

# PRIMEDIA LIMITED

Audited results for the year ended 30 June 2004

Incorporated in the Republic of South Africa | Registration number 1993/003355/06 | Share code PMA ISIN ZAE000035119 | Share code PMN ISIN ZAE000035127 | ("Primedia") |

## THE HIGHLIGHTS

- ★ PBIT up 30,5% to R259,1 million
- ★ Profit before tax up 139,5% to R262,7 million
- ★ Cash generated from operations up 81,0% to R353,6 million
- ★ Free cash flow per share up 66,8% to 120 cents
- ★ Headline earnings per share up 195,7% to 68 cents
- ★ Shareholder distributions per share up 54% to 40 cents
- ★ Ranked South Africa's #17 most transformed company

### CONSOLIDATED INCOME STATEMENT

	Audited 2004 R000	Audited 2003 R000	% change
<b>Revenue</b>			
- Continued	1 727 779	1 647 990	4,8
- Disposed entities	24 608	125 440	
	<b>1 752 387</b>	<b>1 773 430</b>	
<b>Operating profit before depreciation</b>	<b>323 454</b>	<b>277 327</b>	<b>16,6</b>
- Continued	326 142	277 798	
- Disposed entities	(2 688)	(471)	
Depreciation	(64 395)	(78 796)	
<b>Operating profit before amortisation, foreign exchange items and exceptional items (PBIT)</b>	<b>259 059</b>	<b>198 531</b>	<b>30,5</b>
Amortisation of goodwill and intangibles	(3 887)	(4 393)	
Foreign exchange gains/(losses)	1 030	(9 978)	
Exceptional items	23 308	(13 357)	
<b>Operating profit</b>	<b>279 510</b>	<b>170 803</b>	<b>63,6</b>
Net finance costs	(16 462)	(14 659)	
Share of associated company losses	(331)	(46 464)	
<b>Profit before tax</b>	<b>262 717</b>	<b>109 680</b>	<b>139,5</b>
Taxation	(63 619)	(63 889)	
<b>Profit after tax</b>	<b>199 098</b>	<b>45 791</b>	
Minority interest	(24 403)	(24 587)	
<b>Net profit for the year</b>	<b>174 695</b>	<b>21 204</b>	<b>723,9</b>
<b>Reconciliation of headline earnings</b>			
Net profit for the year	174 695	21 204	
Goodwill amortisation	3 874	4 380	
Net profit on disposal of fixed assets and investments	(8)	(427)	
Exceptional items:	(33 235)	24 663	
- Impairment and write-down of goodwill and equity investments	(14 202)	32 361	
- Profit on disposal of assets and investments	-	(5 898)	
- Profit on disposal of subsidiary companies	(9 189)	(2 485)	
- Recovery of debt previously written off	(9 844)	-	
- Other	-	685	
Tax effect of non-headline earnings items	1 217	306	
<b>Headline earnings</b>	<b>146 543</b>	<b>50 126</b>	<b>192,4</b>
Number of shares (000)			
- Issued	216 764	216 364	
- Weighted average	216 520	218 229	
- Diluted weighted average	225 648	218 724	
Earnings per share (cents)			
- Headline	68	23	195,7
- Basic	81	10	
- Diluted headline	65	23	182,6
- Diluted basic	77	10	
<b>Exceptional items</b>			
Headline reconciling items above	33 235	(24 663)	
Provision for legal and other costs	(5 635)	(398)	
Reversal of provisions	4 249	9 035	
Impairment and write-down of assets	(8 541)	14 137	
Interest due to Receiver of Revenue	-	(11 468)	
Gross exceptional items	23 308	(13 357)	

