Financial review

A solid result in a year of investment.

BRIAN MCCARTHY, FINANCE DIRECTOR

	2010	2009	Change
	£m	£m	£m
Group revenue	139.3	142.0	(2.7)
Operating costs			
Staff costs	55.5	56.9	(1.4)
Other costs	69.0	70.0	(1.0)
Total operating costs[1]	124.5	126.9	(2.4)
Operating profit[1]	14.8	15.1	(0.3)
Amortisation and impairment	(5.1)	(17.3)	12.2
Net exceptional items	(1.5)	5.4	(6.9)
Operating profit	8.2	3.2	5.0
Share of operating results in associate	(0.2)	(0.2)	(0.0)
Income from investments	0.0	0.2	(0.2)
Interest payable	(1.8)	(0.6)	(1.2)
Other finance expense	(0.5)	(1.9)	1.4
Profit before tax	5.7	0.7	5.0

[1]Excluding exceptional items, amortisation and impairment

REVENUE AT £139.3M (2009: £142.0m) was £2.7m (1.9%) lower than 2009. Operating profit before amortisation and impairment of intangible assets and exceptional items fell by £0.3m (2.4%) to £14.8m (2009: £15.1m). Total operating costs were down £2.4m (1.8%) with like-for-like costs down £5.4m, a saving of 4.1% over 2009. Cost control remained an important priority across the business; however, provision was made for investment in business development to ensure our continuing growth in new business areas, particularly digital. Overall the results were solid.

Operating profits in the second half of the year were 9.7% higher than the first half at £7.7m, and would have been better but for the adverse weather conditions in December and fewer publishing days for daily titles due to Christmas Day falling on a Saturday. The rate of like-for-like revenue decline was 5.3% in the second half of the year, compared to 1.1% in the first half.

An improvement in stability in the financial position of the relevant acquired titles and the cumulative effect of previous write-downs has meant that a non-cash impairment charge of £0.5m has been recorded, a 96% reduction on the 2009 charge of £12.4m.

Exceptional items, comprising restructuring costs, reduced profit by £1.5m (2009: £5.4m. credit). The 2009 credit arose principally from changes to the defined benefit pension scheme, resulting in a one-off credit of £10.0m, off-setting £4.0m of restructuring costs and other one-off costs of £0.6m.

Interest payable at £1.8m was £1.2m higher than 2009 despite the reduction in net debt. This is due to the higher interest rates applicable to the Group's debt under its refinancing in December 2009.

A £0.5m charge (2009: £1.9m) is shown as other finance expense in the profit and loss account. This arises from the expected return on pension scheme assets relative to the interest charge on scheme liabilities under the FRS 17 accounting standard.

The tax charge on profits for the year was £1.3m (2009: £3.8m) and the profit for the year after charging impairment and tax was £4.5m, an improvement on 2009's loss of £3.2m.

Adjusted earnings per share, which reflect the underlying performance of the business, were down 0.7p (1.1%) at 64.0p, whilst basic earnings per share improved by 54.8p from (22.8p) to 32.0p.

Net debt at the end of the year was £23.3m (2009: £27.5m) after capital expenditure of £2.4m. The Group maintains sufficient debt headroom for development opportunities and is operating well within covenants.

Summary of divisional operating results

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

	Turnover		Operating profit	
	2010	2009	2010	2009
	£m	£m	£m	£m
Newspapers & printing	94.4	98.4	9.3	10.7
Magazines & contract publishing	44.9	43.6	5.6	5.2
Common costs	-	-	(0.1)	(0.8)
	139.3	142.0	14.8	15.1

“Investment was made in developing our digital capability which we expect to pay back in 2011 and beyond”

Key performance indicators (KPIs)

The key financial and non-financial performance indicators for the Group include revenue, operating profit, operating margin, advertising volumes, circulation volumes, unique users online, net debt and digital revenue. The Group seeks to target performance in line with or ahead of competitors.

Details of the Group's performance against the relevant KPIs for each division are included in the respective sections below.

Newspapers and printing

Advertising conditions in UK regional newspapers improved over the first three quarters of 2010, with the fourth quarter of the year showing a worse position as a result of public sector cutbacks, economic confidence falling and the effects of poor weather.

Newspaper and printing revenues fell by £4.0m with like-for-like revenues down by £5.8m (5.9%) to £92.6m (2009: £98.4m). Of this fall, more than half related to advertising funded by the public sector, where revenues fell by 29.1% in the year. Public sector advertising now represents 9.6% of total advertising revenues (2009: 12.4%).

All categories of advertising other than property suffered revenue declines in 2010, with recruitment in particular continuing its downward trend in our print publications, although in digital form, growth of 11.8% was achieved.

Digital revenue grew by 14.2% overall, with particular growth in directories and E-editions offsetting small reductions in display revenue.

