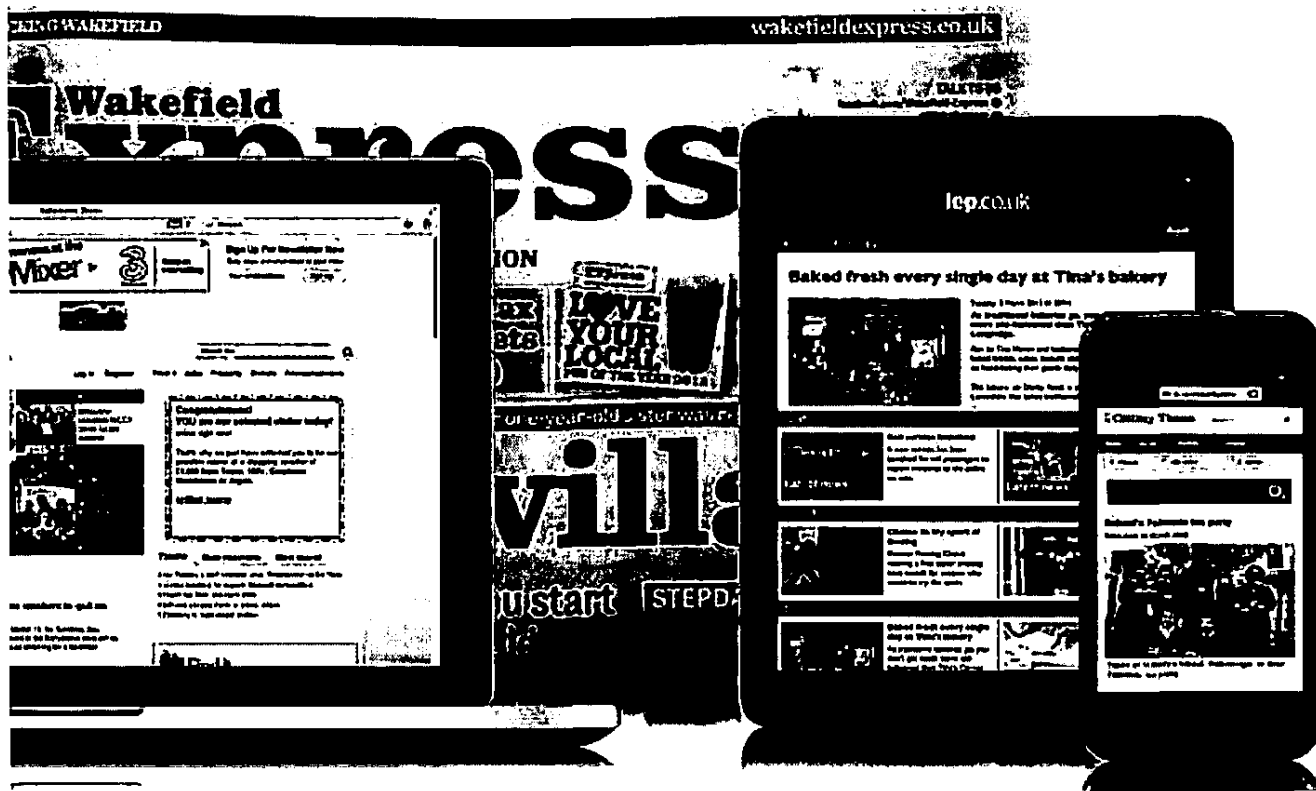


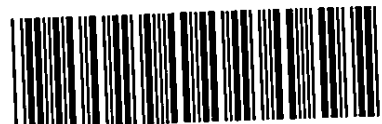
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# Transforming Local Media

Johnston Press plc  
Annual Report and Accounts 2012



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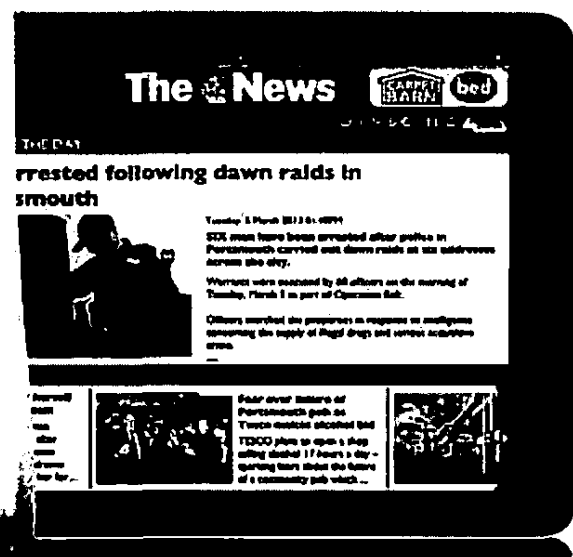
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COMPANIES HOUSE

#300

Welcome

Johnston Press plc is one of the UK's leading local media providers. We have the largest daily digital audience of any regional publisher. We are transforming local media, through comprehensive relaunches of all our titles in print and online and introducing innovative new products and services to grow audiences across all platforms.



#### Key Events of 2012

2012 was a year of tremendous activity for Johnston Press plc as we transition the business. The actions in 2012 have created a platform from which we can build and grow the business in 2013.

#### New Strategy Implementation

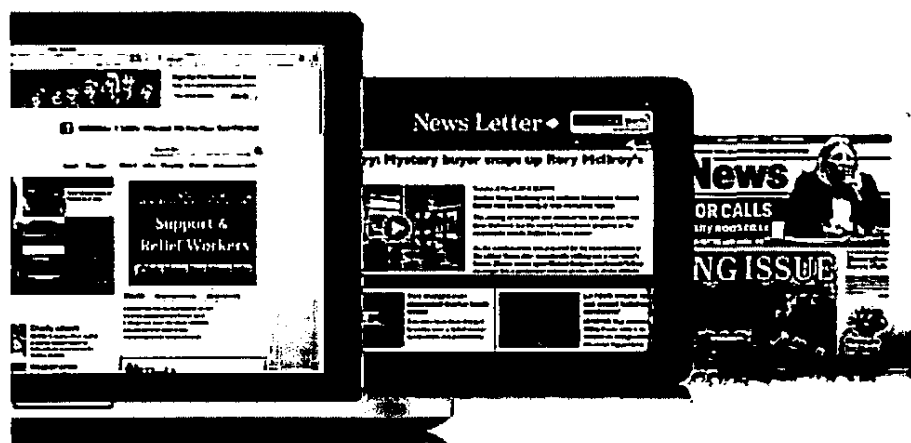
We have identified the key steps to implement our new strategy and return the Group to growth.

See more on pages 10-11.

#### Relaunch of Newspaper Titles

The first two phases of the newspaper relaunch were commenced with successes in increasing newspaper sales revenue.

See more on pages 12-13.



### Sales Effectiveness

Our sales programme of new structures and customer propositions to improve relationships with advertisers and provide new products, continues to be rolled out across the Group.

See more on page 16.

### Mobile Websites, Tablet and Smartphone Apps

All of the Group's digital products can now be accessed by mobile. During the year we launched 18 tablet apps and 11 smartphone football apps with our digital audience growing from 8 million to over 10 million.

See more on page 17.

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### Cautionary Statements

This document is addressed to shareholders of Johnston Press plc and has been prepared solely to provide information to assist them in assessing the Company's strategies and their potential for success, and to inform them of the Company's performance during the period ended 29 December 2012.

This document contains forward-looking statements based on knowledge and information available to the Directors at the date the document was prepared. Although the Directors' expectations are based on reasonable assumptions, these statements should be treated with caution due to the inherent uncertainties underlying such forward-looking information and any statements about the future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

**2012 proved to be another difficult year for local media, but we have worked hard to develop our strategy to compete in a rapidly changing environment.**



We laid out our strategic aims for the Group's development last April and are now implementing that vision for the future of our business. The pace of change and innovation increased across the Group during the year and that will continue in 2013. Our Chief Executive Ashley Highfield provides more details of subsequent steps – and future plans – in his report. It is essential that we increase our profitability and use the changes and innovations that we are undertaking to grow revenues. To do so, digital will be key (both in terms of new services and growing our audience reach) but our established print business

also has an essential role to play as we continue the relaunch of our titles and focus on improving our subscription rates. All of this will be set against the overriding objective of continuing the huge strides we have made in reducing the Group's debt.

The difficult trading environment which we reported for the early part of 2012 continued throughout the year with the UK economy returning to recession. Digital advertising revenues grew strongly by 12.0% to £20.6 million, but were not sufficient to prevent a decline in total revenues before non-recurring items for the year of £45.2 million (12.1%) to £328.7 million (see page 18). Although our title re-launches and cover price increases resulted in only a 4.0% decline in newspaper sales revenue, print advertising revenues dropped by 14.8% to £181.3 million. The Group's cost performance for the year was outstanding, with non-recurring operating costs down by £37.6 million (12.2%). Our underlying operating profit (before non-recurring and IAS 21/39 items) for 2012 fell by 4.7% after adjusting for the impact of the partial cancellation of our printing arrangements with News International. This contributed (£3.9 million) to the reduction in headline operating profit to £57.0 million (down 11.6% on 2011) and delivered a one-off cash receipt of £30.0 million. There was an operating profit margin of 17.4%, a slight increase on 2011.

Underlying earnings per share (before non-recurring and IAS 21/39 items) were 3.42p, compared to 3.50p in 2011. Net profit after tax was £5.6 million. Cash flow performance was once again strong with net debt at the end of the year of £319.4 million, a reduction of £32.3 million from the start of 2012.

The steps forward that we have made in strategic development this year helped to push our share price to higher levels in the autumn than we had seen for some time, although there is much to do to return it

**“The pace of change and innovation increased across the Group during the year and that will continue in 2013.”**

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to satisfactory levels. We continue to use excess cash to reduce the Group's debt and, as required under our financing arrangements, no dividend is proposed for the year.

Our industry has once more been in the spotlight with the publication of the Leveson Report. We support the principle of effective redress for complaints relating to the local press and the efforts of the industry to put in place a new system of self-regulation without resorting to legislation which could potentially burden a fragile sector with crippling costs.

At the end of March, Danny Cammiade, who has served as our Chief Operating Officer since 2005, will step down. Danny started his career with TR Beckett which became part of Johnston Press in 1992 and has over 35 years of experience in the newspaper industry. He leaves with our thanks for his work over that time and we wish him well for the future. In accordance with best practice, all of our continuing Board will stand for re-election at our Annual General Meeting on 26 April.

I am satisfied that our Board remains effective and it regularly reviews both the balance of its membership and the issues which it considers when it meets. Its meetings are structured to scrutinise both strategic and operational matters in an atmosphere of constructive challenge and debate. A key feature of our Board's effectiveness is our programme of site visits for all of our Non-Executive Directors.

The Board once again wishes to convey its gratitude to our employees whose hard work has been essential in overcoming the challenges we have faced. Their commitment to the quality of our products has been remarkable during a period of great change and difficult trading conditions.

The outlook for the economies of the UK and Republic of Ireland and our markets is still challenging. That only serves to highlight the need for innovation in our business to continue. We believe that the opportunity is there to do so successfully and return Johnston Press to growth.

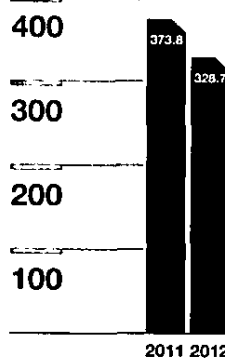


Ian Russell  
Chairman

## Financial Highlights

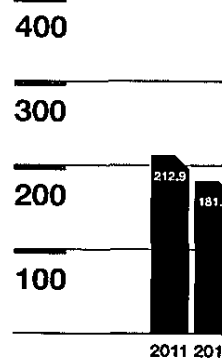
**Total Revenue (£'m)\***  
(page 18)

**£328.7m**



**Print Advertising Revenue (£'m)**  
(pages 18 and 19)

**£181.3m**



**Net Impairment of Intangibles**  
(2011: £163.7m)

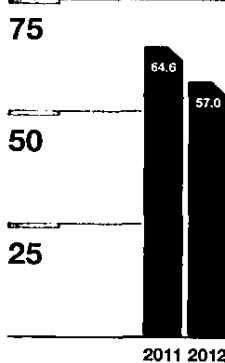
**£nil**

**Loss Before Tax**  
(2011: £143.8m)  
(page 20)

**£6.8m**

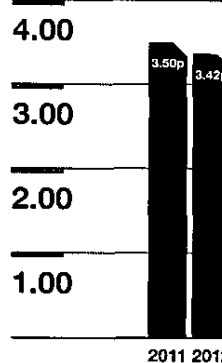
**Operating Profit (£'m)\***  
(pages 18 to 20)

**£57.0m**



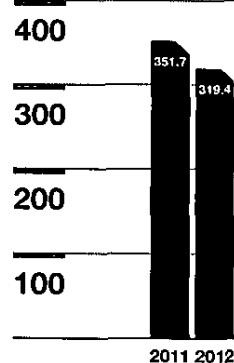
**Underlying Earnings Per Share (p)\***  
(Note 14)

**3.42p**



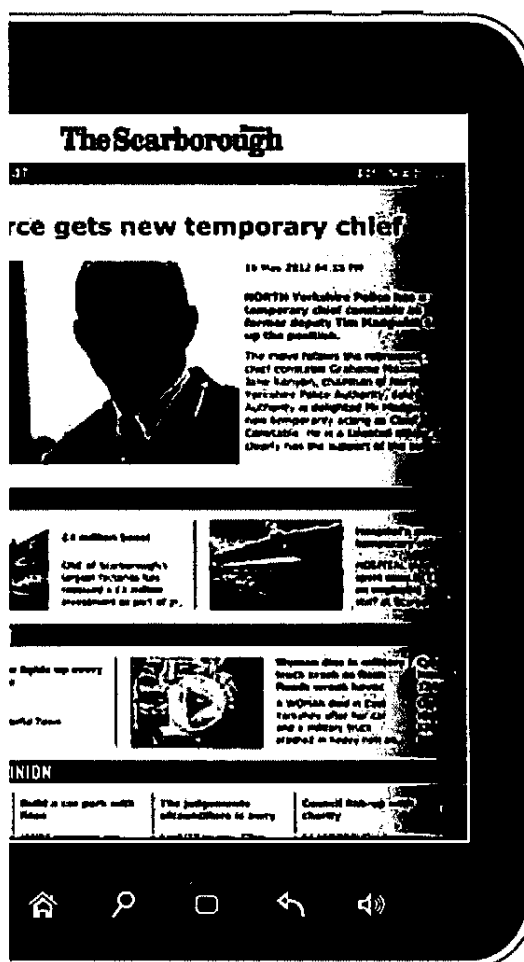
**Net Debt (£'m)**  
(Note 22)

**£319.4m**



\*Before non-recurring and IAS 21/39 items.

We remain the leading source of local news and information in the communities that we serve, providing content through a variety of channels and digital platforms. In 2012 we were one of the UK's fastest growing digital news providers. We are actively working to transform local media to meet the changing needs of our readers.



#### Newspapers

The Group's newspaper titles range from 13 dailies including The Scotsman, The Yorkshire Post and The News (Portsmouth) to 154 paid-for weekly titles and 37 free newspapers with readerships varying from a few thousand to more than 30,000. Revenue is generated through newspaper sales and subscriptions as well as from advertisers wanting to reach their local community.

#### Digital

The Group's digital activities comprise news, classified, display and e-commerce products across web, mobile and app platforms. By enabling communities to interact with our established local brands via multiple digital channels, we aim to deliver the most locally relevant content and services as well as drive new commercial opportunities.



13

Paid-for Daily Newspapers

154

Paid-for Weekly Newspapers

215

Local and e-commerce Websites

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### National Coverage with a Local Focus

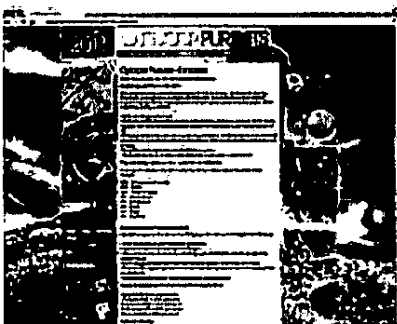
Consumers are increasingly demanding news as it happens and our journalists work hard to be the first to report breaking stories. They are part of their communities and have wide-ranging networks of contacts, helping to ensure they know what is happening and when.

### Johnston Printing

We operate modern, high-speed printing presses at three centres: Sheffield and Portsmouth in England, and Carr in Northern Ireland. In addition to publishing our own titles, we hold several national contracts to provide printing services to other newspaper and industry groups.

### Community Involvement

Our newspapers and websites remain trusted providers of information in the communities we serve. Campaigns, local events and fund-raising activities build strong links with audiences and cement our titles' roles as the voices of their communities.



Visit our interactive map online at [www.johnstonpress.co.uk/locations-brands/publications](http://www.johnstonpress.co.uk/locations-brands/publications)

### Local Locations

We have a strong network of local offices throughout the UK and Republic of Ireland.

# 37

Free Weekly Newspapers



# 31

Tablet and Smart Phone apps



# 160

National Locations



## Our Market & Strategy

The fundamental needs of our consumers remain consistent. For our readers, knowing what's happening in their local community and having a trusted platform to engage in the debate is as important as ever. For our local and national advertisers, reaching an engaged audience with products and services of interest to them remains a key marketing goal. Serving both these communities, audiences and advertisers, in a trusted, quality, and authentic way, will remain the core focus of Johnston Press.

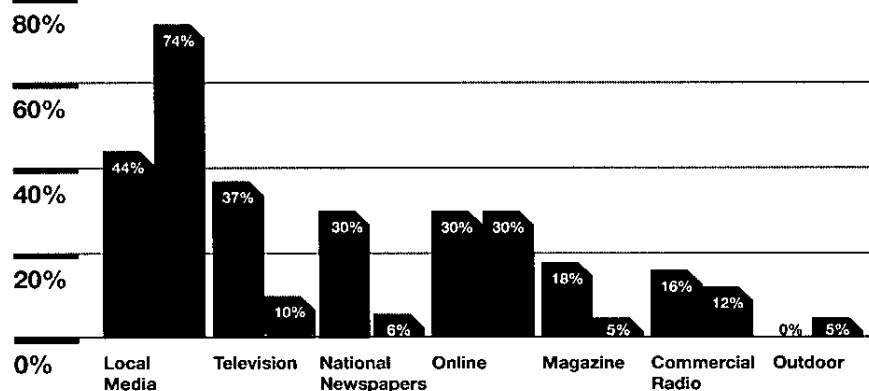
The future of local media will however be very different in its delivery. It will be predominately digital, with an emphasis on mobile, delivered on a daily and hourly basis with most print editions being a weekly, in-depth, read.

Building deeper relationships with our audience and advertisers will enable us to move beyond publishing and our traditional footprint into providing services that make the lives of our audiences and advertisers easier, more efficient, better informed and more fun – whether they live in, commute to, or visit our communities.

## We believe in local media.

### Local media is trusted and informs people about their local area.

- Which of these contains content that you trust?
- Which of these is relevant to know that your area is improving?

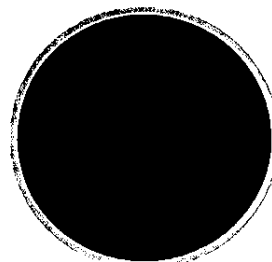


Source: Love Local Survey 2011

### People spend their time and money locally.

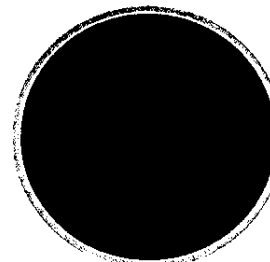
# 74%

I spend half or more of my money within 5 miles of home.



# 80%

I spend half or more of my time within 5 miles of home.



- Spend half or more
- Spend less than half

Source: Love Local Survey 2011



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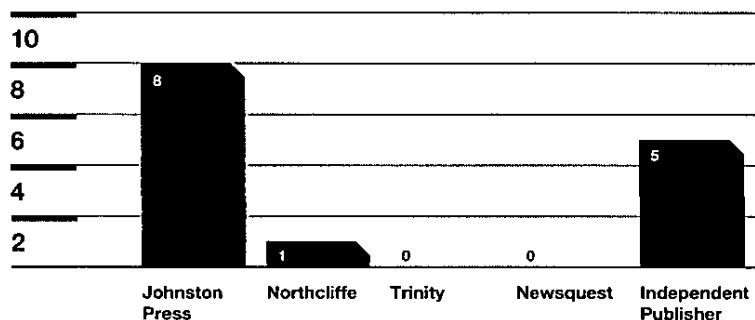
Additional Information

# Our local brands continue to be trusted and relevant.

Johnston Press publishes

## 8 of the 14

UK paid newspaper titles that reported a year-on-year sales growth in 2012.\*



\*Source: ABC Regional Press Report January to June 2012

Whitby Gazette

TyroneTimes

**RUGBY**  
ADVERTISER

Morpeth Herald

**Millingale & Boardman**  
**HERALD**

Leighton Buzzard  
Observer

BallymenaTimes

**LITTON BY APPEAL**  
**EXPRESS**

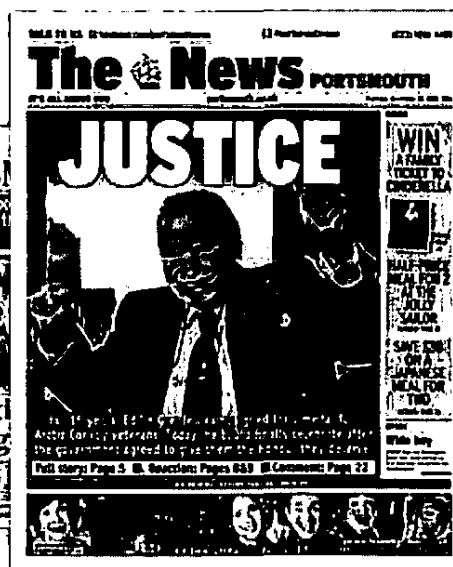
Johnston Press received

## 35 awards

for our journalism, ranging from Newspaper of the Year to individual recognition for quality reporting.



The 2013 Newspaper Awards  
IN ASSOCIATION WITH PJ AND FUJIFILM

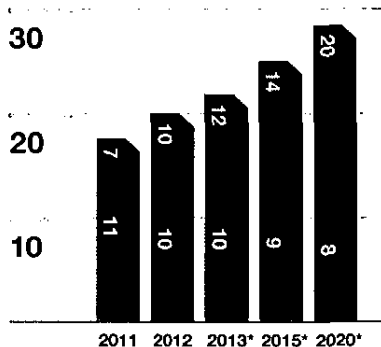


[www.johnstonpress.co.uk/about-us/our-awards](http://www.johnstonpress.co.uk/about-us/our-awards)

## Local media is now being accessed in different ways. We expect these developments to continue.

In 2012, half of our monthly audience accessed our content digitally.

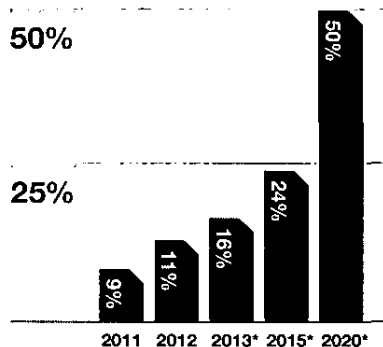
Print and digital readers (million)  
■ Print ■ Digital



\*Johnston Press projections

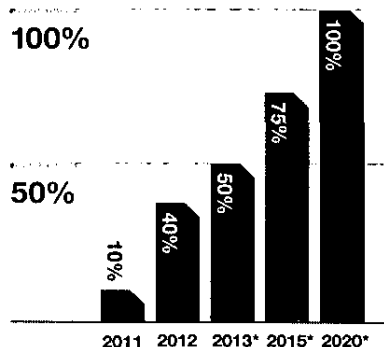
By 2020 we see half of our advertising revenues coming from digital.