### CONSOLIDATED BALANCE SHEET

<b>ASSETS</b>		
<b>Non-current assets</b>	<b>544 730</b>	<b>506 617</b>
Property, plant and equipment	259 150	284 381
Goodwill and intangible assets	105 556	6 161
Investments in associated companies	8 062	24 217
Other investments	5 524	12 122
Deferred tax asset	166 438	179 736
<b>Current assets</b>	<b>438 898</b>	<b>425 014</b>
Inventories	39 569	38 446
Trade and other receivables	333 332	355 856
Bank balances and cash	65 997	30 712
<b>Total assets</b>	<b>983 628</b>	<b>931 631</b>
<b>EQUITY AND LIABILITIES</b>		
Share capital and reserves	333 669	302 692
Minority interest	16 238	20 246
<b>Total shareholders' funds</b>	<b>349 907</b>	<b>322 938</b>
<b>Non-current liabilities</b>	<b>104 159</b>	<b>164 339</b>
Long-term borrowings	61 912	68 350
Landlord inducement premium	17 047	19 512
Long-term provisions	24 928	76 477
Deferred tax liability	272	-
<b>Current liabilities</b>	<b>529 562</b>	<b>444 354</b>
Bank overdrafts and short-term borrowings	-	43 360
Other current liabilities	529 562	400 994
<b>Total equity and liabilities</b>	<b>983 628</b>	<b>931 631</b>
<b>Net asset value per share (cents)</b>	<b>154</b>	<b>140</b>

### COMMENTARY

#### 1 Introduction

The past twelve months have been most gratifying for the Primedia group. We can report excellent strategic progress and good implementation on the operational front which, combined with positive industry conditions, delivered record results.

#### Highlights

- PBIT up 30,5% to R259,1 million
- Profit before tax up 139,5% to R262,7 million
- Cash generated from operations up 81,0% to R353,6 million
- Free cash flow per share up 66,8% to 120 cents
- Headline earnings per share up 195,7% to 68 cents
- Shareholder distributions per share up 54% to 40 cents

#### 2 Strategic review

##### 2.1 Fiscal 2004

At the commencement of the 2004 fiscal, the group codified three strategic priorities for its domestic businesses, namely:

- Enhancing the breadth of its South African media portfolio;
- Deriving benefits from group synergy; and
- Increasing black consumer patronage of the group's filmed entertainment products.

The following strategic progress was made in this regard during the fiscal:

- On 23 April 2004, Primedia announced that it had entered into an agreement to acquire the shares in and claims against New Africa Media Holdings (Proprietary) Limited ("NAMH"), whose sole asset after restructuring will be the shares in and shareholder claims against KFM (Proprietary) Limited ("KFM"). This acquisition is subject to approval by ICASA and the shareholders of New Africa Investments Limited ("NAIL"). Following the purchase of NAMH, the profit contribution from 94.7 Highveld Stereo is expected to reduce from 47% to 39% when factoring in the results of KFM on a pro forma basis for the year ended 30 June 2004.
- Extracting synergies between the group's businesses is now well engrained in Primedia's culture. During the year, synergies between the advertising businesses have yielded very positive early results; with approximately R25 million of incremental advertising spend being generated from the group's Strategic Advertising Unit. These synergies have boosted operating margins in the advertising businesses.
- The group's strategy of attracting more black consumers to engage in our cinema and home entertainment offerings has not yet delivered material results.

The recent purchase of an additional 30,5% economic interest in 94.7 Highveld Stereo, taking the group's stake to 85,8%, was another strategic milestone, which also resulted in significant wealth creation for our empowerment partners whose shareholding in the business was financed by Primedia. 94.7 Highveld Stereo is a premium radio brand, much sought after by advertisers and one that has a growing share in its target market. Going forward, this acquisition will enable Primedia to fully access the significant cash flows generated by the business. Primedia has facilitated Mineworkers Investment Company's ("MIC") increased interest in 94.7 Highveld Stereo from 2,2% to 14,2% with effect from 1 July 2004, in accordance with its transformation objectives.

As part of the group's strategy of disposing of all of its international interests, loss-making Wheel Group was disposed of during the year, realising a R12,1 million exceptional profit. Subsequent to year-end, Ster Century Middle East has agreed to sell its underlying operations for US\$4,5 million, subject to certain conditions. Primedia expects to receive 50% of the net proceeds after costs. Following these disposals, the group will have disposed of all loss-making international businesses, with its remaining international asset being UK-based The Database Group, which is profitable.

