

Revenue and operating profit from ongoing operations before impairment and exceptionals declined by 9.2% and 27.1% respectively during 2008 as the economy decelerated into recession.

ADRIAN JEAKINGS, CHIEF EXECUTIVE

MOST OF THE revenue decline was due to lower advertising volumes with the decline intensifying in the second half of the year. Cost saving initiatives contributed to a reduction of £9.4m in expenses for ongoing operations but resulted in £4.0m restructuring costs. These initiatives will generate further savings in 2009. Net debt at the end of the year at £34.6m was £2.3m lower than at the end of 2007 despite the abnormally high capital expenditure from the investment in printing equipment at Thorpe. The Group continued to invest in its digital activities and revenue grew by 51.1% during the year despite the downturn in the economy whilst our on-line audience grew by more than 45%.

The deterioration in the economy and falls in the financial markets have resulted in an impairment charge of £33.6m in the year and an increase of £19.7m in the deficit of our defined benefit pension scheme on the balance sheet to £25.9m. Neither of these movements, which are explained in more detail in the Financial review have any direct impact on cash.

Newspapers and print

Archant's newspapers, in common with most regional newspapers in the UK, all suffered severe declines in advertising volumes during 2008. The long anticipated collapse of the housing market began at the end of 2007 impacting property advertising from the beginning of 2008. The rate of decline accelerated in the second quarter of 2008 before flattening out in the fourth quarter. Negative sentiment, driven by the stagnant property market and successive banking crises, resulted in an expectation of lower retail sales and higher unemployment during the second half of 2008. This in turn led to an increase in the rate of decline in other advertising categories which has continued into 2009.

We have responded to the downturn in revenues by reducing costs and increasing the emphasis on new revenue initiatives, mainly on-line. Costs were down 6.5% over the year for the ongoing business and 8.9% in the second half. Wherever possible, these cost reductions have been achieved by improving productivity or reducing purchase prices. Examples of successful projects include the merging of Norfolk and Suffolk pre-press departments

into a single organisation based in Prospect House in Norwich and the migration of all our divisions to a single version of our order booking and production management software systems. These initiatives will generate additional savings in 2009.

Focus on digital audience and revenue growth continued during 2008 and revenue growth of 46.4% was achieved despite the difficulties experienced in print advertising. Most of the growth was in on-line display advertising with slower growth in classified advertising than in previous years. An average of 1.6 million people visited our newspaper websites every month in 2008, an increase of 43.5% over 2007. Particular emphasis was placed on the development of our classified advertising sites during the year resulting in increases of 82.6% and 266.1% in visitors to *jobs24* and *homes24* whilst the number of properties advertised at any point on *homes24* increased by 86,000 to just under 150,000 by the end of the year. New developments during the year included a new on-line service for family announcements and on-line business directories. The family announcements service was launched with a technology partner at the end of the year and is expected to make a significant contribution to 2009's digital revenue. It will enable friends and relatives to make their own contribution to any announcement on-line by adding comments and pictures.

The expansion of our printing facilities at Thorpe continued during the year and is now nearing completion. The expansion will increase the number of towers at Thorpe by six to ten using second hand equipment from *The Guardian* and will also increase the number of folders by one to four. The entire press control system has been upgraded at the same time and new plate making equipment has been sourced from Kodak. The new plate makers will increase capacity and improve image quality whilst reducing ink consumption. Once operational, the new facilities will allow us to print all of our newspapers in full colour at Thorpe and as a result the Ipswich printing facility will close. The expansion has been completed without any major interruption to production and we would like to thank all of the staff at Print for their contribution to the success of the project, in particular



during the year including *North East Life* which has already achieved breakeven and generated paid sales of over 5,000 copies a month. Audience growth has also been an area of focus at Life with innovative marketing generating an increase of 8.2% in subscription sales revenue despite the economic downturn and stiff competition from other publishers, particularly in the North. The on-line audience has not been neglected and the average number of monthly visitors to Life websites has grown by 89% over the year whilst on-line revenue grew by 52%.

2008 was a year of significant change for Archant Specialist. The portfolio of titles was rationalised, refocusing on core specialist publishing, whilst the cost base was reduced and the Chelsea office closed. The revenue proved less susceptible to the economic downturn than at other divisions and, together with the cost savings, resulted in operating profit more than doubling.

Archant Dialogue managed to win sufficient new business to more than offset the impact of the economic downturn and achieved a 12% increase in operating profit. New clients included The Whisky Shop, Park Royal Partnership and the National Governors' Association.

Outlook

The economy is not improving and current expectations are for a long, deep recession. The rate of underlying advertising volume decline increased in January to 35.7% in newspapers and 24.4% in magazines. The first weeks of February, whilst marginally better than January, are still worse than the fourth quarter of 2008. It is not clear when these declines will stop or when growth will return. There are some brave commentators who have predicted that the recovery will start before the end of 2009, however we do not believe that this will happen. We have therefore initiated further cost saving actions and accelerated those already underway. These actions will inevitably result in a further reduction in our workforce. Wherever possible they are designed to improve productivity and minimise any potential damage to our long-term success. At the same time we have increased the focus and investment in new initiatives to develop new revenue sources.

“Wherever possible, cost saving actions are designed to improve productivity and minimise any potential damage to our long-term success”

the printers in Ipswich who have maintained a high level of service despite the impending closure. Capital expenditure of £5.5m was incurred during the year as part of this project.

Magazines and contract publishing

Revenue and operating profit for our magazine businesses were down 2.9% and 17.9% respectively with a marked difference in performance between the first and second halves of the year.

The management of the magazine

businesses was re-organised during the year resulting in significant cost savings. As part of these changes Johnny Hustler became Managing Director of all three divisions and integrated finance and circulation functions were created.

Advertising revenue at Archant Life, our biggest magazine division, was significantly affected by the downturn in the economy. The impact came later than in the newspapers and later in London than in the rest of the country. Property advertising decline towards the end of the year was comparable with the decline in the newspapers whilst the decline in display, though material, was lower than in the newspapers.

The Compass portfolio of free monthly magazines on the south coast was acquired in February 2008 and contributed £1.1m revenue and £0.2m operating profit to the Group's results in 2008. Whilst these titles are published in geographical areas already covered by existing Life magazines, there is very little overlap between readers or advertisers.

A number of new titles were launched