

INTERIM STATEMENT 2004

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CHAIRMAN'S STATEMENT

Results

The Interim Results for the 26 weeks ended 30 January 2004 show turnover of £208.8 million (2003 – £222.9 million) and profit before tax, exceptional items and goodwill amortisation and impairment of £17.1 million (2003 – £16.7 million). Due to exceptional charges of £22.1 million, including goodwill impairment of £13 million, there was a loss before tax of £5.0 million (2003 – profit before tax of £15.2 million). Earnings per share before exceptional items and goodwill amortisation and impairment were 10.81 pence (2003 – 10.77 pence). Basic earnings per share were a loss of 10.58 pence per share (2003 – a profit of 9.54 pence per share).

Dividend

An interim dividend of 5.0 pence per share (2003 – 5.0 pence per share) has been declared, which will be paid on 21 May 2004 to shareholders on the register on 23 April 2004.

Trading Conditions

Demand for books held up well. However conditions in our other markets remained extremely challenging throughout the half year. Demand for web offset products in all our markets was volatile and pricing pressure particularly severe. In these circumstances we did well to achieve turnover only 6.3 per cent below the first half of last year (4.4 per cent lower ignoring exchange rate movements), while at the same time achieving a modest increase in underlying profitability and an improvement in margin. As a result of the cost reduction initiatives principally undertaken in earlier periods, both direct and indirect costs were lower overall.

Continuing unfavourable conditions in our markets made further reductions in our cost base necessary. Regrettably, we announced the closure of St Ives Inc, Case-Hoyt shortly before the end of the half year. The estimated cost, including the cost of some 300 redundancies, was charged as an exceptional item in the half year. Since the end of the half year, we have announced the proposed relocation of the business of St Ives Multimedia at Tunbridge Wells to our site at Crayford at an estimated cost of £4 million, which will also be treated as exceptional.

Our sales of books increased modestly. Sales of cased books for the trade and general, religious and reference markets were above those achieved in the first half of the previous year. We continue to supply almost all the leading trade publishing houses in the UK and produced the majority of their best selling titles in both cased and paperback bindings. The reliable service and short lead times which we are able to offer have been particularly important in winning this business. Export sales, mainly to European markets, were ahead of the previous year.

Books

Sales to these markets in the UK were slightly lower. The effects of further pricing pressure and weak demand for longer-run, commodity products were offset by higher sales of shorter-run, more specialist products. Sales of personalised products and associated fulfilment services were particularly strong and benefited from the completion of the relocation of our direct mail operations in the previous year. As a result of the more favourable balance of work, overall our businesses serving these markets showed an improved return.

**Direct Response
and Commercial
UK**

Demand from these markets in Germany remained subdued and continuing over-capacity resulted in further pressure on prices. Our own sales were broadly maintained and an improvement in the mix of work resulted in a small reduction in the level of losses.

Germany

In the catalogue and brochure market in the USA we experienced weak demand and continuing pricing pressure. In particular we were no longer able to achieve historic levels of pricing in the high quality retail and travel and leisure sectors. Sales and profit were significantly reduced as a result, although there was some benefit from the cost reductions of previous years. In these circumstances, the cost base of our facility at Rochester proved unsustainable and, as we were not able to reach agreement on the changes needed to make it viable, the decision was taken to close the plant shortly before the end of the half year.

USA

CHAIRMAN'S STATEMENT *continued***Financial**

Corporate financial markets remained extremely quiet throughout the period. In the USA we achieved a small increase in sales to a level at which, as a result of earlier cost reductions, we were able to break-even. In the UK and Europe, there has been no such improvement and pricing for the available work became even more competitive; despite further reductions in the cost base, losses, albeit at a reduced level, were incurred. Other, non-specialist printers have sought to enter the market for reports for mutual funds and public companies, which is becoming increasingly competitive as a result.

