ANNUAL REPORT 2007

Financial review 2007

The Group has had a good year with a return to growth in newspapers and strong growth in its magazines and on-line activities. It has continued to invest for the future with acquisitions in the newspaper and magazine businesses, further investment in IT and an increase in printing capabilities at Thorpe

ADRIAN JEAKINGS, FINANCE DIRECTOR

REVENUE AT £193.8m (2006: £191.0m) was £2.8m (1.4%) higher than 2006 despite the disposal of the Group's Scottish newspaper titles in April. Revenue from ongoing operations (ie. excluding acquisitions and disposals) was up £5.6m (3.0%) with an increase of £1.6m (1.2 %) in newspapers and printing and £4.0m (8.0%) in magazines and contract publishing. Operating profit before amortisation and impairment of intangible assets and exceptional costs increased by £1.0m (3.4%) to £30.5m (2006: £29.5m).

The negative view taken by the markets of regional newspaper assets, with a consequent adverse impact on valuation multiples, has resulted in an impairment charge of £30.0m. The operating profit of the titles impacted by this charge improved during 2007 and is budgeted to increase again in 2008. The impairment charge has no cash impact.

Exceptional items at £0.9m (2006: £1.3m) were £0.4m lower than last year due to lower restructuring costs. The sale of the Group's Scottish newspaper operations to Johnston Press in April for £10.6m after disposal costs resulted in a one-off profit before tax of £3.8m.

Interest payable at £3.0m was £0.4m lower than 2006 due to lower average net debt despite higher underlying interest rates and the impact of the "credit crunch" on LIBOR. There was a £0.4m profit and loss credit (2006: £0.1m charge) under the FRS 17 accounting standard arising from the increase in value of pension scheme assets and their expected return relative to the interest charge on the liabilities.

Profit before impairment and tax at £21.9m (2006: profit £16.4m) was £5.5m (33.2%) higher than last year. The pre-impairment tax charge was £7.6m (2006: £8.7m) resulting in an effective rate of 34.5% (2006: 53.1%).The loss after charging impairment and tax was £10.2m (2006: profit £7.7m). The sale of the Group's Scottish titles realised a profit of £2.5m after tax. Adjusted earnings per share, which reflect the underlying performance of the business, were up 6.9p (5.2%) at 140.0p but, as a result of the impairment charge, basic earnings per share fell by 126.9p to a loss of 72.4p per share.

Net debt at the end of the year was £36.9m (2006: £54.8m) after acquisitions, capital expenditure and other investments of £8.0m and net proceeds of £10.6m from the sale of the Group's Scottish newspaper operations.

Summary of divisional operating results

The revenue and operating profit before amortisation and exceptional items were:

	Revenue		Operating profit	
	2007	2006	2007	2006
	£m	£m	£m	£m
Newspapers & printing	136.5	134.2	23.8	23.6
Magazines & contract publishing	55.1	49.9	7.1	6.1
Discontinued operations	2.2	6.9	0.3	0.7
Common costs	-	-	(0.7)	(0.9)
	193.8	191.0	30.5	29.5

Newspapers and printing

Trading conditions for UK regional newspapers improved during 2007 with Archant generating both revenue and profit growth from its newspaper activities on a like-for-like basis for the first time since 2004. The decline in print advertising revenue seen in recent years slowed during the first half of the year and there was year-on-year growth in the second half. More emphasis on on-line advertising and the launch of the homes24, jobs24 and drive24 digital classified services generated substantial growth in digital revenue. The business took steps to consolidate its presence in Cambridge with the acquisition in February 2007 of *Agenda* and *Property Plus*, a lifestyle magazine and a property magazine respectively.

During the year, newspaper and printing revenues decreased by £2.4m (1.7%) to £138.7m (2006: £141.1m) due to the disposal of the group's Scottish titles in April. Revenue from continuing operations was up £1.6m (1.2%) and the acquisition of *Agenda* and *Property Plus* generated a further £0.8m. Compared to last year, performance in the second half of the year was better than the first half, although the last two months of the year were impacted by a slowdown in advertising revenue in printed publications.

