Chairman's statement

Archant has not been immune from the significantly deteriorating trading environment experienced by all media in 2008, and to which I drew attention in the 2007 Chairman's statement.

Richard Jewson, Chairman

Results

The 2008 interim statement foreshadowed a period of significant difficulty in the regional press, with both cyclical downturn and structural changes impacting the sector. Since then the 'credit crunch' has arrived and conditions have worsened markedly.

Group turnover was down 9.6% at £175.1m (2007: £193.8m). Revenue for newspapers and print fell 12.3%, in part reflecting the sale of the Scottish titles in 2007, and magazine and contract publishing revenue fell 2.9%. Group operating profit before amortisation and exceptional items decreased by £8.3m (27.2%) to £22.2m (2007: £30.5m) whilst profits from ongoing operations fell 27.1% to £22.0m (2007: £30.2m). Newspapers were worst affected with operating profits falling 32.6% to £16.2m.

Group pre-tax loss was £25.2m (2007: loss £8.1m), after charging non-recurring exceptional items of £4.0m (2007: £0.9m), mainly in relation to costs of redundancy, property exit costs and certain accelerated equipment write-offs, as we restructured in response to the downturn, and an impairment charge of £33.6m reflecting a reduction in the carrying values of certain of our acquired newspaper and magazine titles. The impairment charge, which has no cash impact, reflects the deterioration in underlying title performances as the economy weakened. Further details are given in the Financial review.

Adjusted EPS at 105.1p per share were down 24.9% from 140.0p per share in 2007.

Operating cash flow remained strong at £26.4m (2007: £33.0m). In consequence, after capital expenditure and other investments of £9.9m, net debt reduced by £2.3m to £34.6m.

Dividend

The Board proposes that a final dividend of 13.7p (2007: 27.4p) per ordinary share be paid. This, together with the interim dividend of 12.7p (2007:12.7p), represents a total dividend for the year of 26.4p per share (2007: 40.1p), a decrease of 34% compared to 2007. In considering the level of dividend the Board has to balance short-term benefits to shareholders, with their longer-term interest to keep the Company secure in these extraordinary times.

The Board recognises the importance of the dividend to shareholders, but will have to consider the level of dividends in the current year in the light of developing circumstances.

Highlights

Detailed reports follow from the Chief Executive and the Finance Director which describe ongoing progress in the market positioning of the business, against a background of consolidation, cash preservation and cost reduction.

Newspapers

Emphasis has been on addressing the cost base of the Group by seeking efficiency savings through restructuring and standardisation of processes across the Group, including the merger of pre-press for Norfolk and Suffolk and rationalisation of local offices. These activities have led to a headcount reduction of 9.9% over the year. Property advertising was down 31.0% reflecting the property market, contributing to an overall reduction of 13.5% in advertising revenues.

Digital classifieds and on-line

We have been successful in achieving a number of key aims in the year which saw significant audience growth. Classified sites average unique visitors per month were up 45%, with *homes24* up 266% and *jobs24* up 83%. Developments in *jobs24* include improvements to uploading CVs and CV matching which proved attractive both to job seekers and employers. Total digital revenues increased by 51% in the year with newspaper branded and on-line display advertising revenues increasing 80%.

Family notices, enabling customers the opportunity to extend the life of their notices above those in the printed product and enabling personal messages to be uploaded, has attracted over 6,000 visitors per week from a standing start in November 2008.

Print

The Thorpe press extension project progressed well, enabling an early transfer of print from Ipswich with the nightshift ceasing in late 2008 and all printing ceasing at the end of February 2009. We are now successfully sourcing plates and ink from China and Korea respectively, with cost savings which go some way to mitigate increases in newsprint costs.

Magazines

In November 2008, we brought Archant's magazine and contract publishing businesses under one management structure, with Johnny Hustler as Managing Director. The overriding objective for Magazines is to share best practice and processes to deliver rich content to carefully targeted audiences, be they communities of interest or geography. Total magazine turnover of £53.5m, of which £1.1m came from acquisitions in the year, fell 2.9% against 2007. Operating profit, including acquisitions in the year, decreased 17.9% to £5.8m.

