

Chairman's statement

Richard Jewson, Chairman



Overview

Your company has produced a robust performance in a difficult year. Falls in advertising revenues have been experienced across the sector, although the year-on-year rate of decline at Archant slowed in the second half.

Your company has continued to produce strong cash flows and great progress has been made in developing further our digital platforms, which are now generating significant revenues.

Archant Life, the UK's largest publisher of local magazines, has continued to achieve rapid growth.

Results

Turnover reduced by 1.6 per cent to £191.0m (2005: £194.1m), with newspapers falling by 5.9 per cent to £141.1m (2005: £150.0m). Operating profit before amortisation and exceptional items fell by 6.8 per cent to £29.5m (2005: £31.6m). Pre-tax profits were down 26.6 per cent at £16.4m (2005: £22.4m) after the £5.5m increase in amortisation detailed below. Adjusted earnings per share were down 9.8 per cent at 133.1p (2005: 147.6p).

There was significant emphasis on tight cost control, with operating costs (before amortisation and exceptional items) down overall by £0.9m at £161.6m (2005: £162.5m), despite significant increases in energy and newsprint prices. The reduction in exceptional items reflects the fact that no discretionary increase to pensions in payment was made in the year and the reduction in restructuring costs. Profit in our newspaper and printing businesses fell 13.3 per cent to £24.2m (2005: £27.9m), but continued progress was made in magazines and contract publishing where, including acquisitions, profit was up 23.7 per cent at £6.1m (2005: £5.0m).

The financial statements are impacted by the Board's decision to start amortising newspaper intangible assets. That decision was taken in the context of increasing fragmentation of media and our strategic response to that fragmentation. The consequent annual charge to the profit and loss account was £5.5m in 2006. Although this

amortisation has no cash consequence, it is not an allowable deduction for tax purposes and therefore results in a higher overall tax charge. Newspaper assets acquired since the relevant accounting standard changed in 1997 have been held in the balance sheet at cost, subject to impairment review. Our internally developed newspaper assets have never appeared in the balance sheet.

Operating cash flow reduced to £29.2m (2005: £33.6m), but cash conversion remained strong, at 149.3 per cent of Group operating profit. Interest payable reduced by 7.6 per cent to £3.4m (2005: £3.7m), reflecting reducing borrowings, which closed the year at £54.8m (2005: £59.1m).

The tax rate increased to 53.1 per cent at £8.7m (2005: 25.7 per cent at £5.8m), principally in consequence of changes to the tax treatment of the amortisation of intellectual property at the end of 2005 and as a result of a one-off deferred tax charge in 2006 arising from the decision to commence amortising newspaper intangible assets.

Dividends

The Board is recommending an increase in the final dividend to 25.7p per ordinary share (2005: 25.0p), reflecting the Board's growing confidence of improving performance. This makes a total for the year of 38.1p (2005: 37.4p).

Highlights

Detailed reports follow from the Chief Executive and the Finance Director but we carry out our work against a fast changing background. On the one hand there has undoubtedly been a cyclical downturn affecting recruitment and retail advertising. On the other hand, the significant growth in the number of homes with broadband internet access, and the increasing fragmentation of media, is resulting in consumers having more channels available to them to access news, information, entertainment and education, and advertisers therefore having more channels through which to reach their audience.

During the year, Archant has responded to this media fragmentation by continuing to develop its magazine businesses and accelerating the implementation of its internet strategy. In 2006 we established a 'classified portal team' which has rolled out our residential property web site, www.homes24.co.uk, across the business. This currently carries advertising for over 20,000 homes for sale from over 850 estate agents. www.jobs24.co.uk was successfully launched in January 2007 and is already generating revenue. Investment in the development of classified portals will continue and we plan to break even in this area in 2007. All but a few of our titles have their own web sites, developed around standardised templates. The numbers of unique visitors to Archant web sites in December 2006, at 945,000, was 68 per cent up on the previous year.

In January 2007, we announced the sale of our Scottish newspaper titles to Johnston Press for £11.2m. Their sale is conditional on clearance by the Office of Fair Trading. Johnston Press is better placed to grow these businesses.

In February 2007, we acquired two titles in Cambridgeshire which have been added to the newspaper portfolio.

Our magazine division has continued to grow both organically and by acquisition. Metropolis was acquired in January 2006. Together with the titles acquired from Highbury House in 2005, we now publish 12 local magazines in London, each targeting prosperous 'villages' including Chelsea, Richmond and Notting Hill, and we have consolidated our position as the capital's biggest publisher of local magazines, with close to 600,000 copies going out each month. We also launched five new 'Life' titles. We acquired six titles in the West Midlands in April 2006 and this year have acquired further lifestyle magazines in the Manchester region and in Essex.

Many steps have been taken through the year to reduce overheads without adversely impacting quality, by utilising technology, improving procurement practice and refining processes. In particular, we have established a single IS department to meet the complex needs of the organisation in the most effective and cost efficient way. All accounting and payroll services have now been consolidated in Norwich. Further investment in printing technology has improved inking processes and enabled a move to lighter newsprint.

Staff and Board

Challenging trading conditions have brought out the best in our staff and we are grateful to them. Their talents continue to be recognised by the winning of a number of awards, including www.edp24.co.uk winning the web site of the year for the fourth time in six years at the Regional Press Awards.

The share incentive plan had a take up of over 1,800 employees

in 2006, 81 per cent of those eligible. The great majority chose to invest their own money to acquire partnership shares.

The programme of refurbishment of offices continued, with Prospect House completed in December.

Nigel Websper left the Board in February 2006, after a distinguished career with the Group spanning 25 years, latterly responsible for our newspaper division. We wish him and his new family well at their home in Bath. Geoffrey Copeman retired in August after 45 years with the Group. His contribution as engineer, as a manager and director, and in the industry, has been outstanding and we have every reason to be grateful to him. Peter Troughton succeeds him as Vice-Chairman. We were pleased to welcome Philip Graf, previously Chief Executive of Trinity Mirror, to the Board in January 2006.

Pensions

There is a detailed note regarding our pension funds in the financial statements. The FRS17 deficit has reduced from £16.8m to £11.5m, both net of their related deferred tax adjustments. We continue to monitor the position carefully and there will be a full triennial valuation at the beginning of 2008. We intend to meet our commitments in full while being cautious regarding increasing long term liabilities by exercising restraint over discretionary matters.

An additional £750,000 was contributed by the Company during the year towards meeting past service liabilities, but no discretionary pension increase was awarded. Active membership of the defined benefit part of the scheme continues to reduce.

Shareholders

We have continued our programme of communication with shareholders this year, a dialogue which we greatly value. The internal share market continues to operate effectively, with some 201,000 shares traded during the year. The Annual General Meeting will again be held in The Assembly House in central Norwich.

Outlook

We expect conditions to remain challenging. Advertising demand is likely to remain flat during the year; costs, including in particular salaries and newsprint, will continue to rise. Progress will therefore depend upon our own efforts and initiatives, both in our traditional print media and in developing revenue streams from our extensive internet presence.

Our business remains a strong one. We remain confident in the strength of our titles and the skills and commitment of our staff. We are determined to restore the Group's record of growth as conditions improve.