Chief Executive's report

2009 was a very difficult year for the whole economy and for consumer media businesses in particular. The recession and the continuing migration of advertising to the internet resulted in significant reductions in print advertising expenditure.

Adrian Jeakings, Chief Executive

Archant was not spared these problems but took early action to mitigate their impact and as a result second half operating profit before amortisation and impairment of intangibles and exceptional items doubled compared to the first half and was up 11.2% in comparison to the same period last year.

Revenue was down £33.1m (18.9%) in total, however the rate of decline was highest at the beginning of the year and slowed in the second half with revenue from some advertising categories showing growth in the last quarter. A large part of the decline was due to print advertising sales with both newspapers and magazines impacted. The mitigating actions were focused as much on revenue generation as cost savings and on our on-line activities. Digital revenues, in part as a result of this focus, continued to make progress in 2009 growing by 25.2% despite the economic difficulties.

The actions initiated at the beginning of the year also resulted in a significant reduction in operating expenses which were down by £26.1m (17.1%). These savings were achieved despite an increase in newsprint prices of 14.6% which alone resulted in extra costs of £1.2m. The cost saving actions were targeted at reducing input prices, reducing waste and improving productivity; every effort was made to ensure that nothing was done to damage the long term health of the business. Savings of this magnitude regrettably but inevitably result in some job losses and headcount at the end of December was down 16.9% compared to December 2008.

Operating profit for the year before amortisation, impairment and exceptional items was down by £7.0m (31.8%) over the full year but increased by £1.0m (11.2%) in the second half in contrast to the £8.1m (61.6%) decline in the first half. More detailed analysis of the results is provided in the Financial review which follows.

The refinancing of our bank debt was completed successfully during the year. Whilst the annual cost of the debt is higher than under the old facility, it is lower than was expected at the start of the refinancing process. The restructuring of our defined benefit pension provision was also completed during the year resulting in a £10.0m pre-tax reduction in our pension fund deficit in the balance sheet.

Business development

It became clear very early in the year that rapid action was required to reduce costs but much of management's effort from March was focused on business development to grow our market share and prepare for the recovery.

By far the biggest project undertaken in 2009 was the editorial change project which is at the core of many of our new developments. The project will fundamentally change the way our newspapers and magazines are created and we have made a significant investment in training as well as technology. The roll-out is well advanced in our newspaper businesses and is described in more detail later in this report.

Development within print saw the launch of a number of new newspaper editions. These new editions use a variety of different distribution channels and allow us to focus on smaller communities and access market segments that were not economically viable with larger circulation titles.

Our on-line activities have continued to develop with the launch of a number of new products and services. Revenues derived purely from on-line and mobile sources grew by 25.2% to £4.7m during 2009 despite the recession.

A number of new ventures have been launched working with third party partners. On-line family announcements are an example of this. The service was launched at the end of 2008 to complement our print activities and has been very successful with 88% of print customers now also buying an on-line notice. We have worked closely with our partner, iAnnounce, to develop new functionality and services.

Our on-line sports activities also made considerable progress during the year. New sports were added to Archant Suffolk's *Green'Un* website and sponsorship was secured for the *Green'Un* branded football section in the *East Anglian Daily Times* and *Evening Star*. Further development also took place on Archant Norfolk's *Pink'Un*. The *Pink'Un's* on-line match commentary system, which enables fans to follow a match through the *Pink'Un* website and to interact with the journalists at the ground, developed audiences of up to 15,000. The same technology is now being used creatively elsewhere in the Group, most notably to provide real time weather news during the adverse weather conditions in January 2010, with members of the public contributing local updates direct from their homes. The *Pink'Un* and the *Green'Un* both saw significant growth in their on-line audience with the *Green'Un* five times higher than in 2008 at an average of 105,000 unique visitors per month.

We launched three mobile sites in November and will be launching further sites in 2010. These are websites that have been optimised to be viewed through a mobile phone handset. The take-up of these new services has been very rapid with 17,000 unique visitors and 240,000 page impressions in their second full month of operation. There are a number of revenue streams for these sites and we are working very closely with forward-looking local advertisers to develop them.

In the magazine arena we launched a new website, *Great British Life*. The new site incorporates and replaces individual lifestyle magazine websites, allowing readers to access lifestyle content for their region or for the entire country. A number of third parties have also made their magazine content available through the site with any revenue generated by their content being shared with Archant. Although only recently launched *Great British Life* has already become one of our 'stickiest' sites and is growing its audience rapidly.

Archant Specialist consolidated its activities into two offices and successfully relaunched a number of its titles, including *The English Home*, *The English Garden* and

Heritage, as well as a number of new websites. As a result it recorded its highest ever operating profit despite the recession.

Industry developments

2009 saw a number of developments in UK media including the publication of the government's Digital Britain report. A review of local media merger and acquisition rules concluded that the existing regime was fit for purpose but that the OFT would amend its guidance to ensure that Ofcom would be asked to provide a Local Media Assessment. In addition, a relaxation of the cross-ownership rules for local media was recommended. The report also noted the public interest concerns and adverse impact on local newspapers of some local authority publications taking paid advertising.

Regional newspapers are widely expected to be key players in the government's proposed television news consortia to replace ITV's local news service, however the business model for the consortia is far from clear and future political support is uncertain. We will continue to monitor developments in this area.

The major regional newspaper players have been hampered by weak trading, high levels of debt and increased pension fund deficits. Mergers and acquisitions activity has therefore all but stopped. An increase in activity is likely when the economy starts to improve or when assets become available at distressed prices. We have already seen a number of small businesses come up for sale as their owners run out of funds to continue trading or to develop further. None of these has proven to be sufficiently attractive to justify an acquisition to date.

There has been a lot of talk of making people pay for on-line content and some experiments have been undertaken. Most regional newspaper content does not meet the criteria likely to be necessary for this to work successfully. A number of surveys have indicated that the vast majority of consumers are not prepared to pay for on-line news and those that are will only pay a small amount. We are therefore focusing our efforts on alternative ways to monetise our on-line audience.

Significant progress has been made in electronic reading devices during recent months. We do not believe that these are viable delivery mechanisms for our publications as yet, but they will be at some point in the future and we are working to make sure that we are ready.

Newsprint

Palm Paper, a major German newsprint manufacturer, opened a new paper mill in King's Lynn during the year and we agreed to purchase all of our newsprint from the new mill from the beginning of 2010. The new mill produces very high quality newsprint from recycled paper. The contract is not only financially advantageous but also benefits the environment with lower transport distances and return trucking of waste paper. Security of supply is ensured by Palm's mills in continental Europe.

Outlook

The last quarter of the year saw growth in a number of print advertising categories and the new year has started well despite disruption caused by poor weather. However, the outlook remains uncertain. Recent growth in property advertising has been underpinned by the estate agents' shortage of new sale instructions but this is unlikely to continue indefinitely. In addition, the current recovery is very fragile and may not last. Whichever party wins the 2010 general election, there will have to be some action to reduce the current account deficit and government debt at some point. When that will start and how quickly it will happen is unclear, but we are already seeing a reduction in public sector recruitment advertising as organisations anticipate the need to cut costs in the future.

We continue to see rapid change in media but this change is as much an opportunity as a threat. We now have a much lower cost base and a more flexible structure, which are enabling us to address new markets and develop new revenue streams, whilst making us more resilient in the face of the current economic uncertainty.