	1st half		2nd half	
	£m	vs 2006	£m	vs 2006
Revenue – continuing	69.5	1.0%	67.0	2.6%
Revenue – discontinued	2.2		0.0	
Total revenue	71.7	(0.9%)	67.0	(2.6%)
Cost – continuing	56.6	1.5%	56.1	2.1%
Cost – discontinued	1.9		0.0	
Total costs	58.5	(0.7%)	56.1	(3.4%)
Operating profit – continuing	12.9	(1.2%)	10.9	(3.7%)
Operating profit – discontinued	0.3		0.0	
Total operating profit	13.2	(1.5%)	10.9	1.8%

Advertising revenue grew during the year in all major categories, except motors, with most categories performing better in the second half of the year. Property advertising growth at 9.4% was very strong in the first half. However, this slowed to 1.9% in the second half in the face of a slowdown in the housing market.

Advertising (exc. Scotland)

	Full year	1st half	2nd half
Recruitment	2.6%	0.6%	5.0%
Property	5.8%	9.4%	1.9%
Motors	(11.4%)	(9.6%)	(13.4%)
Other classified	(2.7%)	(3.9%)	(1.3%)
Display	0.3%	(2.5%)	3.1%
Leaflets & other	1.0%	(2.1%)	(4.1%)
All advertising	0.4%	(0.2%)	0.9%

Revenue from on-line activities increased by 91.1% to £2.1m (2006: £1.1m) mainly driven by jobs24 and banner advertising sales. The key non-financial measures of on-line activity – unique visitors and page impressions – increased by 54.5% and 48.8% respectively with more than 1.1 million people visiting Archant newspaper websites every month.

Circulation revenue declined by 0.6% over the year mainly due to the closure of a number of unprofitable magazine titles in Norfolk. Revenue from newspapers was slightly up on 2006 with stronger growth in the second half (0.3%) with price increases offsetting circulation declines.

Operating costs at £114.5m (2006: £116.9m) were down £2.4m (2.1%) mainly as a result of the sale of the Scottish titles. Operating costs excluding the Scottish titles increased by £2.0m (1.8%) to £112.6m. Above-inflation increases in newsprint prices were offset by a switch to lighter paper with no noticeable deterioration in quality.

The repairs following the fire at Thorpe reported in the Interim Statement have now been completed. Most of the incremental costs incurred as a result of the fire were covered by insurance and the total impact on 2007 costs was £100,000.

Operating profit was slightly down at £24.1m (2006: £24.2m) but increased by £0.2m to £23.8m for ongoing operations excluding the Scottish titles.

Impairment of newspaper intangible assets

The Group is required to review the carrying value of all its intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The price based on multiples of turnover and profits of similar assets when they are sold is a key part of that review. The stock market has taken a negative view of regional newspaper shares during 2007 with substantial drops in the price of shares of quoted companies. Few regional newspaper assets have changed hands during recent months and those that have, have been sold at much lower prices compared to their profits than has historically been the case.

Archant newspaper intangible assets had a carrying value at 31 December 2007, pre-impairment, of £98.2m, of which £86.9m relates to titles in London. These titles were acquired from HCN in 1998, INM in 2003 and Highbury House in 2005. The carrying value for the London newspaper titles is no longer supported by their underlying P&L performance based on recent transaction multiples for newspaper titles. This is due to a reduction

in the transaction multiples rather than a deterioration in business performance. To reflect this change an impairment charge of £30.0m has been made during the year. The operating profit generated by the London titles increased by 3.5% in 2007 and is budgeted to increase again in 2008.

The impairment charge has no cash impact, however it does reduce distributable reserves, which were £120.0m at the end of 2007 before the impairment charge. The group's annual dividend payment at its current level is more than adequately covered by the profits generated from normal trading, and distributable reserves after the impairment charge are £95.5m, which represents more than 15 years of dividends based on the proposed 2007 dividend payment.

Magazines and contract publishing

2007 was another successful year for Archant's magazine and contract publishing businesses with further acquisitions and a significant increase in operating profit.

Revenue at £55.1m (2006: £49.9m) was up £5.2m (10.3%) and operating profit increased by £1.0m (16.1%) to £7.1m.

2007 acquisitions contributed £1.2m to the revenue growth and £0.3m of the profit growth. Advertising revenue grew 5.7% on a like-for-like basis. Circulation revenues were up 4.0% compared with 2006, with 12.0% growth in Archant Life, also on a like-for-like basis.

