

In a challenging year, like-for-like revenue fell by 9.2% and operating profit by 27.1%, with the second half notably weaker than the first. Cost savings of £9.4m resulted in a 5.8% reduction in costs in the year.

BRIAN MCCARTHY, FINANCE DIRECTOR

REVENUE AT £175.1M (2007: £193.8m) was £18.7m (9.6%) lower than 2007. Revenue from ongoing operations (i.e. excluding acquisitions and disposals) was down £17.6m (9.2%) with a fall of £14.9m (10.9%) in newspapers and printing and £2.7m (4.9%) in magazines and contract publishing. Operating profit before amortisation and impairment of intangible assets and exceptional costs fell by £8.3m (27.2%) to £22.2m (2007: £30.5m).

The impact of the recession on operating results, the paucity of merger and acquisition activity in the sector, and the negative view of stock markets on the value of media businesses have had a further negative effect on the valuation of businesses acquired in the past. The resulting impairment charge of £33.6m (2007: £30.0m) has no cash impact.

Exceptional items at £4.0m (2007: £0.9m) were £3.1m higher than last year due to higher restructuring costs relating to redundancy costs, property exit and relocation costs and the accelerated write off of printing equipment rendered redundant with the planned closure of the Ipswich plant in early 2009.

Interest payable at £2.2m was £0.8m lower than 2007 due to lower average net debt and reductions in LIBOR rates. There was a £0.1m profit and loss credit (2007: £0.4m credit) under the FRS 17 accounting standard, arising from the expected return on pension scheme assets relative to the interest charge on scheme liabilities.

Profit before exceptional items and impairment and tax at £15.1m (2007: profit £21.9m) was £6.8m (31.0%) lower than last year. The pre-impairment tax charge was £4.1m (2007: £7.6m) resulting in an effective tax rate of 48.3% (2007: 34.5%). The loss after charging impairment and tax was £24.1m (2007: loss £10.2m). Adjusted earnings per share, which reflect the underlying performance of the business, were down 34.9p (24.9%) at 105.1p whilst basic earnings per share fell by 100.1p to (172.5p).

Net debt at the end of the year was £34.6m (2007: £36.9m) after acquisitions, capital expenditure and other investments of £9.9m.

## Summary of divisional operating results

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

	Turnover		Operating profit	
	2008	2007	2008	2007
	£m	£m	£m	£m
Newspapers & printing	121.6	136.5	16.2	23.8
Magazines & contract publishing	53.5	55.1	5.8	7.1
Discontinued operations	-	2.2	-	0.3
Common costs	-	-	0.1	(0.7)
	175.1	193.8	22.1	30.5

## Newspapers and printing

Trading conditions for UK regional newspapers worsened during 2008 with revenues and profits in the second half of the year notably worse than the first half. Whilst declines in property had begun in the latter quarter of 2007, other classified categories started to fall in mid year as the credit crunch turned into full-blown recession. Digital revenue continued to grow strongly, both in on-line classified advertising, particularly in the recruitment sector, and a substantial improvement in revenue from digital display advertising across the full suite of newspaper websites.

During the year like-for-like newspaper and printing revenues fell by £14.9m (10.9%) to £121.6m (2007: £136.5m); advertising, circulation and contract print revenues each failed to achieve 2007 levels.

Advertising revenue fell in all major categories during the year with the second half of the year substantially worse than the first. With the decline in the property market accelerating during the year, property advertising recorded a fall of 44.3% in the second half, having been 19.4% down in the first half. Recruitment revenue fell by 27.9% in the second half compared to 2.6% in the first half as unemployment rates grew and the confidence of employers to recruit fell.

## Advertising year-on-year

	Full year	1st half	2nd half
Recruitment	(14.4%)	(2.6%)	(27.9%)
Property	(31.0%)	(19.4%)	(44.3%)
Motors	(15.6%)	(11.1%)	(20.7%)
Other classified	1.7%	0.7%	2.8%
Display	(7.1%)	(2.7%)	(11.4%)
Leaflets & other	(6.7%)	(2.2%)	(11.0%)
All advertising	(13.5%)	(6.8%)	(20.7%)

Like-for-like circulation volumes for paid-for newspapers declined by 5.9% over the year, mainly due to a difficult period for evening titles and changes in paid-for distribution models in London. Circulation revenue from newspapers overall was also down by 2.8% on 2007, with price



