

Chief Executive's report 2005

After substantial growth in 2004, development of the Group has continued in 2005, with the launch of new publications, the relaunch of titles, acquisitions and the expansion of our printing capacity. Despite advances on many fronts, the business has suffered from the first downturn in regional advertising since the early '90s. This has particularly affected recruitment and motor advertising in our regional newspaper business. Our reaction to the changed environment has been to accelerate developments such as our digital activities while reducing costs.



John Fry,
Chief Executive

Newspapers and print

After a good start, the market cooled rapidly in 2005, as a cyclical downturn hit advertising. By the year end recruitment revenues were running down by about 11.9 per cent year on year. While classified advertising suffered in recruitment and motor, display advertising held its own during the year. Despite the cyclical downturn, with the usual accompanying decline both in the number of jobs we carry and the ability of retailers to advertise, structural change appears to be impacting the way consumers and advertisers behave. Our response to this change in environment has been to accelerate developments within the business, in particular to enhance our digital solutions and to reduce costs.

Despite an increase in newsprint prices of six per cent and other inflationary pressures, Archant Regional's costs remained flat in 2005. Our focus has been to improve the efficiency of administrative processes and to slim our management structure. The merging of the Hertfordshire and Cambridgeshire operations, and the transfer of the Anglia titles to that business and to Archant Norfolk, were among the steps taken.

Work has intensified on enhancing our digital classified sites to provide advertisers with an improved advertising solution. These sites are fed by a series of web sites, usually branded to complement our newspapers. Not only do these sites deliver the audience our advertisers need, but they also provide us with a vehicle for improved interaction with our readers, who send us emails, participate in forums, respond to what they have read in our newspapers and offer us articles and photographs. Our digital strategy focuses on leveraging the strengths we have, including strong newspaper brands and customer relationships.

During the year several newspapers in Cambridgeshire and North Hertfordshire were converted from paid to free. While the papers are now delivered free within towns and some villages,

paid copies are available for people from outlying areas. This initiative has enabled us to increase the reach of the papers, with a greater audience and improved advertising response.

Our expanded print capacity and refurbishment at Thorpe has come on stream, enabling us to produce more of the Group's newspapers and giving the benefit of added colour.

Magazines and contract publishing

2005 saw an acceleration of the magazine business, with significant acquisitions in both Life and Specialist. Archant Life acquired a series of lifestyle magazines in London from Highbury House. This added a city concept to our successful county 'Life' series. Since the year end the presence of this business has been enhanced by the acquisition of a further collection of titles covering additional areas of London. Life has grown to become the largest local magazine business in the UK, providing a series of high quality city and county magazines. *Derbyshire Life*, a well established county title with continuous family ownership since the 1930s, joined our Life business in December. While the growth of our portfolio means that expansion opportunities for the county titles are now limited, we believe there is plenty of scope for growth within towns and cities.

During the year Specialist acquired Romsey Publishing, with its collection of magazines centred on leisure, travel and home and garden. As those titles have been integrated within Specialist we have exited several small business-to-business titles and slimmed the photography portfolio. The result is a focused portfolio of specialist consumer magazines.

“ Despite these challenges, the business is continuing to invest and we are optimistic that conditions will improve during the year ”

Archant Dialogue had an excellent year and continued to develop its business, with client wins including new publications for Olympus UK and Anglian Home Improvements.

We are delighted with the degree of development achieved by the magazine and contract publishing businesses in 2005 and the resulting increase in profits to £5 million. While these businesses are not immune to the advertising pressures being felt by regional newspapers, they have benefited from not having a reliance on volatile recruitment advertising.

Pensions

There has been much comment during the past year concerning company pension schemes and the ability of companies to fulfil their pension commitments. Archant's main pension scheme has two sections, final salary and money purchase. The final salary section has been closed to new members, resulting in pension provision for current employees moving towards money purchase, with 1,068 active members in the money purchase section and 481 employees remaining in the final salary section at the year end.

A triennial valuation of the final salary section was completed in 2005, based on the assets and liabilities at the beginning of 2005. This indicated that the scheme was then 93.9 per cent funded on an actuarial basis, with a deficit of £6.6m. The Company continues to make payments to the scheme to remove this deficit over time and, in 2005, agreed with the trustees that its payments to the scheme in each of 2005, 2006 and 2007 would be £750k above the level required to meet the future pension costs of current members. In the light of the exceptional performance of the Group in 2004 an additional payment of £621k was made to the scheme in 2005 to fund a discretionary increase to current pensioners.

Valuation methodologies used for pension funds do change from time to time. The latest with which we are now confronted is the FRS 17 methodology, which uses a low, and volatile, discount rate to value the Group's pension liabilities. This will create volatile FRS 17 deficits and profit and loss account charges going forward.

Outlook

We enter 2006 with the same difficult advertising environment experienced during the second half of 2005. This is expected to continue for most of 2006, though its effects for Archant are being partially mitigated by a lower level of costs. Despite these challenges, we are still investing to develop the business and expect the current trading conditions to continue for much of the year.