Digital to print percentage



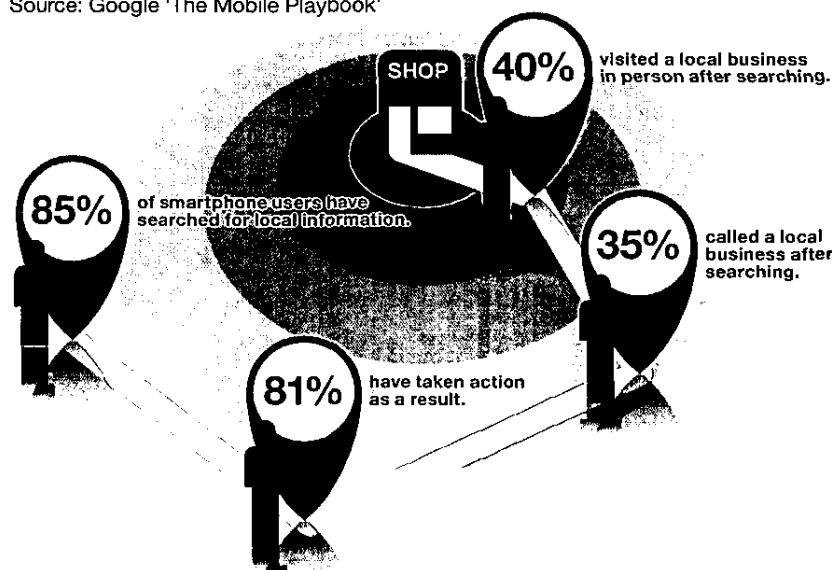
We are leveraging our existing print advertising relationships to drive our digital future.

Local display ads packaged with print



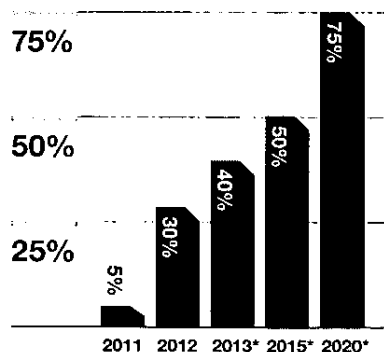
Research suggests that roughly a third of all web searches on mobile devices have local intent.

Source: Google 'The Mobile Playbook'



Within digital, mobile offers substantial opportunities. We are well positioned to take advantage of this growth potential.

Mobile visits as a percentage of all visits



\*Johnston Press projections

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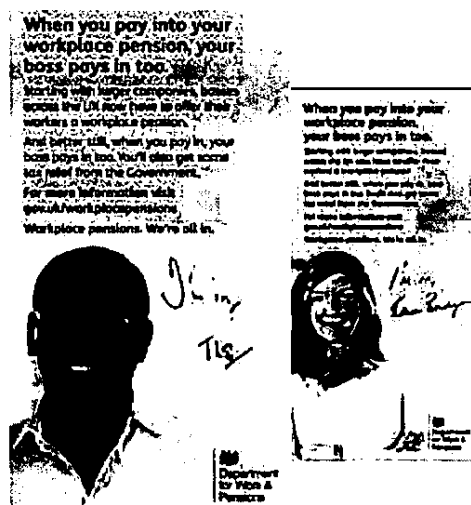
Additional Information

# The way we engage with our customers will reflect the changing landscape.

## Digital-led advertising

### Department for Work and Pensions

The DWP auto-enrolment campaign was a digital-led marketing campaign that ran alongside a print campaign. The aim of the four week campaign was to reach a somewhat 'daunted' audience who would require further information and thus generate high levels of traffic to the DWP website. The DWP leveraged the reach offered by our digital and print portfolio and ran the campaign across all our local websites and in 13 daily and 17 weekly print titles.



## Longer series advertising

### Stoneacre Ford

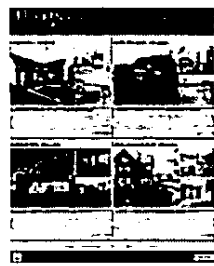
Stoneacre is a classic local media advertiser and relies on forward planning media campaigns over a three month programme. The benefits of this approach are numerous and allows them to correlate many aspects of their business alongside seasonal activity and local influences. This client values the traditional print advertising but is fully engaged in the digital potential of our local websites.



## Print advertising

### Hopkinsons

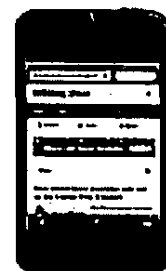
Hopkinsons Estate Agents are committed to their local newspaper and all the benefits and rewards that relationship brings. Hopkinsons are a great testimony to the relationship sell – they prefer to strategically forward plan their commitment but with the tactical flexibility to respond to market demands.



## Mobile campaigns

### ASDA

The ASDA mobile campaign was specifically targeted at increasing on-line orders through the use of handsets. ASDA was attracted to the reach and impact we could offer via our mobile network, they felt it added significant value to their current media mix and our mobile offerings are a key component to their media strategy going forward.



## We have six objectives for 2013. These are our principal steps in the return to growth.

### Stem the rate of decline of profits, and return to top line growth

#### What we did in 2012:

- We reduced the underlying operating profit decline to 4.7% (after adjusting for the changes to the contract printing arrangements with News International), from 10.3% in 2011 and an annual rate of 19.1% between 2006 and 2010 (unadjusted decline 11.6%). Substantial changes to our infrastructure, such as consolidating 14 call centres into two, had a short term impact on profits in 2012 but these are already achieving budget in 2013. We re-designed all our print titles which will enable us to offer advertisers a better quality, and more consistent, advertising experience going forward.

#### What we'll do in 2013:

- Stabilise local advertising turnover by making a step change in the way we engage with our customers; by selling longer series packages across all our platforms, thus creating more selling time for our sales people. Once re-launched, all our titles will fit one of five demographic clusters, making us an easy, simple, cost effective buy for national advertisers. We aim to increase our margins by reducing our cost base by building on the work from 2012. We will get a full year effect of the savings initiatives that were delivered last year, whilst continuing to execute further efficiency opportunities.

### Keep our print circulation revenues stable

#### What we did in 2012:

- We invested heavily in our print titles creating a fresh new look for all our paid for titles that we rolled out across 60 weekly titles, with the balance being re-launched in 2013. As titles re-launched, journalists were given new hardware and software to enable 'digital first publishing'. Web traffic improved by 28% year-on-year. As anticipated, there was a temporary increased decline in some titles' circulation as re-launches were accompanied by substantial cover price increases, but by Q4, all re-launched titles were making at least 5% more revenue year-on-year.

#### What we'll do in 2013:

- Continue to invest in our print titles underpinned by a central marketing and circulation strategy. Key to this will be the relaunch of our remaining 158 print titles with the objective of narrowing circulation declines. Our relaunched titles will continue to exhibit leading edge innovative re-design and fresh content (such as enhanced business coverage and new 'going out' guides) to appeal to new audiences such as young families, whilst still remaining relevant to our heartland readership. Our smaller titles will have improved pagination and more 'hyper-local' contributed content to increase value-for-money.

### Grow digital substantially

#### What we did in 2012:

- We became the largest (10m unique users a month, 555k per day regular users), and fastest growing (adding two million new digital users during the year) digital regional publisher, and grew digital revenues by 12%. We launched new services such as DealMonster and entertainment portal WOW247 as well as tablet apps for 17 of our largest titles. We moved from packaging just 10% digital adverts with print advertisements, to a 40% sell through rate.

#### What we'll do in 2013:

- Increase the monetisation of this new digital traffic, by further improving the integrated 'print + digital' offer. We will explore opportunities for paid-for-content (building on success of Scotsman iPad app subscription volumes). We will relaunch all our local websites – with improved look and feel, better navigation, improved social media content, and substantially more video – along with the relaunch of our print titles. We will accelerate the growth of our digital verticals portfolio (such as WOW247, DealMonster, jobs, property and motors) and launch new ones. Finally, and perhaps strategically most significantly, we will launch a new Digital Marketing Services offer for Small and Medium Enterprises.

## Build our overall audience across print, web, and mobile

### What we did in 2012:

- Our overall aggregate audience across print, online and mobile increased by 11%. We reach more people with our content now than ever. Our mobile offering grew from almost nothing to reach over 2 million users, mostly within the advertiser-attractive ABC1 18-34 demograph. We embraced social media; on Twitter we now have nearly 700,000 followers and we generated close to 2 million tweets.

### What we'll do in 2013:

- We will provide content and services, especially video and social media, that resonate with all our audiences (from greater sport coverage online to digitising our print archive across all titles), which will help us to increase our engagement, moving monthly users to become regular weekly visitors, and becoming the true home of 'local, social, and mobile', accelerating our overall audience reach. We will use our new technology, our new templated newspapers, and new work flows, better to enable our journalists to spend more time on the ground, in the heart of the communities we serve, generating and curating print and digital content that will allow our titles to remain both trusted and relevant. For example, our hyper-local contributed content (parish pump news, local amateur sport, event listing) will become available online, and could be shared across relevant titles and regions. These initiatives, together called 'Journalism 2015' will herald a new relationship with our audience.

## Continue to pay down our debt

### What we did in 2012:

- Despite considerable costs of refinancing, resulting in a peak net debt during the year of £371.7 million we have continued the absolute focus of the last few years reducing our net debt from £746.4 million in 2006 to £319.4 million at the end of 2012. A combination of strong cash flows, extremely tight cash management, close balance-sheet management (including exiting from non-core assets such as unfit for purpose offices and printing facilities), and extensive restructuring to reduce the cost base inevitably had a short term impact on profitability, but has set us fair for continued reduction in 2013.

### What we'll do in 2013:

- Reducing debt as quickly as possible remains a key management priority, with the aim to be able to engage with alternative refinancing options in 2014/2015 (our current finance arrangements continue until September 2015). We will continue to review all assets and their potential impact on accelerating reduction in Group debt.

## Build a Customer Relationship Management (CRM) capability

### What we did in 2012:

- Piloted aggressive subscriber acquisition strategies at The Scotsman and drove subscriptions from 12% to 26%, during the year. Overall across the group, we doubled our subscriber base, created a strong DealMonster daily deal database, and saw over 50 thousand downloads of our tablet apps.

### What we'll do in 2013:

- Having acquired a new CRM database solution during 2012, we will move to increase dramatically the number of readers and users we have registered with us that we can market to. We are going to continue to grow our daily subscriptions and will look to double the percentage of our subscriber base for our weekly titles. We will build on our successful rollout of a subscription loyalty scheme as well as an iPad and newspaper subscription bundle. Finally, we will complete the re-launch of our print titles, as re-launched titles have shown subscriptions growth rates of almost double the rate of the rest of the portfolio.

## 2012 was my first full year as Chief Executive, one marked by the rapid pace of change in our industry as well as within Johnston Press.



Trading remained very challenging in 2012 with the ongoing effect of structural change in our industry being evident to all. For this reason there can be no let-up in our work to reposition Johnston Press for the modern media environment.

### Review of the Year

The year just ended has seen continued recession in the economies of the United Kingdom and Republic of Ireland, with economic challenges in the United Kingdom showing little sign of ending outside of London.

Responding to this macro situation, we have embarked on a year of transformational change at Johnston Press. We have seen the implementation of a number of strategic initiatives focussed on improving efficiencies and saving costs as we continue to reshape the Group for its future as a local media provider. These include reducing the number of contact centres from fourteen to two; consolidating our printing into three sites from seven; off-shoring our pre-press operations; and taking out layers of senior management. These significant changes enabled us to take £37.6m out of the business, some 11.6% of the base cost and helped us to reduce our net debt to £319.4m from £371.7m immediately post re-financing.

There were not-unexpected short term impacts on revenue line items during this transition, but we believe we are now set fair to be able to weather the trend of deteriorating performance in certain advertising categories that we reported in 2011 and that continued into 2012. Like others in our sector, we saw a negative impact from events over the summer, including the Jubilee Bank Holiday, European Football Championships and, in particular, the Olympic Games.

Putting in place the infrastructure, technology and resources to get the top line back to growth was also a priority for 2012, the benefits of which should be felt in H2 of 2013 and beyond. By the end of the year, we had equipped all 1,500 sales staff with Salesforce.com software and 800 with iPads (and over 350 of our journalists with new laptops and smart phones); relaunched 69 redesigned newspapers (on the way to relaunching over 200 titles around five demographic clusters), over 200 mobile websites, 18 tablet apps and 11 phone apps all across iPad/iPhone and Android platforms. We also upgraded all our websites, becoming along the way, one of the UK's fastest growing and largest portfolio of regional publisher websites with average daily audience up 29.3% year-on-year to 560,000. Our plans have also seen many of our staff move to far better accommodation – suitable for our future needs.

The benefits of these changes will be felt during 2013, with 2012 being very much a transitional year during which we grew our digital audience considerably from 8.1 million a month to 9.8 million a month, resulting in an aggregate print and digital audience growth of over 5%. Digital revenues increased 12.0% to £20.6 million, providing a solid base for 2013.

During 2012 our key priorities included reducing our net debt and our operating cost base. Despite £11.8 million of refinancing costs, we reduced our net debt from £351.7 million to £319.4 million during the year and our cost base was reduced by £37.6 million (12.2%) from £309.3 million to £271.7 million. As a result, our operating margins increased slightly to 17.4%.

Our underlying operating profit (before non-recurring and IAS 21/39 items) for 2012 fell by 4.7% after adjusting for the impact of the proactively agreed partial cancellation of the News International printing contract. This change to our arrangements with News International contributed (£3.9 million) to the reduction in the headline profit to £57.0 million (down 11.6% on 2011) but also delivered a significant one-off cash receipt (£30.0 million) to considerably reduce our net debt. We have re-filled most of the vacated capacity. The 4.7% underlying profit decline compares favourably with 2011's decline of 10.3% and the average annual decline between 2006 and 2010 of 19.1%. We are stemming the rate of profit decline, and focussed on the twin financial priorities of returning the Group to profit growth, whilst continuing to pay down debt.

Our teams across the UK and Republic of Ireland have worked hard to deliver compelling and innovative solutions to advertisers, but overall print advertising revenue declined by 14.8% (or 13.5% in respect of ongoing 2013 titles) over the course of the year and remains indicative of the very challenging markets in which we operate. In 2013 our sales teams' challenge is to use the improved technology, tools and propositions that we are putting in place to deliver improved performance.

We saw early signs of this in December, with year-on-year rates for local display and features advertising being down 5.4%, a significant improvement on third and fourth quarter run rates (see pages 18 and 19). We have a well-earned reputation in our industry for exceptional cost performance and in 2012 once again our teams delivered with our operating costs falling by £37.6 million year-on-year. The profound change that our industry is experiencing has meant we have continued to need to reduce our workforce and the number of staff employed by the Group fell to just over 4,350 at the end of December, down 23.1% on 2011, inevitably with a degree of disruptive impact.

Our regional organisational structure was radically reshaped in 2012, reducing a two-tier management structure of twenty five Managing Directors to a single structure of just eight Managing Directors. In addition to the consolidation of contact centres, we centralised and/or outsourced our pre-press, web creation and finance functions. This has been implemented with our stated objective of keeping our editorial and sales presence at the heart of the local communities where we publish.

*The Group's modern print facilities at Dinnington, Portsmouth and Carn remain state of the art, however changing print demands and the revised terms of our print arrangements have allowed us to look at our operations and rationalise our capacity. As well as the closure of our Isle of Man print facility at the beginning of 2012, our plants at Leeds, Peterborough and Sunderland were also closed during the year.*

I am pleased to say our work through the year, especially the focus on paying down debt, helped to raise our share price to levels which had not been seen for some time. Although we wish to see this grow a great deal more, we are pleased that there has been recognition for the strategy we are following.

### Refinancing

As we reported last April, we successfully refinanced our existing lending facilities through to September 2015. We were able to do so in large part because of our continued focus on reducing debt and that remains a key objective for us in 2013 and beyond. The terms of our facilities provide strong incentives to implement an alternative debt structure by the end of 2014 and further priority to repaying debt is a key consideration.

### Strategy Update

Last year, in my first statement as Chief Executive, I laid out the priorities for our strategic development, recognising the key contribution that our printed products will make for many years, while emphasising our need to reinvigorate them, to see them

develop further their audiences and bring our use of digital technology to the centre of everything we do. Our management has worked hard to identify the key steps in getting us back to growth – it is now our challenge to ensure we deliver. In 2012 we started our process of relaunching our newspaper titles with 69 being completed by the end of the year. That programme is continuing and by the end of the first half of 2013 we will have completed our relaunch programme covering a total of 227 titles. This is a huge achievement for our team and one that is delivering attractive modern papers which we are confident will appeal to both a wider pool of advertisers and to key demographics and new audiences in our communities. Circulation revenues for relaunched titles, particularly towards the end of the year, were encouraging, up almost 8% in December 2012 against the same period last year. Further, relaunches have helped to drive increases in subscription rates which are now double the rates of our non-relaunched titles – a key objective for us. Subscriptions for our weekly titles have nearly doubled to just under 4% of total circulation while for *The Scotsman*, they increased from 15% in 2011 to 27% in 2012. Alongside the relaunch of our printed products, new websites are being delivered for all of our titles. Our overall audience (across print, online and mobile) grew in 2012 – a direct result of the steps we are taking. Our journalists (who won 35 awards in 2012) are key to our ambitions to draw ever larger readership to our content by being able to capture stories in words, pictures, graphics and video and publish them in print, on our websites and through an expanding range of media and devices.

We are aiming to ensure our editorial staff have the right equipment, software, training and working environments to operate in this new landscape – a project we are calling *Journalism2015*. This will be aligned to the development of all our staff through a new performance management and reward process. Our employees are key to our success and I would like to thank them for their dedication through a difficult time.

Digital remains key to our future. After encouraging growth was experienced in 2012 we must ensure we build on this while focusing on our audience quality by driving more loyal and frequent visitors. To do so, as well as the new websites, we have plans to deliver new product offerings across a number of areas as we have already done with the *WOW24/7* entertainment *What's-On* website.

Our combined digital and print offerings are now working well together. The frequency with which we packaged together local online display adverts with print advertising more than trebled over the year to around

40% in 2012 and we were pleased that digital advertising revenues finished the year very strongly. In the coming year we will continue to improve the effectiveness of our sales operation to improve sales of longer series packages to advertisers, across more of our titles and websites, along with growing our local display and features advertising business. The considerable changes we put through the sales force in 2012 inevitably had a temporary disruptive effect on advertising revenues, especially classifieds.

Alongside all of this, we are building new skills and capabilities within our Group to accelerate the delivery of our bigger projects; improve our systems to help share content across the Group and accelerate the growth in our subscriber base; improve the technology we use (including getting better bandwidth to our outlying offices); and upgrade our mobile skills now that a third of our 10 million online users access us via their phones and tablets (up from 5% of online users in 2011). Throughout all of this our focus on costs will remain key and careful choices must be made as to where our resources are concentrated. I am pleased with the change in the business that we have been able to deliver with very careful cost management in 2012. The development of the Group will continue during 2013 at the same time as maintaining that control.

### Summary

Our work to adapt our business to the changing environment in which we operate continues and we must be increasingly nimble and responsive to the demands it places on us. In the face of an economic outlook which remains difficult we will focus on getting our offering right in order to develop the Group and return it to growth. Our trusted local newspapers and brands remain key in doing this, and must be allied to the best use of both current and developing technology and the opportunities they can create for us. The demand for information about the communities in which people work and live has never been greater and we remain exceptionally well placed to serve that demand. The demand from advertisers to reach those communities in a targeted and cost-effective manner also grows. We are on a clear journey to become the 'one-stop shop' for advertisers and readers across all media in the communities we serve.

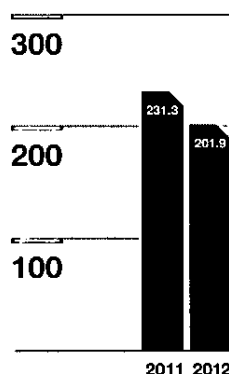


**Ashley Highfield**  
Chief Executive Officer

## Key Performance Indicators

To measure performance against our strategic objectives, we have key performance indicators that are monitored regularly. Our performance in 2012 versus 2011 is shown below.

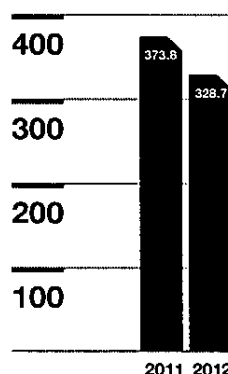
### Total advertising revenue\* (£'m)



There was a 12.7% decline in total advertising revenues in 2012, however within that digital advertising increased 12.0%.

- Print advertising which declined 14.8% was adversely affected by the contact centre consolidation; however the benefits of this and the sales effectiveness project should be seen in 2013.
- There is an increased focus on digital advertising revenues which now make up 10.2% of advertising revenues. We expect to have 50% of advertising revenues from digital by 2020. New products launched in 2012 included The SmartList and WOW247, and the growth in DealMonster helped to increase revenues.

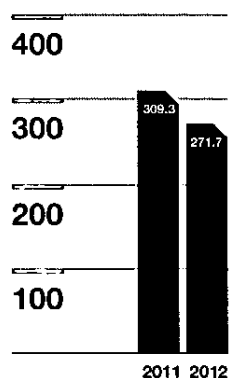
### Total revenues\* (£'m)



Total revenues before non-recurring items declined 12.1% in 2012.

- The primary reason for the decline in total revenues was the decrease in print advertising revenues.
- Newspaper sales, while down 4% primarily due to changing the frequency of five daily titles to weekly, should see the benefits of the programme of title relaunches in 2013.
- Due to the partial termination of a print contract with News International, contract printing revenues declined 30.0%. The operating profit impact of the loss in revenues was partially mitigated by production cost savings described below.

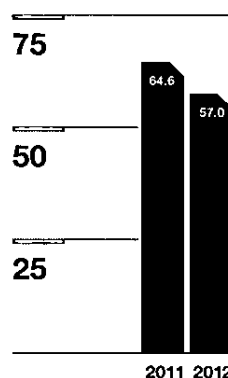
### Operating costs\* (Total cost of sales and operating expenses £'m)



Operating cost savings of £37.6 million were achieved in 2012, as the Group sought to maintain margins.

- The Group underwent a full reorganisation of its management structure, with savings made through eliminating layers of management.
- Production cost savings were made during the year through the closure of older print presses in Leeds, Sunderland and Peterborough, as well as the reduced frequency of publication of five titles that moved from daily to weekly.
- Further savings are expected in 2013 due to the full year effect of initiatives started during 2012.

### Operating profit\* (£'m)



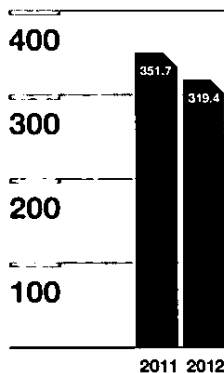
The Group continues to seek to grow profit to enhance shareholder value.

- Operating profit was impacted primarily by the reduction in print advertising revenues, offset by substantial cost savings.
- Operating margins continue to be maintained at an industry-leading level. In 2012, an operating margin\* of 17.4% was achieved, compared with 17.3% in 2011.

\*Before non-recurring and IAS 21/39 items.



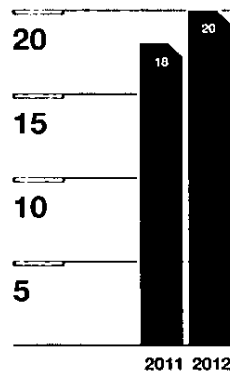
### Net debt (£'m)



Reducing net debt continues to be a key priority for the Group.

- The Group had a net operating cash flow for the year of £71.3 million, compared with £67.9 million in 2011.
- Net debt reduced by £32.3 million in 2012. This was despite high levels of exceptional redundancy costs and refinancing fees incurred during the year and included the receipt of £30.0 million in connection with the partial termination of a print contract with News International.
- The Group has reviewed its property portfolio and is selling under utilised properties to release surplus cash and further reduce debt.

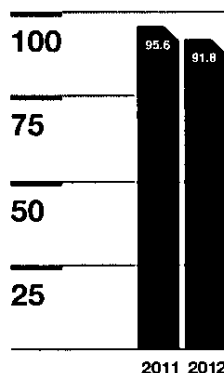
### Audience growth (print and online) (m)



As an information provider to the local community, it is important to reach as large an audience as possible, through both printed newspapers and digital platforms.

- New and improved digital platforms (such as apps and new websites) helped to increase the audience reach in 2012.
- Building new products helps to appeal to new users, particularly a younger and more mobile (and technologically aware) audience.
- The Group aims to be the number one brand in each of the markets it serves.

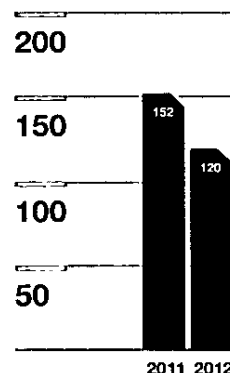
### Circulation revenues (£'m)



Growing circulation revenues and subscriptions are key aims for the Group.