##### 2.2 Fiscal 2005

Our strategy for 2005 is to focus on growing shareholder value through the group's five identified growth pillars namely: organic growth, innovation, geographic expansion into Africa, acquisitions and entry into new growth media sectors. In respect of the latter, Primedia has established a new division ("New Frontiers") which will have two arms, one for advertising and one for entertainment. Through New Frontiers, we intend to partner innovative entrepreneurs with our strategic and financial backing to enable their businesses to grow into major media platforms.

The group's key strategic priorities for 2005 are as follows:

#### Maximising free cash flow

Following the acquisition of NAMH and the additional 30,5% economic interest in 94.7 Highveld Stereo, borrowings will increase by around R300 million during the 2005 fiscal. Given its significant cash generating capability, the group should expense this debt within a four year time-frame whilst maintaining shareholder distributions in line with its existing distribution policy and pursuing investments in new growth areas.

#### Continued enhancements to the group's media portfolio

In line with the group's strategy of balancing the earnings from its media assets, we will endeavour to reduce the level of 94.7 Highveld Stereo's contribution to the group's PBIT to around 25% to 30%. This will be achieved through organic and innovative growth from our other media assets, including the contribution from the New Frontiers division.

#### Black consumer market filmed entertainment

Based on experience gained in the 2004 fiscal, we expect to increase our penetration into the black consumer market, both within our cinemas and home entertainment businesses.

### 3 Financial results

#### 3.1 Income statement

The group generated turnover of R1,75 billion for 2004. This was marginally down on last year's R1,77 billion due to the sale of the loss-making one to one operations. Importantly, the South African operations increased turnover by 12,4% to R1,68 billion.

Group PBIT before exceptional items and foreign exchange items was up 30,5% to R259,1 million, due to a 20,7% increase in PBIT from South African operations to R259,4 million, as well as significantly reduced losses from the international businesses disposed of. It is worth highlighting that this is the third consecutive year of double-digit growth from the South African operations which have delivered a 25,6% compound annual growth rate in PBIT since 2001. This performance has been underpinned by our strategy of focusing on the domestic market as well as having a balanced portfolio of advertising and content businesses.

Group PBIT margins before exceptional items and foreign exchange items reached 14,8% (2003: 11,2%), with South African operations achieving margins of 15,5% (2003: 14,4%).

Profit before taxation was up 139,5% to R262,7 million, mainly due to the group's increased PBIT, the elimination of equity accounted losses from Ster Century Europe (R42,9 million in 2003) following the final disposal of the remaining territories last year and the R1,0 million foreign exchange gain versus last year's loss of R10,0 million. Net interest paid was also marginally up on the prior year, due to the cessation of interest income of R6,5 million from Ster Century Europe which has now been disposed of, and interest paid of R4,4 million in respect of capitalised finance leases recognised at the end of the last fiscal.

Net profit for the year increased significantly from R21,2 million to R174,7 million due to the aforementioned and a lower effective tax rate resulting mainly from assessed losses recognised during the year. Minority interests remained at the same levels, notwithstanding 94.7 Highveld Stereo's 30,3% growth in PBIT, due to the acquisition of the additional 30,5% economic interest in 94.7 Highveld Stereo during the year.

Group earnings per share increased by 170,0% to 81 cents and headline earnings per share increased by 195,7% to 68 cents. As the group is now essentially South African-based, this performance compares favourably to the 52 cents from the South African operations reported last year. The results include a R17,6 million impairment of the group's investment in film rights, arising from a more conservative basis of accounting for the film rights coupled with lower projected revenues therefrom due to the stronger rand. R10,6 million of the impairment has been reflected as an exceptional item, being the amount that would have been recognised had the same policy been adopted in prior years. The level of the overall impairment provision in respect of film rights is not expected to recur going forward.

#### 3.2 Balance sheet

The group's balance sheet remains strong at the year-end, with the group being effectively ungeared.

