

## Financial review 2005

2005 was a challenging year for the Group, with a downturn in advertising spend in regional newspapers and above inflation increases in both newsprint and energy prices. The Group continued to invest for the future with magazine acquisitions, further investment in IS and the commencement of the refurbishment of Prospect House in Norwich.

Revenue increased by £8.6m (4.6 per cent) to £194.1m (2004: £185.6m). Operating profit before amortisation of intangibles and exceptional items fell by £4.4m (12.3 per cent) to £31.6m.

Amortisation increased by £600k to £2.6m, mainly as a result of acquisitions made during the year, and exceptional costs rose by £900k to £2.4m, reflecting increased restructuring costs and the cost of funding a larger discretionary increase in pensions than in 2004.

Interest payable rose by £2.8m due to the increase in bank debt arising from the funding of the share buy-back in December 2004. In 2005 there was no special dividend from the Press Association (2004: £400k) and the FRS 17 pension finance charge was £100k lower than in 2004.

At £22.4m, profit before tax was £9.3m (29.4 per cent) lower than in 2004, due to the lower operating profit and increased amortisation, exceptional costs and interest charges. The tax charge was £5.8m (2004: £6.3m), resulting in an effective tax rate of 25.7 per cent (2004: 19.8 per cent). Basic earnings per share decreased by 37.0p to 117.6p and adjusted earnings per share by 22.9p to 147.6p.

Net debt at the end of the year was £59.0m, up £1.0m from the end of 2004, after acquisitions, investments and capital expenditure of £21.4m.



Adrian Jeakings,  
Finance Director

### Summary of divisional operating results

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

	Revenue		Operating profit	
	2005	2004	2005	2004
	£m	£m	£m	£m
Newspapers & printing	150.0	155.6	27.9	34.9
Magazines & contract publishing	44.1	30.0	5.0	3.3
Common costs	-	-	(1.3)	(2.2)
	194.1	185.6	31.6	36.0

### Newspapers and print

Trading conditions for regional newspapers across the UK were very difficult during 2005, with the impact of lower advertising activity exacerbated by sharp increases in newsprint and energy prices. The Group has responded to these conditions by accelerating the implementation of restructuring projects but the results of the business were impacted by these external factors. A further above inflation increase in newsprint prices is expected in 2006 and the poor trading conditions are expected to continue into the second half of 2006.

Archant's newspaper and print revenues decreased by 3.5 per cent to £150.0m (2004: £155.6m). The *Property Mart* portfolio, acquired from Highbury House Communications plc in March, generated £1.2m revenue during the 10 months to December 2005.

Traditional advertising revenue, which was at the same level as 2004 during the first half of the year, declined during the second half, with the full year being 3.4 per cent lower than 2004. The decline was primarily in recruitment and motor classified advertising, which were down 11.9 per cent and 12.4 per cent respectively. Property and national run of paper advertising revenues were up 5.5 per cent and 6.1 per cent respectively. Circulation revenue and other revenue decreased by 4.9 per cent and 2.0 per cent respectively.

Operating profit decreased by £7.0m (19.9 per cent) to £27.9m, mainly due to lower revenue and increased newsprint and energy costs. Newsprint prices were 6.1 per cent higher on average during the year, however the implementation of restructuring projects helped to reduce employment costs by 1.2 per cent compared to 2004.

### Magazines and contract publishing

Archant's magazine and contract publishing businesses were less impacted by the poor trading conditions than the newspaper business and continued to generate underlying revenue growth, albeit at a lower rate than in previous years. Acquisitions made a significant contribution to growth.

Archant Specialist increased its scale substantially with the acquisition of Romsey Publishing in January 2005. The Specialist portfolio was rationalised during the year to realise a more focused portfolio with the sale of *Grafik* in March, the closure of *Total Digital Photography* in May, the sale of *Sales Promotion* in December and, in January 2006, the sale of *Swimming Pool News*.

Archant Life acquired a portfolio of free lifestyle magazines in London from Highbury House Communications plc in March, followed in December by the acquisition of *Derbyshire Life* and of *Oracle*, a quarterly free distribution magazine in Cheltenham.