**Magazines
UK**

In the UK the market price for production of magazines has been under severe pressure and pagination, particularly in longer-run, less specialist titles, has been volatile. Accordingly our sales were lower. Although at times during the period we were extremely busy, current pricing levels do not always support the service and flexibility which we provide to our customers, especially if overtime working at premium rates is required. Despite reduced costs, profit was below the level of the first half of the previous year. An investment of almost £5 million in new binding equipment at our Peterborough factory will result in greater productivity and lower cost when it becomes operational at the start of our next financial year.

USA

In the USA fluctuating demand in an over-supplied market led to reduced volume and price and consequently lower returns.

Multimedia

While music and multimedia markets overall remained subdued, we experienced growth in sales of DVD related product and of special packaging material for both CD and DVD products both in the UK and Europe. The improved work mix and better utilisation resulted in a modestly improved financial performance overall. Nonetheless the operations at Tunbridge Wells and Crayford together achieved a result only slightly better than break-even and shortly after the end of the half year the decision was taken to propose the relocation of our operations at Tunbridge Wells to the more suitable, modern facility at Crayford. Regrettably this is likely to result in a reduction of some 40 positions but will reduce the cost of the combined operations, allow for improved utilisation and enable us to grow sales of special packaging products.

Shareholders' funds reduced from £239 million at 1 August 2003 to £220 million as a result of the exceptional charges, including goodwill impairment, incurred during the period. Net cash resources remained substantial. However, as already announced, at the end of May we will make a special payment of £25 million into the defined benefit pension scheme as part of a number of changes, including a reduction in the future accrual rate. The scheme has been closed to new members since April 2002.

Balance Sheet

Demand for books remains steady. In the USA there are some early signs of a modest upturn in levels of corporate finance activity. In this market in the UK and Europe activity has scarcely increased and some pricing has reached unsustainable levels. In our other markets, although some of our competitors have reduced capacity or withdrawn from the market, there are few signs of any improvement in pricing levels and demand remains volatile and hard to predict.

Outlook

We shall continue to invest to reduce costs and improve productivity. Notwithstanding the significant steps already taken over the last two years, our cost base will be kept under review. We are confident that when market conditions begin to improve we will be able to deliver improved returns to shareholders.

Miles Emley
Chairman

14 April 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	26 weeks to 30 January 2004			26 weeks to 31 January 2003	52 weeks to 1 August 2003
	Before exceptional items and goodwill charges	Exceptional items and goodwill charges (note 6)	Total		
	£'000	£'000	£'000	£'000	£'000
Turnover (note 2)	208,828	–	208,828	222,916	437,211
Cost of sales	(155,750)	(2,853)	(158,603)	(169,352)	(328,606)
Gross profit	53,078	(2,853)	50,225	53,564	108,605
Sales and distribution costs	(13,179)	(184)	(13,363)	(14,708)	(28,927)
Administrative expenses					
Goodwill amortisation	–	(1,104)	(1,104)	(1,077)	(2,195)
Goodwill impairment	–	(13,000)	(13,000)	–	–
Exceptional items	–	(3,429)	(3,429)	(55)	404
Other administrative expenses	(23,451)	–	(23,451)	(23,098)	(44,829)
	(23,451)	(17,533)	(40,984)	(24,230)	(46,620)
Other operating income/(costs)	124	(1,498)	(1,374)	343	1,009
Operating profit/(loss) (note 2)	16,572	(22,068)	(5,496)	14,969	34,067
Interest receivable	728	–	728	530	1,142
Interest payable	(213)	–	(213)	(348)	(620)
Profit/(loss) before taxation	17,087	(22,068)	(4,981)	15,151	34,589
Taxation (note 3)	(5,981)	89	(5,892)	(5,303)	(12,106)
Profit/(loss) after taxation	11,106	(21,979)	(10,873)	9,848	22,483
Equity dividends (note 4)	(5,145)	–	(5,145)	(5,162)	(17,643)
Retained profit/(loss)	5,961	(21,979)	(16,018)	4,686	4,840
Basic (loss)/earnings per share (note 5)			(10.58p)	9.54p	21.82p
Diluted (loss)/earnings per share (note 5)			(10.57p)	9.54p	21.81p
Earnings per share before exceptional items and goodwill charges (note 5)	10.81p			10.77p	23.45p
Dividend per ordinary share			5.00p	5.00p	17.15p

Comparative figures for the twenty six weeks to 31 January 2003 and fifty two weeks to 1 August 2003 include exceptional items as detailed in note 6.

