

Financial review The Group made significant progress during the year, with turnover up 17.4 per cent to £185.6m and operating profit before amortisation and exceptional items up 23.6 per cent to £36.3m.

Exceptional costs during the year were up £1.0m to £1.5m, reflecting increased restructuring costs and the cost of funding discretionary pension increases.

Pre-tax profit increased by 16.9 per cent to £32.4m (2003: £27.8m). The tax charge was £6.5m (2003: £7.4m), resulting in an effective tax rate of 20.0 per cent (2003: 26.6 per cent) and an increase in profit after taxation of 27.4 per cent to £26.0m (2003: £20.4m). The tax charge includes the release of an overprovision of £1.7m relating to prior years and the effective rate is likely to increase in 2005. Adjusted earnings per share increased by 26.7 per cent to 176.7p and basic earnings per share increased by 28.3 per cent to 157.7p.

Overview

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

	Turnover		Profit	
	2004	2003	2004	2003
	£m	£m	£m	£m
Newspapers and print	155.6	132.5	35.1	29.6
Magazines and contract publishing	30.0	25.5	3.3	2.0
Common costs	-	-	(2.1)	(2.2)
	185.6	158.0	36.3	29.4

Net debt at the end of the year was £58.0m (2003: £12.1m) after the cost of the share buy-back in December and the investment in the new printing press at Thorpe.

Newspapers and print

Archant Regional and Archant Print revenues increased by 17.4 per cent to £155.6m during the year, of which 12.8 per cent was generated by the London titles acquired from Independent News and Media (INM) in December 2003.

Traditional newspaper advertising revenues increased by 4.3 per cent on a like-for-like basis.

Recruitment, property and national advertising revenue showed good growth during the year, with small declines in motor and local display advertising. Although the rate of growth slowed during the second half, December was boosted by the timing of bank holidays.

Circulation revenues grew by 1.0 per cent to end the year at £22.7m. Other publishing revenue increased by 4.7 per cent and third-party printing revenue by 2.8 per cent.

Operating expenditure increased by 3.4 per cent on a like-for-like basis, having been impacted by:

- a 1.8 per cent reduction in average newsprint prices;
- a 1.6 per cent reduction in the average number of "full time equivalent" employees over the year;
- costs of £0.7m relating to the implementation of new Group standard advertising sales, invoicing, credit control, human resources and payroll systems;
- non-recurring costs of £0.3m relating to the project to increase printing capacity at Thorpe.

Operating profit increased by 18.6 per cent to £35.1m, including the contribution from the titles acquired from INM in December 2003.



Adrian Jeakings, Finance Director

and the right to acquire a further 6.3 per cent of the business for £0.5m at a future date. The Group's share of the associate's losses amounted to £52,000 in 2004.

Exceptional operating costs

Exceptional costs of £1.5m (2003: £0.6m) represent redundancy costs associated with restructuring projects and the cost of fully funding an increase in the discretionary element of pensions in payment.

Taxation

The effective rate of taxation in the year was 20.0 per cent (2003: 26.6 per cent). The standard rate of tax was 30 per cent (2003: 30 per cent). The 2004 effective rate is lower than the standard rate due mainly to the impact of the amortisation for tax purposes of intellectual property and the release of prior year tax provisions following agreement with the Inland Revenue on a number of tax matters. The 2004 effective rate is lower than the 2003 effective rate due mainly to the release of prior year tax provisions and the effective tax rate is likely to increase in 2005.

Dividend cover

It is proposed that the dividend for the year be increased by 16.8 per cent to 36.8 pence per share. Dividends are covered 4.8 times (2003: 4.4 times) by adjusted earnings per share. Dividends are covered 4.3 times (2003: 3.9 times) using basic earnings per share.

Net debt

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

	2004	2003
	£m	£m
Operating cash flow	41.9	32.0
Tax paid	(8.8)	(5.6)
Dividends paid	(5.6)	(4.7)
Other cash flows	0.8	1.5
Cash flow before capital expenditure, acquisitions and share buy-back	28.3	23.2
Capital expenditure	(12.8)	(3.4)
Acquisitions	(8.5) ¹	(61.7)
Share buy-back	(52.9)	-
Total cash flow	(45.9)	(41.9)

¹Includes deferred consideration paid in respect of 2003 acquisitions (£5.5m) and investment in associate (£1.5m).

Magazines and contract publishing

Archant Lifestyle comprises Archant Life, Archant Specialist and Archant Dialogue. Archant Life continued to expand its portfolio of titles during the year with the acquisition of *Brighton & Hove Life* in March and *Dorset* magazine in October.

