

Tangent Communications Plc

Results for the year ended 28 February 2010

Tangent Communications plc, a leading provider of *Intelligent Marketing and Technology*, today announces its preliminary results for the year ended 28 February 2010.

Business Highlights

Performance Indicators:

- Revenues up by 16.5% to £18.19m (£15.61m – 2008/9)
- Underlying Operating Profit¹ £820k (£848k – 2008/9)
- Adjusted Earnings Per Share² 0.38p (0.35p – 2008/9)
- Diluted Earnings Per Share (EPS) 0.16p (0.17p – 2008/9)
- Recommended dividend maintained at 0.2p (0.2p – 2008/9)
- Net Funds at £1.1m

¹ Underlying operating profit is defined as operating profit after share based payment charges (2009-2010: £0.02m, 2008- 2009 £0.23m)

² Adjusted eps is after share based payments before restructuring expenses net of tax (Note tax charges 2009-2010 £nil, 2008-2009 £0.22m).

Operational Highlights

Direct

- The Digital Print Partnership (DPP) has grown to represent 6% of print revenues from a standing start.
- Completed the re-brand of over 100 Halifax Property Services offices to Reeds Rains branches.
- Sales increased by 36% year on year for the second half for estate agency services.
- Re-branded and implemented retail marketing plan for 147 GalaBingo clubs.
- Marketing Toolkit software platform was expanded to include email and SMS alongside its existing market leading direct mail, press and graphic design tools.

Online

- ZUI's contract with business consultancy DVW to design user interfaces for Heineken was successfully implemented.
- Delivery of online stores for SAP Training and Certification (across 27 countries).
- Delivery of revolutionary peer to peer car sharing system, whipcar.com.
- Created intelligent ad banners acclaimed by Marketing Week as a 'world first' and shortlisted by Revolution Magazine for 'Best Use of Online Advertising'.

Tim Green, Chief Executive added: "In line with recent economic recovery, we have delivered two consecutive periods (half year) of growth since the second half of 2008-9 to produce a result which is in line with management's expectations This has been driven by strong second half growth from core accounts and increased activity from the estate agency sector. We expect this trend to continue, and for growth in the first half of the year to be substantially higher than the first half of 2009-10."

Chairman's Statement

for the year ended 28 February 2010

Tangent's highly talented team ensures that we regularly punch above our weight, and we continue to supply major household names with high volume and time-critical marketing services through innovative technology. We have built the business upon a solid backbone of proven technology and multi-channel marketing capability that has provided a robust platform for stability in a challenging market and allowed our companies to continue to deliver ever greater accuracy and accountability into marketing operations.

In the year to the end of February 2010, underlying operating profits of £820,000 were ahead of our initial expectations. The recommended dividend of 0.2p is maintained for the year. Although not fully covered after exceptional charges, our financial position remains solid with net cash of £1.1m and prospects for the current year are encouraging. However we did not achieve all our targets for the year, notably in respect of contributions from our latest acquisition where revenues from key accounts continue to disappoint. The integration of Snowball with Tangent Direct's business is progressing to plan and has been able to secure important new client wins, such as the Miele account.

We have also not yet been able to take a bigger step up in size which means that overhead costs as a proportion of revenues remain higher than we would like. However I am confident we can improve performance, both immediately through our own efforts and through increased activity from a number of market segments. We will also work harder on building scale.

We have implemented a new management structure with Timothy Green taking on full responsibility as Chief Executive.

Our newly formed Consumer division, built on the success of the Digital Print Partnership, will be driven by Nicholas Green who will also continue to focus on corporate activity and key clients. Greg Jackson will continue to head up the online division with his technology skills.

Kevin Cameron took over as Group Financial Controller in February 2010 following Graeme Harris's departure. I am pleased to announce that Kevin now joins the Board as Finance Director and Company Secretary. He has managed group finances since June 2009 and he brings many years' experience from within the Ravensworth business to the board. Graeme had been with Tangent as Finance Director since the flotation in 2005 and gave us excellent service. I am sure he will be a great asset in his next position.

The new management team's key challenge will be to work across our businesses to sell the benefits of our extensive range of Marketing and Production Services right across our client base. Tangent's responsibility is to provide clients with a truly end to end service, flex real time campaign data analysis and react rapidly to constantly changing market conditions.

I would like to thank all of our employees for their hard work throughout the last twelve months in demanding market conditions, many of whom have worked through the night to support our clients.

It is probably not usual to compliment a non-executive director, but Paul Murray has, as always, been exceptional in overseeing compliance, audit and remuneration matters. A small company has to cover the same bases as much bigger businesses, but without their depth of support, and Paul has been instrumental in making this possible. We also welcome Alan Smith to the board as non-executive Director. His tremendous experience will be welcome in the coming period and specifically his history of working with public companies and the retail sector will assist both the business and executive team as they look to grow the Tangent business.

Finally, my thanks to our shareholders for continuing to support Tangent.

Piers Caldecote

Non-Executive Chairman

9 June 2010

Chief Executive's Statement

for the year ended 28 February 2010

Performance for 2009-10 from our core business units was substantially above management expectations set out at the start of the year. However as a result of some underperformance from our latest acquisitions the overall results were only in line with the higher expectations anticipated at the interim stage. Going forward we remain cautious and have factored into our 2010-11 budgets some, but not substantial, growth from key markets or from recent acquisitions.