- Subscriptions for weekly titles doubled in 2012 to 4%, which the Group aims to increase to over 10% by 2015.
- Circulation volume declines in 2012 were mitigated through increased cover prices.
- The relaunch programme should benefit circulation revenues as new readers are attracted to the redesigned titles.

### Employee health & safety – accidents (number of employees)



Johnston Press remains committed to improving health and safety for all employees and reducing the number of accidents at work.

- 2012 recorded the lowest number of employees involved in accidents in the six years for which detailed statistics have been compiled.
- The Group introduced a new 'working environment charter' in 2012, which aims to improve working conditions for all employees through providing suitable office accommodation and tools.

## The Group continued to focus on delivering its strategic aims in print and digital.

Restructuring, building our skills set and being prepared and properly equipped to develop further revenue opportunities were the three key themes for the operational teams in 2012 as the Group continued to focus on delivering its strategic aims in print and digital.

Perhaps the most challenging undertaking, and potentially the most beneficial in the longer term, was the implementation of a new sales plan during the year to up-skill, reorganise and better focus our face-to-face sales force on meeting local customer needs.

This involved a review of many markets and sales teams to ensure we have the right resources, technology and customer insight to meet the marketing requirements of local consumers. The majority of these customers are small to medium sized enterprises whom we have served for many years and we are now able to offer more defined marketing solutions from the various media platforms we can provide.

The review also included an evaluation of sales skills and measures have subsequently been introduced to ensure that all existing and new employees attain an agreed standard of expertise. This coincides with the appointment of a new Group Commercial Director and restructuring of senior management to provide greater leadership in each of the customer categories.

This has been a significant and challenging project involving a great deal of change but it lays the foundations for the Group's multi-media face-to-face customer engagement programme going forward and will ensure that the organisation benefits from the many digital platforms which have been progressed during the year.

In support of these local initiatives, during the year the Group consolidated its 14 telephone contact centres, which manage inbound and outbound activity, into two better resourced centres in Sheffield and Edinburgh. The implementation of this project was supported by new management teams from the contact centre industry, enhanced technology to manage the volume of enquiries and new customer relationship management systems to provide better customer insight.

### Breaking the news... 'Oxbangs'

The Edinburgh Evening News broke the news that a fireworks display in the city's Oxbgangs district had gone wrong when dozens of boxes of fireworks exploded after being hit by a stray rocket. Coverage included a video online of spectators running away from the explosion. The story was picked up by national titles and TV.

<http://www.scotsman.com/edinburgh-evening-news>



These projects have been introduced in preparation for the various business development strategies which are being progressed, including the roll-out of new digital platforms for property and motors, and further progress with the Group's voucher website, DealMonster, which is now operational in 19 towns, cities or regional areas, as well as non-geographical markets for travel and shopping deals. A new site has also been launched for the entertainment market, WOW247.co.uk, to support further the Group's engagement with the local community.

In addition, the Group's recruitment portal Jobstoday.co.uk, continues to expand with additional services such as The SmartList which provides application filtering and other benefits for a fixed price to recruiters.

All of our local digital platforms can be accessed via a dedicated mobile site. We have 209 websites for our local titles, and a further six sites for e-commerce, such as DealMonster and SmartList. In 2012 we launched tablet apps for 18 titles on iPad, Amazon Kindle Fire and Google Play Android. In addition, 11 titles now have smartphone football apps on both iPhone and Android platforms. These solutions support the programme of change in print products and some of the relaunched newspapers, and were backed by expanded digital activity including the ability to subscribe to the newspaper and digital service for a single price. This will continue as more titles re-launch in 2013.

New leadership took responsibility for sundry revenues such as reader travel and online shops. The premise is unchanged with items offered for sale in our newspaper titles being supported by fulfilment and cross promotion online.

**“The relaunch programme has also created an opportunity to review and improve the product portfolio for each market.”**

As part of our strategy to ensure our newspapers remain relevant and up-to-date, a programme was introduced during the year to relaunch all the Group's titles. Five newspaper titles changed publishing frequency from daily to weekly, nine titles altered size from broadsheet to tabloid, three free titles became paid-for and a further 47 newspapers (including 10 free titles) were redesigned with the support from industry leading designers. The project is being implemented in four phases with two being completed during the year with the final phases to occur in 2013. Overall, response has been favourable and has created the opportunity to demonstrate value to readers. Each stage has created the opportunity to evaluate and use the experience to improve the next phase of change and has been beneficial to both staff and the communities we serve, with many examples of increased advertising revenues as businesses see the benefit from greater engagement.

The relaunch programme has also created an opportunity to review and improve the product portfolio for each market. In some cases, this has resulted in a decision to close a number of free newspapers and, where it is in the interests of our customers to do so, consolidate bi-weekly newspapers.

The implementation of the re-launch programme has been assisted by changes made to our backroom fulfilment services. All aspects of production are now centralised to a single point enabling each newspaper to have the same workflows supported by a single design team for both advertising and editorial. These changes have included further consolidation of our press centres with the closure of the Peterborough, Leeds and Sunderland press halls and also the partial outsourcing of advertisement creation work which has driven further efficiencies.

These various changes within the Group mean a number of markets and centres are now faced with legacy accommodation which does not meet the requirements of the business going forward. To address this, the Group's 'Environment Charter' was introduced. The Charter is a commitment to provide accommodation and technology which will enable staff to conduct their specified tasks, primarily content gathering, in a modern and efficient way which is consistent with a local multi-media community publisher. Accordingly, a programme to enhance technology systems is being rolled out across the Group. 800 iPads and smart phones have been issued to sales staff to provide remote access to the new customer relationship management system allowing them to have far greater insight into our customers' needs. The Group is also equipping 1,700 journalists to enable them to again work remotely in the heart of their local communities. Each journalist will have a laptop and quality smartphone for simple photography and video capture. This initiative will greatly improve the quality, quantity and timeliness of multi-media content available on websites, mobile sites and tablet apps.

Additionally, new accommodation has been provided for staff in a number of locations, including prestigious new offices for The Yorkshire Post in Leeds. It is anticipated that this programme will accelerate during 2013.

This commitment recognises the importance of our staff and, while overall manning levels were reduced during the year, we continue to invest in training and development along with further improvements to Group-wide communication. The Group's weekly e-newsletter and website, The Word, is well received with nearly 90% of staff saying it is a useful source of Group information. In addition, we launched a staff satisfaction survey in 2012 to identify areas of improvement such as career development, recognition, training and leadership. One of the outcomes of this survey was the introduction of a new annual Johnston Press plc awards scheme, to recognise and celebrate media and commercial excellence in our staff.

## The operating profit\* margin increased slightly to 17.4% (2011: 17.3%) with an operating profit\* for the year of £57.0 million (2011: £64.6 million).

The trading environment in the Group's markets continued to be difficult during 2012. Advertising revenues in particular remained under pressure. Total Group revenues\* declined by £45.2 million (12.1%) but this decline was mitigated by the management of the cost base which was reduced by £37.6 million (12.2%). The operating profit margin increased slightly to 17.4% (2011: 17.3%) with an operating profit for the year of £57.0 million (2011: £64.6 million).

There were a number of key transactions and actions that influenced financial performance in 2012, all of which are discussed further in this review. These include:

- Refinancing of our lending facilities in April 2012;
- Further restructuring of our cost base;
- Closure of four print presses;
- Launch of new digital initiatives;

→ Partial termination of our print contract with News International; and

→ Relaunch of titles, and changing publication of five daily titles to weekly.

### Total Revenue

The vast majority of the decline in total revenues was due to reduced print advertising. Indeed, after adjusting for the contract print revenues associated with the agreed cancellation of part of our contract with News International and the effect of the planned change of five titles from daily to weekly, the balance of the decline in Group revenues is almost entirely attributable to reduced print advertising with other revenue categories remaining relatively stable. Taken together the other non-advertising categories were down 11.0%, but after adjusting for the contract printing and daily-to-weekly changes the non-advertising decline reduces to 6.6%.

### Advertising Revenue

#### Display advertising

Total display advertising in print and online declined by 11.9% (2011: 3.0%). Of this, the decline in local display was 8.9% with national display revenues down 18.6% year-on-year. The decline in national display revenues was consistent throughout the year and was seen throughout the industry as large national advertisers reduced marketing spend. The declines seen in local display principally related to the second half of 2012 and were particularly impacted by the effect of the economy on advertiser confidence. Local display revenues are the focus of our sales effectiveness project; we expect to see significant upside from this project in 2013.

**Table 1**  
**Performance Summary for 2012 and 2011**  
(Before non-recurring and IAS 21/39 items)

	2012 £'m	2011 £'m	% change
<b>Advertising revenues</b>			
Print advertising	181.3	212.9	(14.8)
Digital advertising	20.6	18.4	12.0
Total advertising revenues	201.9	231.3	(12.7)
<b>Other revenues</b>			
Newspaper sales	91.8	95.6	(4.0)
Contract printing	20.3	29.0	(30.0)
Other	14.7	17.9	(17.9)
Total other revenues	126.8	142.5	(11.0)
Total revenues	328.7	373.8	(12.1)
<b>Operating costs</b>	(271.7)	(309.2)	12.2
<b>Operating profit</b>	57.0	64.6	(11.6)
<b>Operating margin</b>	17.4%	17.3%	

\*Before non-recurring and IAS 21/39 items (page 20).

### Classified advertising

Overall classified revenues declined by 13.3% in 2012 and again the declines in the second half of the year were greater than the first reflecting the changing economic conditions across the year. Within this, employment revenues declined 14.7%. Digital employment revenues are making an increasing contribution to this category, but both print and digital continue to be affected by the depressed employment market in much of the UK and Republic of Ireland.

The other classified categories also experienced declines in the year. Property, with a reduction of 10.7%, showed the smallest decline, but this was still a larger decline than the prior year (2011: decline of 7.6%). The decreases in motors and other classifieds, of 18.0% and 12.3% respectively, while reflecting the lack of new car sales in the year and the general economic conditions, also reflect the migration of these advertising categories to online advertising. There was also some

impact from consolidating the contact centres into two locations; however the benefits of this project are expected to be seen in 2013.

### Print advertising

Total print advertising in the year declined by 14.8% compared with the 9.7% reduction in 2011. This was primarily due to national print display revenues being down by 19.3% and employment print revenues being down by 22.1%, although these employment revenues now only represent 8.0% of total print revenues.

The economic environment affected other classified advertising also with year-on-year declines being seen across all categories. While property declined by 11.3% and other classified advertising by 14.1% compared with 2011 there was an improving trend in the final quarter. Local display was 11.9% lower than 2011 with motors showing a year-on-year decline of 18.1%.

**“12.0% growth in digital revenues to £20.6 million. Within this, digital employment revenues stabilised, resulting in a 5.6% revenue growth in this category.”**

**Table 2**  
**Print and Digital Advertising Revenue Analysis**

	52 week period			First half to June			Second half to December		
	2012 £'m	2011 £'m	% change	2012 £'m	2011 £'m	% change	2012 £'m	2011 £'m	% change
Employment	21.8	25.6	(14.7)	12.4	14.4	(13.6)	9.4	11.2	(16.1)
Property	27.9	31.2	(10.7)	15.7	17.3	(9.7)	12.2	13.9	(11.9)
Motors	17.1	20.8	(18.0)	9.4	11.2	(16.3)	7.7	9.6	(19.8)
Other classifieds	49.4	56.4	(12.3)	26.3	29.2	(9.9)	23.1	27.2	(15.0)
Total classified advertising	116.2	134.0	(13.3)	63.8	72.1	(11.6)	52.4	61.9	(15.2)
Display advertising	85.7	97.3	(11.9)	43.9	48.6	(9.8)	41.8	48.7	(14.0)
Total advertising	201.9	231.3	(12.7)	107.7	120.7	(10.9)	94.2	110.6	(14.7)

## Performance Review

(continued)

### Digital revenues

This was an important year for the Group's digital activities, with an increased focus on this area resulting in an overall 12.0% growth in digital revenues to £20.6 million. Within this, digital employment revenues stabilised, resulting in a 1.4% revenue growth in this category (compared with a 9.2% decline in the previous year). In addition, local digital display revenues grew 38.6% year-on-year providing a significant improvement in monetisation of the digital audience growth. A number of new digital enterprises in the year also contributed to the overall revenue growth, including a new venture with Zoopla for online property revenues and a partnership with motors.co.uk to boost digital motors revenues. The focus on digital revenues in 2012 has shown encouraging revenue growth, which is anticipated to accelerate further in 2013.

### Non-Advertising Revenues

The reduction in the Group's circulation revenues in the year of 4.0% to £91.8 million was due almost entirely to the planned change of five daily titles to weekly publication. Contract print revenues were affected by the negotiated reduction in external revenues from News International in exchange for a receipt of £30.0 million which has been accounted for as a non-recurring item. In the absence of this, contract print revenues were broadly in line year-on-year. Taking account of the cost savings associated with the daily to weekly publication changes and the contract print reduction, the overall impact of these changes should improve both the efficiency and profitability of the remaining activities.

### Operating Costs

Total operating costs (cost of sales and operating expenses) for the Group excluding non-recurring and IAS 21/39 items were £271.7 million, a saving of £37.6 million from 2011. This reflects savings across all parts of the business with significant initiatives implemented to further restructure the operations to make them more efficient. These initiatives include the consolidation and centralisation of the Group's contact centres and the restructuring of senior management. There were significant savings in production costs due to the closure of the printing plants at Leeds, Peterborough and Sunderland during the year, as well as the reduced costs

from the five titles that changed from daily to weekly format (which offsets the impact of lower newspaper sales revenues from the change).

### Non-recurring and IAS 21/39 Items

In addition to the trading results discussed above, a number of items have been identified as non-recurring either due to the nature of the item or their significance. Total net non-recurring items before tax were £16.6 million (2011: £171.5 million, including an impairment of intangibles of £163.7 million). Non-recurring items in 2012 included:

- The receipt of £30.0 million in respect of the negotiated partial cancellation of the contract print arrangements with News International. The receipt has been treated as non-recurring revenue.
- Due to the closure of the Peterborough and Sunderland print presses during the year, the book value of the print presses affected has been written down to the estimated realisable value on disposal. A non-recurring charge of £17.2 million has been recognised due to the write down.
- A £1.5 million credit was recognised resulting from a pension exchange exercise. Further details are provided below in the pensions section.
- Restructuring costs of £24.4 million were incurred as the Group continued to change the way in which it carried out its business to drive efficiencies and cost savings. This resulted in a number of redundancies, the costs of which have been recorded as a non-recurring item.
- A £7.5 million charge from writing down the value of property held for sale to the net realisable value in the current market.
- A gain of £1.0 million from the sale of a significant property.

The only non-recurring items that involved significant cash outflows for the Group in 2012 were the restructuring costs of £24.4 million.

IAS 21/39 items relate to the fair value movement in the Group's derivative financial instruments (primarily interest rate caps and foreign exchange call options) as well as the retranslation of the Group's US dollar and Euro denominated borrowings. The net charge for the year was £2.8 million (2011: £0.7 million). Further details are shown in Note 11c.

### Finance Income and Costs

Finance costs in the year were £42.1 million (2011: £38.5 million). The increase from the previous year reflects the increased cost of borrowing as a result of the finance arrangements that were negotiated in April 2012, including the increased level of payment-in-kind (PIK) interest.

The interest charge in the year reflects a blended rate of 11.7%, which includes PIK. This is an increase on the 9.9% blended rate in 2011 and is due to the increased rates following the April refinancing, as well as the expiry of cross currency swaps in early 2012 which had beneficial foreign exchange rates included that could not be repeated in the current market. The charge in the Income Statement also includes £4.1 million in respect of the amortisation of the fees associated with the Group's finance facilities.

The Group's exposure to the US dollar interest and principal payments on the private placement loan notes are hedged from a currency perspective through foreign exchange call options.

The net finance expense on pension assets and liabilities was £2.5 million (2011: income of £2.3 million). This was due to the interest rate on the fund liabilities being higher than the expected return on the pension fund assets.

### Loss Before Tax

The Group's loss before tax was £6.8 million (2011: loss before tax of £143.8 million). The significant difference between 2012 and 2011 was the non-recurring impairment expense recognised in 2011 of £163.7 million. Other differences between 2012 and 2011 included the reduction in operating profit before non-recurring items in 2012 of £7.5 million, higher net non-recurring operating charges (excluding impairment of intangibles) of £8.8 million, an increase of £3.6 million in interest charges and the pension interest expense of £2.5 million compared to income of £2.3 million in 2011.

**“The Group remained highly cash generative throughout the year, with net cash in from operational activities of £71.3 million.”**

#### Overview

#### Business Review

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#### Tax Rate

The Group tax rate for the year, excluding non-recurring and IAS 21/39 items and before the impact of the deferred tax rate change, was 25.8%, slightly higher than the UK tax rate of 24.5%.

#### Earnings Per Share and Dividends

Basic earnings per share was 0.88p, compared with a loss of 14.24p in 2011. The improvement in basic earnings per share reflects the following reasons:

- There was no impairment charge in 2012, whereas in 2011 an impairment charge of £163.7 million was recognised;
- A reduction in the underlying operating profit before non-recurring and IAS 21/39 items of £7.5 million;
- A £3.6 million increase in finance costs under the new lending facilities due to higher interest rates;
- IAS 21/39 movements in 2012 were a charge of £2.8 million compared to a charge of £0.7 million in 2011;

→ There was a net pension finance charge of £2.5 million in 2012 compared to finance income of £2.3 million in 2011; and

→ The impact of tax credits of £12.4 million.

Excluding non-recurring and IAS 21/39 items, the underlying earnings per share at the basic level of 3.42p was down from the previous year's comparative of 3.50p due to the lower operating profit and higher interest charges.

There will be no ordinary dividend payment relating to 2012. This reflects the Group's focus on further reducing the debt levels of the business and is also in line with the Group's finance arrangements which preclude the payment of dividends until the ratio of net debt to EDITDA falls below 2.5 times.

#### Breaking the news...

#### Bradley Wiggins

The Wigan Evening Post broke the story about Tour de France winner and Olympic gold medallist Bradley Wiggins being knocked off his bike by a car. The story went around the world because of the phenomenal interest in the cyclist.

<http://www.wigantoday.net/>



## Performance Review (continued)

### Cashflow, Financing and Net Debt

Net debt at 29 December 2012 was £319.4 million, a reduction of £32.3 million on the prior year. The Group remained highly cash generative throughout the year, with net cash received from operating activities of £71.3 million including £30.0 million received from News International. The cash was primarily used for cash interest payments of £17.2 million, the cost of refinancing our finance facilities of £11.8 million and to repay borrowings of £26.5 million. The Group maintained tight control of capital expenditure with £5.2 million spent, while proceeds received from the disposal of surplus assets (primarily property sales and the disposal of closed presses) were £8.9 million.

The Group successfully concluded negotiations with its lenders regarding the renewal and extension of its finance facilities in April 2012. A secured initial facility of £393.0 million was agreed, amending the previous arrangements and extending the maturity of the facilities to September 2015.

The maximum cash interest margin payable in the case of the bank facilities is LIBOR plus 5.0%, and in the case of the loan notes, a cash interest coupon rate of up to 10.3%. The interest rates are based on the absolute amount of debt outstanding and leverage multiples and reduce based on agreed ratchets.

In addition to the cash interest, a PIK margin accumulates and is payable at the end of the facility. The PIK margin rate is again based on the absolute amount of the debt outstanding and leverage multiples and reduces based on agreed ratchets. If the loan facilities are fully repaid prior to 31 December 2014, the rate of the PIK margin accrued throughout the period of the agreement will be recalculated at a substantially reduced rate.

There is an agreed repayment schedule of £70.0 million over three years with £5.0 million originally scheduled for 2012. Following the News International receipt discussed above, £20.0 million of the scheduled repayments have been repaid early, with £45.0 million remaining as at the balance sheet date. In addition, a pay-if-you-can (PIYC) repayment schedule was agreed totalling £60.0 million over three years, of which £2.0 million was paid ahead of schedule in 2012.

Five-year share warrants over the Company's share capital have been issued to the Group's lenders. Warrants for 2.5% of the Company's share capital were issued on completion of the new financing arrangements and a further 5.0% were issued in September 2012. In addition, the exercise period for the 5.0% warrants issued to the lenders in August 2009 was extended to make the expiry of all the warrants coterminous in September 2017. As a result, warrants equivalent to a total of 12.5% of the Company's issued ordinary share capital have been issued. No warrants were exercised during 2012.

### Net Asset Position

At the period end, the Group had net assets of £273.9 million, a decrease of £10.4 million on the prior year. The movements in the net asset position from the prior year included a reduction in total liabilities of £28.0 million and an increase in cash on hand of £19.4 million, offset by decreases in property, plant and equipment (including assets held for sale) of £39.6 million, inventory of £1.9 million, derivative financial instruments of £8.8 million and trade and other receivables of £7.1 million.

### Pensions

The Group's defined benefit pension deficit increased by £17.3 million over the year. The increase in the deficit was the result of the following factors both positive and negative:

- While investment markets remained volatile during 2012, returns were greater than those assumed by £8.3 million;
- There was a further reduction in the discount rate applied to the scheme liabilities which resulted in an increase in the value of liabilities of £32.2 million;
- A decrease in the assumptions relating to inflation has resulted in a £8.4 million reduction in liabilities; and
- In 2012 (following similar exercises in 2011), the Group offered a number of existing pensioners the opportunity to take part in a pension exchange where, for a higher pension today, they forgo a proportion of future increases. This resulted in a gain of £1.5 million (2011: £1.9 million).

Other movements of £3.3 million made up the balance of the increase in the deficit.

**“At the period end, the Group had net assets of £273.9 million, a decrease of £10.4 million on the prior year.”**



The pension fund was also subject to a triennial valuation carried out as at 31 December 2010. The result of this valuation gave rise to a new schedule of contributions and funding plan to reduce the deficit. As a result, the annual level of contributions under the new schedule increased from £2.2 million to £5.7 million with effect from 1 June 2012. The £5.7 million annual contributions are payable until 31 December 2024.

### Financial Reporting

In terms of this report, there are no significant changes in International Financial Reporting Standards from those in force at the end of 2011.

### Control Processes

As discussed in the Corporate Governance Statement, the Group operates rigorous internal control processes that assist in the efficient operation of the Group's businesses. Central to these processes and controls is the fact that the general ledgers, fixed asset registers, payables system, expenses and payroll are controlled through our shared services centre in Peterborough, with all cash processing and sales ledger balances for mainland UK being controlled through a single centre in Leeds.

### Factors Affecting Future Group Performance

The performance of the Group will continue to be affected by the economic conditions in the UK and Ireland, and the on-going cyclical downturn as indicated by the current low growth in GDP, employment, property transactions, new car sales and the levels of consumer confidence. However, the outlook for the Group will also depend on a number of other factors, including:

- Successful implementation of the Group's new strategy;
- Growing new revenues (particularly digital) in the Group's existing market segments;
- Maintaining market leadership in existing markets;
- Ability to adapt to customer requirements through new sales propositions and advertising channels;
- Continually improving existing efficient operations through technology and improved processes; and
- Further re-engineering of the cost base of the business.

### Liquidity and Going Concern

The Board has undertaken a recent and thorough review of the Group's forecasts and associated risks. These forecasts extend for a period beyond one year from the date of approval of these financial statements. The extent of this review reflected the economic outlook and the current revenue and cost trends, together with the on-going volatility in advertising revenues. The forecasts make key assumptions, based on information available to the Directors, around:

- Future advertising trends which show reducing declines in 2013, consistent with current market views with stabilisation in 2014.
- Further cost reduction measures to reflect lower revenues and the on-going re-engineering of the business.
- Continued growth in digital revenues.
- Increase in newspaper sales revenue performance following the title relaunch.
- Cash inflows on the disposal of surplus properties.

Following a thorough review of these forecasts and projections and after taking account of reasonable downside scenarios to the key assumptions underlying these forecasts, the Directors are satisfied the Group will be able to operate within the terms of its financing agreement and covenants.

The Directors have a reasonable expectation that the Group will have adequate resources to continue in operation for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

### Breaking the news... MP resigns

The Corby Telegraph broke the news that Louise Mensch, MP for Corby & East Northamptonshire, was resigning to spend more time with her family. Louise contacted a reporter at home to tell her the news, allowing the Northants Telegraph and its Corby edition to scoop the rest of the media. The paper's website enjoyed a 26% increase in traffic that day and the story dominated the national headlines in the following days as it forced a by-election and raised questions about MPs juggling their political and private lives.

