FINANCIAL REVIEW

The Group again made significant progress in 2001 despite a 12% increase in newsprint prices.

Turnover increased 10.3%, Group operating profit before amortisation and exceptional items was up 8.0%, and adjusted earnings per share were 6.0% higher.

The Group again featured in the *Sunday Times* PwC Profit Track league of the top 100 fastest growing unquoted companies in the UK with compound earnings growth of 43% since 1996.

Profits are stated after net costs of digital activities of £1.3m in 2001 (2000 – £2.0m).

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

£m	Turnover		Profit	
	2001	2000	2001	2000
Newspapers	124.7	119.5	27.7	26.7
Magazines	18.7	10.7	0.5	0.1
New media	0.6	0.4	(0.9)	(1.6)
Common costs			(1.2)	(1.0)
	144.0	130.6	26.1	24.2

Newspapers
Newspaper revenues rose by 4.3% and margins were steady at 22%.

Advertising revenues increased by 4.6% with recruitment up 11.3% and other categories in aggregate up 2.1%. Only the motors category declined, by 3.9%, reflecting the increasingly competitive nature of the retail motors market.

Overall advertising revenue growth slowed to 3.5% in the second half of the year from 6.1% in the first half. This was primarily due to year-on-year recruitment revenues falling by 2.0% in the last quarter.

Circulation revenues reduced marginally to £20.3m (2000 – £20.4m).

Magazines
The magazine division now comprises Archant Life (formerly Lifestyle), Archant Specialist (formerly Marketlink) and Archant Dialogue (formerly Summerhouse Publishing).

The division continued to expand its portfolio of titles during the year. Archant Life acquired *Cheshire, Lancashire & Yorkshire Life* in January (Oyston Publications Plc) and *Cotswold Life* in May (Loyalty and Conquest Communications Ltd), and Archant Specialist launched *Photography Monthly* in May.

Archant Life moved *France* magazine, *Somerset Life* and the newly acquired *Cotswold Life* to one location in Cheltenham, under a new management team. *France* magazine's operations in Stow on the Wold and London (a shop in the French Tourist Office in Piccadilly) were closed.

Magazine revenues rose by 74.9%. Profits of £0.5m (2000 – £0.1m), are stated after a number of non-recurring costs – *Photography Monthly* launch (£0.3m); Link 2001 imaging exhibition closure (£0.3m); Archant Life reorganisation costs (£0.2m).

Underlying profits increased to £1.3m (2000 – £0.4m).

New media
Following a strategic review of options for the division, the Group announced in July that the web development business would not take on any further third party business, but would continue to maintain and host the web sites of its 300 existing customers.

Revenues increased by 49% to £0.6m (2000 – £0.4m) and losses reduced by 41% to £0.9m (2000 – £1.6m) largely as a result of processing the backlog of orders brought forward from 2000.

Associated company
In January 2001, the Group increased its holding in Westcom Media Limited to 47.6%, investing a further £1.0m to part fund the acquisition of CAT FM Ltd, owner and operator of the local radio station in Cheltenham.

Our interest in Westcom was subsequently sold to UKRD Ltd in September for £2.1m. The consideration received by the Company was a mixture of £1.25m cash, and 655,370 UKRD shares valued at £0.85m.

Only the 'cash profit' has been recognised – £264,000 – with the UKRD shares being recorded in the books at a nominal value.

Exceptional operating costs
Archant launch costs of £0.5m include the cost of creating and communicating the Archant brand, vision and values. It also includes a provision for the costs of implementing the new corporate identity during 2002.

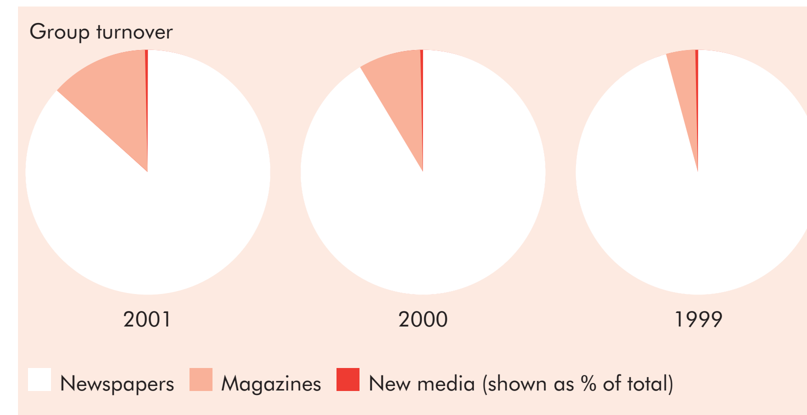
In the context of the corporate rebrand, we also took the opportunity to simplify the legal and organisational structure of the Group to align it with the management structure. This ultimately resulted in:

- creation of a pure holding company – Archant Ltd
- consolidation of the Group's newspaper publishing activities into one company – Archant Regional Ltd
- creation of a dedicated printing company – Archant Print Ltd
- creation of a dedicated division for our magazine operations – Archant Lifestyle Plc

The new organisational structure creates the foundation for future growth. The reorganisation cost was £0.5m.

Investment income
Net interest receivable for the year reduced to £1.0m (2000 – £1.1m), primarily as a result of lower interest rates.