Archant Life acquired *Living Edge*, a free-distribution lifestyle magazine for the southern suburbs of Manchester around Alderley Edge, in January 2007 and *West Essex Life*, a free distribution lifestyle magazine focused on the area of north west Essex just inside the M25, in February 2007. The acquisition of WeddingLink, a business operating wedding exhibitions and publishing an annual magazine, in June 2007 reinforced Archant Life's market presence in Cheshire.

Archant Life achieved like-for-like revenue growth of 9.1% with increases in all divisions and all revenue categories. Like-for-like operating profit increased by 26.1%.

Archant Specialist's revenue was 5.8% down in the year as a result of increased competition, difficult trading conditions and the loss of contract publishing business.

Archant Dialogue made significant progress during the year with revenue up over 50% and operating profit more than doubling to £0.5m.

Associated company

The Group made a further £296,000 investment (2006: £200,000) in its associate, a publishing company operating in the UK, during the year. Archant's share of the associate's losses increased by £24,000 to £315,000 due to the increased shareholding and the start-up losses generated by the launch of a number of new titles. A further investment of £150,000 was made in January 2008.

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Exceptional items
Exceptional costs at £0.9m (2006: £1.3m) were down £0.4m, reflecting a lower level of restructuring activity than in 2006.

Taxation
The pre-impairment effective rate of taxation for the year was 34.5% (2006: 53.1%). The standard rate of tax was 30.0% (2006: 30.0%). The decrease in the effective tax rate was mainly due to the impact of a one-off deferred tax charge in 2006 as a result of starting to amortise newspaper intangible assets (10.4%) and a one-off deferred tax credit as a result of changes in tax legislation in 2007 (4.7%). The 2007 effective rate was higher than the standard rate due mainly to amortisation of intangible assets that is not deductible for tax purposes (7.6%), partially offset by a one-off deferred tax credit in 2007 arising from a change in tax legislation (1.2%).

Earnings per share
Basic earnings per share fell by 126.9p to (72.4p) but adjusted earnings per share increased by 6.9p (5.2%) to 140.0p. Adjusted earnings per share is intended to be a better indicator of the underlying performance of the business and the difference between basic and adjusted earnings per share is explained in more detail in Note 11 to the financial statements.

The major movements during the year are shown in the table below:

	Basic	Adjusted
2006 EPS	54.5	133.1
Profit change and other items	6.3	6.9
Exceptional items	1.9	-
Sale of freehold property in 2006	(3.9)	-
Sale of Scottish operations in 2007	17.8	-
Change in tax legislation in 2007	9.1	-
One-off deferred tax charge in 2006	16.2	-
2007 EPS before impairment	101.9	140.0
Impairment of intangible assets	(174.3)	-
2007 EPS after impairment	(72.4)	140.0

Dividends and dividend cover
It is proposed that the dividend for the year should be increased by 2.0p (5.2%) to 40.1p (2006: 38.1p). At this level the dividend would be covered 3.5 times (2006: 3.5 times) by adjusted earnings per share.

Net debt and cash flow
The Group continues to be cash generative and operating cash flow at £33.0m (2006: £30.9m) was £2.1m higher than in 2006 mainly due to increased profit. Profit conversion (pre-impairment) into cash was strong again at 157% (2006: 158%).

Net debt at the end of the year was £36.9m (2006: £54.8m). Movements in net debt are summarised below:

	2007 £m	2006 £m
Operating cash flow	33.0	30.9
Interest paid	(3.0)	(3.4)
Tax paid	(7.5)	(4.8)
Dividends paid	(5.4)	(5.3)
Other cash flows	-	0.2
Cash flow before acquisitions and capital expenditure	17.1	17.6
Capital expenditure	(4.7)	(6.2)
Sale of fixed assets	-	1.3
Sale of Scottish operations	10.6	-
Acquisitions and investment in associate	(3.0)	(5.6)
EBT share transactions and issue of new shares	(2.1)	(2.8)
Decrease in net debt	17.9	4.2

Net debt at the end of the year comprised:

	2007 £m	2006 £m
Bank and cash balances	1.8	2.2
Bank overdrafts and loans	(37.5)	(55.5)
Loan notes payable	(1.2)	(1.5)
Net debt	(36.9)	(54.8)

The bank overdraft and loans above include the £2.5m Employee Benefit Trust overdraft, which is guaranteed by the Group (2006: £2.5m).

