHS Smokefree campaign, delivering local communications and local support networks for those attempting to give up smoking. With the downturn leading several consumer brands to question the need for national brand advertising campaigns, demand for targeted local activity had increased throughout the year.

Financial highlights

Revenue

£55.7m

(2009: £58.7m)

Headline PBIT

£8.9m

(2009: £11.6m)

Reported PBIT

£8.1m

(2009: £9.3m)

Operational highlights

- Exceptional year for EMO, due to growing demand for targeted and accountable local marketing
- Launched 'Fever', our consumer PR agency
- Continued to invest in Centres of Excellence strategy with the launch of 'Things With Wings', specialising in social media marketing; and created a new mobile marketing business unit

Operating businesses

tullommarshallwarren

NELSON BOSTOCK
COMMUNICATIONS



THINGS WITH WINGS

Fever

therealadventure

DLKW

thecomposingroom



The Real Adventure, our Bath-based CRM and integrated digital agency, delivered a year of strong growth as it continues its recovery following the introduction of new management. The agency's Baby Club activity for Danone continues to be highly successful and new business in the form of Evian is helping to power growth. The Real Adventure also hosts Creston's Centre of Excellence in search advertising, which has increased in size during the year and played a valuable role in integrated campaigns across the division.

Our public relations agency, Nelson Bostock Communications, delivered a robust performance in a year of expanding opportunity. The launch of a consumer PR business, Fever, has helped to accelerate the growth of this area. Launching 'Things With Wings', a new Creston Centre of Excellence specialising in social media marketing, has given both Nelson Bostock and the wider Communications division valuable exposure to a rapidly growing sector.

Following a record-breaking last financial year, our digital and direct relationship marketing agency, Tullo Marshall Warren (TMW), could not escape the general downturn with reduced revenues as a result of lower spend from several major clients, and a significant drop in new business activity during the first three quarters. TMW has returned to growth in the fourth quarter with renewed activity in the new business pipeline. Continued investment in people and processes included the launch of the TMW Academy, a co-ordinated training programme for all frontline staff. The agency's mobile marketing unit has benefited from increasing activity and has been a key feature of campaigns across the division this year.

tmwdigitalhealth has worked very effectively in collaboration with Creston's Health division. In addition to providing digital consultancy and execution on a number of cross-division integrated campaigns, tmwdigitalhealth has added to its own client list through significant arrivals such as Pfizer and GlaxoSmithKline.

Despite the downturn in advertising spend for the industry as a whole, Delaney Lund Knox Warren maintained its profit margin year on year. The agency saw an improvement in the fourth quarter, with increased activity from key clients such as Morrisons, and the capture of the E.ON and Digital UK accounts.

Sale of subsidiary

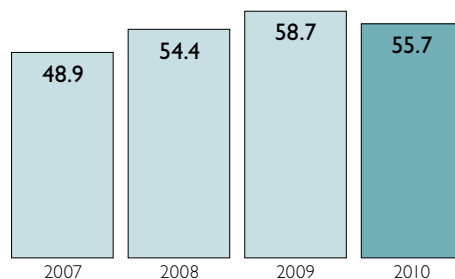
On 28 June 2010 we announced our proposed disposal of DLKW for £28.0 million in cash subject to shareholder approval at the General Meeting to be held on 13 July 2010. If approved, completion will take place soon after and the division will continue to be headed by Chris Warren. The disposal proceeds will be invested in the growth areas of marketing consultancy and digital communications. Infill acquisitions or start-ups will be explored as a means of enhancing the division's offer in the UK whilst international expansion will be considered where there is established client demand.

Future growth prospects

The division remains strongly positioned within the communications marketplace, with the opportunity to continue to gain market share as the sector recovers. We expect continued growth from the agencies that have gained share this year, with the Department of Health opening the door to new opportunities for EMO and continued growth in social media, search and mobile marketing.

