"The Group continued to be highly cash generative. Net debt at the end of the year was £12.1m following the acquisition of INM's 27 London regional newspapers"

Financial review

Overview

The Group made significant progress during the year, with turnover up 8.0 per cent to £158.0m and operating profit before amortisation and exceptional items up 6.1per cent to £29.4m.

Exceptional costs during the year were down by £2.2m to £0.6m and the annual review of holding values for intangible assets indicated that no impairment charge was required (2002: £1.0m). The £0.7m investment in the *Dublin Daily News* start-up was fully written off in the year (2002: £nil).

Pre-tax profit increased by 13.9 per cent to £27.8m (2002: £24.4m). The tax charge was £7.4m (2002: £8.3m), resulting in an effective tax rate of 26.6 per cent (2002: 34.1 per cent) and an increase in profit after taxation of 26.8 per cent to £20.4m (2002: £16.1m). Adjusted earnings per share increased by 13.0 per cent to 139.5p and basic earnings per share increased by 26.2 per cent to 122.9p.

The operating results before amortisation and exceptional items by division were:

£m	Turnover		Profit	
	2003	2002	2003	2002
Regional & Print	132.5	127.0	29.6	29.1
Lifestyle	25.5	19.2	2.0	0.4
Common costs	-	-	(2.2)	(1.9)
	158.0	146.2	29.4	27.6

The Group continued to be highly cash generative. Net debt at the end of the year was £12.1m (2002: net funds £29.8m), following the acquisition of the Independent News and Media (INM) regional newspapers in London.

Archant Regional and Archant Print

Archant Regional and Archant Print revenues increased by 4.3 per cent to £132.5m during the year, of which 1.1 per cent was generated by new product launches and relaunches and 0.3 per cent by the London titles acquired from INM in December.

Traditional newspaper advertising revenues, excluding the newly acquired London titles, increased by 2.4 per cent. Recruitment revenue was down 2.3 per cent, however other advertising categories increased by 4.1 per cent in aggregate, with all other major categories up.

Circulation revenues grew by 2.8 per cent to end the year at £21.3m. Other publishing revenue increased by 14.2 per cent and third-party printing revenue grew by 23.1 per cent.

Operating expenditure benefited from a 6.6 per cent reduction in newsprint prices. However employment costs increased by 5.8 per cent, driven in part by increased pension and national insurance contributions, resulting in a 1.7 per cent increase in operating profit before amortisation and exceptional items to £29.6m.

The costs of developing and launching new products during the year were charged to the profit and loss account as incurred.

INM's London regional papers were acquired during December in two separate transactions for £57.4m including transaction costs, with up to a further £5.0m payable in 2004. The acquisitions were largely funded from the Group's cash resources, supplemented by a revolving credit facility from the Royal Bank of Scotland. The titles contributed £0.4m to Archant Regional's 2003 revenue.

Archant Lifestyle

Archant Lifestyle comprises Archant Life, Archant Specialist and Archant Dialogue.

Archant Lifestyle continued to expand its portfolio of titles during the year with the acquisition of *Devon Life* in May and of *French Property News* in September.

Lifestyle revenues from existing operations grew by 23.6 per cent. Acquisitions added £1.7m of revenue in the year, resulting in overall revenue growth of 32.4 per cent to £25.5m.

Operating profits before amortisation and exceptional items improved significantly, from £0.4m in 2002 to £2.0m in 2003.

Associated company

In December 2002 the Group acquired a 20 per cent holding in The Dublin Daily News Limited (DDN). DDN was a new company created to launch a morning daily paper in Dublin and the first edition was published on 11 March 2003. The new title did not achieve its operating targets and the Board decided not to make any further investment. DDN was unable to find sufficient additional funding elsewhere and went in to voluntary liquidation in July 2003. Archant's original investment was written off during the year.

Exceptional operating costs

Exceptional costs of £0.6m (2002: £2.8m) represent the cost of restructuring the Group's arrangements for the provision of pension benefits to employees and the provision of unfunded pension liabilities.

Taxation

The effective rate of taxation in the year was 26.6 per cent (2002: 34.1 per cent). The standard rate of tax was 30 per cent (2002: 30 per cent). The 2003 effective rate is lower than both the standard rate and the 2002 effective rate, due mainly to the impact of the amortisation for tax purposes of intellectual property.