<http://www.northantstelegraph.co.uk>



Photo: PA

## Principal Risks and Uncertainties

# There are a number of potential risks and uncertainties which have been identified by the business that could have a material impact on the Group's long-term performance.

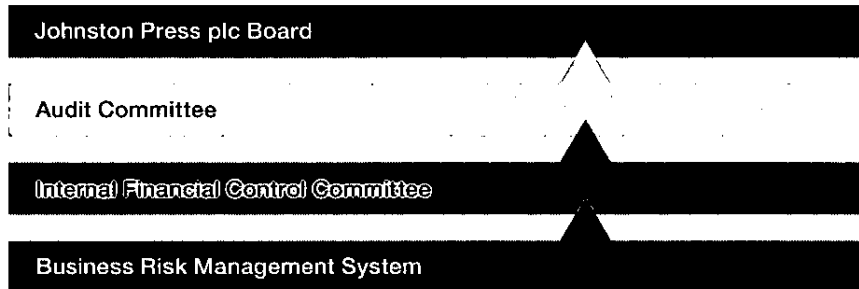
This is not a complete list of all those risks identified but those that the Directors feel could have a significant impact on the Group. By including risks within this section, the Directors make no prediction as to the particular likelihood of any event or set of events occurring. The business could also be affected by other risks not currently identified or considered to be significant.

The risks listed immediately below are those the Directors consider the most significant in terms of the general economic conditions in the markets in which we operate. These risks remain the most important in terms of the overall performance of the Group, but also relate to issues over which the Group has no control, namely:

- Change in Gross Domestic Product;
- Change in the unemployment rate;
- Levels of property transactions;
- Levels of new car sales;
- Levels of consumer confidence; and
- Public sector spending.

Description of risk	Impact	Mitigation
<b>Further Reductions in Print Advertising</b>		
Print advertising revenues could continue to decline due to further migration of customer spending to online media, the on-going economic downturn in the UK and Republic of Ireland and the lack of consumer confidence.	Online migration of classified advertising means that even with an economic recovery in the UK, it is unlikely that these revenues would be fully recovered. Consumer confidence is low due to the difficulties in the UK and Republic of Ireland economies and on-going Eurozone issues, with national and local businesses reducing display advertising as consumers are spending less.	The Group continues to develop its online classified offering through partnerships, mobile apps and new verticals such as WOW247. It also continues to invest in its sales expertise to ensure both a more proactive and effective approach and that the sales offering is fully understood by sales staff and customers. The relaunch of newspaper titles is expected to provide customers with a more attractive advertising proposition.
<b>Business Opportunities Constrained by Debt</b>		
As the Group is operating above its optimal level of gearing, repayment of debt is a key priority. However, this focus could lead to missed revenue opportunities if insufficient funds are left available for investment.	The Group may be unable to take advantage of opportunities to invest in its core business or complementary revenue streams thus impacting its long-term growth prospects.	The Group seeks to comply with all the requirements of its funding arrangements in the most cash-effective manner and carefully prioritises any funds available for investment to those areas which can provide the greatest long-term return.
<b>Lifestyle and Technology Changes Affect Newspaper Circulations</b>		
Newspaper circulations continue to decline due to increased availability of news through alternative media channels and reductions in the regularity of purchase.	The reduction in circulations can lead to reduced newspaper sales revenues as well as reduced audience for our advertisers.	The Group continues to promote loyalty schemes to encourage increased frequency of newspaper purchase and is seeking to increase subscription rates. In response to changing reader habits we have introduced news websites tailored to mobile devices, increased the frequency of updates and promoted news and related apps.
<b>Failure to Monetise Increased Readership of our News Websites</b>		
This is an industry issue. Online advertising rates are lower and it is difficult to charge for accessing news online because free alternatives exist.	Readership continues to migrate to a digital environment where the advertising rates per reader are significantly lower.	Our digital strategy focuses on building digital audiences and revenues through new platforms and enhancing the content available to readers and advertisers. The Group has launched a number of paid-for news applications and continues to innovate its digital products.
<b>Adequacy of Resources</b>		
Like most organisations there is an element of dependency on certain key individuals in the Group.	Should some of these key people leave the organisation there could be the loss of industry knowledge, supplier relationships, technical expertise and leadership.	The Group has put in place succession planning across the organisation and this is reviewed annually by the Executive Directors and by the main Board. During 2012 further emphasis has been placed on staff engagement. With detailed surveys conducted, increased staff communication and introducing a new awards scheme.

## Internal Financial Control Committee



Description of risk	Impact	Mitigation
<b>Newsprint Price and Supply Risk</b>		
There is a risk to the business in terms of both supply and pricing of newsprint which after staff costs, is the largest single expense incurred by the business.	In 2012 newsprint represented approximately 12% of the Group's cost base. A significant increase in price would impact the Group's profitability and a reduction in supply could impact the quantity of free newspapers we distribute in the market, which could in turn have an impact on advertising revenues.	The Group carefully manages its consumption of newsprint through waste management, recycling, pagination and distribution of free titles. The Group also has some of the most efficient printing presses in the industry. Contracts are put in place with key suppliers to ensure security of supply and optimum pricing.
<b>Pension Deficit Funding</b>		
The Group Defined Benefit pension scheme is currently in deficit leaving the Group responsible for potential shortfalls.	While working to reduce the pension deficit, the Group must balance this with the need to invest in the business and reduce the level of debt and resulting interest charges.	Higher deficit funding payments have been made to the scheme since June 2012 as agreed with the trustees and taking into account Group cashflow forecasts. The scheme is closed to future accrual, and pension exchange exercises have taken place to limit the level of pension increases, reducing the liability further.
<b>Interest Rate and Foreign Exchange Risk</b>		
The Group has a financial risk in terms of variations in interest rates and foreign exchange rates.	Should interest rates increase, the Group could pay more in interest and this would put a strain on cashflow and debt reduction plans. The Group also has debt in US dollars and Euros and adverse fluctuations in exchange rates could affect net indebtedness.	The Group policy is that at least 50% of its interest rate exposure should be hedged. The Group has in place interest rate caps covering its sterling debt with the US dollar denominated debt at set coupon rates. The US dollar denominated debt is hedged with respect to foreign exchange risk such that there is minimal risk on either the interest payments on or the repayments of principal as and when they fall due. The Euro denominated debt was approximately €12.3 million and was more than matched by the value of Euro denominated assets, with interest payments funded by Euro cash flows from the Group's Republic of Ireland activities.
<b>Financing Risk</b>		
The Group has finance facilities in place which require certain financial covenants to be met, including profit and cashflow targets.	If the covenants are not met, the Group would face a breach of the terms of its finance facilities and may be forced to renegotiate them with its lenders.	The Group continues to use excess cash to reduce the level of debt. Under its finance arrangements, covenant levels have been set based on management's forecasts and expectations. The Group anticipates operating within the covenants throughout the term of the facilities.

## **Johnston Press is committed to operating all of the Group's business activities to the highest standards of business ethics and integrity. These principles are reflected in the Group's approach to Corporate Social Responsibility.**

### **Business Ethics**

The Group's code of ethics is supported by clear policies and procedures for addressing relevant issues. Policies are made available to employees with supporting guidance and are designed to protect both the employee and employer. The Group seeks to act as a fair and reasonable employer and is very aware of its responsibilities to readers, customers, suppliers, shareholders, other stakeholders and the environment. Some of the many community orientated activities the Group is involved in are explained on page 29 and more can be found on our website, [www.johnstonpress.co.uk](http://www.johnstonpress.co.uk).

### **Board Responsibility**

The Board has delegated the day-to-day responsibility for all matters related to Corporate Social Responsibility to the Executive Directors. They are assisted by the Company Secretary who also chairs the Group's Carbon Footprint Taskforce.

Responsibility for formulating, updating and ensuring adherence to Group human resources policies and relevant legislation has been delegated to the Director of Human Resources, who reports to the Chief Executive Officer on these issues.

The Directors regularly review issues relating to the Group's Corporate Social Responsibility Statement.

The Group seeks to monitor developments in relevant environmental, social and governance issues and to respond to changes in legislation, regulation and best practice. Environmental, social and governance risks are assessed as part of the Group's ongoing risk analysis.

### **Health & Safety**

The Group's rigorous health & safety management and reporting processes have brought about a significant reduction in all types of accidents and in the number of people involved in accidents. The last recorded 'lost time' accident was in January 2012. We believe that our focus on addressing the causes of accidents, and our insistence on the adherence to best practice and procedures, has played a part in our improved performance. Although we are proud of this achievement, our work will continue to ensure every effort is made to maintain this record.

There are Health & Safety Committees in every Group company and a Group Health & Safety Committee which instructs and reviews audit visits, monitors compliance with Group policies, ensures those policies are kept up to date and encourages best practice. Representatives of companies with leading health & safety performances are invited to attend meetings to share their experiences and best practice.

The Group Health & Safety Manager co-ordinated independent audits of all our main sites in 2012. He also worked to create stronger links with site health & safety officers and this helped centres improve their scores in our rolling programme of internal audit inspections.

Our consistent reporting processes have now been in place for more than eight years, allowing performance over time to be measured. Every accident is reported and this is a key part of our control environment.

### **Employee Involvement**

We have more than 4,300 employees in the UK and Republic of Ireland and our aim is to attract, retain and engage the best people in a high performance and supportive culture that drives business performance and recognises that a diverse workforce adds clear value for our employees, our customers, our shareholders and the communities we serve. We fully support the principle of equal opportunity for all. Our procedures allow any employee to report behaviour that is contrary to our policies or is in any way of concern to them. We recognise a number of trade unions at an operating company level in both the UK and in the Republic of Ireland and have employee forums at a Group and operating company level for communication and consultation.

An all-staff survey conducted in the first half of 2012 helped identify areas for improvement and staff development. All employees had the opportunity to have their say and help develop action plans for their areas of the business. A second survey took place in January 2013.

Our subsidiary businesses have differing pay structures based on their size and local market conditions. Progression within these pay structures is based on competence, achievement of qualifications and performance. We also operate bonus schemes for executive and sales staff.

Our Disability Access policy is included in our Personnel Policies & Procedures manual. As part of our health & safety audits (and property maintenance programmes), we seek to ensure that access to our sites does not discriminate against disabled employees or customers.

To assist disabled users of our digital products, the Group continues to make improvements to its core internet sites in accordance with WCAG 2.0 accessibility standards and in line with W3C recommendations.

## Workforce statistics

Our total workforce is represented by 48.6% male and 51.4% female and our age profile is as follows:

Under 30	19.6%
30-39	28.8%
40-49	25.3%
50-59	20.3%
Over 60	6.0%

## Customer Services

It is Group policy to provide the highest standard of service to all of our customers. Each operating company has staff appointed to respond to customer enquiries. There are strict procedures for resolving customer complaints or queries regarding service and these are carefully monitored.

Local management in each operation is responsible for ensuring compliance with all customer and competition related legislation. To monitor this, and for training purposes, the Group undertakes 'mystery shopping' exercises. Our Group call centres allow us to offer a high level of response, professionalism and overall experience for customers.

We have commissioned independent audits of our customer services to drive continual improvement. The Group Sales Charter has become central to our operations, ensuring customers and advertisers are always dealt with in a fair and equitable manner. Our terms of trade are published in the Group's newspapers and are available on all of our websites.

Equal attention is paid to the service we provide to our readers and viewers with each editor directly responsible for any complaints. The Editorial Review Group, a body of senior Group editors, will be replaced by an Editorial Board in 2013 which will agree editorial strategy, policy, standards and innovation. The Group conformed to the Press Complaints Commission Code of Practice and is monitoring proposed industry regulation resulting from the Leveson Inquiry.

## Energy and Climate Change

Johnston Press achieved the Carbon Trust Standard for the second time in July 2012. It is recognition for our achievements in carbon reduction and demonstrates our commitment to reducing carbon emissions year-on-year.

Inroads were made into the Group's energy use last year with one initiative reducing lighting in the press hall at Dinnington by 50% and the mailroom lighting by 80%. The Group, in conjunction with its energy management consultants, is investigating a process which would allow the main plant to be shut down when printing does not take place. This would reduce site energy consumption by an estimated 5%. If successful this would be rolled out to our Portsmouth plant. Discussions are also continuing with respect to the potential installation of wind and solar power at Dinnington.

We continued to make progress on reducing the Group's car and van fleet and CO<sub>2</sub> ratings. Replacement vehicles introduced to our fleet generally had lower CO<sub>2</sub> ratings, giving an average reduction of 6.0%. Full details are shown in table 1 on page 28.

The Group has no emissions to air from its printing presses.

## Carbon Footprint

The Group established its Carbon Footprint Taskforce in 2008. It developed our environmental policy and is responsible for co-ordinating activities in this area. Among its objectives are promoting energy efficiency and recycling, co-ordinating Group-wide energy efficiency initiatives, agreeing measurement standards for carbon footprint and running the Group's Environmental Award.

After a review, the Taskforce recommended that we seek reductions in total energy consumption of 10% against 2011 levels for our printing and publishing centres by the end of 2013. We were pleased with initial indications of achieving a 7.7% reduction in 2012, but our efforts in this area continue.

The Group continued to work in partnership with Dell, its principal supplier of IT equipment, to develop a disposal channel for redundant IT equipment.

## Waste Management

The Group continued its long-standing partnership with industry-leading environmental services companies and both paper and non-paper waste products are now segregated into more than 20 different streams to maximise their recycling potential.

All our newsprint waste products are returned to paper mills in the UK to be used in the manufacture of virgin paper. Figures show that in 2011, 78.9% of British newsprint was produced from recycled fibre, nearly 9% above the target agreed with the Government.

The Group adheres to the requirements of the Producer Responsibility Obligations Regulations 1997.

Non-paper based waste from the printing press is separated and collected for recycling in line with the Environmental Protection Act and Hazardous Waste Regulations. This is an audited and ISO 14001 accredited process carried out by our environmental partners. Some 90% of all material collected is recycled and re-used in the manufacture of a diverse range of products.



**Corporate Social  
Responsibility**  
(continued)

**Table 1  
Motor Vehicle Data**

	2012	2011*	%	2010	%
Total Fleet (number of vehicles)	1,209	1,561	(22.5)	1,701	(28.9)
Total Fleet CO <sub>2</sub> rating	172,162	235,021	(26.7)	267,715	(35.7)
Average CO <sub>2</sub> rating	142	151	(6.0)	157	(9.6)

**Table 2  
Health and Safety Accident Reporting Statistics**

	2012	2011	2010	2009
<b>Average total employees in the Group (full time equivalents)</b>	<b>4,581</b>	5,102	5,502	6,146
<b>Employees involved in accidents</b>	<b>120</b>	152	252	273
– Publishing	2.0%	2.5%	3.5%	3.2%
– Printing	12.8%	8.1%	17.0%	15.7%
<b>Total</b>	<b>2.6%</b>	3.0%	4.6%	4.4%
<b>Employees with RIDDOR</b>	<b>6</b>	18	33	30
– Publishing	0.1%	0.3%	0.4%	0.3%
– Printing	0.0%	1.0%	2.7%	1.9%
<b>Total</b>	<b>0.1%</b>	0.4%	0.6%	0.5%
<b>Total Working Days Lost</b>	<b>35</b>	212	533	881

**Table 3  
Consumption of Energy**

	2012*	2011*	%	2010	%
<b>Electricity</b>					
– kWh	32,029,307	38,190,798	(16.1)	41,966,457	(23.7)
– Print centres kWh/tonne	155.9	157	(0.7)	143.1	8.9
<b>Gas</b>					
– kWh	18,763,185	16,844,809	11.4	21,014,147	(10.7)
– Print centres kWh/tonne	35.9	30	19.7	37.0	(3.0)
<b>Water</b>					
– m <sup>3</sup>	66,744	77,027	(13.3)	73,896	(9.7)
– Print centres m <sup>3</sup> /tonne	0.24	0.22	9.1	0.19	26.3

\*2011 has been restated to reflect actual final usage. 2012 reflects estimated usage.

## Environmental Policy

The Group's environmental policy is to ensure that every aspect of our activities is conducted in accordance with sound environmental practices. We aim to ensure that we continually minimise the environmental impact of our activities.

## Car Fleet

The programme of changing our car fleet from wholly owned to leasing continued through 2012 and allowed us to move to lower emission vehicles where possible.

Driver licensing records and driving risk assessments were updated and employees driving on Company business were issued in 2012 with a new, updated comprehensive driver's handbook incorporating road safety advice and guidance. We are now conducting a comprehensive driver training course in conjunction with our motor fleet insurers.

## Community Involvement

Our newspapers and websites remain trusted providers of information in the communities we serve and our journalists work incredibly hard to provide the content our audiences expect across a variety of media.

In keeping with one of our strategic objectives to build online audiences, our websites, mobile sites and tablet and Smartphone apps are drawing ever greater numbers of visitors.

Our journalists have taken advantage of social media such as Twitter and Facebook to instantly update audiences. Journalists also regularly Tweet from council meetings, other public debates and court cases. The *Peterborough Telegraph* tweeted updates on court proceedings from the trial of the parents of Tyler Whelan, a boy murdered by his stepfather.

Our websites provide the latest information across a wide range of topics – and are often the first to break a story. The *News Post Leader* in Whitley Bay was the first to break online the suicide of PC David Rathband, the policeman blinded by gunman Raul Moat, and the *Wigan Evening Post* and *Lancashire Evening Post* were the first to alert the world that Tour de France winner Bradley Wiggins had been knocked off his bike by a car in Wigan.

Our journalists are also getting creative in driving online audiences: The *Edinburgh Evening News* took the idea of multi-media to new levels when the team wrote and produced its own pop song and video (including vocals from the editor) to mark the first all-Edinburgh football cup final in 116 years. The video went viral, attracting an incredible 130,000 views on YouTube in just 10 days – the equivalent of one every seven seconds. The result was a huge PR spin-off for the newspaper on TV and radio, an increase in sales of 40,000 and more than 100,000 additional website hits.

Campaigns and fund-raising activities build strong links with audiences and 2012 proved no exception as our titles continued to cement their roles as the voices of their communities.

The *Hartlepool Mail* launched its We Can Do It campaign to encourage readers to support a food bank for those in need in the town. The target was three tonnes of food – but readers donated 4.5 tonnes in less than three months. The *Doncaster Free Press's* campaign, Let's Get Doncaster Working, won praise from local and Westminster politicians after succeeding in getting several unemployed people back to work. The *Hastings Observer's* long campaign to rebuild the fire-ravaged Hastings Pier has borne fruit with £11 million funding now provided for the project, and the *Harborough Mail* launched a campaign to refurbish every war memorial in the district ahead of the 100th anniversary in 2014 of the start of the First World War.

The *Yorkshire Post* has an enviable reputation for successful campaigns and in July it hailed the success of one its most significant ever. Its Give Us a Fair Deal campaign, calling for action to help the regional economy and narrow the North/South divide, resulted in action on a third of its 60-strong 'bank of ideas' to support Yorkshire.

Taking part – and often organising – community events remains a key focus for our titles. The *Fife Free Press* organised the first ever Raith Rovers FC Hall of Fame Show which was a 475-seat sell-out event attended by celebrities such as Gordon Strachan and Val McDermid. It raised £7,500 for Raith Rovers and will be held again in 2013. All our *Northern Ireland* weekly titles were involved in highlighting the unsung heroes in their communities as part of a 'People Who Make Us Proud' initiative which saw the public invited to nominate worthy recipients in their towns. And the *Lancashire Evening Post* helped mark the Preston Guild – an event held only every 20 years – with daily 24-page specials, publication of the official souvenir and a microsite online featuring news, updates, audio and video of the events.

Some of our titles celebrated their own anniversaries, recognising long histories of serving local people. The *Sheffield Star* marked 125 years with special supplements, an exhibition, a specially brewed ale and a visit from Prince Andrew. East Midlands Trains also named one of its engines The Sheffield Star. The *Burnley Express* also marked 125 years of publication – its specially brewed ale ended up on sale in the members' bar at the Houses of Parliament and a special spicy sausage was created called Hot Off The Press. And the *News Letter* in Belfast celebrated its 275th anniversary with messages from The Queen, Prime Minister David Cameron and Northern Ireland's First Minister Peter Robinson. It is the oldest English language daily newspaper in the world.

Many more case studies outlining our community involvement – along with details of the more than 35 industry awards won by our journalists and titles – can be found on our corporate website [www.johnstonpress.co.uk](http://www.johnstonpress.co.uk).

## Board of Directors



### Biography

#### Ian Russell, CBE Chairman

A Chartered Accountant, Ian was previously the Chief Executive of Scottish Power plc following a career in finance with HSBC, Mars Limited and KPMG.

#### Ashley Highfield Chief Executive Officer

Ashley was previously Vice President of Microsoft, Director of New Media and Technology at the BBC (where he oversaw the launch of the iPlayer) and Managing Director of Flextech (now Virgin Media) Interactive.

#### Grant Murray Chief Financial Officer

Grant is a Chartered Accountant with significant experience in senior financial roles within the media sector, including Guardian Media Group plc, Channel 5 Broadcasting and United Business Media plc.

#### Danny Cammiade Chief Operating Officer

Danny joined Johnston Press plc in 1992 through its acquisition of TR Beckett. He held various Divisional Managing Director roles until appointed Director of Operations in 2001 and Chief Operating Officer in 2005.

#### Mark Pain Non-Executive

Mark is a Chartered Accountant and former Group Finance Director at Barrett Developments Ltd and Abbey National Group plc.

### Term of Office

Joined the Board in 2007.

Joined the Board in November 2011.

Joined the Board in May 2011.

Joined the Board in 2005, will step down 31 March 2013.

Joined the Board in 2009.

### Independent

Not applicable.

Not applicable.

Not applicable.

Not applicable.

Yes

### External Appointments

Non-Executive Director of British Polythene Industries plc, the Mercantile Trust plc and British Assets plc, adviser to Clyde Bergemann Power Group.

Non-Executive Director of William Hill plc and Governor of the British Film Institute.

No external appointments held.

Chairman of the Newspaper Society Communications and Marketing Committee and a Director of the Advertising Standards Board of Finance.

Non-Executive Director of Spirit Pub Company plc, LSL Property Services plc, Aviva UK Life Holdings (a subsidiary of Aviva Group) and Chairman of London Square plc.

### Committee Membership and Other Roles

Chairman of the Nomination Committee.

Not applicable.

Not applicable.

Not applicable.

Senior Independent Director, Chairman of the Audit Committee and member of the Nomination and Remuneration Committees.





**Ralph Marshall**  
**Non-Executive**

Ralph is an Executive Director of Usaha Tegas Sdn. Bhd, the largest shareholder in Johnston Press plc.

**Camilla Rhodes**  
**Non-Executive**

Camilla was the former Chief Executive Officer of News Magazines Ltd and Managing Director of Times Newspapers and News Group Newspapers, News International.

**Geoff Iddison**  
**Non-Executive**

Geoff is the Group Executive of e-commerce for Mastercard, and was previously Chief Executive of Jagex Limited.

**Kjell Aamot**  
**Non-Executive**

Kjell was formerly the Chief Executive Officer of Schibsted ASA, the largest Scandinavian newspaper publisher.

**Peter McCall**  
**Company Secretary**

Peter joined Johnston Press plc as Company Secretary and Corporate Counsel in 2009. Previously Company Secretary of Kenmore Property Group Ltd and Deputy Company Secretary of British Energy Group plc.

Joined the Board in 2008.

Joined the Board in 2009.

Joined the Board in 2010.

Joined the Board in 2010.

Appointed in 2009.

No

Yes

Yes

Yes

Not applicable.

Serves on the Boards of several companies including Astro All Asia Networks plc as Executive Deputy Chairman, KLCC REIT Management Sdn. Bhd and others which are listed on the Bursa Malaysia Securities Berhad.

No other appointments held.

Group Executive of e-Commerce for Mastercard, Non-Executive Director of Unwire.

Non-Executive Member of the Board of 20Minutes (France), a Non-Executive Member of the Board of PubliGroupe (Switzerland) and advisor to FSN Capital (Norway).

No external appointments held.

Member of the Nomination Committee.

Member of the Nomination, Audit and Remuneration Committees. She will be appointed the Chair of the Remuneration Committee from the end of the Company's AGM in April 2013.

