16 March 2010

Cello Group plc

Research ends year strongly, Q1 continues encouraging trend

Cello Group plc (AIM:CLL, "Cello" or "the Group"), the market research and consulting group, today announces its preliminary audited results for the year to 31 December 2009.

Highlights

- Like-for-like operating income £60.5m (2008: £65.4m*)
  - Research H2 2.6% growth
- Headline operating profit £5.9m (2008: £8.2m*)
- Basic headline earnings per share 7.28p (2008: 13.08p*)
- Full year dividend up 4% at 1.30p (2008: 1.25p)
- Strong cash management and generation held down net debt to £11.5m (2008: £9.9m), after cash earn out payments of £3.2m
- Banking facilities successfully renewed until 2013
- Solid second half performance in Research continues in 2010
- 6th largest UK research operation[1] (2008: 9th) and 19th globally[2] (2008: 21st)
- Good start to 2010 – momentum in Q4 2009 continued into Q1 2010
- Robust pipelines of non-UK work in Research and Consulting
- Simon Dannatt appointed Managing Director, Cello USA

*after discontinued operations
[1] source: Marketing Market Research Leagues September 2009
[2] source: Inside Research published August 2009

Mark Scott, Chief Executive, commented:

"2009 was a demanding year. However, a combination of our very tight cost control and a better final six months for our Research and Consulting business gives us the confidence to increase our dividend.

"We are leaner, more focused, with real strength in our core Research and Consulting activities – as demonstrated by the improvement in both the domestic and international positioning of our research business. Long standing client relationships remain robust and gearing has been materially reduced. This puts us in a strong position to expand again."

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Overview

2009 has been a demanding year for Cello with the Group reporting headline operating profit of £5.9m (2008: £8.2m*) on operating income of £60.5m (2008: £65.4m*). However, the final quarter showed clear signs of stabilisation and improving spend by clients in the Group's core areas of expertise.

The decline in income was not evenly spread across the Group, nor across the year. A stronger second half from Cello (Research) meant that full year like-for-like income improved from the half year decline of 10.4% to a full year decline of 4.1% (H2 up by 2.6%). The rate of decline in Tangible, the Group's direct marketing arm also improved slightly from 12.5% at the half year to a full year decline of 11.7%.

These variations reflect the marked slowing in H1 2009 of ad-hoc qualitative and quantitative market research activity, which subsequently recovered to more normal levels as clients renewed their activity in the latter part of the year. The rate of decline in certain parts of Tangible's business also slowed by year end.

As detailed in the interim results, the Group acted rapidly to the market conditions by reducing professional resource as well as property and other administrative costs. Before discontinued operations, the full year cost base for 2009 was £4.3m lower than 2008 with a substantially lower professional year end headcount of 760 (2008: 830). The Group has also taken action to consolidate its property commitments and will exit at least five leases over the next two years, reducing annual property costs by a further £0.5m.

Cello continues to benefit from its client sector focus and increasing orientation towards large contracts. Performance remained particularly strong in healthcare which now accounts for 38% of operating income in Research (2008: 34%). The fact that the top 20 Group clients remained largely unchanged is a clear demonstration of the Group's ability to manage long term relationships. They accounted for 38% of Cello's total operating income. At the same time the Group has achieved significant new client wins.

In Cello (Research), the emphasis on international activity has continued to yield good returns, with overseas revenue now accounting for over 46% of divisional revenue (2008: 42%). Overseas revenue declined by 1.5%, at a significantly slower rate of decline than UK domiciled income. This has been achieved by continuing to target multinational client contracts which represent higher growth opportunities outside the relatively mature UK market.

Following continued strong operating cash generation, net debt at year end was £11.5m (2008: £9.9m) after £3.2m of earn out payments. In March 2010, the Group secured new three year debt facilities.

Financial Review

Total Group operating income was £60.5m (2008: £65.4m*). Headline profit before tax was £5.1m (2008: £7.3m*). The Group's overall results mask continued success in the core activities of healthcare research, specialist FMCG research and direct marketing. Within these areas, quantitative research, where the Group has larger contract sizes, has continued to prove particularly resilient.

The continued reduction in client activity in the London-based financial services focused agency and the business intelligence consulting business, as well as weakness in parts of the charities activities and in Tangible's London communications market, all impacted operating income. The Group headline operating margin, before head office costs, was 12.4% (2008: 15.6%*).

In all underperforming areas quick action was taken to adjust the cost structure to an appropriate level, resulting in an exceptional charge of £1.9m. This charge relates to employee termination payments and surplus space provisions. All of these were deemed prudent actions to protect the medium term profitability of the Group.

The net interest charge was £0.9m (2008: £0.9m). The Group's tax charge in the year was £0.2m (2008: £1.0m). This reduction is as a result of a decrease in headline operating profit; tax deductible exceptional costs; deferred tax credits occurring as a consequence of amortisation and impairment of intangible assets, and recognition of certain non-recurring tax credits from prior years.

Headline basic earnings per share were 7.28p (2008: 13.08p*) and headline fully diluted earnings per share were 5.89p (2008: 8.41p*). Fully diluted earnings per share reflects the impact of the anticipated future issuance of shares to vendors of companies acquired by the Group under earn out arrangements.

The Board is proposing a final dividend of 0.80p per share, giving a total dividend per share for the year ended 31 December 2009 of 1.30p (2008: 1.25p), an increase of 4.0%. This dividend will be paid, subject to shareholder approval, on 16 June 2010 to all shareholders on the register at 21 May 2010.

The Group's net debt position at 31 December 2009 was £11.5m (2008: £9.9m), after earn out payments of £3.2m. Operating cash flow of £5.2m during the year represented an 87% conversion of headline operating profit.

