

Financial review

Overview

In common with most media companies, the Group suffered from the weakness in advertising volumes during the year. Despite this, turnover increased by 1.6 per cent, of which 1.0 per cent was due to acquisitions. The Group benefited from reduced newsprint prices and the closure of the New Media business, contributing to a 5.8 per cent increase in operating profit to £27.7m before amortisation, impairment and exceptional items.

Exceptional items during the year amounted to £2.8m (2001 – £1.1m) and a review of holding values for intangible assets resulted in an impairment charge of £1.0m (2001 – £nil). Amortisation of intangible assets increased by £0.3m, largely as a result of acquisitions over the last two years. Pre-tax profit consequently declined by 4.4 per cent, to £24.4m. The effective tax rate was 34.1 per cent (2001 – 29.4 per cent), leading to a tax charge of £8.3m and a decline in profit after taxation of 10.7 per cent to £16.1m (2001 – £18.0m).

The operating results before amortisation, impairment and exceptional items are shown below by division:

£m	Turnover		Profit	
	2002	2001	2002	2001
Newspapers & print	126.9	127.0	29.1	28.5
Magazines	19.2	16.4	0.5	0.3
New Media	0.1	0.6	-	(0.9)
Common costs			(1.9)	(1.8)
	146.2	144.0	27.7	26.1

Archant Regional and Archant Print

Following a difficult first half, in which Archant Regional and Archant Print revenues decreased by 2.3 per cent, second half revenues grew by 1.9 per cent on 2001, resulting in full-year revenue 0.1 per cent lower than 2001, at £126.9m. Growth of 1.4 per cent in newspaper turnover was offset by a 42.7 per cent reduction in third-party printing revenue.

Advertising revenues declined by 0.5 per cent, with recruitment down 6.8 per cent. Revenues for other advertising categories increased by 2.0 per cent in aggregate, with all major categories up.

Circulation revenues grew slightly to end the year at £20.7m, up 1.7 per cent.

The decline in third-party print revenue was due to the loss of a major contract in October 2001. Progress was made during the year in winning new business to replace the lost contract.

Operating expenditure benefited from a 12 per cent reduction in newsprint prices, contributing to a 2.1 per cent increase in operating profit before amortisation and exceptional items to £29.1m.

Archant Lifestyle

Archant Lifestyle comprises Archant Life, Archant Specialist and Archant Dialogue. Magazines published by the newspaper businesses are included in Archant Regional results.

Archant Lifestyle continued to expand its portfolio of

titles during the year. Archant Life acquired *Hampshire Life* in April; *Sussex Life Limited* in May; *Kent Life*, *Surrey Life* and *Berkshire Life* in July and *Living France* (Picture House Publishing Limited) in December. *Cambridgeshire Life* was launched in September.

Archant Specialist extended its range of photography magazines with the launch in August of *Total Digital Photography*.

Archant Lifestyle revenues from existing operations, including new launches, grew by 7.9 per cent. Acquisitions added £1.5m revenue in the year, resulting in overall revenue growth of 16.9 per cent.

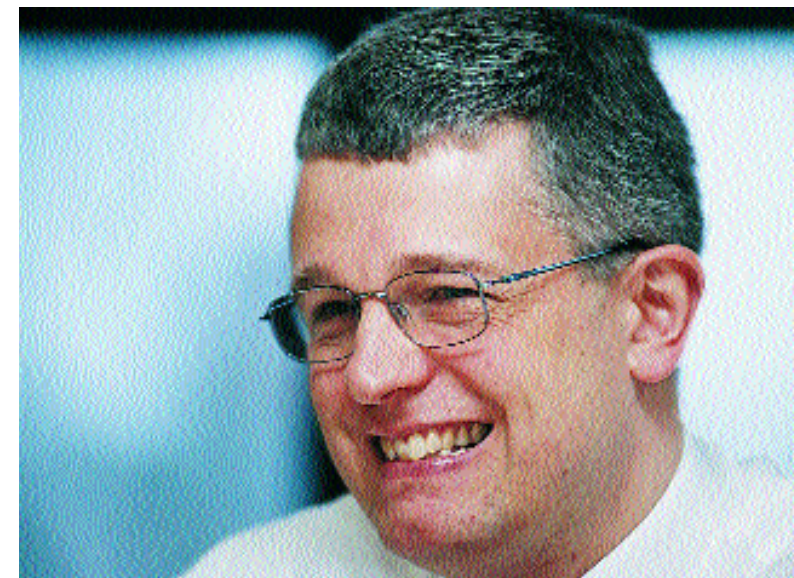
Operating profits before amortisation, impairment and exceptional items of £0.5m (2001 – £0.3m) are stated after a number of non-recurring items, including the launch of *Cambridgeshire Life* and *Total Digital Photography*.