Second half revenues increased to a record high of £9.67m giving a full year figure of £18.19m, ahead of management expectations. Contributions through the acquired business assets of Snowball, the sales generated from VLM and Lateral.net customer lists and growth from the core business gave rise to a significant sales increase in a period of economic challenge. Underlying operating margin for the second half was up to 5.0% from 4.0% in the first half. We do not anticipate adding further to the current cost base and would expect to see margins continue to rise as revenues increase and the sales mix continues to return favorably.

The last six months have shown an increase in core revenue streams across the Tangent business and the first two months of the current financial year have generated significant profits. Whilst it is too early at this stage to forecast into the second half of the year when the full impact of legislative, tax and economic changes may be felt, we are confident that our first half performance will be strong in comparison to last year.

Tangent is increasingly well positioned to pick up revenue in growth markets, particularly technology, data insight and digital marketing. Continued investment in our proprietary technology platforms - *TaoBase* and *Marketing Toolkit* - has positioned us at the forefront of our field with market leading software and services, enabling our Insight and Online experts to take advantage of the shifting market. With increasing returns from our market leading Estate Agency service, all Tangent business streams should provide a significant contribution to profits and cash generation this year.

Continued media fragmentation and an increasing need for greater effectiveness and accountability has encouraged many marketing services companies to start investing in technology, insight and e-services. Tangent has been ahead of the curve, investing significantly for some time now and is ideally placed to take full advantage of this change and make significant steps in a growing market. We have already secured an impressive new contract win with Miele and the UK launch of Whipcar.com; and our extended remits with GalaCoral, the Labour Party and Homeserve should underpin a solid year of growth ahead.

With the new management structure in place, I look forward to working closely with the many outstanding individuals across the business to accelerate growth and enhance Tangent's positioning as a leading provider of *Intelligent Marketing and Technology*.

Timothy Green
Chief Executive
9 June 2010

Business Review

for the year ended 28 February 2010

Tangent

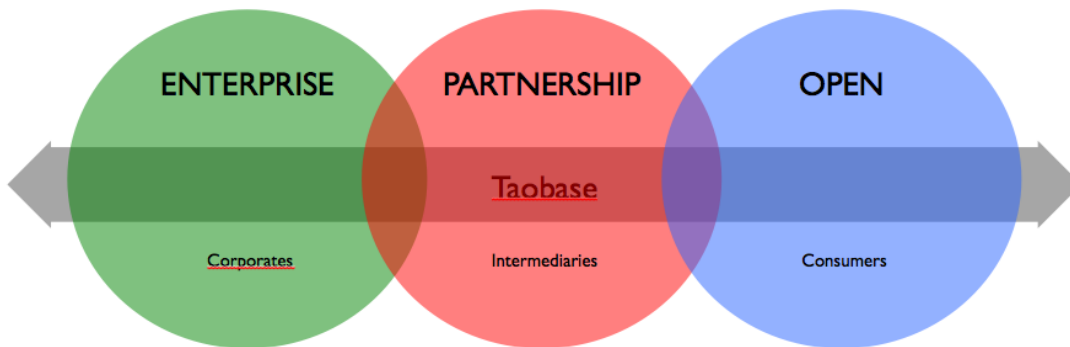
Intelligent Marketing & Technology lies at the core of Tangent. It symbolises our ability to combine leading edge technology with brand communications to overcome the complex challenges laid down by media fragmentation and diversification. Above all, we have developed a technology platform that is both practical and accessible in terms of cost, speed to market and ease of use.

At the heart of our approach lies Taobase, a pioneering technology driven environment that allows creativity and strategy to be applied at scale across multiple communications channels. By investing in and developing such leading edge technology ahead of the curve, we have built a business in tune with the market and well placed to leverage the inevitable growth in the adoption of marketing services technology. The recession has accelerated the demand for increased accountability and efficiency in marketing services, bringing the market to a tipping point that Tangent is ideally positioned to take full advantage of.

Market Demand

We have developed 3 revenue models designed around the most profitable opportunities available to us:

1. Enterprise Model – through which we provide our services direct to enterprises.
2. Partnership Model – enabling us to cater for the increasing need of intermediaries to provide automated marketing services to their clients through the licensing of our product.
3. Open Model – the next frontier for our technology and gateway to the consumer market



Exploring New Opportunities- The Consumer Proposition

In line with our commitment to develop new revenue streams, we are now looking to extend into the consumer market. The technical and creative capability of Tangent's platform combined with its scalability and speed to market presents a significant opportunity to leverage growing consumer demand for automation. We have already developed Wholesale and Partnership models through the Digital Print Partnership and are confident that we will be able to make significant progress in this area.

Management Priorities

We set out with the following performance expectations at the start of 2009-10:

1. Estate Agency: maintain our status as the leading provider of marketing materials to the estate agency sector, albeit through a shared and reduced cost base.
2. Online Integration: integrate Tangent One and Lateral and create a full service digital marketing business.
3. Financial Consolidation: consolidate our Finance Department resources.
4. Direct : Positioning the business to attract a greater proportion of data and higher margin consultative revenues.