#### 3.3 Cash flow

Cash generated from operations increased by 81,0% to R353,6 million, largely due to the 16,6% improvement in EBITDA to R323,5 million (2003: R277,3 million) as well as a R9,2 million release of working capital. Furthermore, free cashflow generated was at a record high of R259,1 million (excluding the once-off SARS tax settlement of R27,0 million in respect of the Ster-Kinekor trademark), due to the aforementioned as well as reduced net capital expenditure of R43,2 million (2003: R45,6 million). The group's significant free cash flow was deployed in cash distributions to shareholders out of the share premium (R63,7 million), earnings enhancing acquisitions of minority interests in group subsidiaries (R17,4 million) and the repurchase of shares by the share trust (R7,5 million). In order to take advantage of the significant strengthening of the rand against the US dollar, the group also expunged its share of Ster Century Middle East's borrowings (R42,6 million), previously treated as a constructive obligation.

#### 3.4 Subsequent events

Subsequent to the year-end, Africa on Air (Proprietary) Limited received notification from the South African Revenue Service (SARS) of its intention to disallow the tax amortisation of the 94.7 Highveld trademark for all periods subsequent to 31 January 1997. Africa on Air intends to object against assessments raised in respect of the disallowance of the trademark amortisation. In the unlikely event that the objection is completely unsuccessful and no value at all is attached to the Highveld trademark,

- Africa On Air would be obliged to pay approximately R64 million in additional income tax for all periods up to 30 June 2004, if any;
- In terms of the acquisition of the additional 30,5% economic interest in Africa On Air, Primedia will recover from Hosken Consolidated Investments ("HCI"), 30,5% of any amounts assessed in respect of the trademarks; and
- Any income tax payable in respect of the trademark will not impact on Primedia's earnings but will reduce the non-distributable reserves created on recognition of the deferred tax asset at acquisition.

#### 4 Divisional review

##### 4.1 Advertising

The advertising businesses had an outstanding year. Turnover increased by 10,7% to R759,9 million, which translated into a 28% increase in PBIT before exceptional items and foreign exchange items, to R212,4 million. PBIT margins increased from 24,2% to a very healthy 28,0%. The previous year's results were, however, bolstered by the once-off benefit from the 2003 Cricket World Cup, which contributed R40 million of turnover and R9 million of incremental PBIT. On a comparable basis, group turnover and PBIT would have increased by 15,4% and 34,8% year on year.

The strength of the domestic economy coupled with improved business confidence has created very favourable conditions in the advertising industry, with advertising spend growing at a faster rate than the growth in gross domestic product. This, coupled with the division's operational and innovative focus, as well as the benefits from extracting synergies, translated into excellent overall results. Very good comparable growth was achieved across all divisions. Particularly good performances were achieved by 94.7 Highveld Stereo, Primedia Instore, Rank TV, Rank Branding, Primedia Outdoor, iafrica.com and Cinemark.

##### 4.2 Filmed entertainment

The filmed entertainment division achieved a 14,0% increase in turnover to R900,0 million (2003: R789,6 million). PBIT before exceptional items and foreign exchange items was however marginally behind last year's R72,7 million. PBIT margins declined from 9,2% to 7,8%. This was largely due to the once-off provisioning for film rights at Ster-Kinekor Pictures referred to earlier, as well as lower levels of revenue from pay TV sales, which are priced in US dollars. Excellent results were achieved at Ster-Kinekor Theatres, which produced a 18,3% increase in PBIT notwithstanding a 3% decline in attendances. This was achieved through improved cost control and operational efficiencies particularly in catering. The result is even more impressive given that Ster-Kinekor Theatres was 31,7% down at the interim stage. Ster-Kinekor Home Entertainment's performance was also outstanding, growing its PBIT by 33,8% with Sony Playstation once again making a very good contribution.

##### 4.3 One to one marketing

Turnover for the one to one marketing division declined by 11,1% to R67,8 million. However, PBIT before exceptional items and foreign exchange items increased from R1,5 million to R4,0 million, with PBIT margins increasing from 1,9% to 5,1%. Both the UK-based The Database Group and the South African-based Knowledge Factory performed well. These businesses have focused on higher margin revenue streams and are moving their business offerings away from commodity-based data products and services to strategically-based advisory services using high level of analytics.