Chairman of the Remuneration Committee and member of the Nomination Committee. He will step down as Chairman of the Remuneration Committee at the end of the Company's AGM in April 2013.

Member of the Audit and Nomination Committees.

Secretary to the Audit, Nomination and Remuneration Committees.

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## Corporate Governance

The Company is committed to the principles of Corporate Governance contained in the UK Corporate Governance Code ('the Code') published in 2010 by the Financial Reporting Council, for which the Board is accountable to shareholders.

In September 2012 the Financial Reporting Council published a new edition of the Code which applies to premium listed companies for financial years beginning on or after 1 October 2012 and the Company will report against the provisions of the revised Code for future years.

### Statement of Compliance with the Code and the Application of the Principles of Good Governance

Throughout the period ended 29 December 2012, the Company has been compliant with the provisions set out in the Code and applied the principles of the Code, including both the main principles and the supporting principles. Further explanation of how the principles have been applied is set out below and, in connection with Directors' remuneration, in the Directors' Remuneration Report.

### Directors and Board

#### Board Effectiveness

The Board considers it has shown its commitment to leading and controlling the Company by meeting eight times in the year, and can meet when necessary for any matters which may arise. The Remuneration Committee held eight scheduled meetings, the Audit Committee six and the Nomination Committee three.

The Board sets the strategic aims and objectives of the Group, ensuring that the Group has sufficient financial and human resources to meet its objectives. The Board also sets the Group's values and standards and ensures that its obligations to its shareholders and others are understood and met. Management is responsible for the application of the aims and objectives on a day-to-day basis, as well as monitoring the financial achievements of the business. The Board reviews the performance of management in meeting the agreed objectives and goals, and monitors appropriate remuneration levels. The Group's management development and succession plans are scrutinised by the Board to ensure that the skills and competencies of management correspond to the Group's requirements. At least one Board meeting each year is wholly devoted to strategy and to the consideration of a plan for the long-term growth and development of the Group. This is reviewed and discussed as appropriate at the other Board meetings held during the year.

In addition to the normal agenda at Board meetings, which is described below, the Directors usually consider one or more operational or special topic at each meeting. During the last twelve months this has included business risks, circulation and audience reach of paid for newspapers, advertising revenues, sales effectiveness, digital revenues and publishing, the Group's finance facilities and human resource requirements, new product offers and presentations from the Group's Publishing Unit Managing Directors.

#### Board Meeting Agenda

The Board maintains a formal schedule of matters specifically reserved to it for decision, including future strategy, acquisitions and disposals, dividend policy, approval of the Annual Report and Accounts, capital expenditure in excess of certain limits, trading and capital budgets and Group borrowing facilities. At each meeting during the year, the Board considered reports from the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and the Director of Digital and Business Development. Since the start of 2013, the Board has also considered a report from the Group Commercial & Marketing Director. The Minutes of Board and Committee meetings are circulated to all Board members. The Company Secretary is responsible to the Board for the timeliness and quality of information provided to it.

#### Board Responsibilities

The Board acknowledges the division of responsibilities for running the Board and managing the Company's business. Ian Russell served as Non-Executive Chairman throughout the year. The Chairman is responsible for the leadership of the Board, for setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues. It is also his responsibility to promote a culture of openness and debate by facilitating the effective contribution of Non-Executive Directors in particular and ensuring constructive relations between Executive and Non-Executive Directors.

As part of their role, Non-Executive Directors should constructively challenge and help develop proposals on strategy. They should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and that controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of Executive Directors and have a prime role in appointing and, where necessary, removing Executive Directors and in succession planning.

Mark Pain served as Senior Independent Director throughout 2012. The Senior Independent Director is available to address any concerns that shareholders may have that have not been resolved through the normal communication channels of the Chairman or Executive Directors. Throughout 2012, the Nomination Committee was chaired by Ian Russell, the Remuneration Committee by Geoff Iddison and the Audit Committee by Mark Pain. The terms of reference of each of the Board's Committees were reviewed by the Board during 2012 and the terms are displayed on the Company's website. Membership of each Committee is detailed with the Directors' biographies on pages 30 and 31.

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### Board Attendance

All Directors are expected to attend all Board and Board Committee meetings of which they are a member unless unable to do so. The following table indicates their attendance during the year:

Scheduled meetings	Board (8)	Remuneration Committee (8)	Audit Committee (6)	Nomination Committee (3)
Ian Russell	8	–	–	2
Ashley Highfield	8	–	–	–
Grant Murray	8	–	–	–
Danny Cammiade	8	–	–	–
Mark Pain	8	8	6	3
Ralph Marshall	7	–	–	2
Camilla Rhodes	8	7	5	3
Geoff Iddison	8	8	–	3
Kjell Aamot	7	–	4	3

### Board Balance and Independence

Of the Company's current nine Directors, three are Executive and the remainder Non-Executive, of whom four are regarded as independent. Details are provided on pages 30 and 31. Throughout the year, the Company complied with the requirement of the Code that at least half of the Board (excluding the Chairman) should consist of independent Non-Executive Directors. Ralph Marshall was appointed to the Board as the nominee Director of Usaha Tegas which owns 20% of the Company's issued ordinary share capital. He is therefore not regarded as independent.

### Nomination Committee

The Company Secretary acts as secretary to the Committee. Reporting to the Board, its duties include regularly reviewing the structure, size and composition of the Board, seeking suitably skilled and experienced candidates as Non-Executive Directors with sufficient time to devote to the role and overseeing all Board appointments. In doing so the Committee also considers the Company's succession planning for Executive Directors and senior managers, to ensure that adequate plans are in place to protect against the loss of key staff, as well as reviewing the composition of the Board and its committees. In considering candidates to fill Board vacancies, the Nomination Committee has regard to the benefits of and the need to encourage diversity within the Board's membership and this is specified in its terms of reference which were reviewed in 2012. Once the role of a vacancy has been determined, the Committee may appoint external recruitment consultants to assist with the search.

### Induction and Professional Development

The Company has a detailed induction programme for new Directors. This is tailored to specific requirements and includes visits to a range of the Group's operations where appropriate and meetings and discussions with senior management and advisers, together with the provision of the Company's full written induction guide.

All Board members have access to independent advice on any matters relating to their responsibilities as Directors and as members of the various Committees of the Board. The assistance of the Company Secretary is available to all Directors for all matters connected to their duties.

### Training

Director training is undertaken as required during the year. This can encompass a variety of topics, including industry specific governance and technical issues. It is the Company's policy that each Non-Executive Director visits at least two of the Group's centres each year where they receive a presentation and a tour of the business. Individual Directors also attended a range of seminars presented by professionals throughout the year. When the Non-Executive Directors meet without the Executive Directors present, the balance of skills on the Board (including training needs) is one of the standard topics for the Board to consider, both individually and collectively.

### Board Performance Evaluation

During the last year, the Board has conducted a rigorous evaluation of its own performance and that of each of its Committees. This involved the completion of a self-assessment questionnaire by all Directors covering the performance of the Board, individual Directors, the Company Secretary and Board Committees. Other topics included the conduct of meetings, the provision of information, relationships, strategy, training and the overall effectiveness of the Board. The composition and chairmanship of each Committee was reviewed together with its fulfilment of its role as outlined in its terms of reference, its reporting and overall performance. The topics which the evaluation exercise addressed were intended to provide the Board with an analysis of the performance of its key duties. The process has been developed internally and is administered by the Company Secretary. The process that the Company deploys utilises a scoring system for assessing Committee and Board performance with a focus on the particular skills and contributions of individuals. The Company Secretary prepared a report of the conclusions which was presented to the Board together with a summary of any individual recommendations for the consideration of the Chairman. This was followed up by meetings as appropriate between the Chairman and individual Directors. Reviews of Board Committees were undertaken by Committee members as well as the Board as a whole. The results highlighted areas of particular focus for the Board in the coming year and overall the process was positive and confirmed the effectiveness of the Board and relevant Committees as well as the contributions of individual Directors. Under the provisions of the Code, evaluation of the boards of FTSE 350 companies (which does not include the Company) should be conducted externally every three years. The Board considered whether to undertake an externally facilitated evaluation during 2012 and concluded that it was not appropriate to do so at that time. However, the position is being kept under review.

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## Corporate Governance

(continued)

### Board Re-election

Under the provisions of the Company's Articles of Association, all Directors are subject to election at the first Annual General Meeting after their appointment and thereafter to re-election every three years. The Company is not currently a member of the FTSE 350 index of companies and is therefore not required to comply with the provision of the Code which requires all directors of companies in that index to be subject to annual re-election. However, the Board considers that it is now appropriate that all Directors stand for annual re-election, and resolutions will be proposed at the forthcoming Annual General Meeting for the re-election of each Director who wishes to continue in office.

The Nomination Committee and Ian Russell as Chairman have, following the formal evaluation process described above, considered the performance of each of the Directors who wish to stand for re-election at the 2013 Annual General Meeting and are satisfied that those individuals' performance continue to be effective and that they have demonstrated a clear commitment to their roles.

Separately during the course of the year, the Non-Executive Directors met without Ian Russell to review his performance as Chairman and were satisfied that he continues to be effective and has demonstrated an on-going commitment to the role.

### Accountability and Audit

#### Financial Reporting

The Board is committed to presenting appropriate information about the Group's financial position by complying with best practice and all standards issued by the International and UK Accounting Standards Boards relating to the disclosures which are included in this Annual Report.

#### Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

#### Going Concern

After making enquiries, the Directors have formed a judgment, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. Further detail is contained in the Business Review on pages 12 to 29.

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## Internal Control

The Board has applied principle C.2 of the Code by establishing a continuous process for identifying, evaluating and managing the significant risks the Group faces. The Board regularly reviews the process, which has been in place from the start of the year to the date of approval of this report and which is in accordance with the revised guidance on internal control published in October 2005 (the Turnbull Guidance). The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

In compliance with Provision C.2.1 of the Code, the Board regularly reviews the effectiveness of the Group's system of internal control. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management and is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses or emerging issues are promptly remedied or indicate a need for more extensive monitoring. The Board has also performed a specific assessment for the purpose of this Annual Report. This assessment considers all significant aspects of internal control arising during the period covered by the report including work of the Group's Internal Financial Control Committee (IFCC). The Audit Committee assists the Board (which maintains responsibility in this regard) in discharging its review responsibilities.

During the course of its review of the system of internal control, the Board has not identified or been advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered appropriate. The key elements of the on-going continuous process during the period under review have been:

- Formal Board reporting on a monthly basis of the Group's performance and on any emerging risks and issues. The monthly management accounts break down the results of the Group's operations into its two reportable segments. All significant variations against budget and the previous year are fully examined. The day-to-day responsibility for managing each of the Group's operations rests with experienced senior executives and the Group has a clear organisational structure which includes appropriate delegation of authority. The Executive Directors ensure that regular contact is maintained with all senior executives.
- Formal Board approval for capital expenditure over £500,000 and for other investment decisions.
- Formal Board approval of the annual budget for the forthcoming financial year. This includes detailed and comprehensive budgets covering each operating business.
- Formal Board reporting of the key functional departments' future strategy as part of the operational topics considered at Board meetings during the year.
- Review by the Audit Committee (with subsequent reporting to the Board) on a six-monthly basis of the work performed by the IFCC based on a programme of work agreed in advance. The IFCC is chaired by the Group Head of Finance who is responsible for the conduct of control reviews in selected locations by members of the Committee who are independent of the location visited. The IFCC is also responsible for the review of detailed financial control checklists submitted monthly by each operation to the Group's head office. This work is supported by the Group's financial accounting centre which ensures a consistent and compliant approach to the processing of transactions and ensures a uniform control process across the Group's operations. The Audit Committee has reviewed the role of the IFCC. Due to the changing nature of the Group and in order to ensure that resources are properly deployed to identify, monitor and mitigate risk, it has concluded that the work of the IFCC be supplemented through the use of a dedicated internal audit function, the form of which shall be determined, and the appointment made by, the Audit Committee, with a recommendation being made by the Executive Directors. It is anticipated that the new internal audit structure will be in place by the end of the first half of 2013.
- Review by the Audit Committee (with subsequent reporting to the Board) of the conclusions of the Group's external auditors in their annual audit and review of the half-year results. These reviews include discussion of any control weaknesses or issues identified by the auditors.
- The risk assessment process involving all senior managers of the Group's businesses in addition to the Executive Directors. A risk matrix is reviewed on a regular basis throughout the year by both the local operations and senior management. Risks are examined at regular executive meetings both locally and at Group level. These risk assessment sessions are held at each operation and will evaluate and address the risks identified. The results of these assessments are addressed in the Executive Directors' reports to the Board. During 2012, senior management considered customer care metrics; newspaper re-launch, human resources, pensions, newsprint, banking covenants, national advertising sales, revenue growth and digital strategy, management resources, newspaper sales, energy management, and property.

Steps are taken on an on-going basis to embed best practice into all the Group's operations and to deal with areas of improvement which come to management's and the Board's attention.

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## Corporate Governance

(continued)

### Internal Control (continued)

In addition, senior management set policies, procedures and standards as detailed in the Group's policy guidelines. These are reviewed and revised on an annual basis and tailored versions have been issued to the businesses in the Republic of Ireland and Isle of Man. The guidelines include policies on:

- Finance including cash/treasury controls and authorisation levels;
- Trading;
- Customer service;
- Commercial and competition;
- Technology;
- Property management;
- Human resources including pension administration, disability and health and safety;
- Environmental issues and energy management;
- Legal and regulatory compliance; and
- Business continuity.

At the Board meeting in early March 2013, the Directors reviewed the need for an internal audit department and, as reported on page 35, concluded that they believed it was necessary for the Group to adapt its internal audit function to reflect the changing nature of the business through the introduction of a dedicated internal audit resource.

### Audit Committee and Auditors

#### Summary of the Role of the Audit Committee

The Audit Committee is appointed by the Board from the Non-Executive Directors of the Company. The Audit Committee's terms of reference include all matters indicated by Disclosure and Transparency Rule 7.1 and the Code. The terms of reference are considered annually by the Audit Committee and are approved by the Board. A copy of the current terms of reference are available on the Company's website.

The Audit Committee is responsible for:

- monitoring the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance and reviewing significant financial reporting judgements contained therein;
- reviewing the Group's internal financial controls and the Group's internal control and risk management systems;
- monitoring and reviewing the effectiveness of the IFCC and making proposals to the Board as to the need, or otherwise, for an internal audit function;
- making recommendations to the Board, for a resolution to be put to the shareholders for their approval in general meeting, on the appointment of the external auditors and the approval of the remuneration and terms of engagement of the external auditors;
- reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- developing and implementing the Group's policy on the engagement of the external auditors to supply non-audit services, taking into account relevant guidance regarding provision of non-audit services by the external audit firm; and
- reviewing the arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other areas.

The Audit Committee is required to report its findings to the Board, identifying any matters on which it considers that action or improvement is needed and make recommendations on the steps to be taken. The Committee's Terms of Reference permit it to oversee the selection process for appointing new auditors should it determine, or it becomes necessary, to do so.

#### Composition of the Audit Committee

The Audit Committee is chaired by Mark Pain, a Chartered Accountant, who is considered by the Board to have relevant financial experience and expertise for that role, and fulfils the requirement that the Committee includes at least one financially qualified member. All Audit Committee members are expected to be financially literate. Camilla Rhodes and Kjell Aamot, both of whom hold or have previously held board and/or executive management level posts in major media organisations, are also members. Details of each Director can be found on pages 30 and 31.

Membership of the Committee is reviewed at regular intervals by the Chairman of the Committee and the Chairman of the Board, who is not a member of the Audit Committee. The Committee is normally comprised of three independent Non-Executive Directors.

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## Meetings

The Audit Committee is required to meet not less than three times per year and has an agenda linked to events in the Group's financial calendar. The agenda is predominantly cyclical and is therefore approved by the Audit Committee Chairman on behalf of his fellow members. Each Audit Committee member has the right to require reports on matters of interest in addition to the cyclical items.

The Audit Committee meetings are attended by the Chief Financial Officer and the Group Head of Finance at the invitation of the Committee and by the Company Secretary, who acts as Secretary to the Committee, with minutes being circulated to all Board members. The Chairman, Chief Executive Officer and Chief Operating Officer are also invited to attend if required to do so by the Committee. Towards the close of relevant meetings, all Executives leave in order for the Committee to have appropriate discussion with the external auditors. The Audit Committee Chairman also has a private meeting with the external audit partner during the course of the year to discuss any relevant issues.

The Committee meets once during the year with the Company's external auditors to discuss and agree the audit programme for the forthcoming year, together with any proposed non-audit work. Any significant non-audit work by the auditors is approved by the Committee in advance of any engagement letter being signed.

## Overview of the Actions Taken by the Audit Committee to Discharge its Duties

Three of the scheduled meetings in 2012 followed the year-end audit and the fourth and fifth followed the interim review. The third meeting after the year-end results was required in order to consider the implications of the Group's refinancing in April 2012. The meetings covered comprehensive reports from management on material accounting policies and significant judgement areas and from the external auditors on their work and conclusions. The Committee focussed in particular on the areas of financial judgement by the Group.

Three of the meetings during 2012 considered reports on the work of the IFCC. Its work, together with the proposed changes to the function, is described in the Internal Control section.

A sixth meeting took place in November 2012 where the Committee carried out a review of the Group's key business risks and amendments to its system of reviewing and monitoring risk. The Committee is actively involved in the ongoing review of risk and internal controls by the main Board.

## External Auditors

At the meeting to review the Annual Report and Accounts, the Committee formally considers the non-audit services provided by the Group's external auditors and the effectiveness of the audit process. It is the Company's policy that any non-audit work to be performed by the auditors, where fees on a cumulative basis exceed £50,000 in any financial year, must be approved by the Audit Committee. The Group's policy requires that services and/or advice that requires auditing is not undertaken by the external auditors. If non-audit fees for a financial year exceed the audit related fees for a year, then Board approval must be given.

To assess the effectiveness of the external auditors, the Audit Committee reviewed:

- the arrangements for ensuring the external auditors' independence and objectivity;
- the external auditors' fulfilment of the agreed audit plan and any variations from the plan;
- the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgements; and
- the content of the external auditors' reporting on internal control.

During 2012 the Company has used several professional firms for different projects. The Republic of Ireland taxation compliance and advisory work is undertaken by a professional firm other than the Group's auditors.

The Committee oversaw the appointment of Deloitte LLP in 2002 and has a primary responsibility for the appointment, re-appointment and removal of auditors. The Committee conducted an evaluation of the effectiveness of the external audit process as part of its work during the year. The Committee reviewed the auditor's plan for the year, noting the role of the senior statutory audit partner and key audit staff, the arrangements for day-to-day management of the audit, if there were any conflicts of interest and the extent of non-audit services provided by the auditor. Non-audit related services provided in 2012 consisted of taxation compliance and advisory and pension funding advisory, with total fees of £146,000 (see Note 8). The advice was provided by partners and staff who had no involvement in the audit of the financial statements. The Committee is satisfied that the objectivity and independence of the external audit is safeguarded. The Committee has considered the likelihood of a withdrawal of the external auditor from the market and noted that there are no contractual obligations to restrict the choice of external auditors.

The Committee has recommended to the Board the re-appointment of the external auditors. On the recommendation of the Audit Committee, the Directors will be proposing the re-appointment of Deloitte LLP at the Annual General Meeting on 26 April 2013. The Audit Partner rotated at the commencement of the 2012 interim review and will continue to rotate every five years.

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## **Corporate Governance**

(continued)

### **Dialogue with Institutional Shareholders**

The Board encourages and seeks to build a mutual understanding of objectives between the Company and its institutional shareholders. As part of this process, the Chief Executive Officer and Chief Financial Officer make twice yearly presentations to institutional shareholders and meet with shareholders to discuss any issues of concern and to obtain feedback. In addition, they communicate regularly throughout the year with those shareholders who request a meeting.

The Chairman personally contacts the leading shareholders in the Company on an annual basis to address any concerns and discuss any issues. The Board receives a report on any discussion with shareholders and the written feedback that follows full year and the half year results presentations is circulated to the Board. Brokers' reports and analysts' briefings, when available, are included in the Board papers sent to the Directors in advance of meetings.

The Board receives a quarterly update on the shareholder register with a summary of the main movements in shareholdings since the previous report.

Members of the Board have met with institutional shareholders during the year to consider Corporate Governance matters. All the Non-Executive Directors are prepared to meet with shareholders to understand their views more fully.

### **Annual General Meeting**

The Board seeks to encourage shareholders to attend its Annual General Meeting. It is the policy of the Board that all Directors should attend the Annual General Meeting and be available to answer shareholders' questions unless unable to do so. The Company uses the Annual General Meeting to communicate with private investors and encourages their participation. All Directors attended the Annual General Meeting in 2012. In 2012, the notice of the Annual General Meeting and related papers were sent to shareholders not less than 20 days before the meeting.

### **Share Capital**

Information on the Company's share capital is provided in Note 27 of the financial statements.



## Directors' Remuneration Report

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Dear Shareholder

I am pleased to present the Remuneration Committee's report on Directors' remuneration for 2012.

As you may be aware, the Government has tabled proposals to reform the way Directors' remuneration is voted upon and reported. In particular, the Department for Business, Innovation and Skills ('BIS') has produced two consultation papers, the results of which, amongst other things will have an impact on the content and presentation of information in the Remuneration Report.

The new legislative requirements will not come into effect until October 2013 but, although not mandatory for this report, the Committee has decided to adopt some of these changes early. Consistent with the proposals, the report has been split into two sections: a Policy Section which sets out the policy on the remuneration of the Executive and Non-Executive Directors and an Implementation Section which discloses how the remuneration policy has been implemented for the period ending 29 December 2012. We will be seeking your support for both parts of the report by way of a single advisory vote at the forthcoming AGM on 26 April 2013.

2012 was a year of significant change for Johnston Press as we sought to implement the key elements of our new strategy. Against a difficult trading environment in the period, the Group again generated substantial cash flow and saw a marked improvement in share price. Reflecting the Company's progress in the year, annual bonus payouts of 27.6% to 47.5% of maximum were made to continuing Executive Directors. Awards made under the Performance Share Plan in 2009 were subject to a relative total shareholder return condition. Performance against the condition was tested during 2012 and these awards lapsed. Overall, the Committee believes that this represents a fair link between reward and performance for the period under review.

We are committed to ensuring that rewards for Executives are closely aligned to the interests of shareholders through having all our incentive arrangements linked to challenging performance targets, focused on growing earnings and generating market-beating levels of shareholder return. Our long-term incentive plans seek to reward our Executives for the Company's performance against its peers and a recovery in its earnings per share. Amongst the targets for bonuses in 2013 are EBITDA and debt reduction as well as measures for individual Directors linked to individual performance. These measures relate directly to the Company's business scorecard and are therefore directly linked to the achievement of key strategic objectives.

We continue to monitor our remuneration practice to ensure we have the correct alignment with business strategy, Company performance and shareholder interests, and are comfortable that it does so. As a result, we are not proposing any major changes to the remuneration policy for the 2013 financial year, particularly to the structure of the annual bonus and LTIP. However, to reflect our near term priorities, we have altered the mix of bonus measures that will apply for Executive Directors in 2013 so that there is a greater focus on financial measures over individual KPIs than in 2012. Salaries were reviewed in late 2012 and the Committee, for the sixth consecutive year, decided not to award increases to the Executive Directors in 2013.

The Committee encourages dialogue with the Company's shareholders and will consult with major shareholders ahead of any significant future changes to the remuneration policy. We were delighted that the 2011 Remuneration Report received a 93% vote in favour. Thank you for your continued support.

And finally, after three years as chairman of the Committee, I will be stepping down from that role at the forthcoming AGM. Camilla Rhodes will Chair the Committee after that date and I wish her well.

Yours faithfully



**Geoff Iddison**  
Chairman of the Remuneration Committee

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## **Directors' Remuneration Report (continued)**

### **Introduction**

In preparing this report we have taken into account the new BIS proposals and have split this year's Remuneration Report into two parts, a Policy Section and an Implementation Section. As required, the Report has been prepared in accordance with Schedule 8 to the Accounting Regulations under the Companies Act 2006 ('the Act'). The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority (the 'Listing Rules') and describes how the Board has applied the principles relating to Directors' remuneration in the UK Corporate Governance Code (the 'Code'). A resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved. The current legislation requires the auditors to report on certain parts of the Directors' Remuneration Report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Accounting Regulations. The report has therefore been divided into separate sections for audited and unaudited information.