Dividend cover

It is proposed that the dividend for the year be increased by 13.3 per cent to 31.5 pence per share. Dividends are covered 4.4 times (2002: 4.4 times) by adjusted earnings per share. Dividends are covered 3.9 times using basic earnings per share.

Net funds

The Group continues to be highly cash generative. Movements in funds are summarised below:

£m	2003	2002
Operating cash flow	31.8	31.5
Tax paid	(5.6)	(8.7)
Dividends paid	(4.7)	(4.4)
Other cash flows	1.7	3.1
Cash flow before acquisitions and capital expenditure	23.2	21.5
Capital expenditure	(3.4)	(2.8)
Acquisitions	(61.7)	(5.3)
Total cash flow	(41.9)	13.4

The operating cash flow to Group operating profit ratio was strong, at 118 per cent (2002: 143 per cent).

Net debt at 31 December was £12.1m (2002: net funds £29.8m) as shown below:

	2003 £m	2002 £m
Cash	15.4	35.2
Bank loans & overdrafts	(24.4)	(1.4)
Loan notes receivable	-	13.8
Loan notes payable	(3.0)	(17.5)
Finance leases	(0.1)	(0.3)
	(12.1)	29.8

Net funds include the Employee Benefit Trust's overdraft of £1.5m (2002: £1.4m) which is guaranteed by the Company. In previous years this has not been included in net funds. Cash from the redemption of The Wireless Group loan notes was received on 31 December 2003 and used to reduce the bank loan in January 2004.

Capital expenditure

Capital expenditure increased by £0.6m to £3.4m. During the year the Group initiated a project to increase the capacity of its Thorpe printing facility by 50 per cent. The project has a total budget of £12.6m, of which £1.2m was spent in 2003, and is expected to be completed at the beginning of 2005. In addition, the rebuild of the Ilford freehold premises, at a total cost of £2.5m, was started. Of this, £0.6m was spent in 2003 and the project is expected to be completed in June 2004.

Changes to pension schemes

During the year the Group has implemented a balanced action plan to reduce the shortfall in its defined-benefit pension schemes. The measures taken included: increased employer and employee contributions; the ending of early retirement without actuarial reduction of benefits; the ending of automatic discretionary pension increases and the consolidation of the two main schemes into one. The Group expects to fund any future discretionary pension increases through cash contributions to the scheme equivalent to the capitalised cost of the pension increase unless there is a material improvement in the funding position of the scheme.

The Group also made changes to its money-purchase scheme by moving it to a "contracted-in" basis with a view to providing better benefits for members.

Employer pension and social security cash contributions increased by £1.6m during the year. Cash pension costs have increased by 56 per cent over two years.

FRS 17 – Accounting for pensions

In accordance with FRS 17 transitional rules we have disclosed information in Note 32 to the financial statements 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 in the Group's defined-benefit schemes at 31 December of £15.1m (2002: £30.1m) which equates to 14.0 per cent (2002: 27.9 per cent) of the present value of the liabilities of those schemes. The reduction in the deficit is due mainly to changed actuarial assumptions based on the changes to those schemes outlined above (£9.8m) and returns on investments in excess of actuarial assumptions (£6.1m).

Treasury management

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

The main risk that the Group faces from its treasury activities is interest rate risk. The Group's activities are primarily in the UK and there is minimal foreign currency risk. The Group's treasury objective is to minimise borrowing costs and maximise returns on funds, subject to short term liquidity requirements.

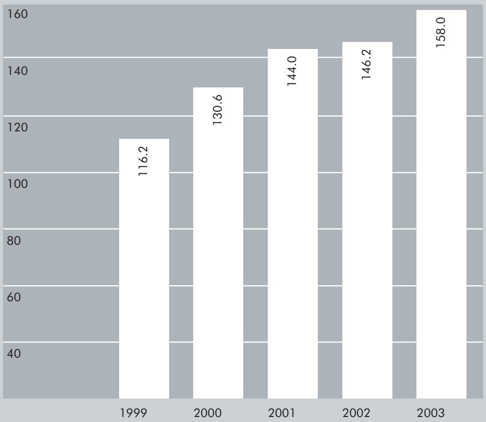
Cash is managed centrally, with surplus balances invested in money market funds. Loan notes payable are the £3.0m Archant Lifestyle Plc Loan Notes 2008, which bear interest at 1.0 per cent less than the Barclays Bank base rate plus guarantee costs of 0.45 per cent.