### **Impairment of newspaper and magazine intangible assets**

The Group is required to review the carrying value of all its intangible assets annually, to determine whether either events or changes in circumstances indicate that the carrying value may not be recoverable. The carrying value is assessed by a number of measures including multiples of turnover and profits of similar assets when they are sold, and discounting the future values of the relevant businesses, in line with accounting standards. Few comparable regional newspaper assets have changed hands in 2008, and as such there is no evidence to support multiples in line with long-term averages. Furthermore, the stock market has continued to take a negative view of regional newspaper shares during 2008 with the share prices of quoted companies falling to their lowest levels for many years.

Archant newspaper intangible assets had a carrying value at 31 December 2008, pre-impairment, of £67.2m, of which £53.7m 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 both on recent transaction multiples for newspaper titles and on a discounted cash flow basis as required by accounting standards. In addition, the carrying value of elements of the Herts portfolio, which also formed part of the HCN acquisition in 1998, have underperformed in the year and an impairment charge has also been applied to these titles. A charge of £30.3m has therefore been made during the year for impairment of these newspaper titles. A further charge of £3.3m has been made in respect of magazines.

The impairment charge has no cash impact; however it does reduce reserves, which were £83.5m at the end of 2008 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 £45.3m, which represents more than 10 years of dividends based on the proposed 2008 dividend payment.

increases offsetting circulation declines in many cases.

Operating costs at £105.4m (2007: £114.6m) were down £9.2m (8.1%), mainly as a result of lower paginations, reductions in newsprint and ink prices and headcount reductions.

Operating costs excluding the Scottish titles sold in 2007 fell by £7.3m (6.5%) to £112.7m.

Like-for-like operating profit was down 31.8% at £16.2m (2007: £23.8m).

### **Magazines and contract publishing**

The three operating businesses in the magazine and contract publishing division were brought under common management during the year. Revenues and profits were impacted by the slow property market with revenues of £53.5m (2007: £55.1m) down £1.6m (2.9%) and operating profit lower by £1.3m (17.9%) at £5.8m.

Archant Life acquired a number of titles during the year including Compass Magazines, a series of free-distribution lifestyle magazines distributed door-to-door in the suburbs, towns and villages around Bournemouth and Southampton. These titles strengthen Archant Life's free magazine portfolio. The acquisitions added £1.1m of revenue and £0.2m of profits.

Archant Life's revenues declined 6.9% on a like-for-like basis in 2008, although the decline is wholly accounted for by the difficult property market, with other revenues up 1.6%. Like-for-like operating profits declined by 32.9%.

Archant Specialist revenues were down 2.4%, following the cancellation of loss making publishing contracts. Underlying revenues were up 1.7% with circulation revenues up 2.1%. A major restructuring has reduced the overhead base in the business which helped more than double Archant Specialist's operating profits.

Archant Dialogue continued to make progress during the year and recorded strong profit growth.

### **Digital activity**

Revenue from on-line activities increased by 51.1% to £3.8m (2007: £2.5m), mainly driven by revenue from *jobs24* and display advertising sales. The key non-financial measures of on-line activity, unique visitors and page impressions, increased by 45.4% and 40.6% respectively with more than 1.8 million people on average visiting Archant websites every month.

## Associated companies

During the year the Group made a further £215,000 investment (2007: £296,000) in its associate, a publishing company operating in the UK. Archant's share of the associate's losses fell by £157,000 to £158,000 owing to improved performance in its business. An amount of £500,000 has been shown as investment in associates to recognise a potential liability for amounts claimed as owing by Archant in respect of its investment in The Dublin Daily News Limited, an Irish company in which Archant had a share and which went into liquidation in 2003. This has been impaired in full. Archant is vigorously defending the claim made against it.

## Exceptional items

Exceptional costs (excluding impairment) were £4.0m (2007: £0.9m) as a result of the additional costs of the restructuring including an amount of £0.5m in respect of accelerated costs of writing down the assets at the Ipswich print works, which are due to close early in 2009.

