CAXTON&CTP publishers & printers LIMITED

UNAUDITED INTERIM GROUP RESULTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

R'000	% change	Unaudited 6 months to 31 December 2014	Unaudited 6 months to 31 December 2013	Audited for the year to 30 June 2014
Revenue	12.4	**3 272 788**	2 913 009	5 389 551
Other operating income		**44 163**	50 975	94 191
		3 316 951	2 963 984	5 483 742
Changes in inventories of finished goods and work in progress		**(83 327)**	(2 975)	36 440
Raw materials and consumables used		**1 498 962**	1 270 968	2 181 323
Staff costs		**700 679**	566 836	1 227 915
Other operating expenses		**772 260**	710 419	1 347 889
Total operating expenses	13.5	**2 888 574**	2 545 248	4 793 567
PROFIT FROM OPERATING ACTIVITIES	2.3	**428 377**	418 736	690 175
Depreciation		**136 688**	125 780	259 728
PROFIT FROM OPERATING ACTIVITIES AFTER DEPRECIATION	(0.4)	**291 689**	292 956	430 447
Impairment of plant		**–**	400 476	459 548
NET PROFIT FROM OPERATING ACTIVITIES		**291 689**	(107 520)	(29 101)
Net finance income		**55 304**	46 662	104 508
– dividends		**30 924**	23 651	47 719
– interest		**24 380**	23 011	55 358
– loss on currency hedges		**–**	–	1 431
– net profit on realisation of investment		**–**	391 246	470 067
Income from associates		**14 220**	22 501	19 500
PROFIT BEFORE TAXATION		**361 213**	352 889	564 974
Income tax expense		**97 158**	98 836	129 115
PROFIT FOR THE PERIOD	3.9	**264 055**	254 053	435 859
Other comprehensive income:		**(4 876)**	111 417	(119 119)
Items that will be reclassified subsequently to profit or loss				
Fair value adjustment – investments and preference shares		**(4 876)**	91 489	(119 119)
Fair value adjustment – recycled to profit		**–**	19 928	–
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**259 179**	365 470	316 740
PROFIT ATTRIBUTABLE TO:				
Non-controlling interests		**7 111**	5 049	9 043
Owners of the company		**256 944**	249 004	426 816
		264 055	254 053	435 859
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Non-controlling interests		**7 111**	5 049	9 043
Owners of the company		**252 068**	360 421	307 697
		259 179	365 470	316 740
Earnings per share (cents)	11.3	**66**	59	105
Headline earnings per share (cents)	10.7	**65**	59	98
Preference dividend paid per share (cents)		**490**	450	450
Ordinary dividend paid per share (cents)		**60**	55	55
Shares in issue/weighted average number of shares in issue		**391 827 651**	467 052 949	406 494 087
Treasury shares		**(310 000)**	(44 604 726)	–
Earnings per share based on		**391 517 651**	422 448 223	406 494 087
Reconciliation of headline earnings:				
Earnings attributable to owners of company		**256 944**	249 004	426 816
Adjusted for non-trading items		**(779)**	626	(26 989)
Net profit on realisation of investment		**–**	(391 246)	(470 067)
Net impairment in value of property and plant		**–**	400 476	384 674
Goodwill written off		**–**	–	74 876
Net (profit)/loss on disposal of assets		**(1 082)**	(7 314)	1 600
Tax effect on above adjustments		**303**	(1 290)	(18 072)
Headline earnings		**256 165**	249 630	399 827

Abridged segmental analysis		%		%		%
Revenue						
Publishing, printing and distribution	**2 585 598**	**79**	2 600 125	89	4 907 446	91
Packaging	**953 470**	**29**	419 454	14	807 645	15
Other	**291 089**	**9**	368 102	13	535 871	10
Inter-group sales	**(557 369)**	**(17)**	(474 672)	(16)	(861 411)	(16)
	3 272 788	**100**	2 913 009	100	5 389 551	100
Operating income						
Publishing, printing and distribution	**200 814**	**69**	226 871	77	312 523	73
Packaging	**75 006**	**26**	48 747	17	50 788	12
Other	**15 869**	**5**	17 338	6	67 136	15
	291 689	**100**	292 956	100	430 447	100