Capital expenditure
Capital expenditure during the year was £4.7m (2006: £6.2m) including £1.6m for printing equipment and £2.2m on information technology. The printing expenditure includes £1.0m in respect of a £7.8m project to increase capacity at Thorpe by two-thirds. The project, which will use presses purchased from The Guardian following its change of format, will consolidate all of Archant's newspaper printing into a single plant at Thorpe and is expected to be completed in 2009.

Pension schemes
The triennial actuarial valuation completed in 2005 indicated that liabilities of the Group's pension scheme of £111.6m were underfunded by £6.6m as at 1 January 2005. The Group made cash contributions totalling £2.3m towards the reduction of this deficit in 2005, 2006 and 2007. The deficit shown in the balance sheet was determined using the FRS 17 accounting standard, which the Group adopted in 2005. Under this standard, the defined benefit scheme total cost in the profit and loss account has decreased by £0.1m to £2.9m and the deficit shown on the balance sheet has decreased by £6.1m, from £12.3m to £6.2m. As the liabilities of the pension scheme are expected to fall due over a period of more than 50 years and the deficit is less than one year's profit before tax, it is not considered onerous.

New accounting standards and policies
No new accounting standards were adopted during 2007. We have enhanced our pension disclosures to comply with the "Amendments to FRS 17 Retirement Benefits" standard.

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

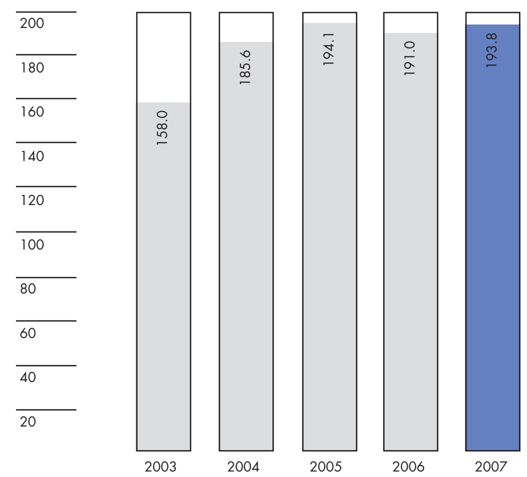
The main risk that the Group faces from its treasury activities is interest rate risk. The Group's activities are primarily in the UK and there is minimal foreign currency risk. The Group's treasury objective is to minimise borrowing costs and maximise returns on funds subject to short-term liquidity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

Cash is managed centrally with surplus balances invested in money market funds. The loan notes payable are £1.2m Archant Lifestyle Plc Loan Notes 2008, which bear interest at 1.0% less than the Barclays Bank LIBOR rate plus guarantee costs of 0.45%. These loan notes will be redeemed in May 2008.

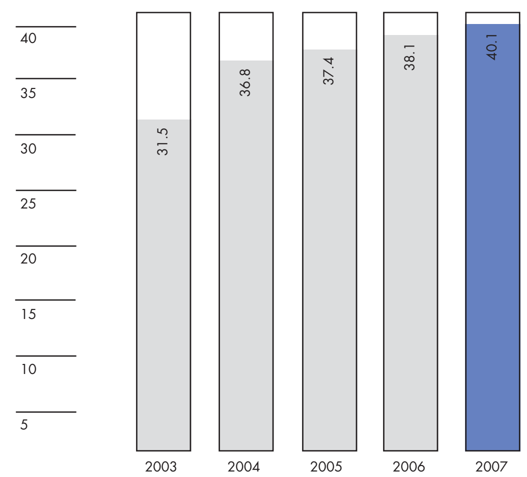
The Group has secured a £105.0m facility from the Royal Bank of Scotland at competitive rates of interest, which was used to fund the share buy-back in 2004 and subsequent acquisitions. The Group has a £5.0m overdraft facility from Barclays Bank and acts as guarantor for the Employee Benefit Trust's £3.5m overdraft facility, which is also provided by Barclays Bank.