## Taxation

The financial statements include a tax credit of £1.1m (2007: charge £2.1m). The pre-impairment effective rate of taxation for the year was 48.3% (2007: 34.5%), and the effective standard rate of tax was 28.5% (2007 30.0%). The 2008 pre-impairment effective rate was higher than the standard rate due primarily to amortisation of intangible assets that is not deductible for tax purposes (16.3%). Whilst the non-deductible amortisation is broadly comparable to 2007, the impact on the effective tax rate is more pronounced due to the lower level of pre-impairment profits. The 2008 effective rate is higher than that for 2007 due to the differing impacts of non-deductible impairment (16.3% in 2008, but only 7.6% in 2007) and a one-off deferred tax credit in 2007 (1.2%).

## Earnings per share

Basic earnings per share fell by 100.1p (138%) to (172.5p) and adjusted earnings per share fell by 34.9p (24.9%) to 105.1p. Adjusted earnings per share are 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.

## Dividends and dividend cover

It is proposed that the final dividend should be halved to 13.7p, making a total dividend for the year of 26.4p. At this level the dividend would be covered 4.0 times (2007: 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 £26.4m (2007: £33.0m) was £6.7m lower than in 2007 mainly due to reduced profit. Profit conversion (pre-impairment) into cash was strong again at 237% (2007: 157%).

Net debt at the end of the year was £34.6m (2007: £36.9m). Movements in net debt are summarised below:

	2008	2007
	£m	£m
Operating cash flow	26.4	33.0
Interest paid	(2.1)	(3.0)
Tax paid	(5.4)	(7.5)
Dividends paid	(5.6)	(5.4)
Cash flow before acquisitions and capital expenditure	13.3	17.1
Capital expenditure	(7.8)	(4.7)
Sale of fixed assets	0.2	-
Sale of Scottish operations	-	10.6
Acquisitions and investment in associate	(2.4)	(3.0)
EBT share transactions	(1.0)	(2.1)
Decrease in net debt	2.3	17.9

The net debt above includes the £2.1m Employee Benefit Trust overdraft, which is guaranteed by the Group (2007: £2.5m).

## Capital expenditure

Capital expenditure during the year was £7.8m (2007: £4.7m) of which £5.5m was for printing equipment for the extension to the Thorpe print works which will increase capacity by two thirds. This will consolidate all of Archant's newspaper printing into a single plant at Thorpe and is on track for completion early in 2009.

## Pension scheme

The triennial actuarial valuation completed in 2008 indicated that liabilities of the Group's pension scheme of £148.6m were underfunded by £8.0m as at 1 January 2008. The Group made cash contributions totalling £0.75m towards the reduction of this deficit in 2008. 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 service cost in the profit and loss account has decreased by £0.2m to £2.2m and the deficit shown on the balance sheet has increased by £19.7m, from

£6.2m to £25.9m. An amount of £10.8m of the increase (before deferred taxation) relates to a change in assumptions on mortality rates to those used in the 2008 actuarial valuation. As the liabilities of the pension scheme are expected to fall due over a period of more than 50 years and the deficit is close to one year's operating profit before amortisation, the deficit is not considered onerous.

## New accounting standards and policies

No new accounting standards were adopted during 2008.

## Treasury management, associated risks and uncertainties

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

The main risks that the Group faces from its treasury activities are liquidity risk and 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.

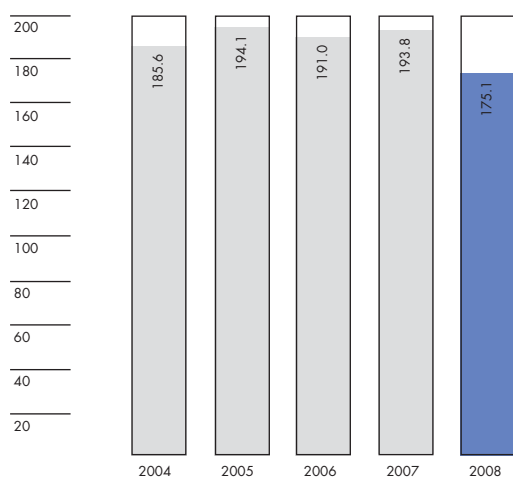
Cash is managed centrally with surplus balances invested in money market funds. The Group has secured a £55.0m five-year revolving advances facility and a £5.0m overdraft facility from the Royal Bank of Scotland at competitive rates of interest. The Group has a £5.0m overdraft facility from Barclays Bank and acts as guarantor for the Employee Benefit Trust's £3.5m overdraft facility, which is also provided by Barclays Bank. The Royal Bank of Scotland five-year revolving advances facility falls due to be replaced in December 2009 and amounts drawn have been classified as current liabilities in the 2008 balance sheet.