### **UNAUDITED INFORMATION**

#### **Policy Section**

The Committee's remuneration policy aims to attract, motivate and retain Directors of the highest calibre needed to maintain the Group's strong position in its varied markets, to drive the future success of the business and to reward them for delivering long-term value to shareholders.

The Company's policy is that a substantial proportion of the remuneration of the Executive Directors should be performance related. Executive Directors may earn annual bonus payments together with the benefits of participation in share schemes and these arrangements are described below.

The Committee reviews the performance criteria attached to short and long-term incentives each year and their appropriate mix to ensure that they are aligned with the Company's strategic objectives and future direction.

The Committee has also considered the structure of the Directors' remuneration packages from a risk perspective. It remains satisfied that the packages, which include a base salary, an annual bonus (with a significant element paid in shares, receipt of which is deferred) and long-term incentives, do not encourage inappropriate risk taking. Risk is taken into account when setting the targets under variable incentive schemes. This is done by ensuring that a mix of metrics is used and targets, while stretching, are realistic, attainable, for the long-term benefit of the Company and achievable without taking inappropriate business risks.

The Remuneration Committee also considers the level of pay and employment conditions throughout the Group (and in particular of other members of senior management) when setting Executive Directors' remuneration.

In reviewing the remuneration policy, the Committee has the discretion to take into consideration (amongst other factors) corporate performance on environmental, social and governance (ESG) issues. The Committee is satisfied that ESG risks are not raised by the incentive structure through inadvertently motivating irresponsible behaviour.

The Remuneration Committee encourages dialogue with the Company's major shareholders and on a regular basis. Major shareholders will be consulted in advance on any significant changes proposed for the remuneration policy. The feedback from consultation will be considered by the Committee.

The table following sets out a summary of each element of the Executive Director's remuneration packages, the policy for how these are operated and their link to the Company's strategy.

## Executive Directors' Remuneration Package

Element of pay	Purpose and link to strategy	How operates in practice	Maximum potential value	Description of performance metrics applying	Changes for 2013
<b>Base salary</b>	To attract and retain high-calibre individuals. Reflects an individual's experience, role and performance.	Salaries are reviewed prior to the beginning of each calendar year and when an individual changes position or responsibility. Any changes as a result of the annual salary review normally take effect from 1 January.  In deciding appropriate levels, the Committee takes into account market conditions, the market rates for similar positions in comparably sized companies and appropriate media companies, the responsibilities, individual performance and experience of each Director.	To pay around the mid-market level.  Increases are generally limited to the level of salary increases awarded to employees across the Group but higher increases may be appropriate where an individual is promoted, changes role or where an individual is appointed on a below market salary with the expectation that his salary will increase with experience and performance.	Individual performance is taken into account in determining salaries.	No change.  There were no increases to Directors' salaries in 2013, being the sixth consecutive year that salaries have remained unchanged for continuing Directors.
<b>Benefits</b>	To aid retention and remain competitive in the market place. Medical benefits provided to minimise disruption.	Benefits comprise a car (or car allowance), telephone, health insurance and life assurance (four times cover).	Not applicable.	Not applicable.	No change.
<b>Annual bonus</b>	To motivate executives and incentivise the achievement of key financial and strategic targets over the year without encouraging excessive risk taking.	<i>The Committee considers and approves the measures and targets at the start of each year and ensures they are aligned with business strategy and are sufficiently stretching.</i>  In setting the appropriate financial parameters, the Committee takes into account the Company's internal budgets and, where applicable, analysts' expectations for the forthcoming year. The targets applying to financial measures are based on a sliding scale.	<i>Maximum bonus opportunity is 120% of salary for Ashley Highfield and 100% of salary for Grant Murray.</i>  Danny Cammiade, is not eligible to participate in the 2013 bonus scheme.	<i>For the 2013 financial year, Ashley Highfield and Grant Murray have bonus targets relating to EBITDA and debt reduction performance, and each has a number of individual key performance targets linked to the Group's strategy, customers and people development. In the event that the minimum threshold target for EBITDA or debt reduction is missed, the Executive shall not be entitled to receive a bonus payment in respect of that measure, and the bonus in respect of KPIs which would otherwise have been payable will be halved.</i>	<i>The weightings applying to each measure were adjusted for 2013 to reflect a focus on financial measures over individual KPIs.</i>  Details of individual weightings are provided on page 44. Targets relating to EBITDA and debt reduction performance have equal weighting in each case.

## Directors' Remuneration Report (continued)

### Executive Directors' Remuneration Package (continued)

Element of pay	Purpose and link to strategy	How operates in practice	Maximum potential value	Description of performance metrics applying	Changes for 2013
<b>Annual bonus (continued)</b>		<p>The Company's policy (unless special circumstances apply) is that 50% of any bonus payable to Ashley Highfield, and one third of bonus payable to Grant Murray are deferred in shares for three years under the provisions of the Company's Deferred Share Bonus Plan. Deferred shares are released subject to continued employment and not being under notice of termination.</p> <p>Clawback provisions apply to bonuses payable to Executive Directors. This allows the Company to require the repayment of amounts of bonus in certain specified circumstances, including a material misstatement of the Group's financial position.</p>		If the minimum threshold EBITDA and net debt targets are both missed, no element of bonus will be payable in respect of either target or for individual non-financial KPIs, (irrespective of their achievement) unless the Committee determines that extraordinary circumstances apply.	
<b>Long-term incentives</b>	<p>Incentivises Executive Directors and selected senior executives to achieve superior financial performance and long-term shareholder returns.</p> <p>To facilitate share ownership and provide further alignment with shareholders.</p>	<p>The Company operates a Performance Share Plan (PSP). Under this plan annual awards (structured as nil cost options) are granted. These awards vest after three years subject to the achievement of stretching performance conditions measured over a period of three years and continued employment. The Committee reviews the appropriateness of metrics and targets annually.</p> <p>The level of grant is reviewed annually (subject to the PSP individual limit) taking into account overall remuneration, the performance of the Executive and the Company's share price.</p>	<p>Under the PSP, awards with a face value of no more than 125% of salary (or 150% of salary in exceptional circumstances) may be made in any year.</p> <p>As part of the terms agreed with the Ashley Highfield upon his recruitment, he will receive PSP awards of no less than 62.5% of his base salary in 2012 and 2013. His recruitment terms also provide that Mr Highfield may also receive matching awards if he invests his own monies. In aggregate, the maximum face value of PSP and matching awards cannot exceed 125% of his salary in any financial year<sup>1</sup>. The Committee intends to make an award of 75% of salary to Mr Highfield (in addition to any matched element) in 2013.</p> <p>Given his forthcoming departure from the Company, Danny Cammiade will not receive a PSP award in 2013.</p> <p>Other senior executives are expected to receive slightly larger numbers of awards than last year – for the Chief Financial Officer, this is an award over shares worth c.60% of his base salary (assuming a share price of 13.0p).</p>	<p>For the 2013 awards, the performance metrics will be the same as for 2012. 50% of the awards are subject to a Total Shareholder Return condition measuring the Company's share price growth (plus dividends reinvested) against the constituents of the FTSE All-Share Media sector (excluding FTSE 100 companies) over a three year period.</p> <p>The other 50% is subject to earnings per share growth targets<sup>2</sup>.</p> <p>For both measures, if performance is between threshold and maximum, vesting is on a straight line basis.</p> <p>In addition, awards will only vest if the Committee is satisfied that the Company's underlying performance has achieved an appropriate level of improvement.</p>	No change.

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Element of pay	Purpose and link to strategy	How operates in practice	Maximum potential value	Description of performance metrics applying	Changes for 2013
<b>Pensions</b>	To aid retention and remain competitive in the market place.	The Company operates the Johnston Press Pension Plan (JPPP), which has a closed defined benefit section and a defined contribution section. The defined benefit section has been closed to future accrual since 30 June 2010. In addition, the Company may contribute to a private pension or a salary supplement. The Company has announced in 2013 proposed plans to close the defined contribution section of the JPPP and transfer its pension provision to Zurich under the terms of a master trust agreement.	<p>Danny Cammiade accrued benefits under the defined benefit section of the JPPP. Since its closure, the Company makes pension contributions of 25% of his basic salary and matches any contributions by him up to a maximum of 5% of salary by way of a salary supplement less the cost of employer National Insurance contributions on such amounts.</p> <p>Ashley Highfield is a member of the JPPP. The Company makes pension contributions of 25% of his basic salary and matches any contributions by him up to a maximum of 5% of salary.</p> <p>Grant Murray is not a member of the JPPP. The Company has agreed with him that it will make an annual contribution of £50,000 to the JPPP (if he chooses to join) or, at his option, into a private pension scheme.</p> <p>Only base salary is pensionable.</p>	Not applicable.	No change.

1 As disclosed in last year's report, as part of the Chief Executive's recruitment a contractual minimum arrangement regarding PSP awards applies. Further details are provided below.

2 The EPS performance targets which will apply to the 2013 awards are set out below.

## Directors' Remuneration Report (continued)

### Policy Section (continued)

In determining the remuneration policy for Executive Directors, the Committee takes into account the policy of employees across the Group. Specifically, the Committee reviews the remuneration policy and remuneration recommendations for other members of the executive management as it is designated to consider. Pay and benefits elsewhere in the Group are determined by senior management and approved by the Executive Management Committee. The Committee receives reports in respect of these reviews as part of updates in respect of remuneration across the Group.

### Basic Salary

With effect from 1 January 2013 the salaries of Ashley Highfield, Grant Murray and Danny Cammiade remained unchanged at £400,000, £270,000 and £323,592 per annum respectively. 2013 is the sixth year during which salaries for continuing Executive Directors have stayed at the same level.

### Annual Bonus

The following table lays out the elements of the maximum potential bonus payable for each Executive Director in 2013 and the performance measures that apply:

	Elements of bonus as a percentage of base salary	
	Ashley Highfield	Grant Murray
EBITDA and debt reduction	80%	60%
Key performance indicators	40%	40%
Maximum potential bonus payable in 2013	120%	100%

### Performance Share Plan

After consulting with certain of our significant shareholders, the Committee decided to retain the same performance conditions and weightings for awards to be made in 2013. Accordingly, half of the awards will be subject to a Total Shareholder Return (TSR) condition and the other half subject to an Earnings Per Share (EPS) growth condition.

The TSR element will be measured against the constituents of the FTSE All-Share Media sector (excluding FTSE 100 companies) over a three year period. 25% of this part of the award will vest if the Group achieves median ranking and 100% vests if upper quartile is achieved. None of this part of the award vests if the Company performance is below median. For performance between median and upper quartile, vesting is on a straight line basis. The awards subject to TSR will only vest if the Committee is satisfied that the Company's underlying performance has achieved an appropriate level of improvement.

For the EPS element, 25% of this part of the award will vest for EPS growth of 0% per annum over the three-year period ending 31 December 2015 with all of this part of the award vesting for EPS growth of 6% per annum or greater with vesting on a straight line basis between these targets. The Company's EPS has declined over recent years and the Committee considers a reversal of this trend to be very important. Accordingly, achievement of these targets would represent a significant turnaround in the Company's performance. No vesting of this part of the award would occur for EPS growth of less than 0% per annum.

### PSP Matching Awards made to Ashley Highfield

Under the terms of his contract, if Ashley Highfield invests in Company Shares out of his own monies prior to the payment of any bonus in 2013 and/or out of a cash bonus during 2013 and/or out of a cash bonus during 2014, then he will receive an award (or awards) of Matching Shares under the PSP ('PSP Matching Shares') on a 2-for-1 basis by reference to the level of investment (grossed up for tax in the case of investment of cash bonus). The value of these PSP Matching Shares cannot exceed 60% of salary in these circumstances and also cannot exceed £200,000 in respect of an investment of own monies.

The aggregate market value of shares (as at the time of grant) over which all awards are granted to him under the PSP (including any Award of PSP Matching Shares) in any financial year of the Company will not exceed 125% of his base salary at that time.

All awards made to Ashley Highfield under the PSP scheme rules, and as described in this report, shall be subject to such conditions (including performance conditions) as the Committee, acting reasonably, may specify on or prior to the award being granted and to a normal vesting period of at least three years. For any matching awards that may be granted in 2013, half of these will be subject to a TSR condition against the constituents of the FTSE All-Share Media sector (excluding any FTSE 100 companies) measured over three years from the date of award and the other half subject to a EPS growth measure – the targets and vesting range will be the same as those that apply to the annual cycle of 2013 PSP awards.

Awards over PSP Matching Shares will also normally only vest to the extent that he has retained the related 'matched' investment shares until the time of vesting. As we explained last year, the Committee and the Board considered that the long-term incentive arrangements contained in Ashley Highfield's contract were necessary at the time to secure his recruitment in November 2011 and to incentivise appropriate strategic development necessary to return the business to growth.

## All-Employee Share Schemes

The Company operates the following all-employee schemes:

A Company Share Option Plan (CSOP) was introduced in 2012 and has been approved by HM Revenue and Customs. It permits the Company to grant options to certain employees which may be subject to performance conditions to be determined by the Committee. Executive Directors are not eligible to receive awards under the CSOP. The CSOP is not open to employees in the Isle of Man. The first awards to employees under the CSOP were made in 2012 and are not subject to performance conditions.

A SAYE Sharesave Plan, the Johnston Press 2007 Sharesave Plan, for eligible employees under which options may be granted at a discount of up to 20% of market value, subject to the employee entering into a monthly savings contract with maximum aggregate savings equal to £250 per month. The last offer was made in 2010. The Committee will consider whether to make an award in 2013 during the course of the year.

A Share Incentive Plan (SIP) for all eligible employees. The SIP has been approved by HM Revenue and Customs and is in two parts. The first is a Partnership Scheme, which allows employees to purchase shares in the Company, worth up to £1,500 in any tax year, on a monthly basis in a tax efficient manner. The second element is a Free Shares Scheme, which can provide employees who have joined the scheme with free shares up to a maximum value. Employees who leave the Group as a bad leaver within three years of the shares being awarded forfeit the Free Shares. For Free Share awards, the Committee set a Group profit target and a base fund to be utilised to purchase shares in the Company. If the target was met, Free Shares were allocated to employees based on hours worked and not pro rata to salary.

During 2012, the Committee considered the operation of the SIP and concluded that the Free Shares Scheme was not operating effectively as an incentive. As a consequence, the Company did not operate the scheme in 2012 and has no current plans to make awards under the Free Shares Scheme in 2013 or future years. It intends to continue to operate the Partnership Scheme.

The Company operates similar schemes in the Republic of Ireland.

## Share Ownership Guidelines

Executive Directors are expected to retain 50% of shares which vest under executive share plans, after allowing for sufficient sales of shares to meet tax liabilities, until a holding to the value of 100% of salary has been achieved.

## Service Contracts

The contract dates and notice periods for each Executive Director are as follows:

	Date of Contract	Notice period by Company	Notice period by Director
Ashley Highfield	27 July 2011	1 year	1 year
Danny Cammiade	27 February 2006 <sup>1</sup>	1 year	1 year
Grant Murray	3 May 2011	1 year	1 year

<sup>1</sup> As amended by a compromise agreement dated 13 December 2012 (see below).

The Executive Directors have one year rolling contracts terminable by either party on 12 months' notice. In the event of termination by the Company, the Executive Directors would be entitled to salary and benefits for the notice period and the Committee seeks to apply the principles of mitigation following termination.

In the event of termination, payment of any element of bonus to Executive Directors will depend upon the relevant circumstances, the terms of their contract and whether the leaver is treated as a good or bad leaver.

The Executive Directors' contracts of employment may also be terminated, at the option of the Company, by giving six months' notice if the Executive is incapacitated by reason of ill-health or accident from performing his duties for certain specified periods.

The Company may also terminate the Executive's employment forthwith in certain circumstances including any serious breach of his obligations under the relevant contract of employment. The Executive Directors' service contracts do not provide any entitlement to payment in lieu of notice or the provision of liquidated damages.

As disclosed in last year's remuneration report, the Company entered into a compromise agreement with Danny Cammiade on 19 August 2011 which had the effect of amending his contract of employment. This agreement provided that he could, upon the service of notice to the Company, terminate his contract of employment with the Company on 31 December 2012. The agreement also provided that, subject to the achievement of certain objectives linked to Group cost savings in 2012, he could receive an additional bonus (on top of his annual maximum) of 75% of salary, i.e. a total of 225% of salary. That agreement was superseded by a subsequent compromise agreement between the parties executed on 13 December 2012. Under the terms of the new agreement, his contract of employment with the Company will terminate on 31 March 2013, and, consistent with his August 2011 agreement, he will be entitled to receive payment of one year's basic salary, pension, car allowance and medical insurance (totalling £420,000) to be paid in 12 equal monthly instalments commencing in April 2013 (such sum to be mitigated by any payments received by him for any alternative full time employment or work which he secures during that period). The agreement also provides that he is entitled to receive a cash bonus equivalent to 125% of salary payable on 8 April 2013, but is not entitled to receive any bonus under the Group's ordinary bonus scheme for Executive Directors in respect of 2012 or 2013. This amount recognises Mr Cammiade's contribution to the Group throughout 2012 and during the first three months of 2013 and his management of specific projects during that time.

## Directors' Remuneration Report (continued)

### Service Contracts (continued)

The Committee is satisfied that this arrangement was necessary to continue to drive the Group's cost performance, improve efficiencies and manage the implementation of a new management structure during the transitional period in 2012 and early in 2013, and merited in recognising Mr Cammiade's key role in delivering these objectives. Mr Cammiade is entitled to be treated as a good leaver for the purposes of the Company's share schemes (for the avoidance of doubt, his entitlement to any awards shall be subject to the rules applied to good leavers in these circumstances and are therefore subject to performance and time pro-rating where applicable).

Executive Directors are entitled to accept up to two Non-executive director appointments outwith the Company provided that the Chairman's permission is obtained. The Remuneration Committee decides whether any fees for such positions are retained by the Director. In addition, the Executive Directors are entitled to accept any positions connected with the newspaper industry or any business in which the Company holds an investment.

Executive Directors' service contracts will be available for inspection at the Annual General Meeting.

### Non-Executive Directors

The appointments of Non-Executive Directors of the Company are terminable at will, subject to a three month notice period. It is the Committee's policy that any future Board appointments will be made on the same terms. The Non-Executive Directors have letters of appointment dated as follows:

Ian Russell	28 January 2012	Camilla Rhodes	13 July 2012
Ralph Marshall	25 June 2011	Geoff Iddison	1 December 2012
Mark Pain	1 May 2012	Kjell Aamot	2 July 2010

A copy of the standard letter of appointment for the Chairman and Non-Executive Directors is displayed on the Company's website in the Investor Centre section.

The letters of appointment provide specific terms of engagement for Non-Executive Directors and their remuneration is determined by the Board within the limits set by the Articles of Association and based on external advice including independent surveys of fees paid to Non-Executive Directors of similar companies. The basic annual fee paid to each Non-Executive Director is £40,000. The Non-Executive Directors receive further fees for additional work performed for the Company in respect of chairing the Remuneration Committee and Audit Committee, together with responsibilities as Chairman and Senior Independent Director. The Chairmen of the Audit Committee, Remuneration Committee and the Senior Independent Director each receive an additional £7,500 per annum. The Chairman's fee is £130,000 per annum. Each of these fees has been unchanged since 2008. During 2009 the Board agreed that 50% of Non-Executive Directors' fees would be paid in the form of shares and this policy has been retained since that time. It will be reviewed in 2013. Non-Executive Directors' fees are paid on a quarterly basis. Non-Executive Directors cannot participate in the Company's bonus plans, Share Schemes or pension plan.

## AUDITED INFORMATION

### Implementation section

#### Directors' Remuneration

a) The total amounts for Directors' remuneration and other benefits were as follows:

	2012 £'000	2011 £'000
Emoluments	2,049	2,186
Pension contributions (inc. salary supplements)	235	331
	<b>2,284</b>	<b>2,517</b>



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## b) Directors' Emoluments

	Salary/Fees <sup>1</sup>		Taxable Benefits <sup>2</sup>		Performance Related Bonus <sup>3</sup>				Pension Contributions <sup>4</sup>		Total Emoluments	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000	Cash 2012 £'000	Shares 2012 £'000	Cash 2011 £'000	Shares 2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000
<b>Chairman</b>												
Ian Russell	130	130	-	-	-	-	-	-	-	-	130	130
<b>Executive Directors</b>												
Ashley Highfield <sup>5</sup>	400	67	11	2	95	95	13	13	100	20	701	115
Grant Murray <sup>6</sup>	270	179	10	7	50	25	45	23	50	50	405	304
Danny Cammiade <sup>7</sup>	324	324	12	25	404	-	184	184	85	85	825	802
John Fry <sup>8</sup>	-	438	-	13	-	-	239	-	-	143	-	833
Stuart Paterson <sup>9</sup>	-	75	-	2	-	-	-	-	-	33	-	110
<b>Non-Executive Directors</b>												
Ralph Marshall	40	40	-	-	-	-	-	-	-	-	40	40
Mark Pain	55	55	-	-	-	-	-	-	-	-	55	55
Camilla Rhodes	40	40	-	-	-	-	-	-	-	-	40	40
Geoff Iddison	48	48	-	-	-	-	-	-	-	-	48	48
Kjell Aamot	40	40	-	-	-	-	-	-	-	-	40	40
	<b>1,347</b>	<b>1,436</b>	<b>33</b>	<b>49</b>	<b>549</b>	<b>120</b>	<b>481</b>	<b>220</b>	<b>235</b>	<b>331</b>	<b>2,284</b>	<b>2,517</b>

<sup>1</sup> Half of the Chairman and Non-Executive Directors' fees are paid in the Company's shares.

<sup>2</sup> Taxable benefits include a company car (or car allowance), telephone, health insurance and life assurance (all Executive Directors have life cover of four times basic salary).

<sup>3</sup> A proportion of Executive Directors' bonus is paid in shares, deferred for three years with potential for forfeiture.

<sup>4</sup> Including salary supplement pension provisions.

<sup>5</sup> Appointed 1 November 2011. Ashley Highfield is a non-executive director of William Hill plc and a Governor of the British Film Institute. He received fees of £60,000 from William Hill plc during 2012. He received no fees as a Governor of the British Film Institute (a charity organisation).

<sup>6</sup> Appointed 3 May 2011.

<sup>7</sup> Will resign on 31 March 2013. Under the terms of a compromise agreement he is entitled to receive certain pay and benefits which were fully accrued in 2012 and which are more fully described on page 45.

<sup>8</sup> Retired 7 March 2012. Emoluments are shown for the period to 31 October 2011, when he stepped down as Chief Executive Officer. Bonus paid to him for 2012 was calculated on the basis of his full year's earnings.

<sup>9</sup> Resigned 15 March 2011.

## UNAUDITED INFORMATION

### Determination of the 2012 Bonus

The targets and weightings applying to the 2012 bonus plan are set out in the table below.

	Elements of bonus as a percentage of base salary	
	Ashley Highfield	Grant Murray
Operating profit and cash flow	70%	75%
Key performance indicators	50%	25%
Maximum potential bonus payable in 2012	120%	100%

Operating profit (before non-recurring and IAS 21/39 items) for 2012 was between lower threshold and budget. Cash flow was above upper threshold. In making its proposal in respect of payments of bonuses, and mindful of the trading conditions faced by the Company in 2012, the Executive Directors recommended that the bonuses which would have been payable to them be reduced. While recognising the achievements of the Executive Directors in meeting their bonus objectives during the year, the Committee agreed with this proposal and exercised its discretion under the Company's bonus scheme rules to reduce the level of bonuses payable. In keeping with this decision, a profit and cash flow based bonus equal to 28% of salary was payable to Ashley Highfield and 19.3% of salary was payable to Grant Murray.

The individual key performance targets varied by Executive Director. These included strategic development, newspaper circulation revenue, refinancing, audience growth, implementation of organisational change, stakeholder satisfaction, together with other strategic (including digital) and financial targets. Since the 2012 profit and cash flow threshold was achieved, bonus was payable for the achievement of individual key performance targets (although in line with the Executive Director's recommendation the Committee also determined to reduce the level of payment in respect of these). As a result bonuses equivalent to 19.5% and 8.3% of salary were payable to Ashley Highfield and Grant Murray respectively in relation to their individual key performance targets.

