

Chief Executive's report

Peter Strong, Chief Executive



The big headline of the year 2000 was the record result in our newspaper and printing divisions which together showed best-ever profits and a record-breaking operating margin of 22.4%. Behind these numbers, driven by revenue growth and greater efficiency, there was also growth in diversity of activity, in our customer base, and in brand development in each of our newspaper, magazine and new media businesses.

Across the group during the 12 months we:

- launched three new newspapers
- launched six customer magazines
- launched two county magazines
- developed a wide range of web sites, including branded sites for many of our publications
- acquired France Magazine, Pilot and Somerset Magazine
- acquired control of the North Devon Gazette and Advertiser

In late January 2001, we acquired the leading county magazine portfolio in Cheshire, Lancashire and Yorkshire. Cheshire Life is a title that is 67 years young, having been launched in 1934. Like its sister titles and so many other of our publications, it is a powerful brand in a local community.

Also in January 2001 we acquired a stake in a Cheltenham radio station through Westcom Media.

A recent survey backed by the Newspaper Society, the representative body for the UK's regional and local newspaper publishers, concluded that 99% of the average UK person's life is lived within a 14-mile radius of home. No wonder then that our local publications, 62 newspapers and a growing portfolio of magazines alike, are so well read and so influential!

Advertising revenues in our newspaper business rose by almost 8% year-on-year, the most dramatic change continuing to show in the recruitment category, which was up 30%.

Our printing operation, too, had an excellent year. The Thorpe Print Centre was awarded the prestigious Newspaper Printer of the Year title for 2000, and the business won a record amount of contract work.

New business volumes grew for Eastern Counties Network, our new media specialist unit. Unsurprisingly, in a year marked by much confusion in the dot.com world, much of our digital effort was engaged in seeking the best, most effective response to the internet opportunity.

In essence, the internet is local too! In Norfolk, EDP24 went live, giving Eastern Daily Press readers round-the-clock updates on EDP content and generating new client relationships (see for yourself

at www.EDP24.co.uk). This integration of our brands across different media matches the power of print with the attractions of new distribution channels. In the light of the failure of so many 'pure-play' dot.com ventures, it is a competitive advantage we expect to pay dividends.

The web gives us a great opportunity to extend the influence of our classified content. Every day of every week, advertisements across our output of almost 2.7 million newspapers will be available in print and on-line, so that customers can seek jobs, cars and homes right across our regions.

But it's not only in newspapers that web developments are evident. In our contract publishing business at Summerhouse, for instance, we have been engaged by Aga to manage the content of its new Agalinks web-marketing initiative.

With the growth in profits so there has been growth in investment, with close to £2m invested in new media activities, and £0.4m in reshaping our relatively small, but growing, magazine business for the future. Revenue investment in future activity and efficiencies to the existing business totalled £2.6m in 2000.

The focus is on ensuring our media

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interests add value. This expenditure is likely to remain close to current levels for the foreseeable future, divided among branded web sites for our titles, new regional businesses they support, and destinations that support our magazine titles and bring e-commerce possibilities.

However, at almost £120m turnover, newspapers are the core of our business, and investment is not limited to internet-oriented activity, as our newspaper and magazine launches show. There is also investment in technical infrastructure – a good example is the new computer-to-plate equipment being installed at the Thorpe Print Centre.

During 2000, new newspapers were launched in south Norfolk, north Essex and north Hertfordshire. Magazine launches in Suffolk and Hertfordshire were followed by new titles for clients ranging from the World Gold Council to Holmes Place Health Clubs by Summerhouse, and the British Deer Farmers Association by CML in Devon, where the first year of the Country Landowners Association contract was a notable success.

Specialist magazine publishing is an important part of our development plan. Our magazine activities were greatly enhanced by the acquisition of the market-

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leading Pilot, read by private pilots across the UK and beyond. It joins our portfolio of publications at Market Link where the relaunch of a number of publications such as Which Camera? and Professional Photographer resulted in much-improved sales figures.

Looking ahead, 55 senior managers met at the Millennium Dome in October for a two-day conference on maximising our creative capacity and bringing new products and services swiftly to market.

Since this event eight of our senior people have stepped up from their daily roles for three months to participate in an intensive examination of some of our business processes. Their role is to determine how we can position ourselves to become an even more important part of our customers’ marketing mix than we are today. Other teams are working up further plans for new product development.

The Dome meeting was not the only source of innovative ideas. The ‘Bright Sparks’ suggestions scheme has been a great success and, in Norwich, Norfolk Publishing’s Managing Director Barry Dennis last year threw down a challenge to his staff, offering £2,000 to anyone whose idea was successfully implemented. So far 52 worthwhile ideas have resulted and the best are being developed.

These schemes demonstrate something we have always acknowledged: that in the end,

no matter how good the technology or how spectacular the acquisitions, it is the Group’s people who are the key to our success. So it was gratifying that the Group was a national winner in the Proshare awards for excellence in employee share schemes. Not only did ECNG win a trophy as best small company, but we finished a magnificent second overall among companies outside the FTSE 100 for fostering share ownership.

