press release press release St Ives plc

26 January 2009

St Ives plc – Trading Statement

As the Group noted on 5 January 2009, the general economic climate is uncertain, visibility is extremely short and rising input costs coupled with volatility in demand is increasing the pressure on margins. Against this backdrop the prospects for the Group have deteriorated and uncertainty within the markets that the Group supplies has continued to increase. This, together with a further anticipated downturn in advertising and marketing expenditure, has significantly increased pressure on margins within certain Group businesses.

Volume within the magazine market has become significantly more volatile and overall paginations are expected to continue declining due to further reductions in advertising spend. This has resulted in increased pressure on pricing and therefore margins. It has not been possible to entirely offset this effect through winning new titles and making incremental efficiency improvements. Regrettably, it has therefore been necessary for us to review manning levels across our magazine sites and consultation is underway regarding proposals to reduce headcount by approximately 100. Although there has recently been some capacity reduction and a competitor closure, this has not yet had a positive effect on market prices.

Demand for direct response, commercial and exhibitions and outdoor media has also fallen and volatility has increased due to the discretionary nature of what is principally marketing expenditure. While it has been possible to partially counter these effects, through the benefits gained from our recent Royal Mail and Sainsbury's contract wins along with our continued success with cross-selling to existing group customers, net margins have declined. There has also been some manpower reduction in these areas, which has reduced headcount by approximately 70.

Oversupply in the face of weak demand in all these markets has led a number of our competitors to pursue uneconomic pricing policies, thus putting further pressure on margins.

We continue to benefit from our market leading position and reputation for delivering unrivalled customer service in our books business. However, demand has been impacted by the demise of EUK in December, which was the prime distributor of books to the major supermarkets, and volumes continue to come under pressure.

Demand for point-of-sale products has been buoyant, although late volume changes have made efficient utilisation a challenge and margins have suffered. Activity levels have, in line with normal seasonal patterns, decreased following the pre-Christmas period and visibility remains short.

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Overall, while we continue to benefit from our strategy of selling the whole range of the Group's services to both new and existing customers and from our continued focus on costs, we are not fully offsetting the effect of weakening demand and, increasingly, new sales can only be secured at more competitive prices.

The Group's balance sheet remains strong and the cash consideration of $34.0 million associated with the recent disposal of our US division will be used to reduce Group indebtedness.

In light of the trading conditions outlined above, it is expected that the results for the year ending 31 July 2009 will be substantially below the Board's previous expectations. However, despite the current economic environment, the Group's market position remains strong and the business is well invested. We expect that the management actions outlined above and our continued focus on enhanced customer service will enable us to withstand the challenges presented by the current trading environment and position the Group well to meet any improvement in the economic outlook.

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