As disclosed above on page 45, Danny Cammiade will receive a bonus of 125% of salary as set out in his compromise agreement dated 13 December 2012. This recognises Mr Cammiade's contribution to the Group throughout 2012 and during the first three months of 2013 and specific projects undertaken during this time.

## Directors' Remuneration Report (continued)

### AUDITED INFORMATION Performance Share Plan

Director	Award grant date	Share price at grant (pence)	As at 31.12.11	Granted during year	Lapsed during year	Exercised during year	As at 29.12.12	Earliest date shares can be acquired	Latest date shares can be acquired
Ashley Highfield	11.11.11 <sup>3</sup>	4.77	10,471,204	–	–	–	10,471,204	11.11.14	10.11.15
	14.09.12 <sup>4</sup>	5.49	–	6,954,581	–	–	6,954,581	14.09.15	13.09.16
	21.12.12 <sup>5</sup>	14.50	–	180,000	–	–	180,000	21.12.15	20.12.16
Grant Murray	31.05.11 <sup>2</sup>	7.00	720,000	–	–	–	720,000	31.05.14	30.05.15
	14.09.12 <sup>4</sup>	5.49	–	1,102,041	–	–	1,102,041	14.09.15	13.09.16
Danny Cammiade	30.06.09 <sup>6</sup>	16.50	862,912	–	(862,912)	–	–	30.06.12	31.12.12
	16.04.10 <sup>1</sup>	31.75	744,007	–	–	–	744,007	16.04.13	15.04.14
	21.04.11 <sup>2</sup>	7.40	862,912	–	–	–	862,912	21.04.14	20.04.15
	14.09.12 <sup>4</sup>	5.49	–	1,320,784	–	–	1,320,784	14.09.15	13.09.16

1 2010 awards: Based on relative TSR against the constituents of the FTSE All-Share Media sector, excluding any FTSE 100 participants (the 'Comparator Group'). Below median, none of the award vests, 25% of the award vests for median ranking and 100% for upper quartile ranking. Vesting is on a straight line basis for performance between median and upper quartile. In addition, awards will only vest if the Committee is satisfied that the Company's underlying performance has achieved an appropriate level of improvement. As at the date of this report, it is anticipated that the 2010 award will not vest.

2 2011 awards: Two performance conditions apply. 50% is based on relative TSR against the Comparator Group. The same vesting schedule as for the 2010 awards applies. In addition, the awards subject to TSR will only vest if the Committee is satisfied that the Company's underlying performance has achieved an appropriate level of improvement. The other 50% is based on growth in earnings per share (EPS). 25% of the EPS element of the award will vest for EPS growth of RPI + 4% per annum over the three-year period ending 31 December 2013 and all of this part of the award would vest for EPS growth of RPI + 12% per annum or greater with vesting on a straight line basis between these ranges. No vesting of this part of the award would occur for EPS growth of less than RPI + 4% per annum.

3 Ashley Highfield received a one-off recruitment award under the PSP. Two performance conditions apply. 50% is based on relative TSR against the Comparator Group. The performance period is 3 years from the date of the award and the same vesting schedule as for the 2011 awards applies. The other 50% is based on growth in earnings per share (EPS) over a three year period using the 2011 financial year as the base year. In addition, the awards subject to TSR will only vest if the Committee is satisfied that the Company's underlying performance has achieved an appropriate level of improvement. 25% of the EPS element of the award will vest for EPS growth of 0% over the three-year period ending 31 December 2014 and all of this part of the award would vest for EPS growth of 8% per annum or greater with vesting on a straight line basis between these ranges. No vesting of this part of the award would occur for EPS reduces over the performance period.

4 2012 awards: Two performance conditions apply. 50% is based on relative TSR against the Comparator Group (with the same vesting schedule as for the 2010 and 2011 awards) with the other 50% relating to performance against EPS growth targets. The awards subject to TSR will only vest if the Committee is satisfied that the Company's underlying performance has achieved an appropriate level of improvement. 40% of the EPS element of the award will vest for EPS of 0% and all of this part of the award would vest for EPS of 8% with vesting on a straight line basis between these targets. No vesting of this part of the award would occur if EPS reduces over this period. The face value of these awards at grant are £381,806.50 for Ashley Highfield, £60,502.05 for Grant Murray and £72,511.04 for Danny Cammiade. The performance period for the TSR element is three years from the date of grant and the EPS element is the three financial years starting with the 2012 financial year. The award to Ashley Highfield included 926,270 PSP awards under the PSP Matching Awards provisions described above.

5 These are subsequent matching awards that were granted following Ashley Highfield's purchase of shares on 12 October 2012. The same performance conditions apply as those attached to Mr Highfield's recruitment award (footnote 3). However, for the TSR element, the three-year performance period begins on the date of grant.

6 The 2009 award was subject to a relative TSR condition against the Comparator Group. Johnston Press was ranked below median of the group and the award lapsed.

The PSP awards listed above are only exercisable subject to the level of achievement of the performance criteria denoted above.

The awards within the PSP are exercisable at nil cost at the end of the three year vesting period.

### All-Employee Share Schemes

Sharesave/SAYE	At 31.12.11	Granted/ awarded	Exercised	Lapsed	At 29.12.12
Danny Cammiade	98,095	–	–	–	98,095
John Fry	57,142	–	–	57,142	–

The options shown above for Danny Cammiade are exercisable at a price of 15.75p between 1 April 2013 and 30 September 2013.

## Pensions

The following Directors had accrued pension benefits under the Group's defined benefit scheme:

	Years of pensionable service	Total accrued pension at 31.12.11 £'000	Increase in accrued pension during year £'000	Transfer value of increase £'000	Total accrued pension at 29.12.12 £'000	Transfer value of total accrued pension at		Increase in value of pension during year £'000
						31.12.11 £'000	29.12.12 £'000	
Danny Cammiade	19	157	–	–	165	3,598	3,750	152

Danny Cammiade was a member of the Group Pension Schemes before the introduction of the pensionable salary cap in May 1989. Following the closure of the defined benefit pension plan to future accrual in 2010, the Group made payments of £85,000 (2011: £85,000) to Danny Cammiade as a salary supplement net of National Insurance during 2012.

## UNAUDITED INFORMATION

### Directors' Interest in Shares

To further align the interests of senior management with those of shareholders, Executive Directors and certain other senior managers are subject to share ownership guidelines. Executive Directors are expected to retain 50% of shares which vest under executive share plans after allowing for sufficient sales of shares to meet tax liabilities, until a holding to the value of 100% of salary has been achieved. The interests of the Directors as at 29 December 2012 are set out below.

Name	Number of ordinary shares						Percentage of salary held in shares under the shareholding guideline
	31.12.11	Legally owned <sup>1</sup> at 29.12.12	Subject to SAYE at 29.12.12	Subject to deferral under the deferred share bonus plan at 29.12.12	Subject to performance conditions under the LTIP at 29.12.12		
Ashley Highfield	711,818	1,016,270	–	207,222	17,605,785		33.03
Grant Murray	–	–	–	352,732	1,822,041		–
Danny Cammiade	1,298,517	1,321,037	98,095	2,872,310	2,927,703		53.07

<sup>1</sup> Includes shares purchased and awarded through the Share Incentive Plan.

### Dilution

At the end of 2012 the total number of options and share awards granted, less lapsed, over new issuable shares under the share schemes over the previous 10 years was 1.67% of the issued share capital within a maximum limit of 10.0%.

The Company is proposing an ordinary resolution at its forthcoming Annual General Meeting to authorise it to hold up to 7.5% of its issued share capital in its Employee Benefit Trust. This proposal is intended to provide the Company with greater flexibility to satisfy share awards.

### The Remuneration Committee

The Committee was chaired by Geoff Iddison throughout 2012. Mark Pain and Camilla Rhodes were members of the Committee throughout the year and up to the date of this report. All are independent Non-Executive Directors. Mr Iddison will step down as a Chairman of the Committee at the Company's forthcoming Annual General Meeting on 26 April 2013 and Camilla Rhodes will succeed him as Committee chair with effect from that date. During 2012, the Committee met on eight occasions. At those meetings basic salaries of Executive Directors were reviewed, the targets and quantum of annual performance related bonuses for directors were agreed, as were awards to be granted under the Group's PSP and the performance measures applying. The operation of all employee share schemes was also reviewed and the meetings also approved the level of vesting of the 2009 PSP awards.

The Committee has the delegated responsibility for reviewing the Board policy on remuneration for the executive management team (which includes the three Executive Directors) and setting all aspects of remuneration, including the total remuneration package for all Executive Directors and the Chairman of the Board.

The Committee's terms of reference were reviewed in 2012 and require it to meet at least twice each year and at such times as is necessary. The terms of reference, which are available on the Company's website and on request, set out the responsibilities of the Committee.

The remuneration of Non-Executive Directors is a matter for the Chairman of the Board and the Executive Directors.

No member of the Committee has any personal financial interest (other than as a shareholder), conflicts of interest arising from cross directorships or day to day involvement in running the business. Other Directors attend meetings when invited by the Committee and the Company Secretary acts as Secretary to the Committee. The Company's Director of Human Resources also attends meetings by invitation. No Director plays a part in any discussion about his or her own remuneration.

## Directors' Remuneration Report (continued)

### The Remuneration Committee (continued)

During the year, the Committee received executive remuneration advice from its external independent adviser, New Bridge Street (NBS), which is part of Aon plc. Neither NBS nor any other part of Aon plc provided other services to the Company during 2012. NBS attended one of the meetings of the Committee during the year and provided advice as required by the Committee. The terms of engagement between the Company and NBS are displayed on the Company's website. NBS are signatories to the Remuneration Consultants Group's Code of Conduct.

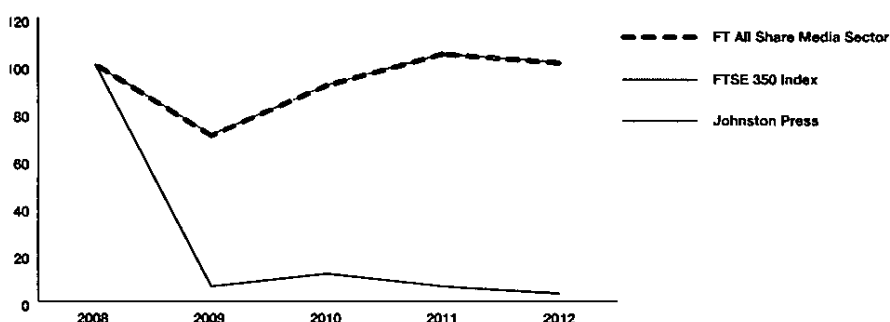
There is an on-going training programme for the Committee which consists of an annual update on any changes in regulations and also best practice. In addition, each member of the Committee attends various seminars throughout the year.

As explained on page 33, the Board undertook an evaluation of its performance during the year. This included a review of the effectiveness of this Committee considering its composition, chairmanship, whether it fulfilled its role as outlined in the terms of reference, its reporting and overall performance. This evaluation process was undertaken by the members of the Committee itself as well as by all members of the Board. The results of this process confirmed the continued effectiveness of the Committee. Members of the Committee reviewed comments received as part of this process with a view to improving the Committee's operation.

### Performance Graph

The following graph shows the Company's performance, measured by total shareholder return, compared with the performance of the FTSE 350 Index and FTSE All Share Media Sector. The FTSE 350 Index and FTSE All Share Media Sector have been selected for this comparison because the former measures the performance of stocks in general and the latter measures the performance of companies operating in the same sector as the Company.

Five Year Return Index for Johnston Press at 31 December 2012



This graph shows the value at 31 December 2012 of £100 invested in Johnston Press plc on 31 December 2007 compared with the value of £100 invested in the FTSE 350 Index and the FTSE All Share Media Sector. The other plotted points are the intervening financial year ends.

The middle market price of the Ordinary Shares was as follows (audited information):

On 3 January 2012	6.80p	Highest price during year	15.00p
On 28 December 2012	13.00p	Lowest price during year	4.80p

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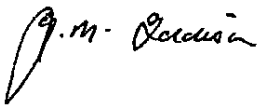
#### Statement of shareholder voting at the 2012 AGM

At last year's AGM, the following proxy votes from shareholders were received in respect of the Directors' Remuneration Report:

	Total number of votes	% of votes cast
For <sup>1</sup>	343,238,955	93.7
Against	23,100,877	6.3
Abstentions	109,932	0.0
<b>Total</b>	<b>366,449,764</b>	<b>100.0</b>

<sup>1</sup> including discretionary votes.

This report was approved by the Board of Directors on 19 March 2013 and signed on its behalf by:



**Geoff Iddison**  
Chair of the Remuneration Committee

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## Directors' Report

The Directors present their Annual Report on the affairs of the Group, together with the financial statements and auditors' report for the period ended 29 December 2012. The Corporate Governance report set out on pages 32 to 38 forms part of this report.

### Principal Activities

The Group's main activities are the publishing of local and regional weekly, evening and morning newspapers; both paid-for and free in both in print and digital format, together with specialist publications in print, online or via mobile technologies, and related services in the United Kingdom and Republic of Ireland.

### Review of Business

The results for the year 2012 are set out in the Group Income Statement on page 59. The Group loss for the period before taxation was £6,765,000 (2011: loss of £143,803,000) which results in a net profit after tax for the period of £5,611,000 (2011: loss of £88,937,000). Details of the business activities during the year, the financial results, the financial position and the principal risks and uncertainties facing the Group are set out in the Business Review on pages 12 to 29.

The subsidiary undertakings principally affecting the profit and net assets of the Group are disclosed in Note 35 to the financial statements.

### Dividends

No interim dividend was paid and the Directors recommend no final dividend for the period. The preference dividend was paid on 29 June and 29 December 2012.

### Share Capital

Details of share capital are shown in Note 27.

### Environmental Policy

The Board acknowledges that environmental protection is one of the Group's business responsibilities. It aims for a continuous improvement in the Group's environmental performance and to comply with all relevant regulations. A documented environmental policy to monitor performance and to take action where appropriate is in force.

### Donations

Charitable donations amounted to £2,000, principally to local charities serving the communities in which the Group operates (2011: £27,000). There were no payments for political purposes.

### Supplier Payment Policy

The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensuring that suppliers are made aware of the terms of payment, and to abide by the terms of payment. Trade creditors of the Group at the end of the period were equivalent to 33 days purchases (2011: 30 days), based on the average daily amount invoiced by suppliers during the period.

### Financing Policy and Derivatives

The Group's policies are set out in Notes 21 to 23 and Note 32. These also include details of financial instruments and derivatives.

### Auditor

Each of the persons who is a Director at the date of approval of this report confirms that:

- (1) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- (2) the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s.418 of the Companies Act 2006.

### Forward-looking Statements

Where the Directors' Report (including the Performance Highlights, Business Review, Operational Review, Performance Review and Corporate Governance Report) contains forward-looking statements these are made by the Directors in good faith based on the information available to them at the time of their approval of this report. These statements will not be updated or reported upon further. Consequently such statements should be treated with caution due to the inherent uncertainties including both economic and business risk factors underlying such forward looking statements or information.

### Directors and Their Interests

Under the Company's Articles of Association, each Director is subject to retirement every three years and to election at the first Annual General Meeting after their appointment. In addition, in 2013, all Directors who wish to continue in office will offer himself/herself for re-election at the forthcoming Annual General Meeting.

As a consequence, Ian Russell, Ashley Highfield, Grant Murray, Mark Pain, Camilla Rhodes, Ralph Marshall, Geoff Iddison and Kjell Aamot will offer themselves for re-election.

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The Directors who held office at 29 December 2012 had the following interests in the ordinary share capital of the Company:

Ordinary Shares of 10p each	% of share capital	29 December 2012
Ian Russell	0.6%	3,916,163
Ashley Highfield	0.2%	1,016,270
Grant Murray	—	—
Danny Cammiade	0.2%	1,321,037
Ralph Marshall	0.1%	624,848
Mark Pain	0.1%	603,272
Camilla Rhodes	0.1%	396,807
Geoff Iddison	0.1%	607,245
Kjell Aamot	0.1%	556,666

In addition to the shareholdings shown above, which are all held beneficially, and the share options as shown on page 48, Ashley Highfield, Danny Cammiade and Grant Murray held interests in 16,198,517 (2011: 11,958,165) shares at 29 December 2012 by virtue of their status as potential beneficiaries of the Johnston Press plc Employee Share Trust.

Since 29 December 2012, Danny Cammiade has purchased 1,923 shares through the Share Incentive Plan.

No Director had any material interest in any contract, other than a service contract, with the Company or any subsidiary at any time during the year.

### Structure of Shares

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the period are shown in Note 27. The Company's issued ordinary share capital was 639,746,083 shares at 29 December 2012. As part of the refinancing completed on 28 August 2009, the Company issued warrants over 5.0% of its issued share capital to the Group's lenders, exercisable at any time over the 5 year period ending 27 August 2014 (the 'First Issue Warrants'). As part of the refinancing completed on 24 April 2012 (i) the exercise period for the First Issue Warrants was extended to 30 September 2017 (the 'Warrant Expiry Date'), (ii) the Company issued further warrants over just under 2.5% of its issued share capital to the Group's lenders (the 'Second Issue Warrants') and (iii) the Company undertook that on or before 30 September 2012, and subject to receiving all necessary shareholder approvals, authorisations and powers, it would issue further warrants over just under an additional 5.0% of its issued share capital as at 23 April 2012 to the Group's lenders (the 'Third Issue Warrants'). The Third Issue Warrants were subsequently issued on 25 September 2012. Each of the First Issue Warrants, Second Issue Warrants and Third Issue Warrants (together the 'Warrants') are exercisable at 10p each at any time prior to the Warrant Expiry Date. No Warrants were exercised during the 52 week period ended 29 December 2012.

The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. The redeemable cumulative preference shares carry 13.75% interest but do not carry voting rights. The percentage of the issued nominal value of the ordinary shares is 98.3% of the total issued nominal value of all share capital.

There are no specific restrictions on the size of a holding or on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in Note 30.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid. With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the United Kingdom Corporate Governance Code issued by the Financial Reporting Council, the Companies Acts and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in a schedule of matters reserved for approval of the Board, and the Corporate Governance Statement on pages 32 to 38.

## Directors' Report

(continued)

### Substantial Shareholdings

So far as the Directors are aware the only holders of 3% or more of the Ordinary Share Capital of the Company and any other major shareholders, other than Directors, as at the date of this report are as follows:

	% Holding	Ordinary Shares of 10p each Number
PanOcean Management Ltd (on behalf of Usaha Tegas)	20.0	127,947,952
Orbis Investment Management Ltd	11.6	73,933,670
Tindle Newspapers Ltd	8.0	51,179,698
Cazenove Capital Management Ltd	5.6	35,934,743

### Employee Involvement

It is the policy of the Group to encourage and develop all members of staff to realise their maximum potential. Wherever possible, vacancies are filled from within the Group and adequate opportunities for internal promotion are created. The Board is committed to a systematic training policy and the Company has a comprehensive training and development programme creating the opportunity for employees to maintain and improve their performance and to develop their potential to a maximum level of attainment. In this way, staff will make their best possible contribution to the organisation's success. The Group supports the principle of equal opportunities in employment and opposes all forms of unlawful or unfair discrimination on the grounds of race, age, nationality, religion, ethnic or national origin, sexual orientation, gender or gender reassignment, marital status or disability. It is also the policy of the Group, where possible, to give sympathetic consideration to disabled persons in their application for employment with the Group and to protect the interests of existing members of the staff who are disabled.

### Close Company Status

So far as the Directors are aware the Company is not a close company for taxation purposes.

### Change of Control

In the event of a change of control the Group's lenders (private placement loan note holders and various banks) have the option to declare all amounts outstanding repayable on demand.

### Directors' Liability

As permitted by the Companies Act 2006 (the 'Act'), the Company has insurance cover for the Directors against liabilities in relation to the Group.

### Electronic Voting

The Company has made provision for shareholders to vote electronically on the Resolutions to be considered at the Annual General Meeting and full instructions are included on the Form of Proxy, issued to shareholders with this Annual Report.

### Special Business

Five resolutions (resolutions 13 to 17) are set out under special business in the notice of this year's Annual General Meeting. The first two of these resolutions will be proposed as ordinary resolutions and the others as special resolutions.

The first resolution, Resolution 13, concerns a proposal to amend the Johnston Press Employee Share Trust (the "Trust") to increase the maximum number of shares which may be held by the Trust at any time from 5.0% to 7.5% (excluding shares under the Company's Share Incentive Plan or unconditionally allocated to and held on behalf of the beneficiaries of the Trust). This is proposed in order to increase the Board's ability to use certain share schemes to provide suitable incentives to the Company's management.

The purpose of the next resolution is to renew the Directors' authority to allot shares in the Company. Part (i) of Resolution 14 seeks authority to allot shares, and to grant rights to subscribe for or convert any security into shares in the Company up to a maximum nominal amount representing 33.33% of the existing issued ordinary share capital of the Company. The second part of Resolution 14 seeks additional authority to allot equity securities equivalent to a further 33.33% of the existing ordinary share capital of the Company. In accordance with recommended best practice, this additional authority will be applied to fully pre-emptive rights issues only and the authorisation will be valid for one year only. The Directors have no current intention to allot shares or grant rights to subscribe for or convert any security into shares except in connection with employee share schemes or on conversion of existing warrants, and the authority, if approved, will expire at the end of the Annual General Meeting in 2014.

The third resolution, Resolution 15 (which is the first of the three special resolutions), relates to the power given to the Directors to allot equity securities for cash without the statutory pre-emption provisions of the Act applying. In accordance with best practice guidelines, this authority is limited to allotments representing in total up to 5% of the existing issued ordinary share capital and to allotments in connection with a rights issue. This power, which accords with normal practice, currently expires on the date of this year's Annual General Meeting. The purpose of the resolution is to renew this power for a further year.



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The fourth item of special business is the renewal of the authority of the Company to purchase its own ordinary shares as permitted under its Articles of Association and the Act. Resolution 16 will, if passed, give authority to make such purchases in the market. The Directors have no immediate intention of using such authority and would do so only if they consider it to be in the best interests of shareholders generally and that an improvement in earnings per share would result. This Resolution specifies the maximum number of ordinary shares which may be purchased (representing approximately 10% of the Company's existing issued ordinary share capital) and the minimum and maximum prices at which they may be bought, reflecting the requirements of the Act and the Financial Services Authority.

The final resolution to be proposed is to permit the Company to call General Meetings (other than Annual General Meetings) on not less than 14 days notice as permitted by the Act. Although no such meetings are currently planned, the Directors believe that having authority to do so may, in some circumstances, assist with the efficient discharge of the Company's business. The Company intends to continue to provide as much notice as practicable of General Meetings and would normally use this authority only where it would be to the advantage of shareholders as a whole.

#### **Auditor**

Ordinary resolutions to re-appoint Deloitte LLP as the Company's auditor and to authorise the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

#### **P McCall**

Secretary  
108 Holyrood Road  
Edinburgh  
EH8 8AS  
19 March 2013

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## **Directors' Responsibility Statement**

We confirm to the best of our knowledge:

1. The Financial Statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
2. The Business Review, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board



**Ashley Highfield**  
Chief Executive Officer  
19 March 2013



**Grant Murray**  
Chief Financial Officer  
19 March 2013

## **Independent Auditor's Report to the Members of Johnston Press plc**

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We have audited the financial statements of Johnston Press plc for the 52 week period ended 29 December 2012 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Statement of Changes in Equity, the Group Statement of Financial Position and the Parent Company Balance Sheet, the Group Cash Flow Statement, and the related Notes 1 to 42. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibility Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 29 December 2012 and of the group's profit for the 52 week period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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**Independent Auditor's  
Report to the Members  
of Johnston Press plc**  
(continued)


**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, contained within the business review, in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.