Below is how we responded to these challenges:

1. Estate Agency: we increased our overall market share but still have work to do in reducing our cost base. This is because, although our client base was less active, we retained a high number of clients and the resource required to support them needed to be maintained. However, we were able to engage with our customers to lessen the seasonal cost impact when order volumes are low and consolidation is more difficult.
2. Online Integration: we successfully integrated Tangent One and Lateral, although this took longer than expected. The combination of Lateral's award winning creative with Tangent's proven technology platform has added a new dimension to our applications helping to improve results for our clients and strengthen our full service proposition.
3. Financial Consolidation was completed by June 2009. However our Finance Director Graeme Harris has since moved on and Kevin Cameron has been appointed from within. Administrative and central costs have been reduced with savings of £180,000 expected in 2010-11.
4. Direct: the acquisition of Snowball significantly strengthened our data and consultative capabilities.

We now put forward the following priorities for 2010-11

1. To launch corporate (retail) version of DPP by August.
2. To extend the positioning of Ravensworth to a broader range of marketing services for the estate agency sector by bringing in digital and data expertise from within the group and reducing the dependency on single product contracts.
3. To extend the high profile online creative wins for Boots and Mothercare secured through our creative director Simon Crabtree, one of the most awarded Creative in the digital industry.
4. To extend our technology reach by finding more partners and exploring the opportunity to open-source key components whilst developing industry-leading processes in deployment, testing and recruitment To extend further the Customer Relationship Management (CRM) capability within Snowball so that the sales mix reflects a greater proportion of higher margin, value added consultancy revenues.
5. To maintain the market leading position of Snowball's Marketing Toolkit.
6. To consolidate all costs, excluding those costs solely arising from the company's market quotation into the revenue generating units to ensure central overheads are supported by the business segments.

Management Structure

A refined management structure has already been implemented with Damian Bentley, Ian Gordon and Greg Jackson heading up Snowball, Ravensworth and Tangent One respectively. They are supported by group resources; Kevin Cameron for Finance and Andy Wheatley for Marketing ensuring a strong platform for collaborative workflow and swift delivery of our end to end services.

Business Review by Revenue Stream

Tangent's businesses are united by a central belief in technology as the key enabler of 21st Century marketing. Our strapline, Intelligent Marketing & Technology, underpins the Tangent brand and reflects our unique ability to combine leading edge technology with data driven communication strategies to help brands meet the complex challenges laid down by media fragmentation and diversification.

Direct

This division contains two principal revenue streams; Snowball (represented by the combined contribution from the acquired Snowball business and the historic Tangent Direct business) and Ravensworth.

Overall trading performance

Sales increased year on year by 9% to £13.94 m (2008-9: £12.73 m). Sales in Snowball represented 64% of Direct sales and increased year on year by 19%. Sales by Ravensworth to the property market represented 36% of Direct sales, down 4% on the previous year.

Underlying operating profit from Direct was down 4% for the full year to £0.99 m (2008-9: £1.04 m). In the second half of the year profits of £0.61m were 59% higher than the first half and represent a significant increase over profits of £0.02m generated in the same period in the prior financial year.

The reduced margin was due to a combination of increased postage sales which carry no margin and more of the sales mix coming from volume digital direct mail than in previous years. With a more balanced sales mix in the second half and higher revenues underlying operating margin grew from 5.9% in the first half to 8.2%. We would expect this upward trend to continue as the sales mix continues to be more favourable. The first few months of the year have shown this to be the case although the normal seasonal variation, where performance tends to be first half weighted, means that the second half is expected to provide greater challenges.

Snowball - Direct Communications, Insight and Marketing Software

Snowball, the combined division of the historic Tangent Direct business and the Snowball business acquired in September 2009, provides direct communications strategy and marketing software at an enterprise level. Key account growth during the year was excellent given the market conditions and demonstrated that our focus on efficient marketing with clear return on investment has been successful. Key account diversification has also been achieved with broader service engagements most notably in data management and data consultancy. We have increased our intake of analysts and developed a core competency in data insight that now plays a key role in our new business strategy. Print services still make up the majority of the sales mix but we expect this to move towards a more balanced mix of consultancy, insight and technology in 2010-11 as Snowball's profile and reputation continues to grow.

Snowball's software proposition to marketing departments, **Marketing Toolkit** has accelerated in growth once again. Orders processed are now above 10,000 a month and over 40 million items were generated during the general election campaign period. Most significantly the software has evolved and the technical architecture has expanded to include a full range of media services including:

1. Direct Mail
2. Point of Sale
3. Website Content
4. Email
5. SMS
6. Data Capture / Management
7. Media Planning

All products are licensed to our customers typically for a period of one to three years and are available both directly to enterprise and through re-sellers. The re-seller model has started to perform particularly well as marketing agencies strive to provide technology to their clients in the form of automated marketing products such as Marketing Toolkit. We are looking at potential open source models where we will be able to provide access to our tools through the internet across markets and expand our international reach.

In September 2009, Tangent acquired The DDG Network LTD together with the business and assets of Double D Management LLP, collectively known as Snowball. The performance of the acquisition has been disappointing, however as a result of the majority of the purchase price being structured as earn out, the overall consideration expected to be paid will reduce. As a result of market conditions, key clients have reduced marketing activity resulting in a significant impact on earnings. However, client relationships continue to be strong and our services are still contracted and retained by them and important new clients, such as

Miele, are being secured. As the economy recovers and client confidence grows, we expect levels of client marketing activity to improve and for the historic business to provide a more significant contribution as a result.