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

R'000	Unaudited 31 December 2014	Unaudited 31 December 2013	Audited 30 June 2014
ASSETS			
NON-CURRENT ASSETS			
PROPERTY, PLANT AND EQUIPMENT	**2 445 044**	2 108 760	2 208 608
INTEREST IN ASSOCIATES	**236 259**	265 496	221 695
OTHER INVESTMENTS	**28 363**	755 352	28 022
– LISTED	**31**	192 784	31
– UNLISTED	**28 332**	562 568	27 991
DEFERRED TAXATION	**–**	–	18 527
TOTAL NON-CURRENT ASSETS	**2 709 666**	3 129 608	2 476 852
CURRENT ASSETS			
INVENTORIES	**814 006**	665 731	638 750
ACCOUNTS RECEIVABLE	**1 425 112**	1 247 610	982 193
CASH	**650 455**	847 652	1 306 489
LISTED BANK PREFERENCE SHARES	**59 588**	69 969	65 582
UNLISTED BANK PREFERENCE SHARES	**850 000**	850 000	850 000
TOTAL CURRENT ASSETS	**3 799 161**	3 680 962	3 843 014
TOTAL ASSETS	**6 508 827**	6 810 570	6 319 866
EQUITY AND LIABILITIES			
EQUITY	**5 044 740**	5 522 513	5 028 876
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**4 988 198**	5 471 347	4 976 134
PREFERENCE SHAREHOLDERS	**100**	100	100
NON-CONTROLLING INTEREST	**56 442**	51 066	52 642
NON-CURRENT LIABILITIES			
DEFERRED TAXATION	**270 456**	307 446	281 305
CURRENT LIABILITIES			
TRADE AND OTHER PAYABLES	**909 492**	733 350	739 031
PROVISIONS	**272 837**	187 768	248 719
TAXATION	**11 302**	59 493	21 935
TOTAL CURRENT LIABILITIES	**1 193 631**	980 611	1 009 685
TOTAL EQUITY AND LIABILITIES	**6 508 827**	6 810 570	6 319 866
Net asset value per share (cents)	**1 289**	1 307	1 237
Directors' valuation of unlisted investments and associated companies	**264 591**	828 064	249 686
Capital expenditure	**207 101**	154 006	397 651
Capital expenditure committed	**182 000**	250 000	150 000

ABRIDGED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

R'000	Unaudited 31 December 2014	Unaudited 31 December 2013	Audited 30 June 2013
Balance at beginning of the year	**5 028 876**	5 396 969	5 396 969
Total comprehensive profit for the period	**259 179**	365 470	316 737
Treasury shares and share buy backs	**(4 660)**	(3 716)	(444 504)
Dividends paid – ordinary and preference shareholders	**(238 655)**	(236 210)	(240 326)
Balance at end of the year	**5 044 740**	5 522 513	5 028 876

Note:

Business combination

The group acquired the Nampak Cartons and Labels division on 1 August 2014 which has been accounted for as a business combination for the current period.

The acquired business contributed revenue of R475,4 million and a net profit after tax of R12,4 million. Had this business been acquired for the full reporting period the revenue would have been R570,4 million and the net profit after tax would be R14,8 million.

These amounts have been calculated using the group's accounting policies.

Details of the assets and liabilities from the acquisition are as follows:

R'000	Acquirees fair values
Plant and equipment	175 748
Inventory	243 252
Trade and other receivables	214 617
Trade and other payables	(142 635)
Provisions	(110 618)
Retrenchment provisions	(51 916)
Fair value of net assets acquired	328 448
Total cash purchase consideration	328 448
	–

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

R'000	Unaudited 6 months to 31 December 2014	Unaudited 6 months to 31 December 2013	Audited for the year to 30 June 2014
CASH FLOW FROM OPERATING ACTIVITIES	**(125 947)**	(239 064)	295 114
Cash generated by operations	**366 073**	392 114	749 510
Changes in working capital	**(209 674)**	(356 568)	(52 994)
Cash generated by operating activities	**156 398**	35 546	696 516
Less: Taxation paid	**(98 994)**	(85 062)	(264 153)
Net interest received	**24 380**	23 011	54 178
Dividends received	**30 924**	23 651	48 899
Net cash generated/(utilised) from operating activities	**112 708**	(2 854)	535 440
Dividends paid	**(238 655)**	(236 210)	(240 326)
CASH FLOW FROM INVESTING ACTIVITIES	**(525 427)**	590 108	564 654
Property, plant and equipment			
– additions to expand operations	**(207 101)**	(154 006)	(397 651)
– proceeds from disposals	**10 808**	12 274	38 077
	(196 293)	(141 732)	(359 574)
Investments			
– subsidiary businesses acquired (net of cash)	**(328 447)**	–	(63 899)
– Associates, other investments and loans (net of taxation)	**(687)**	731 840	988 127
	(329 134)	731 840	924 228
CASH FLOWS FROM FINANCING ACTIVITIES	**(4 660)**	(3 710)	(56 096)
Own shares acquired	**(4 660)**	(3 710)	(56 096)
Net (decrease)/increase in cash and cash equivalents	**(656 034)**	347 334	803 672
Cash and cash equivalents at the beginning of the year	**2 228 655**	1 424 983	1 424 983
Cash and cash equivalents at the end of the period	**1 572 621**	1 772 317	2 228 655
Fair value adjustment of preference shares	**(12 578)**	(4 695)	(6 584)
Fair value of cash and cash equivalents at the end of the period	**1 560 043**	1 767 622	2 222 071