“This all adds up,” said the judges, “to a remarkable achievement for an unlisted company and a great example of what can be achieved with commitment and a lot of effort.” Since the scheme was launched in 1997, more than 1,300 employees (75% of those eligible) have become shareholders.

This commitment to the Group is extremely encouraging. These are fast-moving, stimulating times, in which many of the younger people in our businesses will begin to lead the way. Long may their adventurous spirit flourish.

It is a pleasure to conclude with a word of congratulation for Jo Ellis, an EDP reporter in Norwich, who won the first Prince of Wales’ Community Reporting award, beating off competition from around the UK with her series on a young family and their part in a ground-breaking housing scheme in Norfolk. She received the trophy from Prince Charles in a ceremony at St James’ Palace. Just one more local triumph!

Financial review



Chris Lawrence, Finance Director

Group turnover 2000



Group turnover 1999



■ Newspapers and printing
 ■ Other activities
 (Shown as % of total)

The purpose of this review is to provide an analysis of the Group's operating results and its financial position at the end of the year.

Overview

The year 2000 was another excellent year for the Group.

Turnover increased 12.4%, group operating profit before amortisation and exceptional items was up 18.1%, and margins improved to 18.5% (2000: 17.6%).

Adjusted earnings per share were 17.3% higher and annual compound growth since 1996 is 55%. This growth has been recognised by our inclusion in the Sunday Times PwC inaugural Profit Track league of the top 100 fastest-growing private companies in the UK.

Profits are stated after the net costs of digital activities, which rose to £2.0m in 2000 (1999: £0.4m).

By activity, the operating results before amortisation and exceptional items were as follows:

£m	Turnover		Profit	
	2000	1999	2000	1999
Newspapers	119.5	111.9	26.7	21.3
Magazines	10.7	3.9	0.1	0.2
New media	0.4	0.4	-1.6	-0.4
Common costs	-	-	-1.0	-0.6
	130.6	116.2	24.2	20.5

Newspaper activities

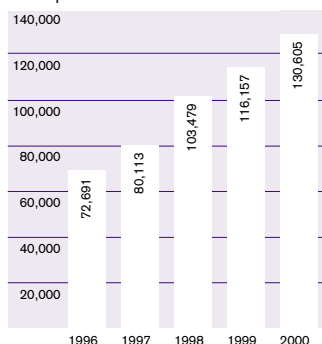
Core newspaper activities saw sales grow by 7% with profits up 26%. This was due in the main to buoyant recruitment revenues and cost savings following last year's restructuring.

Recruitment revenues were up 30% year-on-year, with other advertising revenues also up year-on-year.

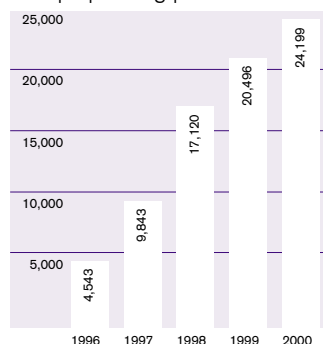
Newspaper circulation revenues increased to £20.4m (1999: £20.1m).

Under the terms of a joint venture agreement, on 13 December 2000 the Group exercised its option to acquire from Tindle Newspapers the remaining 50% of the share capital of North Devon Gazette & Advertiser Ltd not already owned. The cost of the remaining 50% was £0.7m. The company turned over £1.1m for the year ended 31 December 2000.

Group turnover £000



Group operating profit* £000



* before amortisation and exceptional items

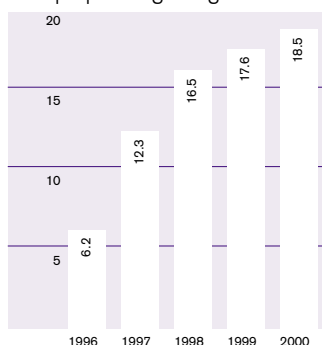
Magazine activities

Our magazine activities now include Market Link, Summerhouse and the county lifestyle portfolio. Following the acquisition of Oyston Publications Plc in January 2001, ECNG publishes eight county titles.

2000 was a year of consolidation and building a base for future growth. We invested in two launches (Suffolk and Hertfordshire), reorganised Summerhouse, rationalised Market Link's portfolio of titles, and acquired three new titles with a combined annual turnover in excess of £2.5m.

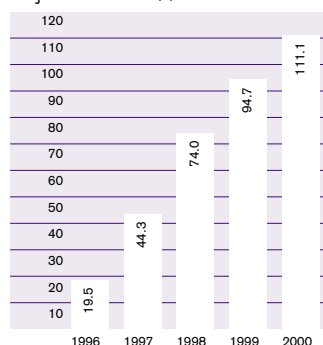
The underlying profits of our magazine activities, before investment costs, were in excess of £0.4m.