In March 2010, the Group renewed its banking facility with The Royal Bank of Scotland. This new facility consists of a £10.0m term loan and a £7.0m Revolving Credit Facility. The facility expires in March 2013. The multi-currency overdraft facility of £2.0m was also renewed. Interest margin is between 250pts and 325pts above LIBOR. Increases in interest margins incurred under this new facility are expected to be offset by ongoing reduction in net debt through internally generated cash during 2010 and beyond.

In April 2009, £7.8m of earn out liabilities were settled, which is a very substantial part of the Group's outstanding earn out liabilities. These were settled by £3.2m in cash and loan notes, and £4.6m in shares issued at an average issue price of 32.4p per share. Following a detailed review of further liabilities, earn out commitments now expected are £6.1m at 31 December 2009 to be paid over the period from 2010 to 2013, compared with £7.4m for the equivalent period at 31 December 2008. The minimum cash or loan note element of these liabilities is £2.8m. Shares issued under these arrangements will be subject to contractual trading lock-ins for up to three years after their issue. The Board retains discretion to pay a larger proportion of this in the form of loan notes or cash.

Future earn out commitments, including future acquisition related expenses are therefore expected to be as follows:

Year	Cash/Loan notes £m	Shares £m	Total £m
2010	1.4	1.1	**2.5**
2011	0.9	1.8	**2.7**
2012+	0.5	0.4	**0.9**
Total	**2.8**	**3.3**	**6.1**

The Group incurs a number of non cash P&L charges, detailed below. Deemed remuneration of £0.2m (2008: £0.6m) and notional interest of £0.1m (2008: £0.3m) have both dropped as a large proportion of related earn outs have been settled during the year. Impairment charges of £8.4m, including £5.5m in the first half of the year, relate to the write down in the carried balance sheet value of Tangible Financial, SMT, TMI and Oomph following their reduced performance in 2009, as well as investment in a small research start-up which failed to thrive.

	2009 £'000	2008* £'000
Headline operating profit	**5,943**	**8,168**
Net interest payable	(887)	(891)
Headline profit before tax	**5,056**	**7,277**
Exceptional costs	(1,949)	(1,285)
Fair value gain/(loss) on financial instruments	155	(444)
Deemed remuneration	(163)	(647)
Share option credit	-	450
Impairment of investments	(207)	-
Impairment of intangibles	(8,161)	-
Amortisation of intangibles	(455)	(858)
Notional interest	(104)	(291)
Reported (loss)/profit before tax	**(5,828)**	**4,202**

*after discontinued operations

Operational Review

Research and Consulting

The strong position of Cello in the international market research industry enabled the Group to successfully defend client revenues in a challenging and highly competitive market. The Group has been able to demonstrate greater scale and a broader range of skills and services with clients as it competes for larger contracts with existing and new clients.

In addition, the Group has continued to consolidate its operations into shared facilities as leases come up for renewal, enabling it to create clusters of professional resource which are both more vibrant and efficient. As a result of continued consolidation in the market research sector, it has risen to become the 6th largest research operation in the UK (2008: 9th), and 19th globally (2008: 21st).

Cello (Research) had a solid year given the economic context, delivering a headline operating profit of £5.6m (2008: £6.5m) from operating income of £36.3m (2008: £37.9m). With an employee base of 415 (2008: 460) and revenue of £59.8m (2008: £64.9m), Cello ranks firmly in the top ten of market research businesses based in the UK and is the only business which is not part of a much larger Group.

Operating margins were 15.4% (2008: 17.2%*) as a result of reduced profit performance in its business intelligence business and in aspects of its public sector market research activity which has come under long anticipated pressure. The general hiatus in market research activity which occurred in the middle of 2009 has now been replaced by more normal levels of client activity.

Healthcare research has shown particular resilience, representing approximately 38% of operating income in this division (2008: 36%). As well as continued strength in the pharmaceutical core, the Group has successfully extended into the growing OTC and brand oriented market for drugs and therapies, particularly in the USA.

The Group has continued to more closely integrate its research and consulting capability and achieve competitive advantage against the much larger networks with which it is now directly competing. The Group has also continued to consolidate its field force and online data capture capacity to improve utilisation levels and to position itself as a competitive outsourcing solution for larger research networks.

The research business has continued to grow worldwide, with international work now accounting for 46.4% of divisional activity (2008: 42.3%). The Group plans to expand its US presence organically in 2010, building on its successful existing operation in New York. The Group has appointed Simon Dannatt as Managing Director, Cello USA. Simon was previously Chief Executive of Optimisa PLC.

Top clients during the year included GSK, Novartis, HP, Tesco, EA Games and Nokia. All these clients are long standing and reflect the first class blue chip nature of the Group's client base. Significant new client wins in 2009 include; Sandoz, Mundipharma, Bupa, Kraft, Kimberly Clark, L'Oreal, Boden, HP, Cadburys, Coors, Nestle, Eurostar, Tesco Bank, Swiss Re and Bayer.

Tangible

Tangible (Response) had a more challenging time than Cello (Research), delivering a headline operating profit of £1.8m (2008: £3.7m) on operating income of £24.2m (2008: £27.5m). Headline operating margins in this business were 7.4% (2008: 13.5%), reflecting the continued declines in financial services income, as well as a challenging context for charities related work and general agency activity in London.

The Edinburgh hub of Tangible had an excellent year, as did the Cheltenham and London core operations with their focus on direct marketing with strong digital capability. The integration of online capability with more traditional direct marketing approaches has proved a successful strategy as clients look to reduce risks. This is expected to put the business in a good position to capitalise on the recovery in client activity. The Groups pioneering carbon footprinting tool for marketers, Footmark, has successfully established its carbon management offer with clients such as Unicef, Christian Aid, Lloyds TSB and Cafod. The Group continues to invest in developing digital applications. Its online communities' proposition, trading as Face, continued to flourish as part of the co-creation methodology which underpins our unique client proposition.