Net assets
Net assets on 1 January 2007 were £110.2m. The loss for the year was £10.2m, which was transferred to reserves. Other movements included an increase of £5.8m arising from the FRS 17 Retirement Benefits accounting standard, £5.7m goodwill reinstated on the disposal of the Scottish titles and dividend payments of £5.4m. Net assets at the end of the year were £106.3m.

Group turnover £m

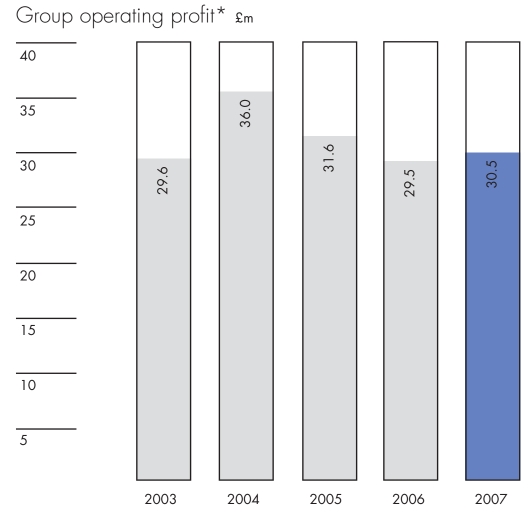


Dividend declared per ordinary share pence per share



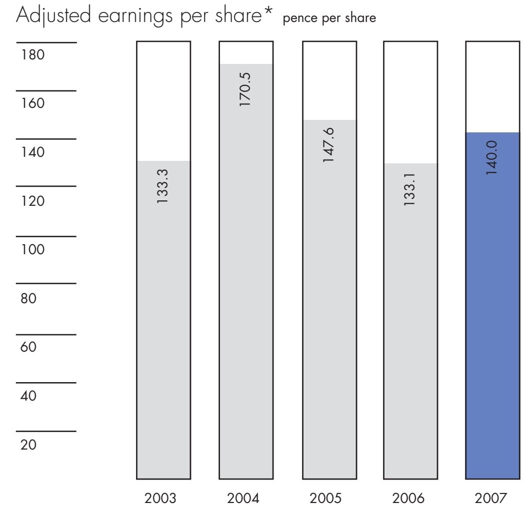
*proposed

Group operating profit* £m



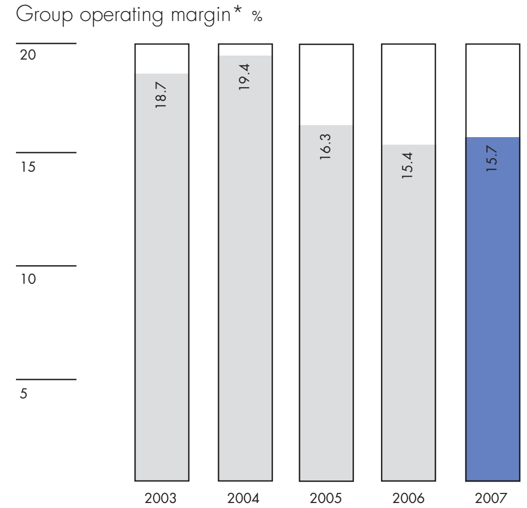
* before amortisation, impairment and exceptional items

Adjusted earnings per share* pence per share



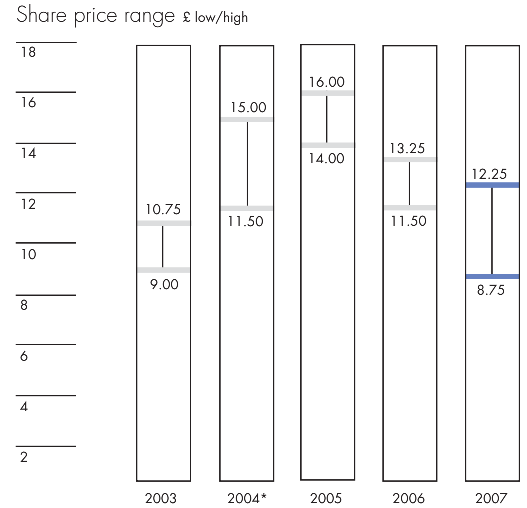
* before amortisation, impairment and exceptional items

Group operating margin* %



* before amortisation, impairment and exceptional items

Share price range £ low/high



* Shares were repurchased under the buy-back at £20.00 per share on 8 December 2004