Advertising year-on-year

	Full year	1st half	2nd half
Recruitment	(17.5%)	(10.1%)	(26.6%)
Property	3.9%	9.4%	(1.8%)
Motors	(3.4%)	(1.7%)	(5.2%)
Classified	(11.2%)	(7.7%)	(14.9%)
Display	(5.6%)	(0.7%)	(10.1%)
Other	(3.5%)	2.0%	(8.6%)
All advertising	(6.8%)	(2.1%)	(11.6%)

Circulation performed strongly, particularly in the second half of the year. Like-for-like circulation volumes and revenues for paid-for newspapers each declined by 2.5%, however the second-half ABC performance showed a reduction of only 0.7%, having been 4.2% lower in the first half of the year, the best performance for many years. Both the *Eastern Daily Press* and the *Norwich Evening News* increased circulation in the second half of the year, with weekly titles outside London (where a number of routes to market are used and paid-for circulation is not the only circulation measure) falling by only 0.4%.

Whilst recognising the brand capital in our paid-for titles, Archant's overall audience is not solely comprised of paid-for titles and we have exploited strong brand relationships in the digital audiences for both our paid-for and free newspaper titles – with unique visitors growing by 9.5% in the year.

Like-condition operating costs at £82.8m (2009: £87.7m) were down £4.9m (5.5%), maintaining the cost savings generated in 2009. Savings in employment costs were driven by a reduction in full-time equivalent staff numbers of 5.3%. Further savings were made as a result of lower paginations as advertising fell, reductions in ink prices and property exits.

Investment was made in developing our digital capability which we expect to pay back in 2011 and beyond.

Like-for-like operating profit was down 9.0% at £9.7m (2009: £10.7m).

Magazines and contract publishing

Revenues were £44.9m (2009: £43.6m), an increase of £1.3m (3.0%), and operating profit £0.4m (8.1%) higher at £5.6m.

It was pleasing to see growth in both revenues and profits in magazines again in 2010, against a challenging background. Circulation through the newstrade is increasingly difficult and expensive and so it has been particularly valuable to have increased subscription sales by 9.9%, to a point where such sales now represent more than half of our paid-for circulation. Advertising revenue saw improvement in property over the full year, with trends in display slightly behind.

Archant Life's revenues were up 4.2% in 2010, with advertising revenues 3.3% higher. Digital and other revenues also increased, but overall circulation revenues fell by 1.9%. Costs increased by 2.1% principally on printing and paper costs as paginations increased.

Archant Specialist revenues were down 2.6%, with imaging titles in particular proving challenging in a competitive marketplace, together with a further downturn in the French property market. The lifestyle portfolio posted resilient 13.0% year-on-year growth. Circulation revenues fell by 1.3%, although subscriptions grew by 2.8%, with the biggest challenges presented by copy sales through high-street outlets. Advertising revenues were down 9.1%. Costs were reduced by 2.1%, again principally on costs for printing and paper, employment and distribution.

Archant Dialogue returned a near record year, with revenues growing by 26.2% and profits rising by 28.0%.

Digital activity

Despite the challenges faced in the recruitment marketplace, revenue from online activities increased by 14.2% to £5.4m (2009: £4.7m), mainly driven by revenue from *jobs24*, E-editions of our products and directories. Of the non-financial →

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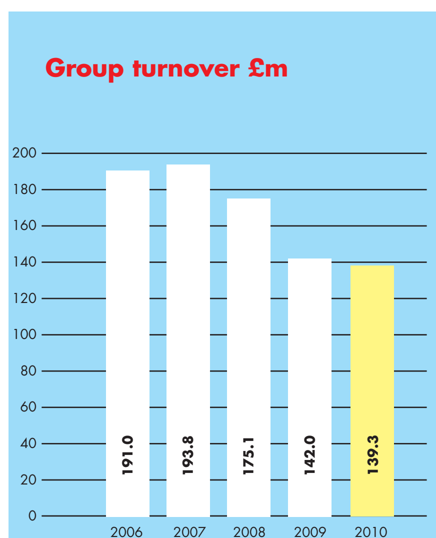