Tangible remains the 6th largest UK direct marketing company in the UK. Top clients of Tangible include the Scottish Government, Coors, AGBarr, The Royal British Legion and the British Heart Foundation. Significant new client wins in 2009 include; Axiom, Endsleigh Insurance, Shelter, Oxfam, Christian Aid, Motability, Sony, HSBC GAM, EBRD, Baillie Gifford, Platform, Energy Savings Trust, Tesco Bank, Scottish Enterprise, BBC, Nandos, Which?, BT, Cancer Research, Save the Children, Clorex, Nokia, Danone, Aegon and Reckitt Benckiser.

Current Trading

The Group is optimistic that the higher levels of client activity, particularly in the research sector, seen in the last quarter of 2009 and in the early months of 2010, will continue. Cello has strong revenue pipelines in Research and Consulting and Tangible has also seen a marked increase in levels of new business activity.

At this early stage of the year, with its substantially lower cost base, improved market position and strong presence in healthcare research, the Group is well positioned to benefit from more normal levels of ongoing client activity and will materially benefit from any upturn in the UK or internationally.

Allan Rich
Non-Executive Chairman
15 March 2010

Consolidated Income Statement
for the year ended 31 December 2009

	Notes	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Continuing operations			
Revenue	1	126,660	137,630
Cost of sales		(66,201)	(72,269)
Operating income	1	**60,459**	**65,361**
Administration expenses	3a	(54,516)	(57,193)
Headline operating profit	1	**5,943**	**8,168**
Exceptional items	3	(1,949)	(1,285)
Amortisation of intangible assets		(455)	(858)
Acquisition related employee expenses	7	(163)	(647)
Share option credit		-	450
Operating profit before impairment charges	1	**3,376**	**5,828**
Impairment of intangible assets		(778)	-
Impairment of goodwill		(7,383)	-
Impairment of available-for-sale investments		(207)	-
Operating (loss)/profit	3a	**(4,992)**	**5,828**
Finance income	2	69	243
Finance cost of deferred consideration	2	(104)	(291)
Fair value gain/(loss) on derivative financial instruments	2	155	(444)
Other finance costs	2	(956)	(1,134)
(Loss)/profit on continuing operations before taxation		**(5,828)**	**4,202**
Tax		(239)	(1,015)
(Loss)/profit on continuing operations after taxation		**(6,067)**	**3,187**
Loss from discontinued operations		(253)	(386)
(Loss)/profit for the year		**(6,320)**	**2,801**
Attributable to:			
Owners of the parent		(6,359)	2,761
Minority interest		39	40
		(6,320)	**2,801**

Consolidated Income Statement
for the year ended 31 December 2009

	Notes	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Basic (loss)/earnings per share			
From continuing operations	**5**	(11.26)p	7.35p
From discontinued operations	**5**	(0.47)p	(0.90)p
		(11.73)p	6.45p
Diluted (loss)/earnings per share			
From continuing operations	**5**	(11.26)p	5.55p
From discontinued operations	**5**	(0.47)p	(0.68)p
		(11.73)p	4.87p

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2009

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
(Loss)/profit for the year	(6,320)	2,801
Other comprehensive income:		
Exchange differences on translation of foreign operations	12	(47)
Deferred tax recognised direct in equity	-	222
Total other comprehensive income for the year	12	175
Total comprehensive (expense)/income for the year	**(6,308)**	**2,976**

Consolidated Balance Sheet
for the year ended 31 December 2009

	Notes	31 December 2009 £'000	31 December 2008 £'000
Goodwill		67,926	76,291
Intangible assets		1,174	2,266
Property, plant and equipment		2,515	3,103
Available-for-sale investments		20	227
Deferred tax assets		962	1,080
Non-current assets		**72,597**	**82,967**
Trade and other receivables		25,711	26,658
Cash and cash equivalents		3,135	5,065
Current assets		**28,846**	**31,723**
Trade and other payables		(25,419)	(26,633)
Current tax liabilities		(568)	(708)
Borrowings		(14,529)	(1,053)
Consideration payable in respect of acquisitions	7	(2,472)	(7,980)
Obligations under finance leases		(68)	(68)
Derivative financial instruments		(289)	-
Current liabilities		**(43,345)**	**(36,442)**
Net current liabilities		**(14,499)**	**(4,719)**
Total assets less current liabilities		**58,098**	**78,248**
Non-current liabilities			
Borrowings		-	(13,750)
Provisions	6	(3,315)	(6,453)
Obligations under finance leases		(65)	(86)
Derivative financial instruments		-	(444)
Deferred tax liabilities		(292)	(616)
Net assets		**54,426**	**56,899**
Equity			
Share capital		5,876	4,456
Share premium		34,945	31,745
Retained earnings		2,904	10,048
Capital redemption reserve		50	50
Merger reserve		10,496	10,496
Share-based payment reserve		73	73
Foreign currency reserve		(35)	(47)
Equity attributable to owners of the parent		**54,309**	**56,821**
Minority interest		117	78
Total equity		**54,426**	**56,899**

Consolidated Cash Flow Statement
for the year ended 31 December 2009

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Net cash inflow from operating activities before taxation	**5,198**	**9,682**
Tax paid	(591)	(1,911)
Net cash inflow from operating activities after taxation	**4,607**	**7,771**
Investing activities		
Interest received	69	243
Purchase of property, plant and equipment	(699)	(1,119)
Sale of property, plant and equipment	39	66
Expenditure on intangible assets	(141)	(119)
Deferred consideration paid for subsidiary undertakings	(1,478)	(3,636)
Net cash outflow from investing activities	**(2,210)**	**(4,565)**
Financing activities		
Dividends paid to equity holders of the parent	(733)	(556)
Repayment of borrowings	(3,000)	(8,050)
Repayment of loan notes	(2,187)	(5,211)
Drawdown of borrowings	2,600	10,050
Capital element of finance lease payments	(21)	(90)
Payment of finance lease interest	(21)	(21)
Interest paid	(935)	(1,105)
Purchase of own shares	(52)	(71)
Net cash outflow from financing	**(4,349)**	**(5,054)**
Movements in cash and cash equivalents		
Net decrease in cash and cash equivalents	(1,952)	(1,848)
Exchange gains/(losses) on cash and bank overdrafts	22	(73)
Cash and cash equivalents at the beginning of the year	5,065	6,986
Cash and cash equivalents at end of the year	**3,135**	**5,065**