The Company has started to review refinancing options and, as further described in the Report of the directors, the directors are of the opinion that the financial statements should be prepared on a going concern basis.

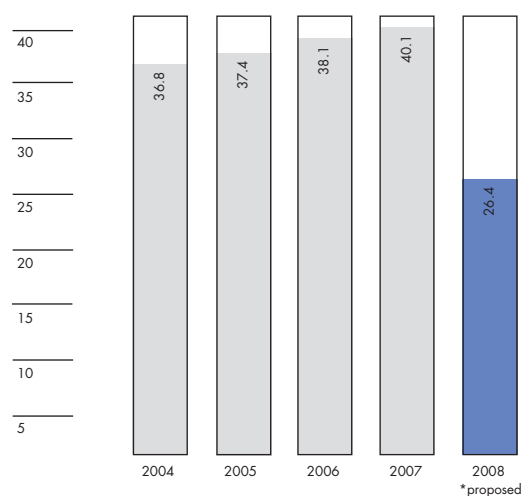
## Net assets

Net assets on 1 January 2008 were £105.2m. The loss for the year was £24.1m, which was transferred to reserves. Other movements included a reduction of £20.0m arising from the FRS 17 Retirement Benefits accounting standard and dividend payments of £5.6m. Net assets at the end of the year were £55.0m.

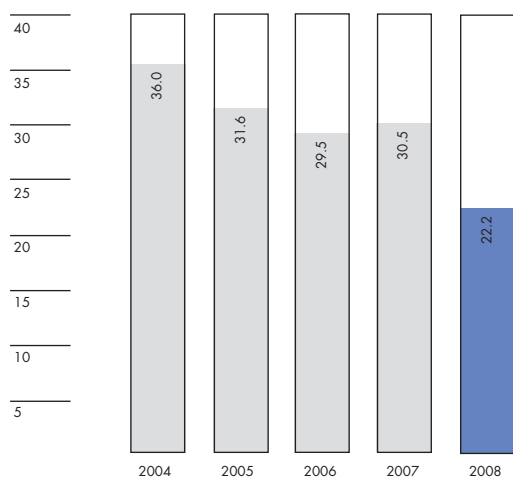
Group turnover £m



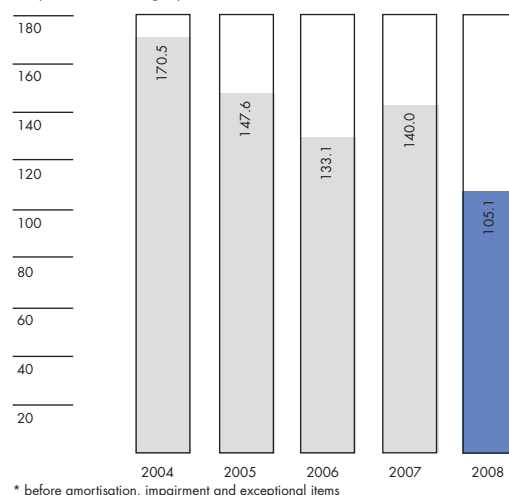
Dividend declared per ordinary share pence per share



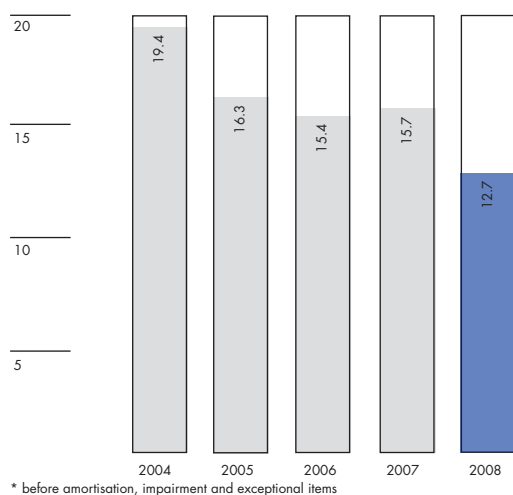
Group operating profit\* £m



Adjusted earnings per share\* pence per share



Group operating margin\* %



Share price range £ low/high