Magazine revenues increased by £14.1m (47.0 per cent) to £44.1m, including £13.1m from 2005 acquisitions. Sales and closures of some Specialist magazines resulted in a revenue reduction of £0.9m. Operating profit before amortisation of intangibles and exceptional items increased by £1.6m (49.9 per cent) to £5.0m. Underlying operating profit after taking into account the impact of acquisitions, closures and disposals increased by 11.2 per cent.

### Associated company

The Group made further investments in April (£500k) and December (£300k) in a publishing business operating in the UK, bringing its total holding to 29.28 per cent (28.05 per cent on a fully diluted basis). The Group's share of the associate's losses in 2005 was £347k (2004: £52k).

### Exceptional operating costs

Exceptional operating costs of £2.4m (2004: £1.5m) represent redundancy costs associated with restructuring and the cost of fully funding an increase in the discretionary element of pensions in payment. Restructuring costs were £617k higher than in 2004 and the cost of the discretionary pension increase was £251k higher.

### Taxation

The effective rate of taxation for the year was 25.7 per cent (2004: 19.8 per cent). The standard rate of tax was 30.0 per cent (2004: 30.0 per cent). The 2005 effective rate was lower than the standard rate due mainly to the impact of the amortisation for tax purposes of intellectual property. The 2005 effective rate is higher than the 2004 rate due mainly to the fact that, whereas 2004 benefited from the release of prior year tax provisions of £1.7m, there were no equivalent releases in 2005. Changes to tax legislation announced in the Chancellor's pre-budget speech in December are likely to result in an increase in the effective tax rate in 2006.

### Earnings per share

Basic earnings per share decreased by 37.0p (23.9 per cent) to 117.6p and adjusted earnings per share by 22.9p (13.4 per cent) to 147.6p. The difference between basic and adjusted earnings per share is explained in detail in Note 11 to the financial statements. The major movements in earnings per share are shown below:

	Basic	Adjusted
2004 earnings per share	154.6	170.5
Share buy-back	11.6	14.2
Operating profit	(22.1)	(22.1)
Tax provision release in 2004	(12.0)	(12.0)
Amortisation	(4.1)	-
Exceptional items	(3.1)	-
Associate	(2.1)	(2.1)
PA special dividend in 2004	(3.0)	-
Other	(2.2)	(0.9)
2005 earnings per share	117.6	147.6

## Dividends and dividend cover

It is proposed that the dividend for the year be increased by 1.6 per cent to 37.4p per share. Dividends are covered 3.9 times (2004: 4.6 times) by adjusted earnings per share and 3.1 times (2004: 4.2 times) by basic earnings per share.

## Net debt

The Group continues to be cash-generative, although poor trading reduced operating cash flow. Movements in net debt are summarised below:

	2005	2004
	£m	£m
Operating cash flow	33.5	41.9
Interest paid	(3.6)	(0.8)
Tax paid	(5.2)	(8.8)
Dividends paid	(5.3)	(5.6)
Other cash flows	1.1	1.6
Cash flow before acquisitions and capital expenditure	20.5	28.3
Capital expenditure	(5.7)	(12.8)
Acquisitions, disposals and investment in associate	(15.8)	(8.5)
Share buy-back	-	(52.9)
Change in net debt	(1.0)	(45.9)

The conversion of profit into cash was strong, as indicated by the ratio of operating cash flow to Group operating profit at 126 per cent (2004: 129 per cent). Net debt, at £59.0m, was £1.0m higher than at the end of 2004 and comprised:

	2005	2004
	£m	£m
Bank and cash balances	2.6	2.6
Bank overdrafts and loans	(59.3)	(57.9)
Loan notes payable	(2.3)	(2.7)
	(59.0)	(58.0)

## Capital expenditure

Capital expenditure during the year was £5.7m, £7.0m lower than in 2004. Capital expenditure in 2005 included £2.3m in respect of the project to increase the printing capacity at Thorpe (2004: £8.2m) and £700k in respect of buildings (2004: £1.9m).

## Pension schemes

The triennial actuarial valuation completed during the year indicated that the liabilities of the Group's defined benefit pension scheme of £111.6m were underfunded by £6.6m as at 1 January 2005. During the year the Group made a cash contribution of £750k towards the reduction of this deficit. The deficit shown in the balance sheet has been determined using the FRS 17 accounting standard, which the Group has been obliged to adopt in preparing the 2005 financial statements. Under this standard, the charge to the profit and loss account has increased by £200k to £5.8m and the deficit shown on the balance sheet (net of tax) has increased by £2.4m to £16.8m. As the liabilities of the pension fund are expected to fall due over a period of more than 50 years and the deficit equates to only a single year's profit after tax, it is not considered onerous.