COMMENTARY

Basis of preparation

The accounting policies adopted in the preparation of the financial statements for the six months under review are in accordance with the requirements of International Financial Reporting Standards ("IFRS") and are consistent with the prior year and IAS 34 on interim reporting, the JSE Listings Requirements, the SAICA Financial Reporting Guides as issued by the Accounting Practices Board and the Companies Act of South Africa.

Earnings

Trading conditions in our industries remain difficult. The newspaper and book printing divisions faced declining volumes that impacted the group performance, but this was compensated for by the restructure of the commercial printing divisions, the closure of the stationery business in Ladysmith and the positive contribution of the newly acquired Nampak Cartons and Labels business.

Revenue for the six-month period grew by 12,4% to R3,273 billion as a result of the Nampak Cartons and Labels acquisition; however, on a like-for-like basis compared to the six-month period to December 2013, turnover declined by 4% to R2,797 billion. This decline can be attributed to declining print volumes in the Johannesburg newspaper factory, reduced educational print demand in the book printing division and the closure of the Ladysmith stationery business.

Raw material input costs have remained fairly stable, helped by less volatile currency fluctuations which have been well managed.

Staff costs and other operating expenses have been well controlled, where some of the benefit of the restructuring has started to filter through and the full impact is expected to be realised in the second half of the financial year. On a comparable basis these costs have decreased by 3,2%.

Profit from operating activities has increased slightly from R418,7 million to R428,4 million. Depreciation increased from R125,8 million to R136,7 million. Net finance income, at R55,3 million shows a comparable increase of 18,5% mainly due to increased dividends.

Income from associates has declined to R14,2 million from R22,5 million due to the change of Ramsay Media from an associate to a subsidiary in a prior year.

Profit before taxation increased from R352,9 million to R361,2 million. Taxation at a rate of 28% absorbed R97,2 million which resulted in a profit after tax for the period of R264,0 million, an increase of 3,9%.

The number of shares in issue declined to 391 517 651 with a resultant earnings per share of 65,6 cents per share, an increase of 11,3% and headline earnings per share of 65,4 cents, an increase of 10,7%.

Capital expenditure and investments

The acquisition of the Nampak Cartons and Labels division for R328,4 million became effective on 1 August 2014 and a variety of equipment purchases have been made in the packaging division to facilitate the integration of the acquisition over the next year and also to enter new markets.

In the period under review, the installation of the new gravure press in Durban was completed.

DIVISIONAL PERFORMANCE

PUBLISHING, PRINTING AND DISTRIBUTION

Newspaper Publishing and Printing

The continuing decline in the circulation of newspapers, especially in the paid for daily market, is having a serious effect on the trading of all newspaper publishing companies as they struggle to compensate for declining print revenues, and with revenues from digital activities not matching the decline from traditional business. However, substantial increases in digital audiences surpassing the loss of print readers underscore the important role that news brands continue to play in the markets for readers and advertisers. Finding sustainable multi-media business models remains a challenge.

The headwinds which prevailed during the second half of the previous financial year to June 2014 continued into the first six months of the current financial year to December 2014, though their intensity varied across the country. Trading conditions were relatively buoyant in some markets but really tough in others, especially in the core Gauteng metro area, where the malaise affecting mainstream papers permeated the broader market.

