Chief Executive's report

2010 started well with revenue growth in the early part of the year, but this was not sustained in the face of low economic growth, low consumer confidence, government spending cuts and bad weather in December. Despite the difficult trading conditions, headline operating profit before acquisitions was slightly up for the year.

Adrian Jeakings, Chief Executive

Total revenue was down £2.7m (1.9%) at £139.3m. The revenue from our newspaper business was down £5.8m (5.9%) excluding acquisitions, mainly due to a drop in advertising in print. Revenue from the public sector was particularly weak, falling by 29.1% over the year as a whole with steeper declines in the second half. Public sector advertising now constitutes less than 10% of total advertising in print, a considerable drop from previous years. Revenue from our magazine divisions grew by 3.0% to £44.9m with particularly strong performances from our local lifestyle magazines and client publishing. Digital revenue increased by 14.2%.

Focus on business development and improving productivity continued during the year resulting in cost savings of £5.4m (4.1%) before taking into account the impact of acquisitions. As a result, operating profit before acquisitions, amortisation, impairment charges and exceptional items was slightly up at £15.2m.

Profit after tax at £4.5m was £7.6m higher than last year and is high enough to cover the cost of the annual dividend for the first time since 2006.

Strategy implementation

Our strategy is relatively simple. We are a community media company. The communities are mainly geographically defined but in some cases are also communities of interest. Our job is to provide our audience in those communities with compelling content in the way that most suits them at the time that suits them. In practice this means that print, fixed web, mobile, exhibitions and events all play a part in delivering the content. We make most of our money by helping our clients, be they advertisers, sponsors, commercial partners or exhibitors, to reach their target customers.

We started as a newspaper organisation publishing printed products; we still do this well. However, the world is changing and we now need to continuously update our products to reflect changes in consumer behaviour, and in particular how they use media. We also need to change to reflect the way that our clients are using new forms of media to reach their existing and potential customers. We have made significant progress in this during 2010 and an increased focus on the needs of our customers, both audience and clients, has been a constant theme throughout the year.

Securing and growing our audience is key to our future success. With this in mind a group of senior managers from across the Group was challenged at the beginning of the year to grow the paid circulation of all our titles. The response was outstanding, generating industry-beating circulation performance. All four of our daily titles were in the top eight regional dailies in England, and our two Norfolk dailies were the two best performing titles. At the same time our Life magazines achieved their tenth successive year of paid circulation growth.

In order to understand better what our audiences want we have increased our investment in market research in 2010. We have continued and expanded our use of focus groups but have also worked with WAN-Ifra, the world's leading newspaper trade association, and GfK NOP, an international marketing group, to develop a brand engagement model for media. This approach, which was tested on the *East Anglian Daily Times*, gives us an in-depth understanding of our readers in print and online as well as a system for prioritising editorial activity. We believe the new approach will increase reader engagement and thereby consumption of our products. This model, which we believe is unique, will be rolled out to other titles during 2011.

Our editorial change project, the first stage of which was completed during the year, is also helping to increase the focus on our audience. The new content management system, which was rolled out as part of the project, provides many tools to help our journalists publish more engaging stories faster in print and online. Our editorial teams across the country continue to develop the way they use these tools and interact with their audience.

Focus on our audience is not enough. We also need to understand better our clients' needs and provide them with new ways to reach their target customers. Our investment in business development, whether through our central team or through individual

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business units, is key to this.

We have developed and launched a range of hyper-local glossy magazines. In some cases a large part of the content is written by local people and distribution is through local businesses, giving the community a greater sense of ownership and engagement with the magazine. We are now starting to roll this concept out across the business. In Life we have relaunched some of the titles that were closed at the start of the recession whilst at Specialist we have launched a number of new titles around the core portfolio. We appointed a new managing director, Mick Hurrell, for Dialogue during the year to grow the business by capitalising on our expertise in membership organisations and by leveraging our client relationships across the Group.