In the meantime, new business wins will compensate and we are hopeful that the Miele account will provide a platform for a return of earnings growth. The business has been fully integrated and Damian Bentley has taken the position of MD of the amalgamated Snowball brand (formerly Snowball and Tangent Direct). The new Snowball division has already been recognised by Marketing Week as a Top 30 Direct Marketing service provider in the UK and one of "10 suppliers you need to know".

Ravensworth - Property marketing design and production; digital print services

Property Revenues

Ravensworth's estate agency services business had a mixed year with the first six months providing the lowest return for more than four years. We managed to retain and hold on to much of our expert staff over this period but the contribution to Tangent's performance was minimal. Since August 2009 the market has begun to return, ending a 12 month period during which sales had declined by almost 40% and we have now out-performed year on year by a minimum of 20% each month with some months achieving levels as high as 40%. Our key metrics of live branches and activity per account have similarly returned to levels of 2007-8.

Whilst Home Information Packs ("HIPs") represented an opportunity to generate additional print volumes, the contribution has always been small with low margins. We do not anticipate upcoming legislation which is expected to eliminate HIPs to have any material impact. Instead the estate agency community who welcome the removal of the legislation suggests that the marketing of properties should become quicker and simpler and may result in an increase in the number and circulation of particulars, a key driver for our business.

Print Revenues

Non-property services – Tangent is developing new revenue lines. The Ravensworth site offers unique scale in the digital print sector which attracts trade business.

DPP (The Digital Print Partnership) - Tangent's wholesale online print ordering business. Since launch, this new business has generated revenues in excess of £500,000. Further investment in the site, functionality and product offering (all in-house) has allowed for the efficient delivery of thousands of orders. With an average order value of over £40 and rising, the range of products and offers has been well received by DPP customers. The main costs of the business are marketing where we will continue to re-invest. The market opportunity for this area is estimated to be substantial.

Online

Overall trading performance

Sales for 2009-10 increased by 50% to £4.31m (2008-9: £2.88 m) as a result of the Lateral.net sales contribution and new contract wins. Sales generated by ZUI (£0.34m), our joint venture, and in Australia (£0.49m) were also significant in the year. Underlying operating profit reduced to £0.73m from £1.01m in 2008-9. Developing operational procedures to manage the expanding business; which now includes a growing creative team, together with support for our Australia and ZUI ventures, has meant a significant reduction in the margins from the business. The 2008-9 operating margins of 35% were perhaps not sustainable and a period of re-alignment with continued investment in our development pool and the transfer of Lateral staff into Tangent One has been required. Underlying operating profit margins for the second half of the year continued to decline from 25% in the first half to 10% in the second half. For 2010-11 we expect the first half to continue at these levels and the second half to begin a return to increasing margins.

Tangent One - strategy, creative, user interfaces, e-commerce, and software development.

Tangent One, supported by the Tao team in Tangent Labs, is the Online and technology arm of Tangent and offers a full service digital proposition. Performance over the year has been mixed. The first six months experienced continued growth and contribution from key accounts but the closure of Borders (UK) in December 2009, some bad debts and lower than expected revenues from the Lateral acquisition have impacted in the second half.

This area of our business has gone through four continuous years of rapid growth and we intend to consolidate our position in the market. This year we introduced '3A', a new methodological framework that provides greater strategic depth to our offer and that has already contributed to a number of new business wins. The work coming out of this division is award winning and, with new levels of creativity meeting technology excellence, we feel the proposition is ready for introduction to an elevated position in the digital strategy market place.

Award-winning creative combined with award-winning technology provides a dynamic that most competitors are starting to recognise and invest in. However, Tangent One is already positioned in this space through extensive investment in the skills needed to provide online strategy to its growing number of major blue chip clients that have embraced our extensive search and social media capabilities.

The investment in human capital to position our Online business in order to compete and be ahead of the market opportunities has not been substantial, but is a strategy our cash generating units will continue to support. We now have a creative digital strategy team that is recognised by industry peers for its excellence and a broadened cutting edge technical architecture overseen by Technical Director James Eddison. This offering will take time to develop but the collective skills now assembled are expected to credibly place Tangent One in a unique market position of bespoke creative development.

To accelerate growth Tangent One is implementing a structured new business strategy. This includes investment in external new business capabilities along with a strategic PR programme focusing on key marketing and business titles. The ongoing PR activity will continue to build awareness of Tangent One, its clients, key spokespeople and expertise within important business sectors.

Australia: Our Australian office was established to develop ecommerce and other online business in the rapidly growing APAC market. This year our Australian venture has brought significant contribution from a standing start. We now have a multi-skilled team covering strategy, creative and technical architecture supported by our London team. Significant market opportunities are under development with the launch of ebooks to be announced shortly. Further client opportunities are being secured with a full PR and local marketing effort led by Principal Simon McEvoy and supported by our UK marketing resource.

ZUI (our joint venture with SAP consultants DVW): ZUI creates user interfaces and additional functionality on top of enterprise software. ZUI secured a significant revenue contribution for Online, chiefly from a large project to create a sales application for DVW's client Heineken which has now been rolled out and received well in the market. The project was extensive and the revolutionary interface design and architecture that is at the forefront of the ZUI proposition has ensured that the tool has received positive take up and swift implementation. Forward revenues are however hard to predict and the sales cycles for these contracts are long and complex but we have a number of similar enterprise level opportunities in the marketplace that are at different stages of review.

Outlook

The start of the year has been strong with significant contribution from our core accounts and the continuing strong recovery in our Property business. We are confident this will ensure first half growth year on year for the group but visibility for the second half of the year remains limited.