All transactions are derived from continuing activities.

CONSOLIDATED BALANCE SHEET

	30 January 2004	31 January 2003	1 August 2003 (Restated)
	£'000	£'000	£'000
Fixed assets			
Intangible assets	23,520	39,762	38,644
Tangible assets	169,087	193,695	185,293
	192,607	233,457	223,937
Current assets			
Stocks	14,376	15,900	12,437
Debtors	67,879	69,478	70,768
Cash at bank and in hand	51,234	37,452	50,871
	133,489	122,830	134,076
Creditors: due within one year	(85,190)	(102,112)	(104,834)
Net current assets	48,299	20,718	29,242
Total assets less current liabilities	240,906	254,175	253,179
Creditors: due after more than one year	(882)	(838)	(1,043)
Provisions and deferred taxation	(19,226)	(13,332)	(11,586)
Deferred income	(908)	(1,318)	(1,113)
	219,890	238,687	239,437
Capital and reserves			
Called up share capital	10,329	10,319	10,323
Share premium account	45,852	45,518	45,645
Capital redemption reserve	1,238	1,238	1,238
ESOP reserve	(964)	–	(1,280)
Profit and loss account	163,435	181,612	183,511
Equity shareholders' funds	219,890	238,687	239,437

Comparative figures at 1 August 2003 have been restated to reflect a change in accounting policy following the adoption of UITF 38 (note 1).

This interim statement was approved by the board of directors on 14 April 2004.

SUMMARISED CONSOLIDATED CASH FLOW STATEMENT

	26 weeks to 30 January 2004	26 weeks to 31 January 2003	52 weeks to 1 August 2003 (Restated)
	£'000	£'000	£'000
Net cash inflow from operating activities	25,246	25,090	59,959
Returns on investments and servicing of finance	503	(11)	400
Tax paid	(6,968)	(2,180)	(7,804)
Capital expenditure	(5,692)	(11,698)	(20,520)
Acquisitions			
Subsequent cash flows in respect of prior year acquisition	1,020	–	–
Equity dividends paid	(12,487)	(12,537)	(17,697)
Net cash inflow/(outflow) before financing	1,622	(1,336)	14,338
Financing			
Issue of shares	213	65	196
Decrease in debt and lease financing	(492)	(656)	(1,282)
Purchase of own shares held by ESOP trusts	–	–	(1,913)
Increase/(decrease) in cash	1,343	(1,927)	11,339

NOTES TO THE SUMMARISED CONSOLIDATED CASH FLOW STATEMENT

	26 weeks to 30 January 2004	26 weeks to 31 January 2003	52 weeks to 1 August 2003
	£'000	£'000	£'000
Net cash inflow from operating activities			
Operating (loss)/profit	(5,496)	14,969	34,067
Depreciation	16,371	17,187	34,390
Goodwill amortisation	1,104	1,077	2,195
Goodwill impairment	13,000	–	–
Amortisation of own shares	316	–	633
Other non cash movements	7,223	(593)	(3,202)
Changes in working capital	(7,202)	(7,029)	(7,003)
Other items	(70)	(521)	(1,121)
	25,246	25,090	59,959

	26 weeks to 30 January 2004	26 weeks to 31 January 2003	52 weeks to 1 August 2003
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Reconciliation of net cash flow to movement in net funds			
Increase/(decrease) in cash in the period	1,343	(1,927)	11,339
Cash outflow from decrease in debt and lease financing	<u>492</u>	<u>656</u>	<u>1,282</u>
Change in net funds resulting from cash flows	1,835	(1,271)	12,621
Exchange adjustments	<u>1,637</u>	<u>589</u>	<u>306</u>
Movement in net funds in the period	3,472	(682)	12,927
Opening net funds	<u>26,277</u>	13,350	13,350
Closing net funds	<u>29,749</u>	<u>12,668</u>	<u>26,277</u>