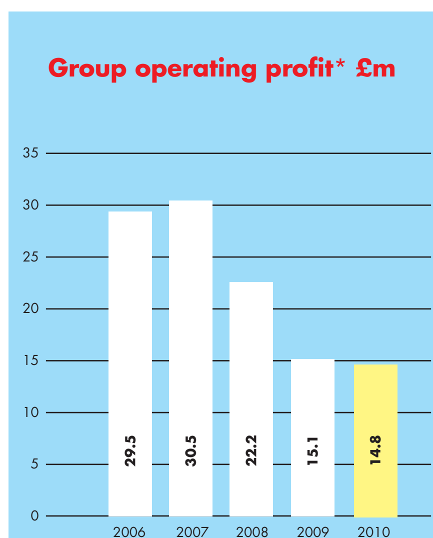

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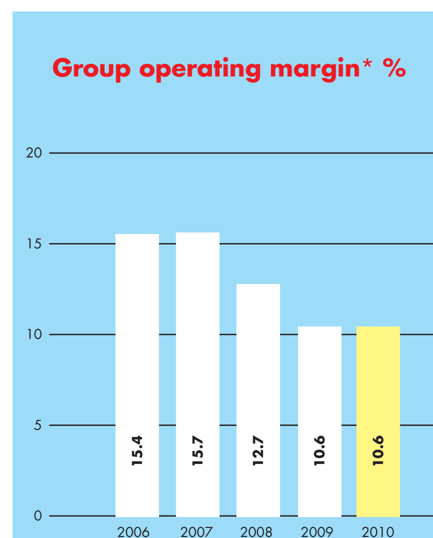

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measures of online activity, unique visitors increased by 13.4%, though page impressions fell by 2.9% following changes in site design. Almost 2.8 million people on average visit Archant websites every month.

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 – principally forecast cash flows – which are discounted in line with the Group's cost of capital.

The only titles for which an impairment charge has had to be made relates to those acquired with KOS Media Publishing in 2010. These titles were severely affected by reductions in public sector spending in the second half of 2010, and their carrying value is not currently supported by forecasts. Consequently an impairment charge of £0.5m has been recorded during the year. No further charges have been required in the year.

The impairment charge has no cash impact; however, it does reduce distributable reserves, which were £48.6m at the end of 2010 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 £48.1m.

Associated companies

In June 2010 the Group acquired outright KOS Media Publishing, publisher of a number of newspaper and digital titles in Kent, including *Kent on Sunday*, since when it has been consolidated in full in the Group's results. Prior to this date, the investment in its holding company was treated as an associate, with Archant's share of losses in 2010 totalling £0.2m (2009: loss £0.2m).

Exceptional items

Exceptional costs (excluding impairment) were £1.5m (2009: £4.0m) in respect of the costs of reducing the size of the business, principally redundancy and office closure costs. In 2009, there were further exceptional costs of £0.6m in relation to the bank refinancing and the restructuring of the defined benefit pension scheme to reduce the rate of growth in future liabilities. The restructuring of the pension scheme resulted in a one-off exceptional credit of £10.0m in 2009.

Taxation

The financial statements include a tax charge of £1.3m (2009: £3.8m). The effective rate of taxation for the year, before impairment and an exceptional corporation tax credit, was 51.3% (2009: 38.6%), and the effective standard rate of tax was 28.0% (2009: 28%). The 2010 pre-impairment effective rate was higher than the standard rate due primarily to amortisation of intangible assets that is not deductible for tax purposes. The tax charge has been reduced by an exceptional credit of £1.9m relating to the favourable resolution of certain tax matters accrued in previous years and also includes a £0.2m charge for deferred tax arising from the reduction in the rate of corporation tax from 1 April 2011.

Earnings per share

Basic earnings per share grew by 54.8p from last year's loss per share of 22.8p to 32.0p. Adjusted earnings per share fell by 0.7p (1.1%) to 64.0p. Adjusted earnings per share are considered 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 a final dividend for 2010 will be paid on 19 April 2011 at the rate of 13.7p per share. If the 2010 first interim dividend is treated as being in respect of 2009, the total dividend for the year is 20.1p (2009: 20.1p). At this level the dividend would be covered 3.2 times (2009: 3.2 times) by adjusted earnings per share.

Net debt and cash flow

The Group continues to be cash generative and operating cash flow at £13.7m (2009: £14.3m) was £0.6m lower than in 2009, mainly due to the reduction of £0.3m in operating profit before amortisation, impairment and exceptional items. Conversion of profit (before impairment and one-off pension credit) into cash at 158% was again strong (2009: 257%). Net debt at the end

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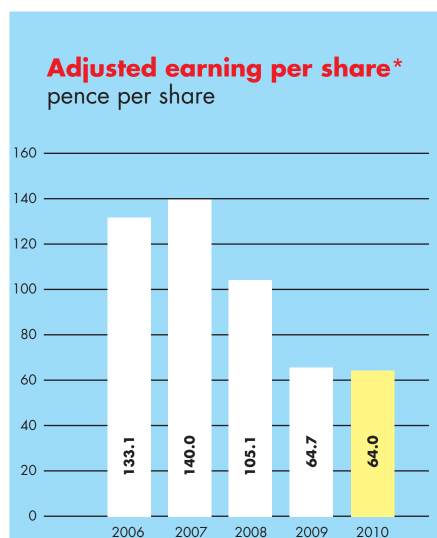