Lifestyle revenues from existing operations grew by 16.4 per cent. Acquisitions added £0.4m revenue in the year, resulting in overall revenue growth of 17.9 per cent to £30.0m. Operating profits before amortisation and exceptional items increased by 64.8 per cent to £3.3m (2003: £2.0m).

Associated company

In November 2004 the Group acquired a 21.1 per cent (20.0 per cent on a fully diluted basis) holding in a publishing business operating in the UK for £1.5m

The operating cash flow to Group operating profit ratio was stronger, at 128 per cent (2003: 118 per cent).

Net debt at 31 December was £58.0m (2003: £12.1m) as summarised below:

	2004	2003
	£m	£m
Bank and cash balances	2.6	15.4
Bank loans and overdrafts	(57.9)	(24.4)
Loan notes payable	(2.7)	(3.0)
Finance leases	-	(0.1)
	(58.0)	(12.1)

²Bank loans and overdrafts include the £0.9m overdraft (2003: £1.5m) of the Employee Benefit Trust which is guaranteed by the Company.

Capital expenditure

Capital expenditure increased by £9.3m to £12.8m. This includes £8.2m (2003: £1.3m) in respect of the investment in printing capacity at Thorpe. All the new equipment has been installed and is running. The upgrade of existing equipment and the systems integration with the new press line is nearing completion. £3.0m had been contracted, but not paid, in respect of this project at 31 December 2004. The capital expenditure also includes £1.9m (2003: £0.6m) for the office reconstruction in Ilford that opened in October and £0.6m (2003: nil) for new Group-wide human resources and advertising sales systems.

Pension schemes

During the year the Group completed the implementation of a balanced action plan to reduce the shortfall on its defined benefit pension schemes. A triennial valuation will be carried out in 2005.

The Group funded a 1.5 per cent increase to the discretionary element of pensions in payment by a cash payment into the schemes of £0.4m, being the capitalised value of the increase.

FRS 17 — Accounting for pensions

In accordance with FRS 17 transitional rules we have disclosed information in Note 33 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 on the Group's pension schemes at 31 December of £13.3m (2003: £15.1m), which equates to 11.4 per cent (2003: 14.0 per cent) of the present value of the pension schemes' liabilities.

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.

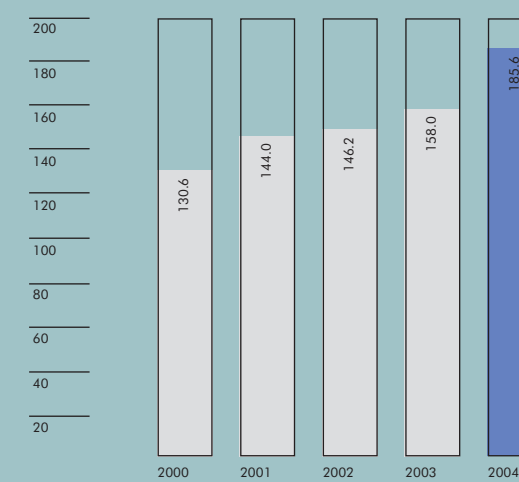
Cash is managed centrally, with surplus balances invested in money market funds. Loan notes payable are the £2.7m Archant Lifestyle Plc Loan Notes 2008, which bear interest at 1.0 per cent less than the Barclays Bank base rate plus guarantee costs of 0.45 per cent.

The Group has secured a £105.0m facility from the Royal Bank of Scotland, part of which was used to fund the share buy-back in December. The Group also has a £5.0m overdraft facility from Barclays Bank.

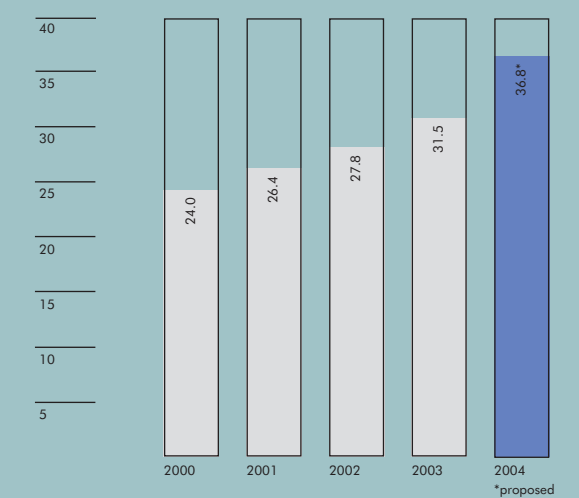
Financial position

Net assets on 1 January were £135.4m. Retained profit for the year was £20.5m, which was transferred to reserves, and a further £0.9m was added to reserves following the issue of share capital and disposals of shares by the Employee Benefit Trust and the Long Term Incentive Plan Trust. The share buy-back reduced net assets by £52.9m. Net assets at the end of the year were £103.9m.