#### 5 Prospects

Primedia has a strong management team and the appropriate assets to deliver on its growth strategy going forward. The advertising industry should continue to prosper, given the current favourable economic conditions, which are influenced by lower interest rates. Filmed content, which primarily drives our cinema exhibition and home entertainment businesses, is expected to be of at least the same quality as this last fiscal and given the strength of the rand, our home entertainment businesses should continue to prosper. Overall, we expect reasonable organic growth and real growth in earnings in the forthcoming year.

#### 6 Transformation

Transformation has for many years been at the forefront of our strategy. Acknowledging Primedia's success in this regard, the group was ranked #17 as the most empowered company of the top 200 listed companies in South Africa in 2004 and #2 in the media sector by the Financial Mail/Empowerdex rating. Furthermore the group was ranked #3 in transformation at Board and executive management level, both of which are 60%-represented by black individuals, and #13 on the list of the Top 25 Empowerment Companies in South Africa for employment equity. The representation of women remains a high priority for the group and Primedia was recently acknowledged by the SA Women Inc. Leadership Census and was ranked #14 out of the top 29 most represented companies in South Africa.

#### 7 Distributions out of share premium

The group's distribution policy is to maintain a cover of approximately 2 times. In line with the group's improved earnings and cash flow in the current fiscal, the Board has resolved to pay a total distribution of 40 cents per share (1,7 times cover) which is 54% higher than in the previous year. This will result in shareholders receiving a final distribution of 24,3 cents in addition to 15,7 cents declared at the interim stage.

Accordingly, notice is hereby given that a final cash distribution out of share premium of 24,3 cents, in lieu of a dividend, has been awarded to shareholders recorded in the register of the company at the close of business on Friday, 1 October 2004. Shareholders are advised that the last day to trade "cum" the distribution will be on Thursday, 23 September 2004 and the shares will trade "ex" the distribution from Monday, 27 September 2004. Share certificates may not be rematerialised or dematerialised during the period Monday, 27 September 2004 to Friday, 1 October 2004, both days inclusive. Payment will be made on Monday, 4 October 2004.

In terms of the requirements of the Companies Act, the directors confirm that after the payment of the distribution, the company will be able to pay its debts as they become due in the ordinary course of business and its consolidated assets, fairly valued, will exceed its consolidated liabilities.

For and behalf of the Board

AP NKUNA

Chairman

Johannesburg

31 August 2004

W KIRSH

Chief Executive

O IGHODARO

Chief Financial Officer

Directorate: AP Nkuna (Chairman) W Kirsh\* (CE) MJ Bosman\* FA Gazendam\* O Ighodaro\* (CFO) HM Khoza\* I Kirsh HM Madima P Maw K Pillay\* CS Seabrooke\* BJT Shongwe\* SV Zilwa\* N Canca (\* Executive directors \* Independent non-executive directors)

