

Chief Executive's report

John Fry, Chief Executive



We entered 2006 with a soft advertising market, but no less determined to continue the development of the Group. Advertising revenues have been under pressure due to both cyclical and structural factors. Despite the pressure on revenues, the fall in operating profit (before amortisation and exceptional items) was limited to £2.1m (6.8 per cent), with cost control partially compensating for the fall in revenue. Trading conditions improved slightly in the second half, producing an increase in profits of £0.5m on the same period in 2005. The fall in profit for the year was entirely due to the newspaper operations, with profits from magazines increasing by £1.2m to £6.1m.

While cost control has been a major theme for the business, we have complemented it with developments both in print and on-line. Examples include the launch of several new magazines, including *Durham Life*, *The Reach* in London and *Pure Cheshire*.

The real story of 2006 has, however, been an acceleration of our on-line activities. Our strategy is to complement each newspaper or magazine with a web site produced by the same editorial team. This has led to an improvement in the content of all our existing sites and the growth of the on-line audience to nearly 1.2 million unique visitors per month in January 2007. These visitors are feeding through in increasing volumes to our much improved, revenue generating, homes and job sites.

Newspapers and print

The team has responded well to the challenges of an advertising downturn and increased competition for readers. Recruitment advertising, in particular, has suffered from a cyclical downturn as the expansion of public sector jobs has come to an abrupt end. A less buoyant economy has also put pressure on consumer spending on cars and larger items, impacting new car and retail advertising. To compensate, newspaper costs have been reduced over a two year period by over £15m on a like-for-like basis. While some of this reduction has been used to mitigate inflationary increases in

other areas such as newsprint, energy and salaries, the net reduction in the year was £5.2m. By centralising certain functions and improving efficiencies the number of people employed decreased by 10 per cent. While cost control was high on the agenda, the business has also moved forward in many ways. Office refurbishments have continued, with major improvements to Prospect House in Norwich, as well as to offices in Romford, March and Ely.

The focus on audience remains, with our performance in paid for sales at the top of our peer group and rapid growth in users of our web sites. A special mention should go to the *Evening Star* in Ipswich which, through focus on important local stories and improved availability, has reached the top of the rankings. In a difficult year for our industry this is a real achievement.

To focus the newspaper business our two operations in Scotland have been sold to Johnston Press, subject to approval by the Office of Fair Trading. These businesses, themselves 200 miles apart, include £6m of publishing revenue and £1m of contract printing and stationery sales. Johnston, with other operations in Scotland, is better placed to develop these businesses further.

Magazines and contract publishing

While the poor trading environment also impacted our magazines, revenues and profits continue to move ahead. Revenues have reached £49.9m and profits £6.1m, a margin of 12.3%. While we do not expect margins to approach those of our newspapers, we have been pleased to see continued improvement.

The year saw further expansion, with a series of launches and acquisitions largely completing our series of county magazines with continuous coverage from Cornwall in the South of England to Durham in the North. After a period of rapid growth there is now less scope for adding new county titles. Our town and city business is, however, much less developed, leaving plenty of opportunity for growth. The purchase of Metropolis in London added a second

group of city titles to those titles acquired from Highbury House in 2005. The businesses have been integrated into a single organisation and used as the base for a new launch, *The Reach*, into SE1. *Living Edge* has recently been acquired to provide a free product in the south of Manchester, along similar lines to those in London, and *West Essex Life* was acquired in February 2007, bridging the gap between our London titles and *Essex Life*.

During the year Specialist acquired *So British* – a high-quality consumer magazine. This division also witnessed increased circulation figures for a number of relaunched titles.

Dialogue continued to win new business, including contracts to publish magazines for Countryside Alliance and Harley-Davidson.

Web development

For several years Archant has been developing web sites that complement our strong print brands, utilising the same content and branding. This has enabled editors to gather content via the web and to receive instant response to print articles, creating more reader involvement. These sites have been significantly improved in 2006 and a series of new ones launched such that, by the year end, nearly all our newspapers were complemented with a web site. This has stimulated the rapid growth in web traffic to nearly 1.2 million unique visitors a month in January 2007, an increase of about two-thirds on a year ago.

The challenge of producing revenues from this growing web audience has been tackled by a new team dedicated to creating web services. We see the biggest opportunity to be in the provision of high-quality classified advertising sites that complement our printed products. An external software supplier with extensive experience in this area has enabled us to implement rapidly a series of improved classified sites that are now amongst the leaders in their fields. These sites are common across Archant and are fed by the audience of our newspaper and magazine sites. So far, radically improved jobs and homes sites have been launched and a pipeline is in place to provide further enhancements during 2007. These sites have managed to attract significant volumes of both advertisers and viewers in a short period of time and are now generating revenue. By using our own publications to promote the sites the cost of launch has been minimised. We expect further developments in this area throughout 2007 as the Group increasingly sells a combination of printed and on-line products.

Outlook

As we enter 2007 the advertising situation has improved slightly. We believe the trends will improve further during 2007, despite competition from internet-based products. Our magazine business will continue to grow through adding titles and by developing those we already own.

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