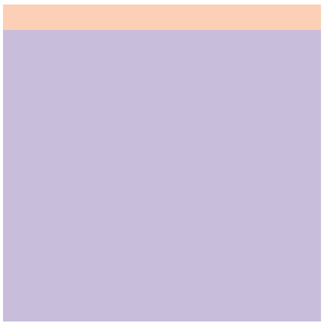
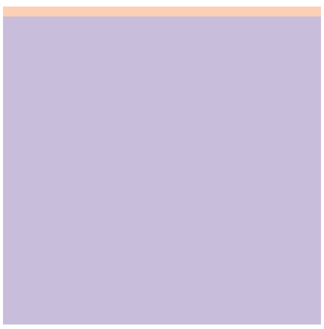
Financial review

Chris Lawrence, Finance Director

Group turnover 2000



Group turnover 1999



Newspapers and printing
Other activities
(Shown as % of total)

The purpose of this review is to provide an analysis of the Group's operating results and its financial position at the end of the year.

Overview

The year 2000 was another excellent year for the Group.

Turnover increased 12.4%, group operating profit before amortisation and exceptional items was up 18.1%, and margins improved to 18.5% (2000: 17.6%).

Adjusted earnings per share were 17.3% higher and annual compound growth since 1996 is 55%. This growth has been recognised by our inclusion in the Sunday Times PwC inaugural Profit Track league of the top 100 fastest-growing private companies in the UK.

Profits are stated after the net costs of digital activities, which rose to £2.0m in 2000 (1999: £0.4m).

By activity, the operating results before amortisation and exceptional items were as follows:

£m	Turnover		Profit	
	2000	1999	2000	1999
Newspapers	119.5	111.9	26.7	21.3
Magazines	10.7	3.9	0.1	0.2
New media	0.4	0.4	-1.6	-0.4
Common costs	-	-	-1.0	-0.6
	130.6	116.2	24.2	20.5

Newspaper activities

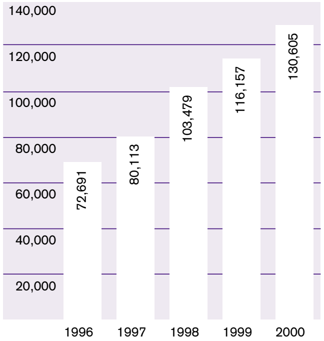
Core newspaper activities saw sales grow by 7% with profits up 26%. This was due in the main to buoyant recruitment revenues and cost savings following last year's restructuring.

Recruitment revenues were up 30% year-on-year, with other advertising revenues also up year-on-year.

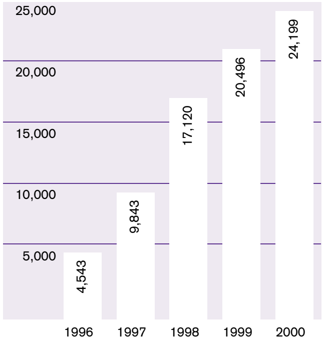
Newspaper circulation revenues increased to £20.4m (1999: £20.1m).

Under the terms of a joint venture agreement, on 13 December 2000 the Group exercised its option to acquire from Tindle Newspapers the remaining 50% of the share capital of North Devon Gazette & Advertiser Ltd not already owned. The cost of the remaining 50% was £0.7m. The company turned over £1.1m for the year ended 31 December 2000.

Group turnover £000

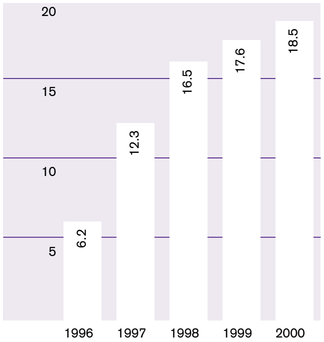


Group operating profit* £000



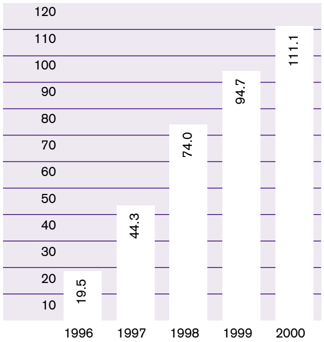
* before amortisation and exceptional items

Group operating margin* %



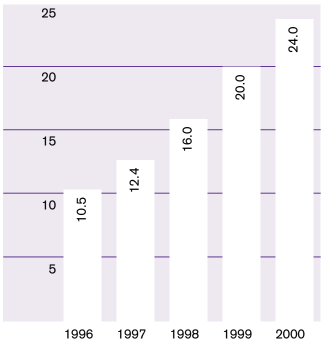
* before amortisation and exceptional items

Adjusted EPS* p per share

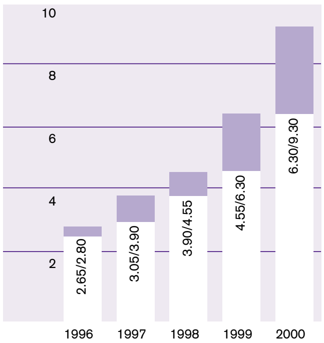


* before amortisation and exceptional items

Dividend per share p per share



Share price range £ low/high



Magazine activities

Our magazine activities now include Market Link, Summerhouse and the county lifestyle portfolio. Following the acquisition of Oyston Publications Plc in January 2001, ECNG publishes eight county titles.