Company secretary: O Ighodaro

Registered office

6th Floor Primedia Place

5 Gwen Lane Sandown 2196

Transfer secretaries

Computershare Investor Services 2004 (Pty) Limited

70 Marshall Street

Johannesburg 2001

**ABRIDGED CONSOLIDATED CASH FLOW STATEMENT**

	Audited 2004 R000	Audited 2003 R000
Cash generated from operations	353 629	195 386
Net interest paid	(14 550)	(13 092)
Dividends paid to minorities	(1 916)	(863)
Tax (paid)/refunded*	(63 805)	11 014
<b>Net cash inflow from operating activities</b>	<b>273 358</b>	<b>192 445</b>
Net acquisition of subsidiaries, minorities and investments	(17 352)	(3 937)
Loans advanced to associates and minorities	(9 983)	(10 282)
Net acquisition of fixed assets and intangibles	(43 227)	(45 563)
<b>Net cash outflow from investing activities</b>	<b>(70 562)</b>	<b>(59 782)</b>
Distribution to shareholders	(63 729)	(28 336)
Share acquisitions and share buy back	(7 540)	(20 182)
Long-term borrowings repaid	(52 595)	(2 970)
<b>Net cash outflow from financing activities</b>	<b>(123 864)</b>	<b>(51 488)</b>
<b>Net increase in cash and cash equivalents</b>	<b>78 932</b>	<b>81 175</b>
Foreign currency translation	(287)	1 964
Cash and cash equivalents at beginning of year	(12 648)	(95 787)
<b>Cash and cash equivalents at end of year</b>	<b>65 997</b>	<b>(12 648)</b>

\* Settlement of R27,0 million paid to SARS, included in the year under review

**ABRIDGED GROUP STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

<b>Share capital and premium</b>	351 362	411 738
Opening balance	411 738	449 427
Shares issued during the year	–	10 795
Share buy back and movement in treasury shares	1 667	(20 148)
Distribution to shareholders	(62 043)	(28 336)
<b>Non-distributable reserves</b>	305 119	391 989
Opening balance	391 989	487 742
Minority share of intangibles previously written-off against share premium	(32 383)	127 011
(Increase)/reduction in tax value of trademarks previously written-off against share premium	1 138	(165 086)
Disposal of subsidiary	(5 946)	(3 867)
Translation reserve movement and other	(29 247)	(58 578)
Movement in treasury shares	(21 281)	5 278
Transfer to/(from) NDR	849	(511)
<b>Accumulated loss</b>	(322 812)	(501 035)
Opening balance	(501 035)	(519 656)
Net profit for the year	174 695	21 204
Transfer (from)/to NDR	(849)	511
Movement in treasury shares	4 377	(3 094)
<b>Total share capital and reserves</b>	<b>333 669</b>	<b>302 692</b>

**SEGMENT REPORT**

<b>REVENUE</b>		
Advertising	759 901	686 449
Filmed entertainment	900 028	789 552
One to one marketing	67 850	171 288
Disposed entities	24 608	125 440
Central	–	701
	<b>1 752 387</b>	<b>1 773 430</b>
<b>OPERATING PROFIT BEFORE AMORTISATION, FOREIGN EXCHANGE ITEMS AND EXCEPTIONAL ITEMS (PBIT)</b>		
Advertising	212 400	165 876
Filmed entertainment	69 836	72 666
One to one marketing	4 025	1 452
Disposed entities	(3 568)	(18 457)
Central	(23 634)	(23 006)
	<b>259 059</b>	<b>198 531</b>
<b>OPERATING PROFIT</b>		
Advertising	181 657	154 775
Filmed entertainment	43 369	61 757
One to one marketing	5 199	(17 019)
Disposed entities	11 691	13 289
Central	37 594	(41 999)
	<b>279 510</b>	<b>170 803</b>

**NOTES TO THE FINANCIAL STATEMENTS****Basis of preparation**

These financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice applicable to interim financial reporting. They have been prepared on a basis consistent with the prior year.

The financial statements are prepared under the historical cost convention, modified by the restatement of financial instruments to fair value.

	Audited 2004 R000	Audited 2003 R000
<b>1 Capital expenditure, commitments and contingencies</b>		
1.1 Future capital commitments	78 802	61 971
1.2 Financial commitments	30 288	40 128
1.3 Operating lease commitments	301 665	383 353
– Due within one year	77 832	89 598
– Thereafter	223 833	293 755
1.4 Contingent liabilities	223 108	192 394
Less: Indemnities received	(142 723)	(142 146)
Unindemnified contingent liabilities	80 385	50 248

**2 Audit report and annual financial statements**

Deloitte & Touche has audited the group's annual financial statements. The unqualified audit report, together with the annual financial statements, are available for inspection at the company's registered office.

**3 Events subsequent to financial year-end**

The directors are not aware of any other matters or circumstances arising since the end of the financial year not otherwise dealt with in the commentary to this announcement that would materially affect the operations of the group.