Financial Review

for the year ended 28 February 2010

The year ended 28 February 2010 saw revenue growth in both our Direct and Online divisions during difficult trading conditions. Revenues from Property continued to decline during the first six months but the second half of 2009/10 has seen significant like for like growth over the same period in 2008/09.

Whilst the acquisitions during the year have not met management expectations, Tangent continues to be profitable and cash generative and the Board is recommending that the dividend be maintained at 0.2p per share.

Key Performance Indicators

We manage Tangent's business using KPI's which measure underlying performance. As noted in the 2009 financial statements, the charge for share based payments has now been included within operating expenses. Underlying performance as stated below excludes restructuring costs.

We believe that our focus on the KPI's, as set out below, will in the medium and long term deliver value for shareholders.

- Revenue increased 16.5% to £18.19m, (2008-9: £15.61m)
- Underlying operating profit, decreased by 3.5% to £0.82m (2008-9: £0.85m)
- Underlying operating profit excluding charges for share based payments decreased by 22% to £0.84m (2008-9: £1.08m)
- Underlying operating margin reduced to 4.5% (2008-9: 5.4%)
- Diluted basic earnings per share were 0.16p (2008-9: 0.17p)
- Cash generated from operations was £0.64m (2008-9: £1.6m) representing a cash conversion rate of 78%.

Trading Performance

Total revenues increased by 16.5% to £18.19m (2008-9: £15.61m)

Revenues from Direct increased by 9% to £13.94m (2008-9: £12.73m) with underlying operating profit reduced by 4% to £0.99m. The reduced margin was due to a combination of increased postage sales which carry no margin and more of the sales mix coming from volume direct mail than in previous years.

Revenues from Online increased by 50% to £4.31m (2008-9: £2.88m). Investing in operational infrastructure, growing the creative team and providing support to both ZUI and our Australia venture saw operating expenses increase and as a result underlying operating margin reduced to £0.73m from £1.01m in 2008-9.

Operating expenses increased by £1.77m from £5.95m in 2008-09 to £7.72m in 2009-10.

Of this, £1.54m related to salary costs, expenses and professional fees, as follows:

- Increase in head count of 22 staff for Online development
- Annual cost of Lateral staff brought over £0.65m
- Staff acquired via the acquisition of Snowball £0.13m
- Professional fees and expenses £0.33m

Whilst revenues grew, the gross margin earned was not enough to offset the increase in operational overhead. Thus underlying operating profit reduced to £0.82m (2008-9: £0.85m). As a result the Board has undertaken a number of restructuring programs to reduce operational overhead for the coming year.

Group Restructuring Expense

During the year the Board undertook a number of restructuring programs to consolidate both operational and administration functions.

Central - The group finance function has been consolidated into one unit to increase efficiency and reduce headcount.

Online - Having acquired the assets and clients of Lateral Net Limited in March 2009 its operational team was integrated into Online and restructured, resulting in a reduction in head count.

Direct - Following the acquisition of The DDG Network Limited in September 2009 and its subsequent merger with Tangent Direct, a restructure of the account management teams was undertaken.

The combined cost of implementing the improved structure and relocations was £0.5m and is expected to yield annual savings of £0.33m.

Share based payment charge

The share based payment charge for the year ended 28 February 2010 amounted to £0.02m (2008-9: £0.23m) and represents the fair value of options granted.

Taxation

Tangent has no tax charge in 2009-10. The tax charge differs from the standard rate of 28% because although the group has expenses that are not deductible for tax purposes this was more than offset by utilisation of prior year tax losses and adjustments. At the year end the group had £0.23m of tax losses available to offset against future profits.

Earnings

Profit for the year was £0.28m (2008-9: £0.30m) equating to basic earnings per share of 0.17p (2008-9: 0.18p) and diluted earnings per share of 0.16p (2008-9: 0.17p).

Acquisitions

On 16 September 2009 Tangent acquired the entire issued share capital of The DDG Network Limited together with the business and assets of Double D Management LLP, collectively known as Snowball, for a net cash consideration of £0.99m.

A maximum further contingent consideration of £2.18m is payable equally over three years with £1.68m payable in cash and £0.5m payable in shares at a valuation of 6.17 pence per share to be paid in three equal tranches subject to earnings before interest and tax rising to a total of £1.5m over a three year period to 31st August 2012. Having reviewed performance to date the directors do not consider that any provision is necessary in respect of this additional contingent consideration.

Cash Flow

Cash flow from operations was £0.64m (2008-9: £1.6m) and represented 78% of operating profit. This is lower than previous years as working capital increased by £0.7m, following revenue growth, which led to higher debtor balances, together with reduced profit before tax and non cash charges for share based payments.

- Tax payments were £0.19m (2008-9: £0.38m).
- The final £0.17m of deferred consideration was paid for the acquisition of C360 UK.
- On 16 September 2009 Tangent acquired the entire issued share capital of DDG together with the business and assets of Double D Management LLP, collectively known as Snowball, for a net cash consideration of £0.99m.
- Capital expenditure of £0.47m was spent substantially on digital equipment and leasehold improvements. In addition the group acquired other intangible assets (customer lists) for a consideration of £0.11m.
- Dividends of £0.34m were paid and £0.06m of finance leases were repaid.
- Over the year Net Funds decreased by £1.59m to £1.06m (2008-9: £2.65m).