2000 was a year of consolidation and building a base for future growth. We invested in two launches (Suffolk and Hertfordshire), reorganised Summerhouse, rationalised Market Link's portfolio of titles, and acquired three new titles with a combined annual turnover in excess of £2.5m.

The underlying profits of our magazine activities, before investment costs, were in excess of £0.4m.

New media

The value of orders received increased to £0.9m (1999: £0.4m), but revenues remained at the same level as 1999, £0.4m, recognising revenues only when jobs have been completed. Losses increased to £1.6m (1999: £0.4m), as an infrastructure has been built to service the growing number of new media customers.

Associated company

Westcom Media Limited operates the local radio station in Weston-super-Mare, launched in October 1999. Westcom has had a successful first year, but made a small loss as it focused on building revenue streams. ECNG's share of this loss was £9,000. In January 2001, the Group increased its holding in Westcom to 47.6% following the acquisition of CAT FM Ltd, which owns and operates the local radio station in Cheltenham.

Investment income

Net interest receivable for the year increased to £1.1m (1999: £0.1m), reflecting the increase in the Group's net funds.

Exceptional investment income

ECNG has a 3.5% shareholding in the Press Association. During the year the Group received two special dividend payments from the Press Association, one in June (£0.5m) and one in December (£0.9m).

The June dividend was a distribution of proceeds from the disposal of the Press Association's press release distribution business to PR Newswire in June 1999, and of their media monitoring business, Tellex Monitors, to Taylor Nelson Sofres in December 1999.

The December dividend was a partial distribution of the proceeds from the disposal of the Press Association's new media operation, Ananova, to Orange in July 2000. Two more special distributions are planned, in December 2001 and December 2002, subject to any claims against warranties given to the purchaser.

Taxation

The effective rate of taxation in the year was 26.5% (1999: 27.4%). The standard rate of tax in the year was 30% (1999: 30.25%). For 2000, the actual rate was lower than the standard rate, primarily because the Press Association special dividend (£1.4m) is not subject to tax, and because capital gains previously provided for were rolled over during the year.

Dividend cover

The cost of the ordinary dividend for the year increased by 21.8% to £3.9m. The preference share dividend remained static at £0.3m. Ordinary dividends are covered 4.6 times by profits attributable to shareholders, ignoring amortisation of intangible assets and exceptional items (1999: 4.7 times).

Net funds

The business continues to be highly cash-generative.

In summary, the movements in funds were as follows:

£m	2000	1999
Operating cash flows	29.4	18.7
TRP disposal proceeds *	–	13.8
Other cash flows	-15.8	-14.6
	13.6	17.9

* from the sale of the Group's 40% interest in The Radio Partnership

A 58% improvement in operating cash flow reflects improvements in operating profits and also in the Group's working capital position. The operating cash-flow-to-operating-profit ratio for the year was 126% (1999: 108%).

Other cash flows include capital expenditure –£1.9m, investment income +£1.1m, special dividends +£1.4m, taxation –£6.6m, dividends –£3.9m, proceeds from share issues +£0.6m, and acquisition and investment costs –£6.5m.

Net funds at the year end were £25.9m (1999: £12.2m), comprising:

£m	2000	1999
Cash	31.1	17.2
Loan notes receivable	13.8	13.8
Loan notes payable	-18.4	-18.1
Finance leases	-0.6	-0.7
	25.9	12.2

Treasury management

The Group derives its finances from share capital, retained profits and the issue of loan notes.

The main financial risk that the Group faces from its treasury activities is the interest rate risk. The Group's treasury objective is to minimise borrowing costs and maximise returns on funds, subject to short-term liquidity requirements.

Cash is managed centrally and placed on deposit for periods of up to one month. The cost of the loan notes payable (interest and bank guarantee fees) is LIBOR less 0.55%. The return on the loan notes receivable is LIBOR plus 0.425%.

As the Group's activities are primarily concentrated in the UK, there is minimal foreign currency risk.

Financial position

ECNG started the year with net assets of £88.0m. Retained profit for the year was £14.94m, which was transferred to reserves. A further £0.55m was added to reserves following the issue of share capital. £0.3m was transferred out of the reserves, to fund a further purchase of ECNG ordinary shares by the ECNG Qualifying Exempt Share Ownership Trust. The financial position at the year end is represented by net assets of £103.2m.