Statement of Changes in Equity
for the year ended 31 December 2009

	Share Capital £'000	Share Premium £'000	Capital Redemption Reserve £'000	Merger Reserve £'000	Share-based payment Reserve £'000	Foreign currency exchange Reserve £'000	Retained earnings £'000	Total attributable to owners of the parent £'000	Minority Interest £'000	Total Equity £'000
At 1 January 2008	**3,884**	**25,776**	**50**	**10,496**	**523**	**-**	**7,692**	**48,421**	**38**	**48,459**
Profit for the year	-	-	-	-	-	-	2,761	2,761	40	2,801
Other comprehensive income:										
Currency translation	-	-	-	-	-	(47)	-	(47)	-	(47)
Deferred tax recognised direct in equity	-	-	-	-	-	-	222	222	-	222
Total other comprehensive income for the year	-	-	-	-	-	(47)	222	175	-	175
Total comprehensive income for the year	-	-	-	-	-	(47)	2,983	2,936	40	2,976
Transactions with owners:										
Shares issued	572	5,969	-	-	-	-	-	6,541	-	6,541
Own shares purchased	-	-	-	-	-	-	(71)	(71)	-	(71)
Debit for share-based incentive schemes	-	-	-	-	(450)	-	-	(450)	-	(450)
Dividends	-	-	-	-	-	-	(556)	(556)	-	(556)
Total transactions with owners	572	5,969	-	-	(450)	-	(627)	5,464	-	5,464
At 1 January 2009	**4,456**	**31,745**	**50**	**10,496**	**73**	**(47)**	**10,048**	**56,821**	**78**	**56,899**
Loss for the year	-	-	-	-	-	-	(6,359)	(6,359)	39	(6,320)
Other comprehensive income:										
Currency translation	-	-	-	-	-	12	-	12	-	12
Total comprehensive income for the year	-	-	-	-	-	12	(6,359)	(6,347)	39	(6,308)
Transactions with owners:										
Shares issued	1,420	3,200	-	-	-	-	-	4,620	-	4,620
Own shares purchased	-	-	-	-	-	-	(52)	(52)	-	(52)
Dividends	-	-	-	-	-	-	(733)	(733)	-	(733)
Total transactions with owners	1,420	3,200	-	-	-	-	(785)	3,835	-	3,835
As at 31 December 2009	**5,876**	**34,945**	**50**	**10,496**	**73**	**(35)**	**2,904**	**54,309**	**117**	**54,426**

The merger reserve is a reserve that was created as a result of the placing of shares on 4 November 2004.

The capital redemption reserve arose from the purchase and cancellation of own share capital.

Consolidated Financial Statements – Accounting Policies
for the year ended 31 December 2009

General Information

Cello Group plc is a company incorporated in the United Kingdom under the Companies Act 1985. The Group's operations consist principally of research, consulting and direct marketing.

These financial statements are presented in pounds sterling as this is the currency of the primary economic environment in which the Group operates.

At the date of authorisation of these financial statements, the following standards and interpretations, which are issued but not yet effective, have not been applied:

		Effective for reporting periods starting on or after
IFRIC 9	Reassessment of Embedded Derivatives – Amendment; Embedded Derivatives	30 June 2009
IFRIC 14	Amendments – Prepayments of a Minimum Funding Requirement	1 January 2011
IFRIC 17	Distributions of Non-cash Assets to Owners	1 July 2009
IFRIC 18	Transfers of Assets from Customers	1 July 2009
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

Amendments to IFRSs arising from Annual Improvements Projects

		Effective for reporting periods starting on or after
IFRS 2	Share-based Payment	1 July 2009
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2010
IFRS 6	Exploration for and Evaluation of Mineral Resources *(consequential amendments from IAS 7)*	1 January 2010
IFRS 8	Operating Segments	1 January 2010
IAS 1	Presentation of Financial Statements	1 January 2010
IAS 7	Statement of Cash Flows	1 January 2010
IAS 17	Leases	1 January 2010
IAS 36	Impairment of Assets	1 January 2010
IAS 38	Intangible Assets	1 July 2009
IAS 39	Financial Instruments: Recognition and Measurement	1 January 2010
IFRIC 9	Reassessment of Embedded Derivatives	1 July 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 July 2009

The directors anticipate that the adoption of these Standards and Interpretations as appropriate in future periods will have no material impact on the financial statements of the Group when the relevant standards come into effect for periods commencing after 1 January 2010.

Significant Accounting Policies

(1) Basis of accounting

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale investments and in accordance with applicable International Financial Reporting Standards as adopted by the European Union (IFRS)

In preparing the consolidated financial statements the Group has adopted the exemption in IFRS 1 not to restate business combinations prior to 1 December 2005.

The Group's business activities, performance and position are set out in the Chairman's Statement.

During the year the Group incurred a loss before tax of £5.8m, although excluding non-recurring exceptional costs and non-cash charges the Group made a profit before tax of £5.1m.

The Group had net current liabilities of £14.5m at 31 December 2009. This is due to the inclusion in current liabilities of the Group's borrowing under the Group's debt facilities which expire on 31 December 2010 together with certain earn out liabilities.. Since the year end the Group has entered into new debt facilities which total £19.0m. £2.0m of these facilities are repayable on 31 December 2010.

After reviewing the Group's performance and forecast future cashflows, the directors consider the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing the Group's Financial Statements.