Balance Sheet

Net assets decreased by £0.02m to £19.57m (2008-9: £19.59m) with the major change being the addition to goodwill of £0.97m following the acquisition of Snowball. At the year end current assets exceeded current liabilities by over £2m.

Dividends

The Board believes that paying a dividend is an important part of providing total shareholder return. We will recommend a dividend of 0.2p (2008-9: 0.2p) per share at the annual general meeting.

Treasury, Funding and Exchange risk

The group finances its operations through funds raised from shareholders, retained earnings and finance lease borrowings. In addition, the group has a variable rate £1m overdraft facility which has rarely been drawn. Regular reports on cash balances and borrowings are provided to the Board.

The majority of trade is conducted in sterling although a material amount is denominated in Euros and the Australian Dollar. The directors monitor exposure and where possible match Euro and Australian Dollar denominated revenue and expenditure, or if appropriate hedge some of the exposure to mitigate the foreign exchange risk.

Consolidated Statement of Comprehensive Income

for the year ended 28 February 2010

	Notes	2010 £000	2009 £000
Revenue		18,185	15,607
Cost of sales		(9,620)	(8,576)
Gross profit		8,565	7,031
Operating expenses		(7,726)	(5,954)
Share-based payment charge	4	(19)	(229)
Underlying operating profit		820	848
Group restructuring expense	2	(542)	(397)
Operating profit		278	451
Finance income		4	72
Profit before tax		282	523
Tax		—	(219)
Profit for the year		282	304
Other comprehensive income			
Exchange differences on translating foreign operations		2	—
		2	—
Total comprehensive income for the year		284	304
Earnings per share (pence)			
Basic	5	0.17	0.18
Diluted		0.16	0.17

Consolidated Statement of Changes in Equity

for the year ended 28 February 2010

	Notes	Share capital £000	Share premium £000	Merger reserve £000	Other reserves £000	Retained earnings/ (losses) £000	Total equity £000
At 29 February 2008		1,660	—	459	3,108	14,157	19,384
Comprehensive income:							
Retained profit for the year		—	—	—	—	304	304
Share based payment charge		—	—	—	229	—	229
Total comprehensive income		—	—	—	229	304	533
Transactions with owners:							
Equity dividend	6	—	—	—	—	(329)	(329)
Issue of shares	8	42	—	458	(500)	—	—
Total transactions with owners		42	—	458	(500)	(329)	(329)
At 28 February 2009		1,702	—	917	2,837	14,132	19,588
Comprehensive income:							
Retained profit for the year		—	—	—	—	284	284
Share based payment charge		—	—	—	19	—	19
Total comprehensive income		—	—	—	19	284	303
Transactions with owners:							
Equity dividend	6	—	—	—	—	(338)	(338)
Issue of shares	8	4	12	—	—	—	16
Total transactions with owners		4	12	—	—	(338)	(322)
At 28 February 2010		1,706	12	917	2,856	14,078	19,569

Consolidated Statement of Financial Position

for the year ended 28 February 2010

	Notes	2010 £000	2009 £000
Assets			
Non-current assets			
Intangible assets	7	16,004	14,961
Property, plant and equipment		1,582	1,685
		17,586	16,646
Current assets			
Inventories		106	106
Trade and other receivables		5,286	3,191
Cash and cash equivalents		1,145	2,801
		6,537	6,098
Total assets		24,123	22,744
Liabilities			
Current liabilities			
Borrowings		(62)	(63)
Trade and other payables		(4,326)	(2,664)
Current tax liabilities		(141)	(148)
Provisions		—	(166)
		(4,529)	(3,041)
Non-current liabilities			
Borrowings		(25)	(87)
Deferred tax		—	(28)
		(25)	(115)
Total liabilities		(4,554)	(3,156)
Net assets		19,569	19,588
Equity			
Share capital	8	1,706	1,702
Share premium		12	—
Merger reserve		917	917
Other reserves		2,856	2,837
Retained earnings		14,078	14,132
Total equity attributable to equity shareholders of the company		19,569	19,588

Consolidated Statement of Cash Flows

for the year ended 28 February 2010

	Notes	2010 £000	2009 £000
Cash from operations			
Cash generated from operations	9	636	1,600
Interest paid		(5)	(13)
Tax paid		(190)	(378)
Net cash inflow from operating activities		441	1,209
Investing activities			
Acquisition of subsidiary, net of cash acquired	11	(990)	—
Payment of contingent consideration		(166)	(167)
Purchase of property, plant and equipment		(468)	(618)
Purchase of other intangible assets	7	(114)	—
Sale of property, plant and equipment		17	48
Interest received		9	83
Net cash used in investing activities		(1,712)	(654)
Financing activities			
Dividends paid	6	(338)	(329)
Repayment of borrowings		(63)	(89)
Proceeds from issue of shares, net of costs		16	—
Net cash outflow from financing activities		(385)	(418)
(Decrease) / increase in cash and cash equivalents		(1,656)	137
Cash and cash equivalents at beginning of year		2,801	2,664
Cash and cash equivalents at end of year		1,145	2,801

Notes to the Preliminary Results

for the year ended 28 February 2010

1. Basis of preparation

Tangent Communications plc is listed on AIM, the Alternative Investment Market of the London Stock Exchange, and has the TIDM code TNG and it is incorporated in England.