The increase in the pension cost is due mainly to funding for the discretionary increase to pensions in payment of 2.0 per cent (2004: 1.5 per cent), the reduction in long term bond yields and increased inflation assumptions.

## Adoption of new accounting standards

The Group adopted a number of new accounting standards during 2005 and 2004 results have been restated to reflect the impact of these standards as though they had been in place since the beginning of 2004. These standards are described below.

The FRS 17 Retirement Benefits standard introduces an unwelcome element of volatility into the results of companies. The standard requires the deficit or surplus of defined benefit pension schemes to be recognised on the Group's balance sheet. It requires a valuation methodology which can lead to substantial variations in the charge to the profit and loss account and to the balance sheet deficit or surplus from year to year, as a result of short term fluctuations in long term bond yields and inflation assumptions, regardless of any change in underlying pension obligations.

The introduction of FRS 20, Share-based Payment, has no material impact on the operating results of the Group.

The adoption of FRS 21, Events after the Balance Sheet Date, results in a change in the treatment of proposed dividends. Under this standard only dividends declared and appropriately authorised prior to the balance sheet date can be recognised as a liability. In practical terms this will normally mean that the dividend shown in the profit and loss account is the dividend actually paid in the relevant accounting period and that a dividend proposed for approval by shareholders will not be recognised in the financial statements until after it is approved.

FRS 22, Earnings per share, requires earnings per share to be shown separately for total operations, continuing operations and discontinued operations. As the Group did not discontinue any activities in either 2004 or 2005 adoption of this standard has had no impact on earnings per share included in the accompanying financial statements.

For 2005, the Group is only required to comply with the presentation requirements of FRS 25, Financial Instruments: Disclosure and Presentation. These requirements include increased disclosure of the Group's policies for financial risk management. The only impact within the financial statements is that equity dividends are no longer shown on the face of the profit and loss account, but are now shown as a movement in shareholders' funds.

The Group has also been required to adopt FRS 28, Corresponding Amounts, which has had no impact on the disclosures within these financial statements.

## 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 £2.3m Archant Lifestyle Plc Loan Notes 2008, which bear interest at 1.0 per cent below LIBOR and are subject to guarantee costs of 0.45 per cent.

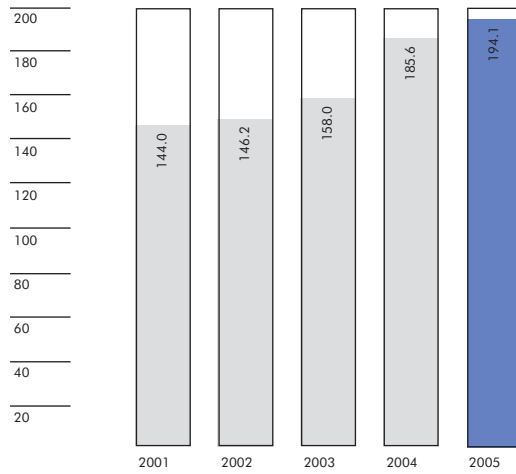
The Group has secured a £105.0m facility from the Royal Bank of Scotland at competitive rates of interest. Part of this has been used to fund the share buy-back in 2004 and to fund acquisitions in 2005. The Group also has a £5.0m overdraft facility from Barclays Bank.

## Financial position

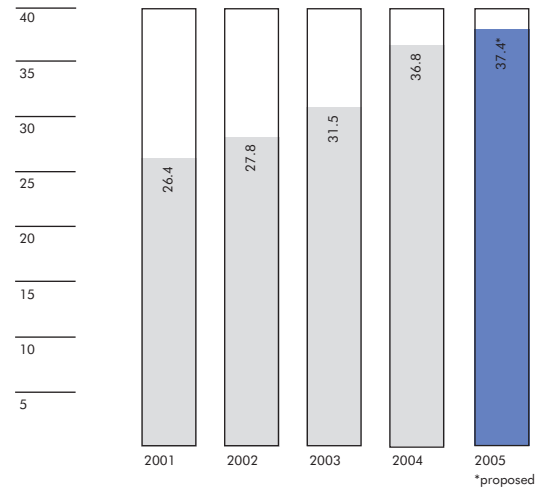
Net assets on 1 January 2005 were £93.1m. Profit after taxation was £16.6m, which was transferred to reserves. Equity dividends paid in the year were £5.3m. Net assets at the end of the year were £103.2m.