Overall turnover decreased marginally and even though most costs were well controlled, a significant increase in the costs associated with the development of our new digital media platforms led to profits dipping below that of the comparable previous period. The noteworthy increase in unique visitors and page-views on our digital platforms in the six months under review was most encouraging and we are hard at work developing and implementing the multi-media revenue models vital for the future.

Magazine Publishing and Distribution

The magazine industry continues to face tough commercial challenges – both print sales and advertising revenue are under pressure. However, magazines are managing to remain relevant through digital online growth and also because of the growth in the lifestyle interests of our target markets. The ongoing investment in digital platforms and different distribution channels available on the internet continue to create more opportunities to connect with our readers. The challenges include moving towards the production of multiple-media formats, finding new ways to better integrate with social media and translating this growing digital readership into advertising revenue. The digital operations have seen growth in this regard, albeit off a low base.

While there is a strong focus on digital and on-going investment in digital platforms, the picture is upbeat for our printed format magazines. The print editions remain the flagships of the division and through innovative advertising strategies and targeted editorial content, we have ensured that the print editions remain relevant. In ABC figures, released in November 2014, Woman and Home retained its position as South Africa's most bought English glossy magazine. Woman and Home and Rooi Rose were the top two monthly glossies, with Bona also making it into the top 10.

The group's magazine distribution division continues to contend with declining magazine volumes. However, in the period under review this division has managed to curtail costs and improve margins in the imported magazine portfolio. This combined with improved profitability in the CD and DVD distribution business has meant that there has been a pleasing improvement in performance.

COMMERCIAL PRINTING

Web and Gravure

The rationalisation of our commercial print facilities as reported at year-end was completed during the six months under review and all costs associated with the process have been incurred. The resultant substantial reduction in overheads should have a positive impact on the operating results for the first half of 2015.

An improved pre-Christmas trading environment compared to the last year helped the division achieve operating profits on par with the first six months of last year notwithstanding the substantial rationalisation costs incurred.

A stable and improving rand exchange rate, stable raw material costs and an improving outlook for retail sales coupled with the reduced overheads and better capacity utilisation created by the rationalisation, all bode well for this division's outlook for the remainder of the financial year.

Book Printing

The division continues to perform well. However, a significant reduction in the volume of orders from the education book publishing sector, compared with the same period in 2013, and which is directly linked to Government spend on text books, has impacted on the comparative year on year profitability of the division.

The reduction in volumes historically placed by education publishers in this period has had a significant impact on the book printing industry, creating over capacity and unpredictable and fluctuating demand, which has resulted in margin reduction.

Investment commitments will see the installation and commissioning of new printing equipment, both sheet fed and web offset, during 2015. These investments will ensure that the division continues to position itself as a leader in book production and enable it to expand its capacity for magazine and diary production, with the resultant cost-efficiencies that new technology will bring.

Packaging

The Nampak Cartons and Labels acquisition was concluded with an effective date of 1 August 2014 and the trading for five months has been included in this period's results.

The packaging divisions delivered solid results and the above acquisition has impacted positively on these results, as all the acquired operations are trading profitably and generating cash, although still not at optimum levels.

In the period under review, the focus has been on settling down the acquisition and addressing an unsustainable cost base. A voluntary retrenchment process has been instituted and completed that will realise savings in employment costs once fully integrated.

The focus for the next period is to commence with the capital expenditure plan to upgrade technology and consolidate capacities with the desired impact on better efficiencies.

The group's existing packaging divisions have also performed well and have improved profitability over the period. A combination of increased market share and improved production efficiencies has contributed to this performance.

These businesses continue to operate in a competitive market which necessitates continued focus on new technology, production efficiencies and a competitive cost base.

OTHER

Stationery

In the period under review this division improved profitability mainly as a result of the closure of the Ladysmith operation.

PROSPECTS

The business climate is not expected to improve in the second half of the financial year. However, the actions taken over the last year should result in an improvement in earnings.

Statement of responsibility

The preparation of the group's consolidated results was supervised by the Managing and Financial Director, Mr TJW Holden, BCom, CA (SA).

26 February 2015

Executive Directors: TD Moolman, PG Greyling, TJW Holden

Non-Executive Directors: PM Jenkins, ACG Molusi, NA Nemukula, T Slabbert, GM Utian, J Phalane

Transfer Secretaries: Computershare Investor Services Proprietary Limited

Incorporated in the Republic of South Africa
Registration number 1947/026616/06
Share code: CAT ISIN: ZAE000043345
Preference share code: CATP ISIN: ZAE000043352

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