During the year we acquired four titles under the Compass brand and a further five smaller titles in central England. Significant emphasis was placed on growing subscription revenues which were up 8.2% on the year.

Specialist more than doubled its profits in the year, assisted by a reduction in overheads following the closure of the Chelsea office and integration of functions into the Cheltenham office.

Dialogue continued to develop its business, delivering high levels of customer service, extending the range of services provided to customers and increasing profits by just under 12%.

Staff and Board

This has been a challenging year for our staff and the Board is grateful to them for the way in which they have responded. As previously advised, John Fry resigned as Chief Executive from 31 October to take up the position of Chief Executive of Johnston Press. John made a significant contribution to the development of the

Group over the six years he was with us, and we wish him well. Adrian Jeakings succeeded him as Chief Executive and Brian McCarthy followed as Finance Director. It is tribute to the strength in depth of our management team that these senior appointments have been made internally.

It is good to report again a number of industry awards. Archant won 10 awards at the EDF Energy East of England Media Awards including *The Evening Star* for Daily Newspaper of the Year which followed on from its success at the Press Gazette's Regional Press Awards as Newspaper of the Year with a circulation less than 40,000. We claimed a hat-trick of awards at the Newspaper Society's Circulation, Editorial and Promotion Awards: *Weston & Somerset Mercury*: Gold in the Community Newspaper of the Year, *Ham & High*: Gold for its First Readers Edition in the Content or Platform Promotion of the Year and *Willesden & Brent Times*: Gold for its Justice for Dad campaign. We also won 12 awards at the Newspaper Society Weekly Newspaper Awards including *Hunts Post* – top honours: Free Weekly Newspaper of the Year – Eastern Region.

Additionally our Print centre is to be congratulated on achieving the externally assessed ISO 9001:2000 Standard (Quality Management System), ISO 14001:2004 Standard (Environmental Management System), and BS OHSAS 18001:2007 Standard (Health and Safety Management System).

Pensions

There is a full note regarding our pension funds in the financial statements. The actuarial valuation as at 1 January 2008 showed an £8.0m deficit (up from £6.6m in 2005). Since the valuation date, asset values have significantly deteriorated with the general decline in investment markets. The Company has agreed an additional £1.45m per annum recovery plan with the pension scheme Trustees to meet past service liabilities and also increased employer contributions to meet ongoing benefit accrual. The financial statements at the year end show an FRS 17 deficit at £25.9m net (£35.9m gross) significantly up from £6.2m net (£8.6m gross) at 31 December 2007 principally due to reduced asset values in the period, down from £138.7m to £111.5m. Our intention remains to meet accumulated commitments in full, but we remain cautious regarding long-term liabilities and exercise restraint over discretionary areas. Active membership of the Defined Benefit section of the Scheme continues to decline so reducing the rate of growth of liabilities, and the Board continues to keep the matter under review.

Shareholders

Some 152,000 shares were traded on the matched bargain facility in the year at prices which fell from £8.75 to £4.00 – lagging the media sector downturn, albeit the sector has underperformed markets generally.

We continue our programme of communication with shareholders which we greatly value. The Annual General Meeting this year will be held at the Assembly Rooms in central Norwich, and will include proposals to amend the Articles of Association to reflect the 2006 Companies Act regarding conflicts of interest. I hope to see many of you there.

Outlook

Your Board remains extremely cautious about the economic outlook for the UK and expects the difficult conditions which have deteriorated throughout the last few months to continue for 2009 and beyond. It is impossible to know the timing and extent of any recovery and difficult to foresee the shape and scale of our industry in the years ahead.

While on the one hand we are taking all possible steps to mitigate the revenue shortfalls by improving the efficiency of the business, on the other hand we continue to invest in software and training to put us in the best possible position to exploit the strong franchises we have in news and advertising via the internet as well as print. Our success in doing this will be the foundation of a return to growth when conditions improve.