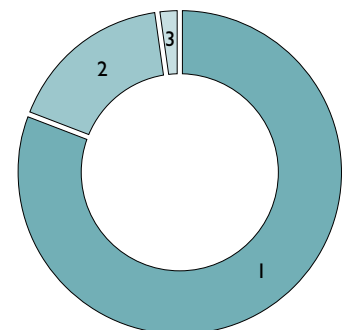
In the era of digital communications, continual change has become central to our business. The structure of our Group, with Centres of Excellence and our cross-agency Digital Forum sharing new skills in specialist areas, has allowed us to evolve our offer and establish leadership in new channels as they emerge. This has been a key element in the robust performance of much of the Communications division in an extremely difficult climate. Identifying emerging areas, particularly in the digital arena, then acting as a division to resource those areas, gives us a real competitive advantage. We believe that our approach will enable the division to continue to gain market share in the year ahead.

Communications revenue (£m)



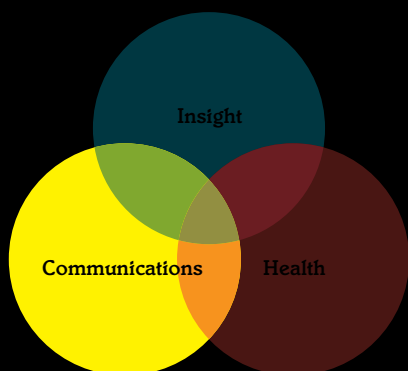
Communications geographical revenue

1 UK 81%
2 Rest of Europe 17%
3 Rest of the World 2%



Leading communications

The Communications division comprises agencies that provide a range of specialist services including advertising, PR, digital, CRM, data analytics, mobile and local marketing.



Help on the High Street

EMO for Department of Health

When smokers make the decision to quit they need help that's right on their doorstep. EMO and the Smokefree team at the Department of Health have recently launched a number of Quit Stop shops in local communities across the country. Quit Stop locations were planned using high-penetration Routine and Manual Smoker hotspot mapping. Local communities and local stakeholders have been engaged using EMO's unique community activation techniques. Early traffic, appointments and quit results are very encouraging.

Keeping Keeley

Tullo Marshall Warren for Unilever

Can you twist yourself to keep Keeley wanting more? This was the challenge posed by TMW in their campaign to launch Lynx Twist. An interactive film was designed to test guys' skills at keeping girls interested during crucial mating game moments. Scripted by the BAFTA-award-winning team behind C4 comedy Green Wing, 'Keeping Keeley' is shot entirely from multiple POV, and supported in all digital channels including Facebook, YouTube, Xbox LIVE, lynxeffect.com, Spotify, in-game and viral seeding. It has proved a huge hit with the boys!



A place to meet Friends

Fever for Warner Bros.

What better way to launch the Friends 15th Anniversary DVD box set than by giving people the chance to live the dream by opening the iconic Central Perk Cafe in London? – for a limited time only. Helped by Friends character 'Gunther' Fever created a press, social media and celebrity furore. Over 13,000 people sat on the iconic sofa in just two weeks and blanket coverage was secured across print and broadcast media. The resulting publicity ensured the DVD was one of the biggest-selling titles at Christmas.



Health Operating review



Ben Davies and Catherine Warne Joint Heads of Health

We will continue to expand both our international networks and our exposure to growth in emerging markets. At the same time, we believe that the UK market also holds a number of untapped opportunities for further growth.

With revenue growth of 5 per cent, the performance of our Health division during the last year shows the immense value of innovation to a fast-changing, specialist market.

Market overview

The headline growth in both profits and revenue seems to prove that healthcare marketing is robust in the headwinds of economic downturns. The broader truth is more complex, though no less encouraging.

In this downturn, government budgets have become increasingly vulnerable through growing deficits, and publicly funded health systems such as that of the UK will face inevitable economic pressure to reduce growth in drug costs. Furthermore these challenges come at a time when the pharmaceutical industry prepares for a more fundamental transition: the patent expiry 'cliff' that will see six of the top 10 selling drugs in the US losing protection between 2011 and 2012. The specialist consultancy IMS Health predicts that the resultant shift to generic drugs will reduce total drug spending by about \$80 billion to \$100 billion worldwide.