There was £1.2m reduction in net assets arising from other movements, including a reduction of £2.0m arising from the implementation of FRS 17.

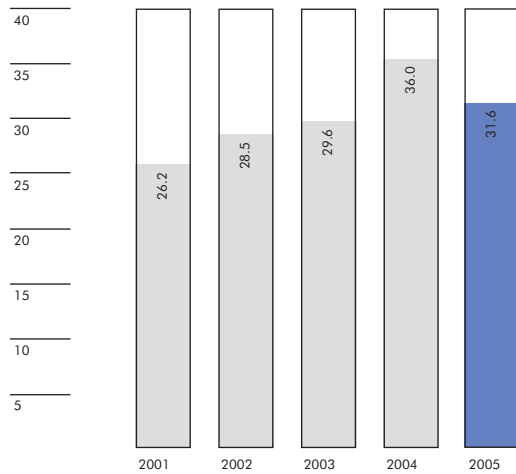
Group turnover £m



Dividend declared per ordinary share pence per share

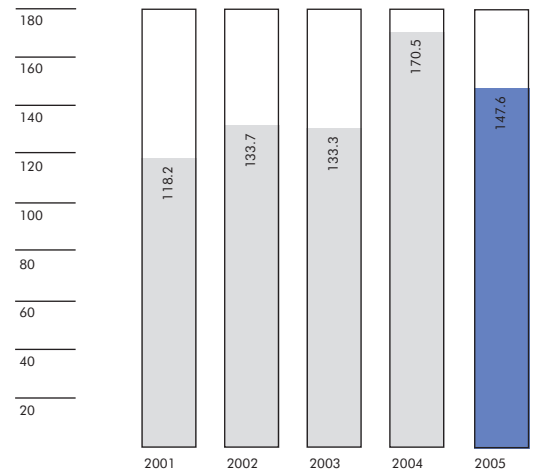


Group operating profit\* £m



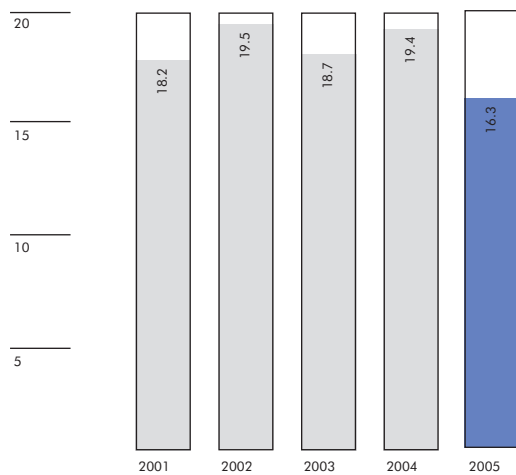
\* before amortisation, impairment and exceptional items

Adjusted earnings per share\* pence per share



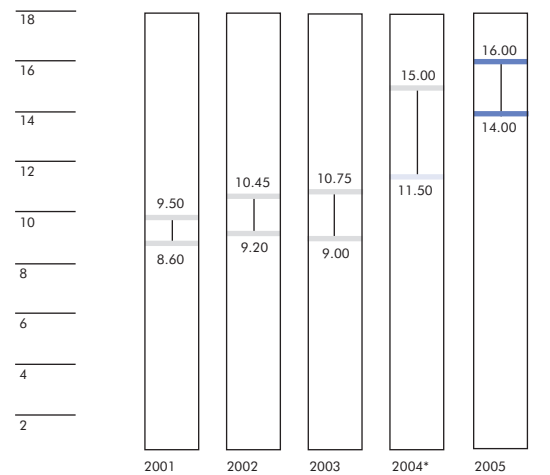
\* before amortisation, impairment and exceptional items

Group operating margin\* %



\* before amortisation, impairment and exceptional items

Share price range £ low/high



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