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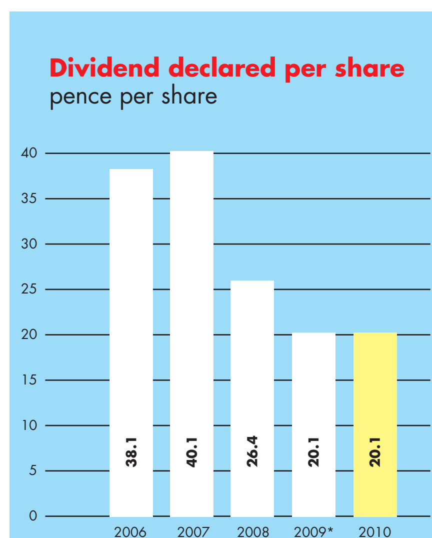
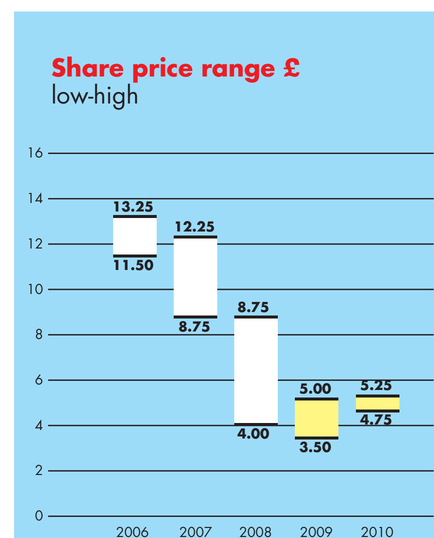


* 2009 includes and 2010 excludes the 1st Interim for 2010 for comparative purposes.



of the year was £23.3m (2009: £27.5m). Movements in net debt are summarised below:

	2010 £m	2009 £m
Operating cash flow	13.7	14.3
Net interest paid	(1.2)	(0.4)
Tax paid	(1.7)	(0.9)
Dividends paid	(2.8)	(2.8)
Cash flow before acquisitions and capital expenditure	8.0	10.2
Capital expenditure	(2.4)	(2.6)
Acquisitions and investment in associate	(0.5)	(0.3)
Share transactions	(0.3)	(0.1)
Other	(0.6)	(0.1)
Decrease in net debt	4.2	7.1

Capital expenditure
Capital expenditure during the year was £2.4m (2009: £2.6m), substantially all of which again related to investment in IT hardware and software developments which will improve operating efficiency and system resilience in future years.

Pension scheme
The triennial actuarial valuation completed in 2008 indicated that liabilities of the Group's pension scheme of £148.6m were under-funded by £8.0m as at 1 January 2008. The Group made cash contributions totalling £1.45m towards the reduction of this deficit in 2010 (2009: £1.45m). 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 £1.4m and the deficit shown on the balance sheet has fallen by £3.2m, from £14.7m to £11.5m. The fall in the deficit is a result of a combination of a recovery in investment markets, and increased gilt yields which have reduced the valuation of liabilities. 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 current operating profit before amortisation, the deficit is not considered onerous.

Treasury management, associated risks and uncertainties
The Group currently derives its funding from share capital, retained profits and bank borrowing. Cash is managed centrally, and the Group's treasury objective is to minimise borrowing costs and maximise returns on funds subject to short-term liquidity requirements.

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.

Our liquidity risk arises from timing differences between cash inflows and outflows. These risks are managed through committed short-term and long-term credit facilities. Our policy is to ensure continuity of funding and flexibility and to maintain sufficient cash balances and committed facilities to meet anticipated funding requirements. Our resources and the expected future cash flows are regarded as sufficient to meet the anticipated funding requirements of the Group for at least the next 12 months.

The Group successfully refinanced its debt in December 2009, following the expiry of its previous debt facility. The total facility was £50.0m, of which £45.0m is a revolving advances facility through RBS and Bank of Ireland which expires in April 2013 and a £5.0m overdraft facility from RBS on which competitive rates of interest are payable. The maximum amount of the revolving credit facility was reduced to £42.0m on 10 January 2011 and will be further reduced to £36.0m by equal annual reductions on 1 January 2012 and 2013. During the year the Employee Benefit Trust was granted an overdraft facility of £2.0m, which is guaranteed by the Company, the balance of which is included in Archant debt. In January 2010 the Company entered into interest rate swap arrangements covering £15.0m of its debt obligations, expiring in December 2011, to limit the Company's exposure to interest rate risk.

Net assets
Net assets on 1 January 2010 were £53.1m. The profit for the year was £4.5m, which was transferred to reserves. Other movements included an increase of £2.6m arising from the FRS 17 Retirement Benefits accounting standard and dividend payments of £2.8m. Net assets at the end of the year were £57.1m.