The group's consolidated financial statements for the year ended 28 February 2010, from which this financial information has been extracted, and for the comparative year ended 29 February 2009 are prepared on a going concern basis and in accordance with IFRS, and in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The unaudited financial information contained in this report does not constitute the Company's statutory accounts for the year ended 28 February 2010. Statutory accounts will be delivered to the Registrar of Companies following the Company's annual general meeting, sent to shareholders and will be available on Tangent's website at www.tangentplc.com. The auditors have agreed to the issue of these results and expect to issue an unqualified audit report on the 2010 accounts following formal completion of the audit.

The comparative figures for the year ended 29 February 2009 are not the statutory financial statements for that year. Those accounts have been reported on by the company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 of the Companies Act 2006.

The accounting policies applied are consistent with those adopted and disclosed in the Group's annual financial statements for the year ended 28 February 2010.

2. Group restructuring

The board completed a number of restructuring programs during the year the cost of which fall outside normal operating expenses and income, they have therefore been separately identified in the consolidated statement of comprehensive income and excluded from underlying operating profit.

1. During the year the group finance department (Central) was consolidated into one unit, this resulted in a reduction in both head count and ongoing costs. Included in the employee redundancies detailed below is compensation for loss of office, amounting to £123,000, paid to Graeme Harris, the former finance director of the group.
2. In March 2009 Tangent acquired the business and assets of Lateral, a digital marketing business. Following the acquisition the Online business segment undertook a restructure of its creative service resulting in a reduction in head count and related employee redundancy and relocation costs.
3. Following the acquisition of Snowball and subsequent merger with Tangent Direct a restructure of the Direct account management team was undertaken to create the most effective and efficient consolidated client management team. This coupled with a review of the group's printing facility in London resulted in a reduction in head count and related employee costs.

Restructuring expenses and are set out below:

	£000
Employee redundancies – Central	302
Employee redundancies – On Line	166
Employee redundancies – Direct	63
Property relocation – Central	3
Property relocation – On Line	4
Property relocation – Direct	4
	<hr/>
	542
	<hr/>

3. Segment Information

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. On this basis the group has two reportable segments, Online and Direct.

Online This comprises the Tangent One and Tangent Labs businesses.

Direct This comprises of Snowball, Ravensworth, and Tangent on Demand. The Direct segment has a significant property related sales element which is separately disclosed.

Central Central costs are not allocated to specific business segments but are included below to reconcile the segmental information to the consolidated information. Central costs include the share-based payment charge as set out in note 4.

The segment results for the year ended 28th February 2010 were as follows:

	Online £000	Direct £000	Central £000	Total £000
Revenue				
Property related revenue	—	4,983	—	4,983
Other revenue	4,535	8,957	—	13,492
	4,535	13,940	—	18,475
Less inter segment sales	(223)	(67)	—	(290)
Revenues from external customers	4,312	13,873	—	18,185
Results				
Profit from operations before exceptional items	734	991	(905)	820
Exceptional costs	(170)	(70)	(302)	(542)
Profit from operations	564	921	(1,207)	278
Net finance costs				4
Profit before tax				282
Income tax expense				—
Profit for the year				282

The segment results for the year ended 28th February 2009 were as follows:

	Online £000	Direct £000	Central £000	Total £000
Revenue				
Property related revenue	—	5,195	—	5,195
Other revenue	2,877	7,535	—	10,412
	2,877	12,730	—	15,607
Less inter segment sales	—	—	—	—
Revenues from external customers	2,877	12,730	—	15,607
Results				
Profit from operations before exceptional items	1,013	1,038	(1,203)	848
Exceptional costs	(3)	(391)	(3)	(397)
Profit from operations	1,010	647	(1,206)	451
Net finance costs				72
Profit before tax				523
Income tax expense				(219)
Profit for the year				304

4. Share-based payments

The movements in share options and corresponding weighted average exercise prices (WAEP) are summarised below:

	2010		2009	
	Number	WAEP	Number	WAEP
	000	Pence	000	Pence
At 1 March	15,310	4.58	14,871	4.88
Granted	3,155	1.00	771	1.00
Exercised	(400)	(4.00)	—	—
Lapsed	(4,241)	(3.56)	(332)	(9.69)
At 28 February	13,824	4.09	15,310	4.58

For the share options outstanding at 28 February 2010 exercise prices ranged between 1p and 13.25p per share and the weighted average remaining contractual life was 5.49 years.

Fair values

The fair value of share options granted in the year was calculated using the Black Scholes pricing model. The volatility, measured as the standard deviation of expected share price return, is based on statistical analysis of the Tangent share price from July 2005 to the date of grant, which resulted in an assumed volatility of 40%.

The other key inputs were a risk free rate of return of 0.5%, a dividend yield of 6% and an expected life of 5 years.

The total share-based payment charge for the year, calculated in accordance with IFRS 2 on share based payments, was £19,000 (2009: £229,000).

5. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following:

	2010	2009
	£000	£000
Profit attributable to shareholders	282	304
	Number	Number
	000	000
Weighted average number of shares:		
For basic earnings per share	168,903	166,902
Adjustment for options outstanding	4,083	5,078
Adjustment for consideration shares yet to be issued	4,158	4,158
For diluted earnings per share	177,144	176,138
	Pence per	Pence per
	Share	share
Earnings per share:		
Basic	0.17	0.18
Diluted	0.16	0.17

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Tangent has two categories of dilutive potential ordinary shares: share options and shares contingently issuable as consideration for an acquisition.