The Group has secured a £30.0m one year revolving credit facility from the Royal Bank of Scotland at a competitive rate of interest. The facility may be rolled over for additional one year periods at the bank's discretion. Alternatively, it may be settled in full at the Group's discretion at any time or, subject to certain conditions, converted into a fixed term loan to be repaid by 31 December 2006. The Group also has a £5.0m overdraft facility from the Royal Bank of Scotland and a £5.0m overdraft facility from Barclays Bank. Both overdraft facilities, which are at competitive rates of interest, are largely unused.

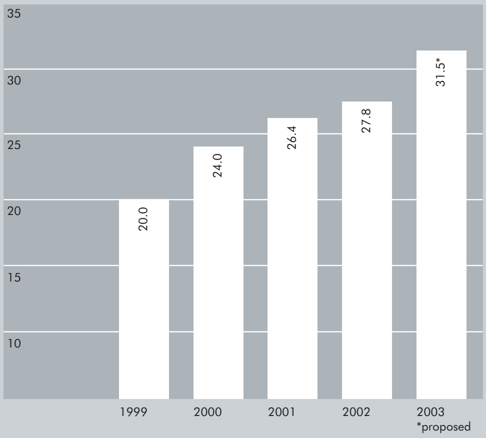
Financial position

Net assets on 1 January 2003 were £121.7m. Retained profit for the year was £15.2m, which was transferred to reserves. A further £0.4m was added to reserves following the issue of share capital. Net assets at the end of the year were £137.3m.

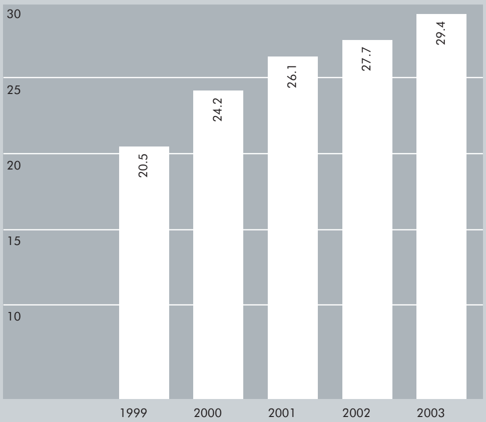
Group turnover £m



Dividend per ordinary share pence per share

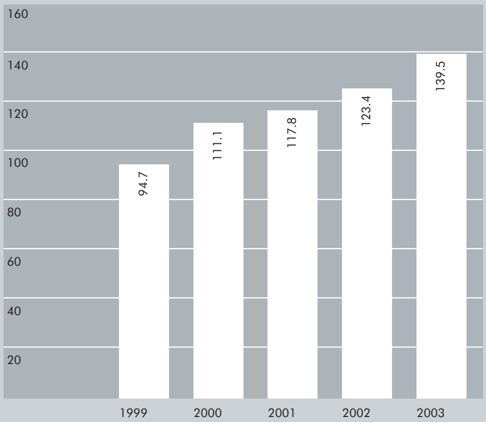


Group operating profit* £m



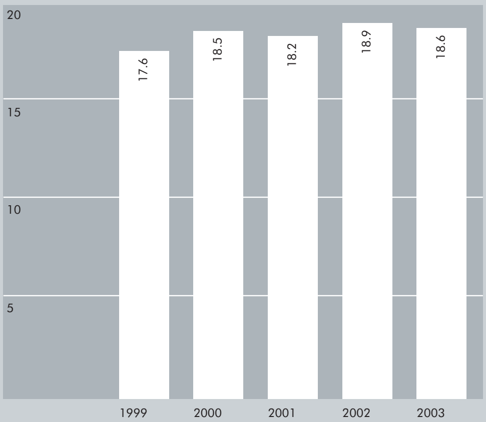
* before amortisation, impairment and exceptional items

Adjusted earnings per share* pence per share



* before amortisation, impairment and exceptional items

Group operating margin* %



* before amortisation, impairment and exceptional items

Share price range £ low/high