(2) Basis of consolidation

The Group's financial statements consolidate the financial statements of the Company and all of its subsidiary undertakings. The results of subsidiary undertakings acquired in the year are included in the consolidated income statement from the effective date of acquisition. On acquisition of a business all of the assets and liabilities of that business that exist at the date of acquisition are recorded at fair value. Minority interests represent the portion of profit and or loss and net assets in subsidiaries that is not held by the Group and is presented separately from Group shareholder's equity in the consolidated balance sheet. All intra-group transactions and balances are eliminated on consolidation.

(3) Revenue, cost of sales and revenue recognition

Revenue is recognised as contract activity progresses, in accordance with the terms of the contractual agreement and the stage of completion of the work. It is in respect of the provision of services including fees, commissions, rechargeable expenses and sales of materials performed subject to specific contract. Where recorded revenue exceeds amounts invoiced to clients, the excess is classified as accrued income and where recorded revenue is less than amounts invoiced to clients, the difference is classified as deferred income.

Cost of sales include amounts payable to external suppliers where they are retained at the Group's discretion to perform part of a specific client project or service where the Group has full exposure to the benefits and risks of the contract with the client.

(4) Goodwill and other intangible assets

In accordance with IFRS 3 Business Combinations, goodwill arising on acquisitions is capitalised as an intangible asset. Other intangible assets are also identified and amortised over their useful economic lives

on a straight line basis. Examples of these are licences to trade, and client contracts. The useful economic lives vary from 3 months to 8 years. Goodwill is not amortised.

Under IAS 36 Impairment of Assets, goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to each cash generating unit that is expected to benefit from the business combination in which goodwill arose and identified according to operating segment. The carrying values of goodwill for each cash generating unit is reviewed annually for impairment on the basis stipulated in IAS 36 and adjusted to the recoverable amount. Typically, such a review will entail an assessment of the present value of projected returns from the asset over a 3 to 5 year projection period, and growth assumptions based on expected overall sector growth for subsequent years, to a maximum period of 20 years.

(5) Property, plant and equipment

Property, plant and equipment are stated at historical cost. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset, over their estimated useful economic lives as follows:-

Leasehold improvements	Over the remaining term of the lease
Motor vehicles	25% pa. straight line
Computer equipment	33% pa. straight line
Fixtures, fittings and office equipment	25% pa. straight line

(6) Available-for-sale investments

Investments classified as available-for-sale are initially recorded at fair value including transaction costs. Such instruments are subsequently measured at fair value with gains and losses being recognised in other comprehensive income until the instrument is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recycled to the income statement and recognised in profit or loss for the period. Impairment losses are recognised in the income statement when there is objective evidence of impairment.

(7) Internally generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Group's development expenditure is recognised only when the following conditions are met:

i. an asset is created that can be identified (such as software or a new process);
ii. it is probable that the asset created will generate future economic benefit;
iii. the development cost of the asset can be measured reliably;
iv. there is the availability of adequate technical, financial or other resources and an intention to complete the development and to use or sell the development

Internally generated assets are amortised on a straight line basis over their useful lives. Where no internally generated intangible asset can be recognised, the development expenditure is recognised as an expense in the period in which it is incurred.

Assets subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable.

(8) Deferred taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying value of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit or the accounting profit other than those on business combinations.

Deferred tax is calculated at the tax rates that are enacted or substantially enacted and expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(9) Leasing and hire purchase commitments

When the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease or similar hire purchase contract. The asset is recorded at fair value (or present value of minimum lease payments if lower) in the balance sheet as property, plant and equipment and is depreciated over the estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included as a liability. Rentals payable are apportioned between the finance element, which is charged to the income statement, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are treated as operating leases and rentals payable are charged to the income statement on a straight line basis over the lease terms.

(10) Foreign currencies

Sterling is the functional currency of the company and the presentational currency of the Group. The functional currency of subsidiaries is the local currency of the primary economic environment in which the entity operates.

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation to the rate prevailing at the year end of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

The financial statements of subsidiaries whose functional currency is different to the presentational currency of the Group are translated into the presentational currency of the Group on consolidation. Assets and liabilities are translated at the exchange rate prevailing at the balance sheet date. Income and expenses are translated at the average exchange rate for the year. Exchange differences arising on consolidation are recognised in other comprehensive income and the cumulative effect of these as a separate component in equity.

(11) Pension contributions

Subsidiaries operate defined contribution pension schemes and contribute to the personal pension schemes of certain employees or to a Group personal pension plan. The assets of the schemes are held separately from those of the subsidiary companies in independently administered funds. The amount

charged against profits represents the contributions payable to the scheme in respect of the accounting period.

(12) Share-based payments

The Group has applied the requirements of IFRS 2 Share-based Payment which requires the fair value of share-based payments to be recognised as an expense. In accordance with the transitional provisions, IFRS 2 has been applied to such equity instruments that were granted after 7 November 2002 and which had not vested by 1 January 2006.

This standard has been applied to various types of share-based payments as follows:

i. Share options

Certain employees receive remuneration in the form of share options. The fair value of the equity instruments granted is measured on the date at which they are granted by using the Black-Scholes model, and is expensed to the income statement over the appropriate vesting period.

ii. Acquisition related employee remuneration expenses

In accordance with IFRS 3 Business Combinations and IFRS 2 Share-based Payment, certain payments to employees in respect of earn out arrangements are treated as remuneration within the income statement.