New Media

The Group decided to close its web development business in July 2001. The residual activities generated revenue of £0.1m in 2002 and losses were reduced to nil from £0.9m in 2001.

Associated company

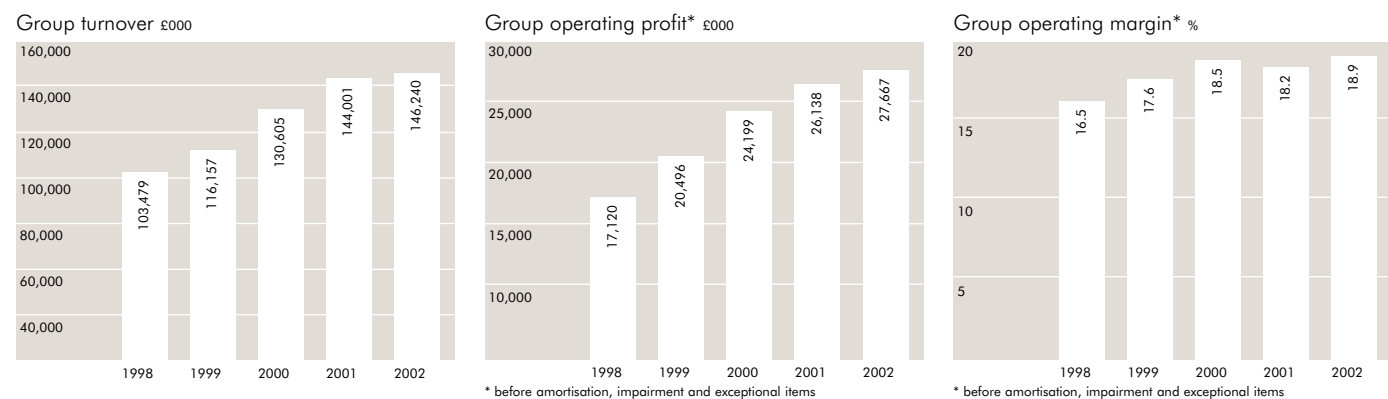
In December 2002, the Group acquired a holding of just over 20 per cent in The Dublin Daily News Limited (DDN). DDN is a new company created to launch a morning daily paper in Dublin.



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Adrian Jeakings Finance Director





Exceptional operating costs

Exceptional items include the cost of providing for certain unfunded pension liabilities (£1.0m), costs relating to the restructuring of information systems (IS) and finance (£1.5m) and abortive acquisition costs (£0.4m).

The Group is implementing a project to consolidate accounting transaction and payroll processing from a number of locations into a single site in Norwich. The project will be completed by the end of 2004 and will reduce costs. The first stage of the implementation was successfully completed in January 2003. The costs relating to the restructuring of IS and finance include the cost of implementing new software.

Profit on sale of investments

The Group realised a profit of £0.6m on the sale of its holding in jazz fm to Guardian Media Group on 19 July 2002.

Special dividends

Archant has a 3.5 per cent shareholding in the Press Association (PA). A third, and last, special dividend payment of £0.7m, relating to the disposal of PA's new media operation, Ananova, to Orange in July 2000 was paid in December 2002. The earlier dividends, of £1.4m and £0.7m, were paid in 2000 and 2001 respectively.

Taxation

The effective rate of taxation in the year was 34.1 per cent (2001 – 29.4 per cent). The standard rate of tax was 30 per cent (2001 – 30 per cent). The effective rate is higher than the standard rate due mainly to expenditure

disallowed for tax purposes, including amortisation and impairment of intangibles. The effective rate for 2002 is higher than the 2001 rate due to increased amortisation and impairment of intangibles, prior year tax credits in 2001 and the adoption of FRS 19 for accounting for deferred tax in 2002.