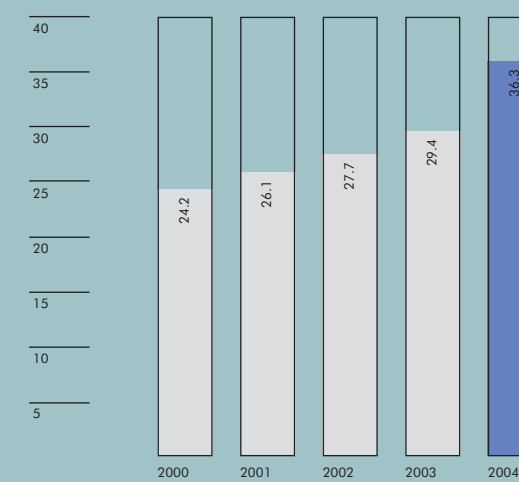
Group turnover £m



Dividend per ordinary share pence per share

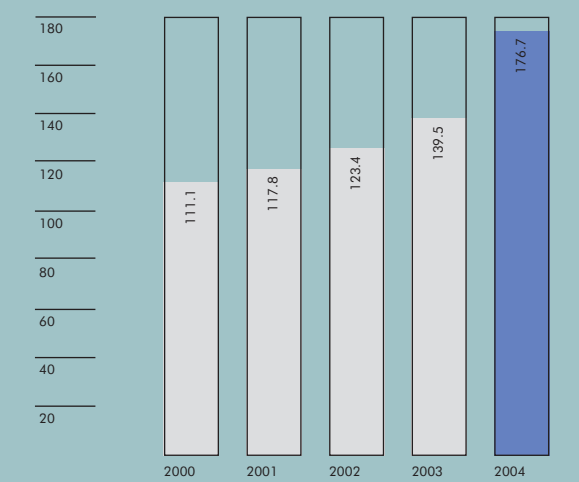


Group operating profit* £m



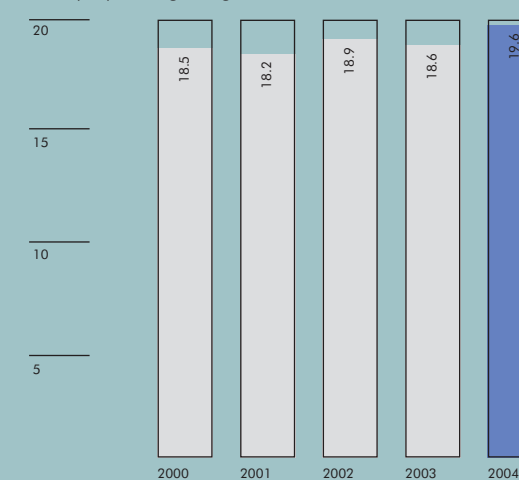
* before amortisation, impairment and exceptional items

Adjusted earnings per share* pence per share



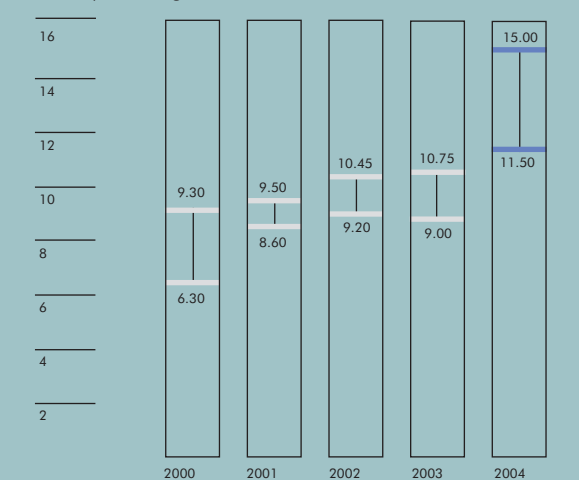
* before amortisation, impairment and exceptional items

Group operating margin* %



* before amortisation, impairment and exceptional items

Share price range £ low/high



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