	1 August 2003	Cash flow	Exchange movement	30 January 2004
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Analysis of net funds				
Cash at bank and in hand	50,871	1,343	(980)	51,234
Bank loans due within one year	(24,212)	110	2,617	(21,485)
Finance leases	(382)	382	—	—
	<u>26,277</u>	<u>1,835</u>	<u>1,637</u>	<u>29,749</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	26 weeks to 30 January 2004	26 weeks to 31 January 2003	52 weeks to 1 August 2003
	£'000	£'000	£'000
(Loss)/profit after taxation	(10,873)	9,848	22,483
Exchange differences	(4,057)	(861)	801
Related taxation	(1)	(20)	63
Total recognised gains and losses relating to the period	(14,931)	8,967	23,347

MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS

	26 weeks to 30 January 2004	26 weeks to 31 January 2003	52 weeks to 1 August 2003 (Restated)
	£'000	£'000	£'000
Opening shareholders' funds (as previously reported)	240,717	234,817	234,817
Prior year adjustment (note 1)	(1,280)	–	–
Opening shareholders' funds (as restated)	239,437	234,817	234,817
Total recognised gains and losses	(14,931)	8,967	23,347
Dividends	(5,145)	(5,162)	(17,643)
Issue of ordinary shares	213	65	196
Purchase of own shares held by ESOP trusts	–	–	(1,913)
Amortisation of own shares held by ESOP trusts	316	–	633
Closing shareholders' funds	219,890	238,687	239,437

1. Basis of preparation

The interim statements have been prepared in accordance with the accounting policies set out in the Group's Annual Report for 2003 except for the adoption of Urgent Issues Task Force abstract 38 'Accounting for ESOP trusts' (UITF 38). In accordance with UITF 38, shares in St Ives plc held by the Employees' Benefit Trusts are now deducted within consolidated shareholders' funds. Previously, such shares were included within fixed asset investments. Within the consolidated cash flow statement, the purchase of such shares is now presented as a financing transaction and not as a purchase of fixed asset investments. The consolidated balance sheet at 1 August 2003 and consolidated cash flow statement for the fifty two weeks to 1 August 2003 have been restated accordingly. There is no effect on the profit and loss account for the current or prior periods.

The interim statements are neither audited nor reviewed. The financial information set out in these statements does not comprise statutory accounts for the purposes of Section 240 of the Companies Act 1985. The abridged information for the fifty two weeks to 1 August 2003 has been prepared from the Group's statutory accounts for that period, which have been filed with the Registrar of Companies. The auditors' report on the accounts of the Group for that period was unqualified and did not contain a statement under either Section 237(2) or Section 237(3) of the Companies Act 1985.

NOTES TO THE FINANCIAL STATEMENTS *continued*

2. Analysis of turnover and operating profit

The geographical analysis of turnover and operating profit by origin is stated below:

	26 weeks to 30 January 2004	26 weeks to 31 January 2003	52 weeks to 1 August 2003
	£'000	£'000	£'000
Turnover			
United Kingdom	141,911	144,952	291,282
United States of America	53,084	65,170	120,553
Rest of the World	13,833	12,794	25,376
	208,828	222,916	437,211
Operating profit/(loss) before exceptional items and goodwill charges			
United Kingdom	16,041	17,302	39,260
United States of America	957	65	(703)
Rest of the World	(426)	(890)	(2,176)
	16,572	16,477	36,381
Exceptional items			
United Kingdom	(130)	(440)	19
United States of America	(7,834)	(206)	(363)
Rest of the World	–	215	225
	(7,964)	(431)	(119)
Operating (loss)/profit			
United Kingdom	15,911	16,862	39,279
United States of America	(6,877)	(141)	(1,066)
Rest of the World	(426)	(675)	(1,951)
	8,608	16,046	36,262
Goodwill amortisation – USA	(1,104)	(1,077)	(2,195)
Goodwill impairment – USA	(13,000)	–	–
	(5,496)	14,969	34,067

The segmental analysis of turnover is stated below:

	26 weeks to 30 January 2004	26 weeks to 31 January 2003	52 weeks to 1 August 2003
	£'000	£'000	£'000
Books	33,322	32,533	70,145
Direct Response and Commercial	97,677	106,773	192,342
Financial	12,207	11,401	34,968
Magazines	50,447	57,779	113,163
Multimedia	15,175	14,430	26,593
	208,828	222,916	437,211

3. Taxation

The taxation charge is analysed below:

	26 weeks to 30 January 2004	26 weeks to 31 January 2003	52 weeks to 1 August 2003
	£'000	£'000	£'000
United Kingdom taxation	5,856	5,728	13,134
Overseas taxation	36	(425)	(1,028)
	5,892	5,303	12,106

The taxation charge for the period ended 30 January 2004 is based on the estimated charge for the fifty two weeks to 30 July 2004.

The taxation charge for the period is disproportionate to the loss before taxation as goodwill amortisation and impairment are non-deductible, and a deferred taxation asset in respect of the St Ives Inc, Case-Hoyt closure costs has not been recognised.

4. Dividends

The directors have declared an interim dividend of 5.00p (2003 – 5.00p) net per share. The payment date will be 21 May 2004 and the record date will be 23 April 2004.

NOTES TO THE FINANCIAL STATEMENTS *continued***5. Earnings per share**

The calculation of the basic (loss)/earnings per share is based on loss after taxation as disclosed in the profit and loss account of £10,873,000 (2003: January – profit £9,848,000; July – profit £22,483,000). Earnings per share before exceptional items and goodwill is calculated by adding back exceptional items and goodwill amortisation and impairment, as adjusted for taxation, to the loss after taxation. Basic (loss)/earnings per share and earnings per share before exceptional items and goodwill are calculated on a weighted average of 102.8 million (2003: January – 103.2 million; July – 103.1 million) shares in issue during the period.

The calculation of the diluted (loss)/earnings per share is based on loss after taxation as disclosed in the profit and loss account and on a diluted weighted average of 102.9 million (2003: January – 103.2 million; July – 103.1 million) shares during the period.

6. Exceptional items, goodwill amortisation and goodwill impairment

Goodwill amortisation of £1,104,000 (2003: January – £1,077,000; July – £2,195,000) was charged in the twenty six weeks ended 30 January 2004. Following a review of the goodwill attaching to our US Division as a whole, an impairment charge of £13,000,000 has been made in the period. Other exceptional items of £7,964,000 includes £7,691,000 relating to the closure of St Ives Inc, Case-Hoyt and £273,000 relating to other rationalisation measures completed or announced throughout the Group.

The exceptional items, excluding goodwill impairment, included within the profit and loss account shown on page 6 are as follows:

	26 weeks to 30 January 2004	26 weeks to 31 January 2003	52 weeks to 1 August 2003
	£'000	£'000	£'000
Costs/(income)			
Cost of sales	2,853	394	456
Sales and distribution costs	184	197	292
Administrative expenses	3,429	55	(404)
Other operating costs/(income)	1,498	(215)	(225)
	7,964	431	119

7. Post balance sheet events

Since the half year end there have been two material events which will influence the future financial position of the Group.

On 23 February 2004 the proposed relocation of St Ives Multimedia at Tunbridge Wells to our existing site at Crayford was announced. The estimated cost of the proposed relocation is approximately £4 million. If the outcome of the consultation process supports the proposal, this amount will be provided in full as an exceptional item in the accounts for the current financial year.

On 15 March 2004 changes to the Company's defined benefit pension scheme were announced. These changes will see a reduction in the rate of future accrual for members of the scheme from 1/60th to 1/80th. The rate at which the Company contributes to the scheme will increase from 8.25 per cent to 10.6 per cent from the end of May 2004. At the same time a one-off payment of £25 million will be paid by the Company to the scheme. This payment will be funded from the Company's existing resources and available facilities. The effect of the new benefit structure and the £25 million payment on the profit and loss account for the current financial year will not be material.

8. A copy of this interim statement has been sent to all shareholders.