Dividend cover

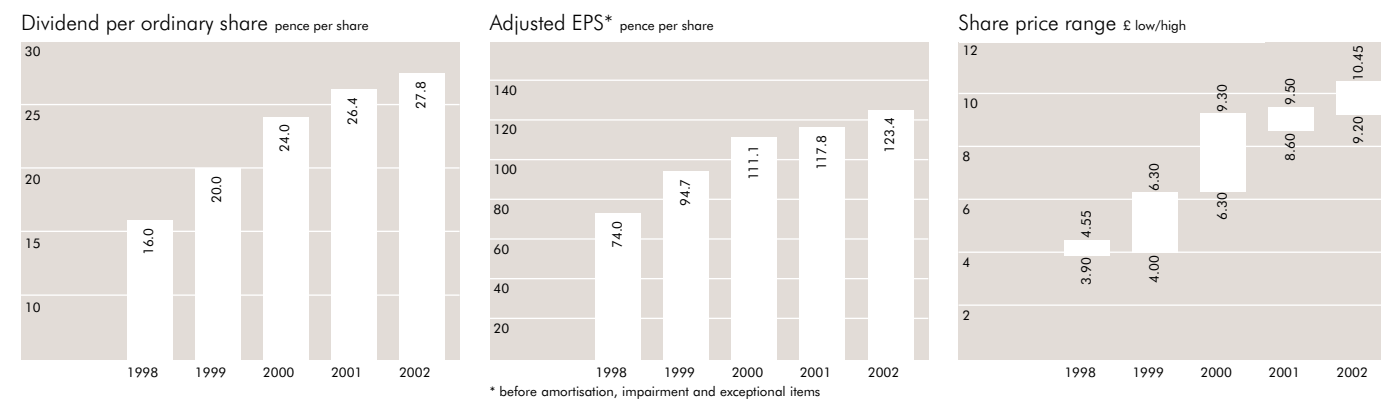
The ordinary dividend for the year increased by 5.3 per cent to 27.8 pence per share. There was no preference share dividend in 2002 (2001 – £0.3m) because the preference shares were cancelled in 2001. Ordinary dividends are covered 4.4 times (2001 – 4.5 times) by adjusted earnings.

Net funds

The Group continues to be highly cash generative and net funds increased to £31.2m (2001 – £17.9m). Movements in funds are summarised below:

£m	2002	2001
Operating cash flow	31.5	29.5
Acquisitions	(5.3)	(16.6)
Cancellation of preference shares	-	(7.8)
Tax paid	(8.7)	(8.6)
Dividends paid	(4.4)	(4.4)
Other cash flows	0.2	(0.1)
	13.3	(8.0)

The operating cash flow to operating profit ratio was 143 per cent (2001 – 125 per cent).



Net funds at 31 December were £31.2m (2001 – £17.9m) as shown below:

£m	2002	2001
Cash	35.2	34.6
Loan notes receivable	13.8	13.8
Loan notes payable	(17.5)	(30.1)
Finance leases	(0.3)	(0.4)
	31.2	17.9

FRS 17 – Accounting for pensions

In accordance with FRS 17 transitional rules, we have disclosed in Note 33 to the financial statements information that would have been shown in the current balance sheet if the standard had been in force at the balance sheet date.

There is a shortfall on an FRS 17 basis on the Group's schemes at 31 December of £30.1m (2001 – £6.3m), which equates to 27.9 per cent (2001 – 6.4 per cent) of the present value of the pension schemes' liabilities. The increase in the deficit is due mainly to the fall in the stock market (£19.6m) and changed actuarial assumptions (£4.4m).

The Group is taking a number of actions which it is envisaged will reduce the shortfall significantly. The Group expects that, as a result of these measures, some of which have already been implemented, the short term annual cash cost of pension provision will increase by £1.5m.

Treasury management

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

The main 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. Loan notes payable include £12.0m Archant Lifestyle PLC Loan Notes 2003, which are fixed rate at a cost of 5.45 per cent including bank guarantee fees and £0.4m that are not interest bearing. The cost of other loan notes payable is 1 per cent less than the Barclays Bank PLC base rate, plus guarantee costs of 0.45 per cent. The interest on the loan notes receivable is LIBOR plus 0.425 per cent.

The Group's activities are primarily in the UK and there is minimal foreign currency risk.

Financial position

Net assets on 1 January 2002 were £109.6m. Retained profit for the year was £11.5m which was transferred to reserves. A further £0.7m was added to reserves following the issue of share capital, and a contribution to the Qualifying Exempt Share Ownership Trust in relation to the maturity of options granted under the Save As You Earn scheme reduced reserves by £0.1m. As a result, net assets at the end of the year were £121.7m. ▼