Patent expiries have a more fundamental impact than cutting into pharmaceutical companies' bottom line. They will trigger an adjustment in focus for the drugs of the future. With most of the blockbuster treatments in areas such as asthma, diabetes and heart disease now developed, pharmaceuticals will focus their attention on niche therapies treating previously unmet needs. As new markets are opened up, clients will require agility and flexibility from their communications and advertising agencies.

The performance of our business and the predictions for the sector prove that a time of change is not necessarily a time of decline. Emerging markets are predicted to grow between 14 per cent and 17 per cent over the next four years. With the emphasis for pharmaceutical companies and health services shifting, new opportunities are being created around marketing solutions that can drive efficiencies and help prescription budgets work harder. The performance of our Health division over the past year shows how a capacity for innovation, and access to broader marketing capabilities, position companies extremely well to deliver growth in this evolving market.

Operating review

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). Revenue per head increased by 4 per cent to £119,500 (2009: £115,400), whilst Headline PBIT per head was maintained at £36,600 (2009: £36,700). The Headline PBIT margin remains above industry norms at 31 per cent (2009: 32 per cent).

Financial highlights

Revenue

£8.8m

(2009: £8.4m)

Headline PBIT

£2.7m

(2009: £2.7m)

Reported PBIT

£2.7m

(2009: £2.7m)

Operational highlights

- International business now at 35 per cent of division's revenues
- Newly established ROCK (medical education company) has flourished

Operating businesses



The division grew revenues by 5 per cent year on year. This robust performance came through continued spend from our major existing clients, significant new business success in the shape of Astellas, Abbott, UCB and Eisai, and expanded business from clients such as AstraZeneca and GlaxoSmithKline. Our innovative, integrated approach of a 'family of healthcare communications experts' combines the skills of our leading specialist healthcare agencies: PAN Advertising, specialist PR communications consultancy Red Door Communications, and ROCK medical communications, the medical education agency that we launched last year.

Not long ago, the role of promoting pharmaceutical products to GPs and the healthcare industry was largely filled by sales teams, with healthcare advertising agencies supplying the collateral for these interactions. This situation has changed rapidly with changes to the code of practice that governs pharmaceutical-company-to-doctor relationships. This shift has fuelled demand for a full suite of communications and customer relationship marketing skills, to reach doctors through specialist communications channels – both on- and offline. Our division foresaw the changes and is well positioned to respond. As a result we have been able to grow our business through both new and existing clients.

In its first full year of operation, ROCK medical communications has demonstrated the opportunity that exists in medical education as the output of drug companies shifts to new, niche treatments with a corresponding requirement to educate doctors, nurses and pharmacists about new therapy areas.

International business accounted for 35 per cent of divisional revenues. The 'pharmerging' economies of the BRIC countries (Brazil, Russia, India and China) together with Mexico, Turkey, South Korea and Central and Eastern Europe are delivering double-digit growth as demand for marketing expertise follows drug availability.

The year saw strong activity for PAN Advertising in emerging and international markets, delivering campaigns for clients such as GlaxoSmithKline. We meet demand for international expertise

through a micro-network strategy using PAN's Indigenus network. This year, we grew the Indigenus network through new partnerships in Poland, Turkey and Russia.

The past year also saw Red Door Communications launch a specialist PR network, The Health Collective Network, which is made up of 11 partner companies. We already have broad coverage with like-minded specialist communications agencies in North America, Europe, the Middle East, East Africa, the Far East and the South Pacific.