(13) Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group has become a party to the contractual provisions of the instrument.

i. Trade receivables

Trade receivables are classified as loans and receivables and are initially recognised at fair value and subsequently measured at amortised cost in accordance with IAS 39 Financial Instruments: recognition and measurement. A provision for impairment is made where there is objective evidence, (including customers with financial difficulties or in default on payments) that amounts will not be recovered in accordance with original terms of the agreement. A provision for impairment is established when the carrying value of the receivable exceeds the present value of the future cash flow discounted using the original effective interest rate. The carrying value of the receivable is reduced through the use of an allowance account and any impairment loss is recognised in the income statement.

ii. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and at bank and other short-term deposits held by the Group with maturities of less than three months.

iii. Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

iv. Bank borrowings

Interest-bearing bank loans and overdrafts are recorded initially at their fair value, net of direct transaction costs. Such instruments are subsequently carried at their amortised cost and finance charges, including premiums payable on settlement or redemption, are recognised in the income statement over the term of the instrument using an effective rate of interest.

v. Trade payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost.

vi. Derivative financial instruments and hedge accounting

The Group's activities expose the entity primarily to foreign currency and interest rate risk. The Group uses interest rate swap contracts to hedge interest rate exposures.

Interest rate swap contracts are initially recognised at fair value on the date the contract is entered into and subsequently remeasured at their fair value. Changes in the fair value are recorded in the income statement.

(14) Accounting estimates and judgements

The directors consider the critical accounting estimates and judgements used in the financial statements and concluded that the main areas of judgements are:

i. Revenue recognition policies in respect of contracts which straddle the year end.
ii. Contingent deferred consideration payments in respect of acquisitions.
iii. Recognition of share-based payments.
iv. Valuation of intangible assets.

These estimates are based on historical experience and various other assumptions that management and the board of directors believe are reasonable under the circumstances and are discussed in more detail in their respective notes. The Group also makes estimates and judgements concerning the future and the resulting estimate may, by definition, vary from the related actual results.

(15) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle this obligation and a reliable estimate can be made of the amount of the obligation. Expected future cash flows to settle provisions are discounted to present value.

(16) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, which is responsible for allocating resources and assessing performance of the operating segments has been indentified as the board of directors.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2009

1. Segmental Information

Adoption of IFRS 8 Operating Segments

The Group has adopted IFRS 8 Operating Segments during the year. The standard supersedes IAS14 Segment Reporting and is effective for the year ended 31 December 2009. IFRS 8 requires disclosure of segment information on the basis of information reported internally to the chief operating decision maker for decision making purposes. The Group considers that the role of chief operating decision maker is performed by the plc's board of directors. IAS 14 requires segmental information to be reported for business segments and geographical segments based on assets and operations that provided products and services subject to different risks and returns. The adoption of IFRS 8 has not had any impact on the performance or position of the Group.

For management purposes, the Group is organised into two operating groups; Cello Research and Consulting, and Tangible Group. These groups are the basis on which the Group reports internally to the plc's board of directors, who have been identified as the chief operating decision makers.

The principal activities are as follows:

Cello Research and Consulting

The Research and Consulting Group provide both qualitative and quantitative research to a global range of clients across a range of sectors. This research combined with a consulting capability puts the Group in a unique position to add real value to client relationships.

Tangible Group

The Tangible Group offers direct communication solutions from a mixture of direct mail, email and related response media with a focus on the key delivery areas of response: Direct, Digital and Data.

Revenues of £3.85m (2008: £4.30m) are derived from the Group's largest client and these revenues are included in Cello Research and Consulting.

for the year ended 31 December 2009

	Research and Consulting £'000	Tangible Group £'000	Unallocated Corporate Expenses £'000	Group £'000
Profit and loss				
Revenue	59,807	66,853	-	126,660
Operating income	36,301	24,158	-	60,459
Headline operating profit (headline segment result)	5,575	1,814	(1,446)	5,943
Exceptional items	(918)	(1,031)	-	(1,949)
Amortisation of intangible assets	(315)	(140)	-	(455)
Acquisition related employee expenses	(217)	54	-	(163)
Operating profit before impairments	4,125	697	(1,446)	3,376
Impairment of intangible assets	(778)	-	-	(778)
Impairment of goodwill	(4,637)	(2,746)	-	(7,383)
Impairment of available-for-sale investments	(177)	-	(30)	(207)
Operating loss (segment result)	(1,467)	(2,049)	(1,476)	(4,992)
Financing income				69
Finance costs				(104)
Fair value gain on derivative financial instruments				155
Finance cost of deferred consideration				(956)
Loss before tax				(5,828)
Other information				
Additions to property, plant and equipment	321	371	7	699
Capitalisation of intangible assets	-	141	-	141
Depreciation of property, plant and equipment	680	555	12	1,247

	Research and Consulting £'000	Tangible Group £'000	Unallocated Corporate Assets/ (Liabilities) £'000	Eliminations £'000	Total £'000
Assets and liabilities					
Non current assets	43,634	27,957	44	-	71,635
Current assets	20,143	16,252	999	(8,548)	28,846
Total segment assets	63,777	44,209	1,043	(8,548)	100,481
Deferred tax assets					962
Consolidated total assets					101,443
Segment liabilities	(17,163)	(13,977)	(8,903)	8,548	(31,495)
Borrowings					(14,529)
Corporation tax liabilities					(568)
Deferred tax liabilities					(292)
Finance leases					(133)
Consolidated total liabilities					(47,017)

for the year ended 31 December 2008

	Research and Consulting £'000	Tangible Group £'000	Unallocated Corporate Expenses £'000	Group £'000
Profit and loss				
Revenue	64,918	72,712	-	137,630
Operating income	37,861	27,500	-	65,361
Headline operating profit (headline segment result)	6,508	3,708	(2,048)	8,168
Exceptional items	(521)	(724)	(40)	(1,285)
Amortisation of intangible assets	(611)	(247)	-	(858)
Acquisition related employee expenses	(419)	(228)	-	(647)
Share option credit	98	78	274	450
Operating profit (segment result)	5,055	2,587	(1,814)	5,828
Financing income				243
Finance cost of deferred consideration				(291)
Fair value loss on derivative financial instruments				(444)
Finance costs				(1,134)
Profit before tax				4,202
Other information				
Additions to property, plant and equipment	742	501	-	1,243
Capitalisation of intangible assets	-	119	-	119
Depreciation of property, plant and equipment	843	560	-	1,403

	Research and Consulting £'000	Tangible Group £'000	Unallocated Corporate Assets/ (Liabilities) £'000	Eliminations £'000	Total £'000
Assets and liabilities					
Non current assets	50,464	30,086	1,337	-	81,887
Current assets	18,591	18,589	1,075	(6,532)	31,723
Total segment assets	69,055	48,675	2,412	(6,532)	113,610
Deferred tax assets					1,080
Consolidated total assets					114,690
Segment liabilities	(23,452)	(17,282)	(7,308)	6,532	(41,510)
Borrowings					(14,803)
Corporation tax liabilities					(708)
Deferred tax liabilities					(616)
Finance leases					(154)
Consolidated total liabilities					(57,791)

The Group's operations are located in the United Kingdom and the USA.