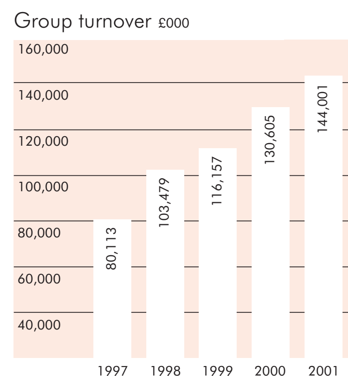
Exceptional investment income
Archant continues to have a 3.5% shareholding in the Press Association (PA). A second special dividend payment of £0.7m relating to the disposal of PA's new media operation, Ananova, to Orange in July 2000 became

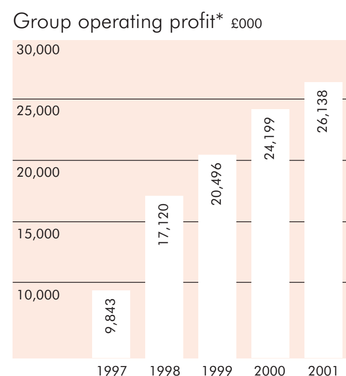


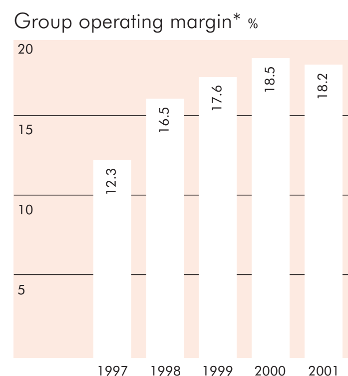
Chris Lawrence Finance Director

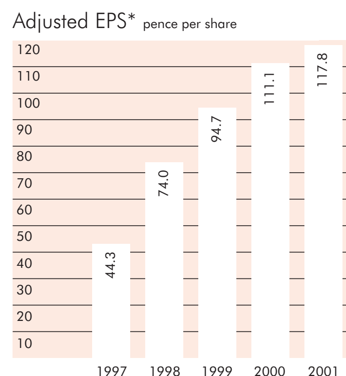
ARCHANT REGIONAL

ARCHANT CENTRAL SCOTLAND









Dividend per share pence per share

30 25 20 15 10

12.4 16.0 20.0 24.0 26.4

1997 1998 1999 2000 2001

Share price range £ low/high

10 8 6 4 2

3.05/3.90 3.90/4.55 4.55/6.30 6.30/9.30 8.60/9.50

1997 1998 1999 2000 2001

receivable in December 2001 and was received shortly after the year end. The first payment of £0.9m was received in December 2000. One more payment is planned for December 2002, subject to any claims against warranties given to the purchaser.¶

Taxation

The effective rate of taxation in the year was 29.4% (2000 – 26.5%). The standard rate of tax in the year was 30% (2000 – 30%). The effective rate is higher than 2000 because of lower contributions to profit from non-taxable income such as the PA dividends, and also because in 2000 capital gains previously provided for were rolled over.¶

Dividend cover

The cost of the ordinary dividend for the year increased by 10.0% to £4.3m. The preference share dividend reduced by 10.1% to £0.3m following the cancellation of both classes of preference share. Ordinary dividends are covered 4.5 times by profits attributable to shareholders, ignoring amortisation of intangible assets and exceptional items (2000 – 4.6 times).¶

Net funds

The business continues to be highly cash generative.¶

In summary, the movements in funds were as follows:

£m	2001	2000
Operating cash flow	29.5	29.4
Acquisitions	(16.6)	(6.5)
Cancellation of preference shares	(7.8)	–
Other cash flows	(13.1)	(9.3)
	(8.0)	13.6

The operating cash flow to operating profit ratio for the year was 125% (2000 – 124%).¶

Other cash flows include capital expenditure -£2.2m, investment income +£0.9m, special dividends +£0.8m, taxation -£8.5m, dividends -£4.4m, and proceeds from the issue of shares +£0.8m. The principal year-on-year variance was increased tax payments (+£1.9m) reflecting the increasing profitability of the Group, and also the accelerated payment of current year corporation tax liabilities as the Inland Revenue move to a 'payment on account' regime.¶

Net funds at the year end were £17.9m (2000 – £25.9m), comprised of the following:

£m	2001	2000
Cash	34.6	31.1
Loan notes receivable	13.8	13.8
Loan notes payable	(30.1)	(18.4)
Finance leases	(0.4)	(0.6)
	17.9	25.9

FRS 17 – Accounting for pensions

In accordance with FRS 17 transitional rules, in note 35 to the financial statements, we have disclosed the information that would have been shown in the current balance sheet if the standard had been in force at the balance sheet date.¶

The note discloses a shortfall on the scheme of £6.3m or 6.9% of the market value of the pension schemes' assets of £92.3m. The note also discloses that at the last triennial actuarial valuation on 1 January 1999 for the main scheme, and on 1 July 1998 for the senior scheme, the market value of scheme assets were £71.2m and £15.1m respectively, and that actuarial surpluses were 107% and 105%.¶

This change from surplus to deficit over the last three years is in part real, due to the under-performance of equities in the last two years, and in part due to different valuation methodologies.¶

Both the FRS 17 and actuarial valuations use market value for assets, but on the liabilities side the calculations are different. FRS 17 uses a lower (corporate bond) rate to discount future liabilities, resulting in a higher valuation of current liabilities.¶

The next triennial valuation for both schemes (as at 1 January 2002) will be completed during the course of 2002. We have been advised by William Mercers that the actuarial funding position is likely to be less favourable than at the last triennial. In view of this, we expect that the company may increase its level of contribution in the second half of 2002.¶

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 with surplus balances invested in money market funds. The Archant Lifestyle Plc loan notes 2003 are fixed rate, at a cost of 5.45% including bank guarantee fees. The cost of other 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 focused in the UK, there is minimal foreign currency risk.¶

Financial position

The Group started the year with net assets of £103.2m. Retained profit for the year was £13.4m, which was transferred to reserves. A further £0.8m was added to reserves following the issue of share capital. £7.8m was transferred out of the reserves to fund the cancellation of the preference shares. The financial position at the year end is represented by net assets of £109.6m.¶