A calculation is performed for the share options to determine the number of shares that could have been acquired at fair value based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares from this calculation is compared with the number of shares that would have been issued assuming the exercise of the options and the difference is deemed to be the number of dilutive shares attributable to share options.

The estimated number of shares that will be issued in the future as purchase consideration for current subsidiaries is deemed to be the number of dilutive shares issuable as consideration for acquisitions.

6. Dividends

	2010	2009
	£000	£000
Recommended final dividend for the year of 0.2p (2009: 0.2p) per share	338	337

The recommended final dividend is subject to approval by shareholders at the 2010 annual general meeting and has not been included as a liability in these financial statements.

The Tangent employee share ownership trust, which holds a total of 1,428,340 ordinary shares, has agreed to waive all dividends so the directors estimate that the dividend will be payable on approximately 169m ordinary shares.

	2010	2009
	£000	£000
Final dividend paid for the year of 0.2p (2009: 0.2p) per share	338	329

7. Intangible assets

Group	Note	Goodwill £000	Other Intangible assets £000	Total £000
Cost				
At 1 March 2008		14,961	—	14,961
At 28 February 2009		14,961	—	14,961
On acquisition of subsidiary	10	971	—	971
Acquired with subsidiary		—	3	3
Additions		—	114	114
At 28 February 2010		15,932	117	16,049
Amortisation and impairment				
At 1 March 2008 and 28 February 2009		—	—	—
Acquired with subsidiary		—	3	3
Amortisation during the year		—	42	42
At 28 February 2010		—	45	45
Net book value				
At 28 February 2010		15,932	72	16,004
At 28 February 2009		14,961	—	14,961

Additions to goodwill in the year ended 28 February 2010 relate to the acquisition of The DDG Network Limited together with the business and assets of Double D Management LLP, collectively known as Snowball.

Additions to other intangibles in the year ended 28 February 2010 relate to the acquisition of customer lists and website domain names.

	911	1,204
Movements in working capital		
Increase in inventories	—	(11)
(Increase) / decrease in trade and other receivables	(1,675)	1,133
Increase / (decrease) in trade and other payables	1,400	(726)
Cash generated from operations	636	1,600

10. Analysis of net funds

	At 1 March 2009 £000	Cash flows £000	At 28 February 2010 £000
Cash	2,801	(1,656)	1,145
Finance leases	(150)	63	(87)
Net funds	2,651	(1,593)	1,058

11. Business Combination

On 16th September 2009 Tangent acquired the entire share capital of The DDG Network Limited together with the business and assets of Double D Management LLP, collectively known as Snowball

Established in 2003 Snowball provides customer management services to its clients helping them to retain their existing customers by driving increased loyalty and retention together with identifying and targeting new customers through data insight.

Consideration paid

Total consideration was paid as follows:	£'000
Cash	1,585
Acquisition costs	59
	<u>1,644</u>

A maximum further contingent consideration of £2.18 million is payable equally over three years with £1.68 million payable in cash and £500,000 payable in shares at a valuation of 6.17 pence per share to be paid in three equal tranches, subject to earnings before interest and tax rising to a total of £1.5 million over a three year period to 31st August 2012.

Having reviewed performance to date the directors do not consider that any provision is necessary in respect of this additional contingent consideration.

Assets acquired and liabilities assumed at the date of acquisition

	Book values £000	Fair value adjustments £000	Fair values £000
Plant and equipment	16	—	16
Trade and other receivables	420	—	420
Cash and cash equivalents	654	—	654
Trade and other payables	(253)	(9)	(262)
Current tax liabilities	(155)	—	(155)
	<u>682</u>	<u>(9)</u>	<u>673</u>

Goodwill arising on acquisition

	£'000
Consideration paid	1,644
Less fair value of net assets acquired	<u>(673)</u>
Goodwill arising on acquisition (note 7)	<u>971</u>

Goodwill arose in the acquisition of Snowball as a result of the expected synergies, revenue growth, and future market developments. These benefits are not recognised separately from goodwill because they do not meet the criteria for separately identifiable intangible assets

The group also acquired the customer lists and customer relationships of Snowball as part of the acquisition. These assets could not be separately recognised from goodwill because they are not capable of being separated from the group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts.

Net cash outflow on acquisition of subsidiary

	£'000
Net cash outflow arising from the acquisition was as follows:	
Purchase consideration settled in cash	1,585
Acquisition costs	59
Cash paid for acquisition	<u>1,644</u>
Cash and cash equivalents in subsidiary acquired	<u>(654)</u>
Cash paid net of cash and cash equivalents in subsidiary acquired	<u>990</u>

Impact of acquisition on the results of the Group

Included in the profit for the year is a profit of £7,000 attributable to the business generated by Snowball, revenue for the period amounted to £364,000.

Had the business combination been effected at 1 March 2009 the revenue of the group from continuing operations would have been £19.12 million and underlying profit for the year from continuing operations £917,000. The directors of the group consider these pro-forma numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Assets acquired from Lateral Net Limited

On 5 March 2009 the group acquired, from the Administrator of Lateral Net Limited, the clients and certain assets of the company together with assuming certain fixed liabilities related to the completion of contracts.

	£'000
Acquisition of tangible fixed assets	20
Acquisition of intangible assets, customer lists	39
Pre-contract liabilities assumed	<u>(34)</u>
Cash paid	<u>25</u>