Future growth prospects

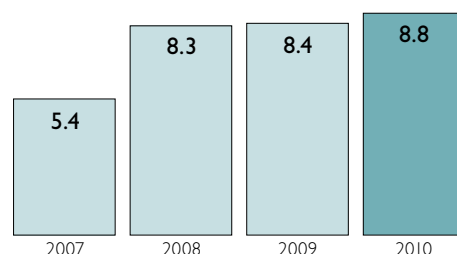
Over the coming year, we will continue to expand both our international networks and our exposure to growth in emerging markets. At the same time, we believe that the UK market also holds a number of untapped opportunities for further growth.

As NHS budgets come under pressure, focus is shifting to areas of inefficiency where value can be added through communications. One example is patient compliance (patients who are prescribed drugs failing to complete their courses), where savings can be found instantly. Using communications and research to tap into this lucrative market is one of the areas into which the Health division is looking to diversify.

Digital media throws up particular regulatory challenges for healthcare marketing, and our agencies are leading the way in raising awareness of issues and arguing for the need to adapt and evolve regulations. During the year we worked with ICM to demonstrate the growing use of social media and Wikipedia in the clinical setting. This study is playing a key role in driving debate to ensure that pharmaceutical companies should be allowed to have a voice in such digital media channels.

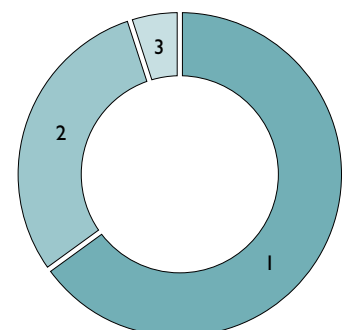
The government strategy for self-medication means that over-the-counter drugs and devices present another opportunity for growth in the UK, with the consumer-facing skills and diverse marketing capabilities within the Group ensuring our division a strong competitive advantage.

Health revenue (£m)



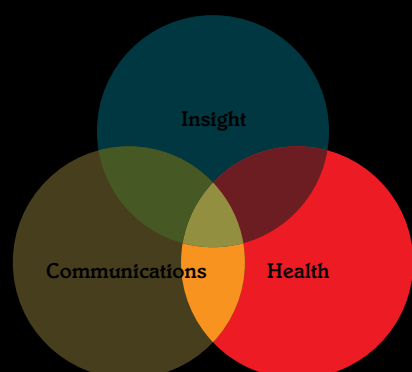
Health geographical revenue

- 1 UK 65%
- 2 Rest of Europe 30%
- 3 Rest of the World 5%



Transforming health

The Health division is a family of specialist health communication experts. Each of our four businesses is a highly successful brand in its own right, as well as delivering integrated communications services if appropriate.



Because life is for living

**ROCK medical communications
for Nucletron B.V.**

This global campaign was aimed at cancer specialists, providing them with quality medical education materials about brachytherapy – a targeted form of radiotherapy. The programme, developed for Nucletron – a pioneer in state-of-the-art brachytherapy technology – has had an instant impact across all markets. Thanks to the campaign brachytherapy – which offers effective treatment in days rather than weeks, with a reduced risk of side-effects compared to traditional treatments – is now better placed to help advance cancer patients' care.



Yes we can

PAN Advertising for Takeda UK

Despite an ultra-competitive, cost-driven environment, and a four-year absence of brand advertising, PAN's 'Yes we can' response expressed a spirit of defiant optimism, aptly epitomised by their 'Can do' and 'You can' campaign dramatising the benefit Amias candesartan has for doctors. The brand team developed a complex, high-stakes approach that delivered outstanding results, successfully aligning business objectives with NHS strategy. This secured commitment at all levels within Takeda UK, and the prestigious 2009 PMEA 'Marketing Campaign of the Year' award.



A matter of emergency

Red Door Communications for The College of Emergency Medicine

The College of Emergency Medicine (CEM) appointed Red Door Communications to raise public and political awareness of issues in emergency medicine through the media. In doing so it wanted to put pressure on the government to work with it on emergency medicine policy. Two major initiatives were developed – a policy document called Way Ahead and an election manifesto – which together brought nearly 90 pieces of media coverage, including BBC Radio Four's influential Today programme, national television, print and online.

Emergency