Group operating margin* %



* before amortisation and exceptional items

Adjusted EPS* p per share



* before amortisation and exceptional items

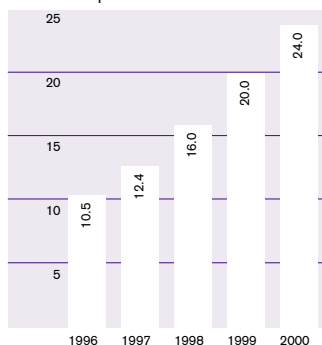
New media

The value of orders received increased to £0.9m (1999: £0.4m), but revenues remained at the same level as 1999, £0.4m, recognising revenues only when jobs have been completed. Losses increased to £1.6m (1999: £0.4m), as an infrastructure has been built to service the growing number of new media customers.

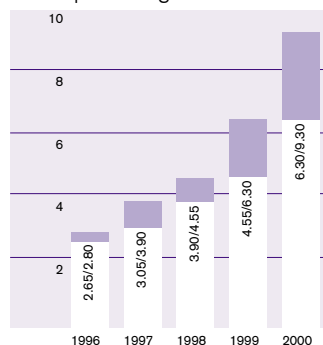
Associated company

Westcom Media Limited operates the local radio station in Weston-super-Mare, launched in October 1999. Westcom has had a successful first year, but made a small loss as it focused on building revenue streams. ECNG's share of this loss was £9,000. In January 2001, the Group increased its holding in Westcom to 47.6% following the acquisition of CAT FM Ltd, which owns and operates the local radio station in Cheltenham.

Dividend per share p per share



Share price range £ low/high



Investment income

Net interest receivable for the year increased to £1.1m (1999: £0.1m), reflecting the increase in the Group's net funds.

Exceptional investment income

ECNG has a 3.5% shareholding in the Press Association. During the year the Group received two special dividend payments from the Press Association, one in June (£0.5m) and one in December (£0.9m).

The June dividend was a distribution of proceeds from the disposal of the Press Association's press release distribution business to PR Newswire in June 1999, and of their media monitoring business, Tellex Monitors, to Taylor Nelson Sofres in December 1999.

The December dividend was a partial distribution of the proceeds from the disposal of the Press Association's new media operation, Ananova, to Orange in July 2000. Two more special distributions are planned, in December 2001 and December 2002, subject to any claims against warranties given to the purchaser.

Taxation

The effective rate of taxation in the year was 26.5% (1999: 27.4%). The standard rate of tax in the year was 30% (1999: 30.25%). For 2000, the actual rate was lower than the standard rate, primarily because the Press Association special dividend (£1.4m) is not subject to tax, and because capital gains previously provided for were rolled over during the year.

Dividend cover

The cost of the ordinary dividend for the year increased by 21.8% to £3.9m. The preference share dividend remained static at £0.3m. Ordinary dividends are covered 4.6 times by profits attributable to shareholders, ignoring amortisation of intangible assets and exceptional items (1999: 4.7 times).

Net funds

The business continues to be highly cash-generative.

In summary, the movements in funds were as follows:

£m	2000	1999
Operating cash flows	29.4	18.7
TRP disposal proceeds *	–	13.8
Other cash flows	-15.8	-14.6
	13.6	17.9

* from the sale of the Group's 40% interest in The Radio Partnership

A 58% improvement in operating cash flow reflects improvements in operating profits and also in the Group's working capital position. The operating cash-flow-to-operating-profit ratio for the year was 126% (1999: 108%).

Other cash flows include capital expenditure –£1.9m, investment income +£1.1m, special dividends +£1.4m, taxation –£6.6m, dividends –£3.9m, proceeds from share issues +£0.6m, and acquisition and investment costs –£6.5m.

Net funds at the year end were £25.9m (1999: £12.2m), comprising:

£m	2000	1999
Cash	31.1	17.2
Loan notes receivable	13.8	13.8
Loan notes payable	-18.4	-18.1
Finance leases	-0.6	-0.7
	25.9	12.2

Treasury management

The Group derives its finances from share capital, retained profits and the issue of loan notes.

The main financial risk that the Group faces from its treasury activities is the interest rate 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 and placed on deposit for periods of up to one month. The cost of the loan notes payable (interest and bank guarantee fees) is LIBOR less 0.55%. The return on the loan notes receivable is LIBOR plus 0.425%.

As the Group's activities are primarily concentrated in the UK, there is minimal foreign currency risk.

Financial position

ECNG started the year with net assets of £88.0m. Retained profit for the year was £14.94m, which was transferred to reserves.

A further £0.55m was added to reserves following the issue of share capital. £0.3m was transferred out of the reserves, to fund a further purchase of ECNG ordinary shares by the ECNG Qualifying Exempt Share Ownership Trust. The financial position at the year end is represented by net assets of £103.2m. □