The following table provides an analysis of the Group's revenue by geographical market, based on the billing location of the client:

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Geographical		
UK	98,345	110,091
Rest of Europe	18,790	15,954
USA	8,511	10,265
Rest of the World	1,014	1,320
	126,660	137,630

2. Finance Income And Costs

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Finance income:		
Interest receivable on bank deposits	69	243
Fair value gains on derivative financial instruments	155	-
	224	243
Finance costs:		
Interest payable on bank loans and overdrafts	547	974
Interest payable on loan notes	3	139
Interest payable in respect of finance leases	21	21
Finance costs on cap and collar interest rate hedge	385	-
	956	1,134
Notional finance costs on future deferred consideration	104	291
Fair value loss on derivative financial instruments	-	444
	1,060	1,869

3. Operating (Loss)/Profit

a) Operating (loss)/profit is stated after charging/(crediting):

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Administration costs:		
Staff costs	39,682	42,047
Operating lease rentals : land and buildings	2,223	2,560
: other leases	307	310
Depreciation of property, plant and equipment:		
: owned assets	1,171	1,314
: leased assets	76	89
Loss/(profit) on disposal of property, plant and equipment	3	(48)
Auditors' remuneration (note 3b)	397	402
Net foreign exchange losses/(profits)	263	(522)
Other occupancy costs	1,579	1,486
Other administration costs	8,815	9,555
	54,516	57,193
Exceptional items:		
Staff redundancies	1,372	978
Property costs	516	136
Other	61	171
	1,949	1,285
Other non-headline charges:		
Amortisation of intangible assets	455	858
Acquisition related employee expenses	163	647
Share option credit	-	(450)
Impairment of intangible assets	778	-
Impairment of goodwill	7,383	-
Impairment of available-for-sale investments	207	-
	8,986	1,055

Auditors' remuneration:		
Fees payable to Baker Tilly UK Audit LLP for:		
- audit services to the parent company	43	45
- audit services to subsidiary companies pursuant to legislation	238	243
Total audit fees	281	288
Non audit fees:		

- taxation services	93	96
- interim review	10	10
- other services not included above	13	8
Total non audit fees	116	114
Total auditors' remuneration	397	402

4. Equity Dividends

A final dividend of 0.75p (2008: 0.75p) per ordinary share was paid on 17 June 2009 to all shareholders on the register at 22 May 2009. The total amount of the dividend paid was £439,000 (2008: £334,000).

An interim dividend of 0.50p (2008: 0.50p) per ordinary share was paid on 4 November 2009 to all shareholders on the register on 9 October 2009. The total amount of the dividend paid was £294,000 (2008: £222,000).

A final dividend of 0.80p (2008: 0.75p) is proposed to be paid on 16 June 2010 to all shareholders on the register at 21 May 2010. In accordance with IAS 10 Events After the Balance Sheet Date, this dividend has not been recognised in the consolidated financial statements at 31 December 2009, but if approved will be recognised in the year ending 31 December 2010.

5. (Loss)/Earnings Per Share

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
(Loss)/earnings attributable to ordinary shareholders	(6,359)	2,761
(Loss from discontinued operations	253	386
(Loss)/earnings attributable to ordinary shareholders from continuing operations	(6,106)	3,147
Adjustments to (loss)/earnings:		
Exceptional items	1,949	1,285
Amortisation of intangible assets	455	858
Acquisition related employee remuneration expenses	163	647
Share-based payments credit	-	(450)
Impairment of intangible assets	778	-
Impairment of goodwill	7,383	-
Impairment of available-for-sale investments	207	-
Notional finance costs on future deferred consideration payments	104	291
Fair value (gain)/loss on derivative financial instruments	(155)	444
Tax thereon	(829)	(618)
Headline earnings attributable to ordinary shareholders	**3,949**	5,604

	Number of shares	Number of shares
Weighted average number of ordinary shares	54,212,092	42,831,617
Dilutive effect of securities:		
Deferred consideration shares to be issued	7,324,037	13,823,781
Diluted weighted average number of ordinary shares	61,536,129	56,655,398
Further dilutive effect of securities:		
Contingent consideration shares to be issued	5,506,051	9,964,568
Fully diluted weighted average number of ordinary shares	67,042,180	66,619,966

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Basic (loss)/earnings per share		
From continuing operations	(11.26)p	7.35p
From discontinued operations	(0.47)p	(0.90)p
	(11.73)p	6.45p
Diluted (loss)/earnings per share		
From continuing operations	(11.26)p	5.55p
From discontinued operations	(0.47)p	(0.68)p
	(11.73)p	4.87p
Fully diluted (loss)/earnings per share		
From continuing operations	(11.26)p	4.72p
From discontinued operations	(0.47)p	(0.58)p
	(11.73)p	4.14
Headline earnings per share		
Headline basic earnings per share	7.28p	13.08p
Headline diluted earnings per share	6.42p	9.89p
Headline fully diluted earnings per share	5.89p	8.41p

Headline earnings per share and fully diluted (loss)/earnings per share have been presented to provide additional information which may be useful to the readers of these financial statements.