We made significant additions to our Group business development team during the year starting with the appointment of Serge Taborin as group business development director. Since Serge’s appointment we have grown the business development team and accelerated the rate of new product development. We relaunched our *jobs24* website in September and have seen a 12% growth in revenue over the year despite a 22% reduction in our print recruitment advertising. We have also seen a 36% increase in visits to the site, and a 250% increase in online job applications since relaunch. Other developments include the roll-out of our weddings business concept across the Group, with significant growth budgeted for 2011, and the launch of a local group buying service, Tickles, similar to Groupon, in January 2011. There are further products in the pipeline for launch during 2011.

Productivity improvements

We continued to work to improve productivity during 2010. We are currently migrating virtually all of our advertising production for newspapers and magazines to Norwich. This will provide us with the tools to improve customer service and design quality whilst generating substantial cost savings. The project has included the implementation of a new workflow system that can be readily adapted for use elsewhere in the Group.

Other areas of efficiency improvement include Archant Accounting Services where we have implemented new customer management software that streamlines the work of cash collection staff whilst providing customers with a web interface to review their invoices, make payments and, if necessary, raise queries.

At Archant Print we have announced plans to outsource the printing of our weekly papers published outside Norfolk and Suffolk. This will save a substantial amount of money and would not have been possible without the additional equipment installed as part of the 2007 capacity expansion project. It should be noted that the 2007 investment has achieved its financial targets and that the savings from the new project are in addition to these. These plans, which are subject to consultation, will inevitably result in a number of redundancies.

Archant Information Systems provides the IT infrastructure that makes all of this possible. Major projects during 2010 included the roll-out of the new content management system to our newspapers and the first steps in creating two fully mirrored data centres in Norwich and Ilford. Together these will give us more resilient systems and the ability for our staff to work from any location, including their own homes.

Industry developments

The election of a new government in May 2010 saw a change of direction in a number of areas. Most importantly for us, the new government is determined to stop local authorities spending taxpayer money on publishing their own newspapers. A new code of practice for local authority publicity has been laid before the House of Commons which prevents councils publishing anything resembling a newspaper more than once a quarter. The code is expected to become law in April 2011.

The new Secretary of State for Culture, Olympics, Media and Sport, Jeremy Hunt, has stopped the previous government’s plans for regional television news and is promoting a plan to create local television services in cities. There are no clear plans yet and it is not certain that there is a viable business model, however we are talking to a number of organisations about the role that we might play in this.

There is increasing talk of regional press consolidation in the trade and financial press. Daily Mail and General Trust Plc has stated that it is not prepared to put capital into becoming a consolidator but that it would consider any worthwhile approaches for its regional newspaper business, Northcliffe. Debt and pension issues remain problematic in the context of consolidation for the other major players. The major financial benefits that are only available from consolidation would come from the elimination of duplicated management structures and the closure of competing titles in the same geography. Any consolidation likely to result in the closure of titles, or any other reduction in competition, would almost certainly be referred to the competition authorities. The new government has made positive noises about relaxing the relevant rules, particularly in respect of cross-media ownership, but nothing has happened yet.

The launch of the Apple iPad has stimulated a burst of creativity in content delivery. The iPad experience is significantly better than that from more limited e-readers such as the Amazon Kindle and there will be a proliferation of similar, less expensive, devices launched in 2011 which will result in tablet devices becoming mainstream delivery channels. We launched a number of iPad and iPhone apps during 2010 and will seek to exploit the capabilities of the new devices as they appear in 2011.

Outlook

The outlook for the economy is not positive in the short term. There will be an upturn in the parts of the economy that affect us but a material improvement this year seems unlikely. The price of newsprint is expected to increase by approximately 20% in 2011 and the current unrest in the Middle East is unlikely to be helpful for energy prices. We have significantly reduced our cost base over the last two years whilst investing both in new products and the capability to develop new products faster. We have also invested to develop a better trained and equipped customer-focused editorial team. These changes put us in a very strong position to deal with the economic turbulence of the coming months and to build the business through the strong relationships that we have with our audience and clients.