Basic (loss)/earnings per share is calculated by dividing the (loss)/earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding treasury shares, determined in accordance with the provisions of IAS 33 Earnings Per Share.

Diluted (loss)/earnings per share is calculated by dividing (loss)/earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year adjusted for the potentially dilutive ordinary shares for which the conditions of issue have substantially been met but not issued at the end of the year. Given the loss in the year ended 31 December 2009, the effect of these, potentially dilutive ordinary shares, are anti-dilutive so dilutive loss per share is deemed to equal basic loss per share.

Fully diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all the potentially dilutive ordinary shares. Given the loss in the year ended 31 December 2009, the effect of these, potentially dilutive ordinary shares, are anti-dilutive so fully dilutive loss per share is deemed to equal basic loss per share.

The Group's potentially dilutive shares are to be issued as deferred consideration on completed acquisitions.

6. Provisions

	2009 £'000	2008 £'000
Contingent consideration for acquisitions	3,315	6,453

7. Deferred Consideration For Acquisitions

	2009 £'000	2008 £'000
At 1 January 2009	14,433	30,581
Settled in the year	(7,761)	(15,240)
Adjustment to provision for additions in prior years	(1,152)	(1,846)
Acquisition related employee remuneration expense	163	647
Notional finance costs on future deferred consideration payments	104	291
At 31 December 2009	5,787	14,433
In one year or less:		
Consideration for which all conditions have been met	2,472	7,980
In more than one year but not more than five years		
Contingent consideration for acquisitions	3,315	6,453
At 31 December 2009	5,787	14,433

Analysis of consideration for which all conditions have been met:

	2009	2008
Cash liabilities	1,357	3,315
Shares to be issued	1,115	4,665
	2,472	7,980

Analysis of the contingent consideration:

Cash liabilities	1,193	2,475
Shares to be issued	2,122	3,978
	3,315	6,453

Acquisitions made by the Group typically involve an earn out agreement whereby the consideration payable includes a deferred element that is contingent on the future financial performance of the acquired entity.

Earn out payments are to be in cash (or loan notes) and shares; in the analysis above the minimum percentage of cash (or loan notes) has been assumed. However, at the Group's sole discretion, this percentage can be increased.

Conditions have substantially been met on £2.5m (2008: £8.0m) of earn out and other consideration which is payable in 2010.

The provision for contingent consideration for acquisitions represents the directors' best estimate of the amount expected to be payable in cash (or loan notes) and shares to be issued. The provision is discounted to present value at the company's borrowing rate.

As a result of a review of contingent consideration at the year end, the directors' best estimate of contingent consideration payable in respect of acquisitions prior to 1 January 2009 has decreased the provision for consideration payable by £1.2m (2008: £1.8m).

If the remaining earn out conditions are met, based on current expectations, £2.5m will become payable in 2011 and the remaining £0.8m is payable in 2012 or later.

8. Long Term Incentive Arrangements

On 17 November 2009 the Board adopted the Cello Group plc HM Revenue & Customs Approved Share Option Plan 2009 (the "Approved Plan") and on 15 March 2010 adopted the Cello Group plc Unapproved Option Plan 2010 (the "Unapproved Plan").

Under the Approved Plan and the Unapproved Plan (the "Option Plans") awards of options over shares with a market value of no more than 150% of basic salary may be made to any one individual in any financial year. A higher percentage may be granted in exceptional circumstances, as determined by the Remuneration Committee. It is not currently intended that main board directors will participate in the Option Plans.

Options will generally be exercisable three years, but not later than ten years, after the date of grant subject to the extent to which performance conditions have been achieved over the initial three year period after the award is made and subject to the participant's continued employment with the group.

Performance conditions will be tailored to each participant according to his or her seniority and responsibilities and will be based on performance as measured against an appropriate combination of Company, Division and Group targets and the extent to which these are achieved or exceeded over the performance period will determine the proportion of each participant's options which vest. The

Committee will review the Option Plans on a regular basis and may amend the performance conditions from time to time.

The Board are in the process of finalising a Joint Ownership Share Plan ("JOSP") under which it is intended that awards will be made to the Group's most senior employees, including main board executive directors.

Under the terms of the JOSP participants will acquire a beneficial interest as joint owner in a number of Cello shares ("the JOSP award shares") for a consideration of 0.1 pence per share. The beneficial interest in the JOSP award shares will be held jointly by the participant and an employee benefit trust in the proportions 0.01% : 99.99%. Participants will, if and to the extent that performance conditions are met, derive 99.99% of the growth over the three years following the date of the award in the value of the JOSP award shares plus 0.01% of the initial value of the JOSP award shares, less a fixed carrying cost of 2.5% per annum.

The maximum individual annual award under the JOSP will be interests in shares whose market value is twice the participant's basic annual salary.

The JOSP performance measure will be Total Shareholder Return ("TSR") relative to a comparator group of the company's peers over the three years following the date of the award. The proportion of JOSP awards which participants will be entitled to retain on vesting in will depend upon Cello's TSR performance relative to the comparator companies as follows:

Cello relative TSR performance	Proportion of JOSP award shares
below median	nil
median	25%
top quartile	100%
between median and top quartile	straight line interpolation between 25% and 100%

9. Financial Information

The financial information contained in this document does not constitute statutory financial statements within the meaning of section 434 of the Companies Act 2006. The figures for the year ended 31 December 2009 have been extracted from the audited statutory financial statements. The financial statements for the year ended 31 December 2009 received unqualified auditors' reports which did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Copies of the Company's financial statements will be posted to shareholders in April and after approval at the Annual General Meeting on 17 May 2010, will be delivered to the Registrar of Companies. Further copies will be available from the registered office of the Company or the Company's Nominated Adviser and Broker, Altium Capital Limited, 30 St James's Square, London SW1Y 4AL.

10. Other Information

Other information regarding Cello Group plc can be found at the Company's website, www.cellogroup.co.uk