**David Bell CA (Senior Statutory Auditor)**  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Edinburgh, United Kingdom  
19 March 2013

**Group Income Statement  
For the 52 week period  
ended 29 December 2012**

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	Notes	2012				2011			
		Before non-recurring and IAS 21/39 items £'000	Non-recurring items £'000	IAS 21/39 £'000	Total £'000	Before non-recurring and IAS 21/39 items £'000	Non-recurring items £'000	IAS 21/39 £'000	Total £'000
Revenue	6	328,691	30,000	–	358,691	373,845	–	–	373,845
Cost of sales		(207,868)	–	–	(207,868)	(235,143)	–	–	(235,143)
<b>Gross profit</b>		<b>120,823</b>	<b>30,000</b>	<b>–</b>	<b>150,823</b>	<b>138,702</b>	<b>–</b>	<b>–</b>	<b>138,702</b>
Operating expenses	7	(63,778)	(46,604)	–	(110,382)	(74,150)	(7,836)	–	(81,986)
Impairment of intangibles	7/15	–	–	–	–	–	(163,695)	–	(163,695)
Total operating expenses		(63,778)	(46,604)	–	(110,382)	(74,150)	(171,531)	–	(245,681)
<b>Operating profit/(loss)</b>	8	<b>57,045</b>	<b>(16,604)</b>	<b>–</b>	<b>40,441</b>	<b>64,552</b>	<b>(171,531)</b>	<b>–</b>	<b>(106,979)</b>
Investment income	10	148	–	–	148	67	–	–	67
Net finance (expense)/ income on pension assets/liabilities	11a	(2,471)	–	–	(2,471)	2,250	–	–	2,250
Change in fair value of hedges	11c	–	–	(7,297)	(7,297)	–	–	(676)	(676)
Retranslation of USD debt	11c	–	–	4,275	4,275	–	–	(285)	(285)
Retranslation of Euro debt	11c	–	–	262	262	–	–	285	285
Finance costs	11b	(42,129)	–	–	(42,129)	(38,475)	–	–	(38,475)
Share of results of associates	18	6	–	–	6	10	–	–	10
<b>Profit/(loss) before tax</b>		<b>12,599</b>	<b>(16,604)</b>	<b>(2,760)</b>	<b>(6,765)</b>	<b>28,404</b>	<b>(171,531)</b>	<b>(676)</b>	<b>(143,803)</b>
Tax	12	8,825	2,875	676	12,376	(6,371)	61,058	179	54,866
<b>Profit/(loss) for the period</b>		<b>21,424</b>	<b>(13,729)</b>	<b>(2,084)</b>	<b>5,611</b>	<b>22,033</b>	<b>(110,473)</b>	<b>(497)</b>	<b>(88,937)</b>
<b>Earnings per share (p)</b>	14								
Earnings per share – Basic		3.42	(2.20)	(0.34)	0.88	3.50	(17.66)	(0.08)	(14.24)
Earnings per share – Diluted		3.40	(2.19)	(0.34)	0.87	3.50	(17.66)	(0.08)	(14.24)

The above revenue and profit/(loss) are derived from continuing operations. The accompanying notes are an integral part of these financial statements.

The comparative period is for the 52 week period ended 31 December 2011.

**Group Statement of  
Comprehensive Income  
For the 52 week period  
ended 29 December 2012**

	Revaluation Reserve £'000	Hedging and Translation Reserve £'000	Retained Earnings £'000	Total £'000
Profit for the period	-	-	5,611	5,611
Actuarial loss on defined benefit pension schemes (net of tax)	-	-	(15,877)	(15,877)
Revaluation adjustment	(377)	-	377	-
Exchange differences on translation of foreign operations	-	(645)	-	(645)
Deferred tax on exchange differences	-	133	-	133
Change in deferred tax rate to 23.0%	-	-	(421)	(421)
<b>Total comprehensive loss for the period</b>	<b>(377)</b>	<b>(512)</b>	<b>(10,310)</b>	<b>(11,199)</b>

**For the 52 week period ended 31 December 2011**

Loss for the period	-	-	(88,937)	(88,937)
Actuarial loss on defined benefit pension schemes (net of tax)	-	-	(36,306)	(36,306)
Revaluation adjustment	(85)	-	85	-
Exchange differences on translation of foreign operations	-	(847)	-	(847)
Deferred tax on exchange differences	-	214	-	214
Change in deferred tax rate to 25.0%	-	-	(992)	(992)
<b>Total comprehensive loss for the period</b>	<b>(85)</b>	<b>(633)</b>	<b>(126,150)</b>	<b>(126,868)</b>

**Group Statement of  
Changes in Equity  
For the 52 week period  
ended 29 December 2012**

	Share Capital £'000	Share Premium £'000	Share-based Payments Reserve £'000	Revaluation Reserve £'000	Own Shares £'000	Hedging and Translation Reserve £'000	Retained Earnings £'000	Total £'000
Opening balances	65,081	502,818	17,845	2,160	(5,379)	9,779	(307,940)	284,364
<b>Total comprehensive profit for the period</b>	-	-	-	(377)	-	(512)	(10,310)	(11,199)
<b>Recognised directly in equity:</b>								
Preference share dividends paid (Note 13)	-	-	-	-	-	-	(152)	(152)
Share-based payments charge (Note 30)	-	-	606	-	-	-	-	606
Share warrants issued	-	-	551	-	-	-	-	551
Release of deferred bonus payments	-	-	(43)	-	43	-	-	-
Own shares purchased	-	-	-	-	(253)	-	-	(253)
Net changes directly in equity	-	-	1,114	-	(210)	-	(152)	752
Total movements	-	-	1,114	(377)	(210)	(512)	(10,462)	(10,447)
<b>Equity at the end of the period</b>	<b>65,081</b>	<b>502,818</b>	<b>18,959</b>	<b>1,783</b>	<b>(5,589)</b>	<b>9,267</b>	<b>(318,402)</b>	<b>273,917</b>

**For the 52 week period ended 31 December 2011**

Opening balances	65,081	502,818	17,273	2,245	(5,004)	10,412	(181,638)	411,187
<b>Total comprehensive loss for the period</b>	-	-	-	(85)	-	(633)	(126,150)	(126,868)
<b>Recognised directly in equity:</b>								
Preference share dividends paid (Note 13)	-	-	-	-	-	-	(152)	(152)
Share-based payments charge (Note 30)	-	-	572	-	-	-	-	572
Own shares purchased	-	-	-	-	(375)	-	-	(375)
Net changes directly in equity	-	-	572	-	(375)	-	(152)	45
Total movements	-	-	572	(85)	(375)	(633)	(126,302)	(126,823)
<b>Equity at the end of the period</b>	<b>65,081</b>	<b>502,818</b>	<b>17,845</b>	<b>2,160</b>	<b>(5,379)</b>	<b>9,779</b>	<b>(307,940)</b>	<b>284,364</b>

The accompanying notes are an integral part of these financial statements.

**Group Statement of  
Financial Position  
At 29 December 2012**

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	Notes	2012 £'000	2011 £'000
<b>Non-current assets</b>			
Intangible assets	15	742,294	742,851
Property, plant and equipment	16	127,223	171,154
Available for sale investments	17	970	970
Interests in associates	18	20	14
Trade and other receivables	21	6	6
Derivative financial instruments	23/32	2,742	-
		<b>873,255</b>	<b>914,995</b>
<b>Current assets</b>			
Assets classified as held for sale	19	7,601	3,238
Inventories	20	2,850	4,709
Trade and other receivables	21	41,628	48,730
Cash and cash equivalents	21	32,789	13,407
Derivative financial instruments	23/32	155	11,657
		<b>85,023</b>	<b>81,741</b>
<b>Total assets</b>		<b>958,278</b>	<b>996,736</b>
<b>Current liabilities</b>			
Trade and other payables	21	50,934	42,958
Current tax liabilities		2,947	4,244
Retirement benefit obligation	24	5,700	2,200
Borrowings	22/33	8,520	372,094
Derivative financial instruments	23/32	99	1,056
Short-term provisions	28	1,327	-
		<b>69,527</b>	<b>422,552</b>
<b>Non-current liabilities</b>			
Borrowings	22/33	334,220	-
Derivative financial instruments	23/32	-	306
Retirement benefit obligation	24	115,619	101,790
Deferred tax liabilities	25	160,584	181,609
Trade and other payables	21	142	148
Long-term provisions	26	4,269	5,967
		<b>614,834</b>	<b>289,820</b>
<b>Total liabilities</b>		<b>684,361</b>	<b>712,372</b>
<b>Net assets</b>		<b>273,917</b>	<b>284,364</b>
<b>Equity</b>			
Share capital	27	65,081	65,081
Share premium account		502,818	502,818
Share-based payments reserve		18,959	17,845
Revaluation reserve		1,783	2,160
Own shares		(5,589)	(5,379)
Hedging and translation reserve		9,267	9,779
Retained earnings		(318,402)	(307,940)
<b>Total equity</b>		<b>273,917</b>	<b>284,364</b>

The comparative numbers are as at 31 December 2011.

The financial statements of Johnston Press plc, registered number 15382, were approved by the Board of Directors and authorised for issue on 19 March 2013.

They were signed on its behalf by:

  
**Ashley Highfield**  
 Chief Executive Officer

  
**Grant Murray**  
 Chief Financial Officer

The accompanying notes are an integral part of these financial statements.

**Group Cash Flow Statement**  
**For the 52 week period**  
**ended 29 December 2012**

	Notes	2012 £'000	2011 £'000
Cash generated from operations	28	76,098	71,207
Income tax paid		(4,809)	(3,282)
<b>Net cash in from operating activities</b>		<b>71,289</b>	<b>67,925</b>
<b>Investing activities</b>			
Interest received		120	51
Dividends received from available for sale investments		22	-
Dividends received from associated undertakings		-	25
Proceeds on disposal of property, plant and equipment		8,936	2,589
Purchases of property, plant and equipment		(5,171)	(1,802)
<b>Net cash received from investing activities</b>		<b>3,907</b>	<b>863</b>
<b>Financing activities</b>			
Dividends paid		(152)	(152)
Interest paid		(17,243)	(25,629)
Repayment of borrowings		(2,697)	(28,371)
Repayment of loan notes		(23,841)	(6,363)
Financing fees		(11,826)	(53)
Net cash flow from derivatives		198	-
Purchase of own shares		(253)	(375)
Decrease in bank overdrafts		-	(5,550)
<b>Net cash used in financing activities</b>		<b>(55,814)</b>	<b>(66,493)</b>
Net increase in cash and cash equivalents		19,382	2,295
Cash and cash equivalents at the beginning of period		13,407	11,112
<b>Cash and cash equivalents at the end of the period</b>		<b>32,789</b>	<b>13,407</b>

The comparative period is for the 52 week period ended 31 December 2011.

The accompanying notes are an integral part of these financial statements.



# Notes to the Consolidated Financial Statements For the 52 week period ended 29 December 2012

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## 1. General Information

Johnston Press plc is a company incorporated in the United Kingdom under the Companies Act. The registered office is at 108 Holyrood Road, Edinburgh, EH8 8AS. The nature of the Group's operations and its principal activities are set out in Notes 5 and 6 and in the Business Review on pages 12 to 29.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in Note 3.

## 2. Adoption of New and Revised Standards

The following new and revised Standards and Interpretations have been adopted for the period ended 29 December 2012. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements.

- Amendments to IFRS 7 Financial Instruments: Disclosures – The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred. There has been no impact on the financial position or performance of the Group.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 1 (amended) Government Loans
- IFRS 7 (amended) Disclosures – Offsetting Financial Assets and Financial Liabilities
- IAS 19 (revised) Employee Benefits
- IFRS 9 Financial Instruments
- IFRS 10 Consolidated Financial Statements
- IFRS 10, IFRS 12 and IAS 27 (amended) Investment entities
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 1 Presentation of Financial Statements
- IAS 27 (revised) Separate Financial Statements
- IAS 28 (revised) Investments in Associates and Joint Ventures
- IAS 32 (amended) Offsetting Financial Assets and Financial Liabilities

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except as follows:

- IFRS 7 (amended) will increase the disclosure requirements where netting arrangements are in place for financial assets and financial liabilities;
- IFRS 9 will impact both the measurement and disclosures of Financial Instruments;
- IFRS 12 will impact the disclosure of interests the Group has in other entities;
- IFRS 13 will impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures; and
- IAS 19 (revised) will impact the measurement of the various components representing movements in the defined benefit pension obligation and associated disclosures, but not the Group's total obligation. It is likely that following the replacement of expected returns on plan assets with a net finance cost in the Income Statement, the profit for the period will be reduced and accordingly other comprehensive income increased.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

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**Notes to the Consolidated  
Financial Statements  
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29 December 2012 (continued)**

**3. Significant Accounting Policies**

**Basis of accounting**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to the Saturday closest to 31 December each year for either a 52 or 53 week period. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the Group Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

**Basis of preparation**

The Group's business activities, together with factors likely to affect its future development, performance and financial position and commentary on the Group's financial results, its cash flows, liquidity requirements and borrowing facilities are set out in the Business Review on pages 12 to 29. In addition, Note 32 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to liquidity risk and credit risk.

The financial statements have been prepared for the 52 week period ended 29 December 2012. The 2011 information relates to the 52 week period ended 31 December 2011.

**Going concern**

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Business Review on pages 12 to 29.

**Non-recurring items**

Items which are deemed to be non-recurring by virtue of their nature or size are included under the statutory classification appropriate to their nature but are separately disclosed on the face of the consolidated income statement to assist in understanding the financial performance of the Group.

**Business combinations**

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values at the date of exchange of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the Income Statement as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, including publishing titles, are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

**Investment in associates**

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these Group financial statements using the equity method of accounting. Investments in associates are carried in the Group Statement of Financial Position at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

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### Publishing titles

The Group's principal intangible assets are publishing titles. The Group does not capitalise internally generated publishing titles. Titles separately acquired after 1 January 1989 are stated at cost and titles owned by subsidiaries acquired after 1 January 1996 are recorded at Directors' valuation at the date of acquisition. These publishing titles have no finite life and consequently are not amortised. The carrying value of the titles is reviewed for impairment at least annually with testing undertaken to determine any diminution in the recoverable amount below carrying value. The recoverable amount is the higher of the fair value less costs to sell and the value in use is based on the net present value of estimated future cash flows. Any impairment loss is recognised as an expense immediately. An impairment loss recognised for publishing titles can be reversed in a subsequent period if the discounted cash flows justify the treatment.

For the purpose of impairment testing, publishing titles are allocated to each of the Group's cash generating units. Cash generating units are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of the value of publishing titles and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Print advertising revenue is recognised on publication and circulation revenue is recognised at the point of sale. Digital revenues are recognised on publication for advertising or delivery of service for other digital revenues. Printing revenue is recognised when the service is provided.

### Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each period end, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the close of business on the last working day of the period. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items carried at historical cost in respect of which gains and losses are recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the period end date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's hedging and translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## Notes to the Consolidated Financial Statements

### For the 52 week period ended 29 December 2012 (continued)

#### 3. Significant Accounting Policies (continued)

##### Property, plant and equipment

Property, plant and equipment balances are shown at cost, net of depreciation and any provision for impairment. In certain cases, the amounts of previous revaluations of properties conducted in 1996 or 1997 or the fair value of the property at the date of the acquisition by the Group have been treated as the deemed cost on transition to IFRSs. Depreciation is provided on all property, plant and equipment, excluding land, at varying rates calculated to write-off cost over the useful lives. The principal rates employed are:

Heritable and freehold property (excluding land)	2.5% on written down value
Leasehold land and buildings	Equal annual instalments over lease term
Web offset presses (excluding press components)	5% straight-line basis
Mailroom equipment	6.67% straight-line basis
Pre-press systems	20% straight-line basis
Other plant and machinery	6.67%, 10%, 20%, 25% and 33% straight-line basis
Motor vehicles	25% straight-line basis

##### Assets held for sale

Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale. Where the sale is expected to qualify for recognition as a completed sale within one year from the date of classification, the assets are shown as current and when the sale is anticipated to complete after one year from date of classification the assets are shown as non-current.

##### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost incurred in bringing materials to their present location and condition comprises; (a) raw materials and goods for resale at purchase cost on a first-in first-out basis; and (b) work in progress at cost of direct materials, labour and certain overheads. Net realisable value comprises selling price less any further costs expected to be incurred to completion and disposal.

##### Financial instruments

Financial assets and financial liabilities are recognised in the Group's Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

##### Financial assets

Investments are recognised and derecognised on the trade date in accordance with the terms of the purchase or sale contract and are initially measured at fair value, plus transaction costs.

##### Available for sale financial assets

Listed and unlisted investments are shown as available for sale and are stated at fair value. Fair value of listed investments is determined with reference to quoted market prices. Fair value of unlisted investments is determined by the Directors. Gains and losses arising from changes in fair value are recognised directly in equity, with the exception of impairment losses which are recognised directly in the Income Statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity is included in the Income Statement for the period.

Dividends on available for sale equity investments are recognised in the Income Statement when the Group's right to receive the payment is established.

##### Trade receivables

Trade receivables do not carry any interest. They are stated at their nominal value as reduced by appropriate allowance for estimated irrecoverable amounts. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Other trade receivables are provided for on an individual basis where there is evidence that an amount is no longer recoverable.

##### Impairment of financial assets

Financial assets are assessed for indicators of impairment at each period end date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance for estimated irrecoverable amounts. Changes in the carrying value of this allowance are recognised in the Income Statement.

### Derivative financial instruments

The Group's activities and funding structure give rise to some exposure to the financial risks of changes in interest rates and foreign currency exchange rates. The Group enters into a number of derivative financial instruments to manage its exposure to these risks, including interest rate swaps and caps, cross currency swaps, foreign exchange options and forward foreign exchange contracts. Further details of derivative financial instruments are given in Note 32.

The Group re-measures each derivative at its fair value at the period end date with the resultant gain or loss being recognised in profit or loss immediately. All such changes in the fair value of the Group's derivatives are shown in a separate column on the face of the Group Income Statement.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

### Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with the changes in fair value recognised in profit or loss.

### Financial liabilities and equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

The Company has issued share warrants over 12.5% of its issued share capital to lenders (with 5.0% issued 28 August 2009, 2.5% issued 24 April 2012 and 5.0% issued 21 September 2012). All of the share warrants expire 30 September 2017. The warrant instruments will be settled by the Company delivering a fixed number of ordinary shares and receiving a fixed amount of cash in return and so qualify as equity under IAS 39. The Binomial Option pricing model was used to assess the fair value of the share warrants issued in the financial year that they were issued.

### Trade payables

Trade payables are not interest-bearing and are stated at their nominal value.

### Borrowings

Interest-bearing loans and bank overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premia payable on settlement or redemption and direct issue costs, are charged to the Income Statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Fees incurred in negotiating borrowings are held on the Statement of Financial Position and amortised to the Income Statement over the term of the underlying debt.

### Leases

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the term of the lease.

Where the Group is a lessor, rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Where the Group leases a property but is no longer using the premises, full provision is made for the rentals payable over the remaining term of the lease (up to any break clauses where relevant).

### Operating profit/(loss)

Operating profit/(loss) is stated after charging restructuring or other non-recurring costs but before investment income, other finance income, finance costs and the share of the results of associates.

### Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

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**Notes to the Consolidated  
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**3. Significant Accounting Policies (continued)**

**Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the period end date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax based values used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Income Statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

On transition to IFRS, a deferred tax liability was recorded in respect of publishing titles and properties that do not qualify for any tax allowances that were acquired through business combinations. Given that the Group elected, under IFRS 1, not to restate pre-transition business combinations under IFRS 3, this pre-transition deferred tax element was charged against retained earnings. Any such fair value on future business combinations will form part of the goodwill on acquisition and both the goodwill and related deferred tax liability will be included in any impairment test in relation to the relevant cash generating unit.

Deferred tax assets and liabilities are offset when the relevant requirements of IAS 12 are satisfied.

**Retirement benefit costs**

The Group provides pensions to employees through various schemes.

Payments to defined contribution retirement benefit schemes are charged to the Income Statement as an expense as they fall due. Payments made to the industry-wide retirement benefit schemes in the Republic of Ireland are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each period end date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the Income Statement and presented in the Statement of Comprehensive Income. Past service cost is recognised immediately to the extent that the benefits are already vested and otherwise is amortised on a straight line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the Statement of Financial Position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

**Share-based payments**

The Group issues equity settled share-based benefits to certain employees. The Group has elected to apply IFRS 2 to all share-based awards and options granted post 7 November 2002 but not vested at 31 December 2004. These share-based payments are measured at their fair value at the date of grant and the fair value of share options is expensed to the Income Statement on a straight-line basis over the vesting period. Fair value is measured by use of the Black-Scholes model, as amended to take account of the Directors' best estimate of probable share vesting and exercise.

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## 4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

### Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in Note 3, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

### Non-recurring items

Non-recurring items include significant exceptional transactions, the restructuring of businesses and material one-off items such as revenue received on the termination of significant print contracts, the disposal of a significant property and impairment of intangible and tangible assets together with the associated tax impact. The Company considers such items are material to the Income Statement and their separate disclosure is necessary for an appropriate understanding of the Group's financial performance.

### Valuation of publishing titles on acquisition

The Group's policies require that a fair value at the date of acquisition be attributed to the publishing titles owned by each acquired entity. The Group's management uses its judgement to determine the fair value attributable to each acquired publishing title taking into account the consideration paid, the earnings history and potential of the title, any recent similar transactions, industry statistics such as average earnings multiples and any other relevant factors.

The publishing titles are considered to have indefinite economic lives due to the historic longevity of the brands and the ability to evolve the brands in the changing media environment.

### Assets held for sale

Where a property or a significant item of equipment (such as a print press) is marketed for sale, management is highly committed to the sale and the asset is available for immediate sale, the Group classifies that asset as held for sale. If the asset is expected to be sold within twelve months, the asset is classed as a current asset. The value of the asset is held at the lower of the net book value or the expected realisable sale value. The Directors' have estimated the sale values based on the current price that the asset is being marketed at and advice from independent property agents. The actual sale proceeds may differ from the estimate.

### Provisions for onerous leases and dilapidations

Where the Group exits a rented property, an estimate of the anticipated total future cost payable under the terms of the operating lease, including rentals, rates and other related expenses, is charged to the Income Statement at the point of exit as an onerous lease. Where there is a break clause in the contract, rentals are provided for up to that point. In addition, an estimate is made of the likelihood of sub-letting the premises and any rentals that would be receivable from a sub tenant. Where receipt of sub-lease rentals is considered reasonable, these amounts are deducted from the rentals payable by the Group under the lease and provision charged for the net amount.

Under the terms of a number of property leases, the Group is required to return the property to its original condition at the lease expiry date. The Group has estimated the expected costs of these dilapidations and charged these costs to the Income Statement. The costs have been discounted to the net present value given the length of some of the leases.

### Valuation of share-based payments

The Group estimates the expected value of equity-settled share-based payments and this is charged through the Income Statement over the vesting periods of the relevant payments. The cost is estimated using a Black-Scholes valuation model. The Black-Scholes calculations are based on a number of assumptions that are set out in Note 30 and are amended to take account of estimated levels of share vesting and exercise. This method of estimating the value of the share-based payments is intended to ensure that the actual value transferred to employees is provided in the share-based payments reserve by the time the payments are made.

### Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the period end date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

### Impairment of publishing titles

Determining whether publishing titles are impaired requires an estimation of the value in use of the cash generating units (CGUs) to which these assets are allocated. Key areas of judgement in the value in use calculation include the identification of appropriate CGUs, estimation of future cash flows expected to arise from each CGU, the long-term growth rates and a suitable discount rate to apply to cash flows in order to calculate present value. The Group has identified its CGUs based on the seven geographic regions in which it operates. This is considered to be the lowest level at which cash inflows generated are largely independent of the cash inflows from other groups of assets and has been consistently applied in the current and prior periods. No impairment loss has been recognised in 2012 (2011: loss of £163,695,000). The carrying value of publishing titles at 29 December 2012 was £742,294,000 (2011: £742,851,000). Details of the impairment reviews that the Group performs are provided in Note 15.

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**4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (continued)**

**Valuation of pension liabilities**

The Group records in its Statement of Financial Position a liability equivalent to the deficit on the Group's defined benefit pension schemes. This liability is determined with advice from the Group's actuarial advisers each year and can fluctuate based on a number of factors, some of which are outwith the control of management. The main factors that can impact the valuation include:

- the discount rate used to discount future liabilities back to the present date, determined each year from the yield on corporate bonds;
- the actual returns on investments experienced as compared to the expected rates used in the previous valuation;
- the actual rates of salary and pension increase as compared to the expected rates used in the previous valuation;
- the forecast inflation rate experienced as compared to the expected rates used in the previous valuation; and
- mortality assumptions.

Details of the assumptions used to determine the liability at 29 December 2012 are set out in Note 24.

**Bad debt allowance**

The trade receivables balance recorded in the Group's Statement of Financial Position comprises a large number of relatively small balances. An allowance is made for the estimated irrecoverable amounts from debtors and this is determined by reference to past default experience. Further details are shown in Note 21.

**5. Business Segments**

Information reported to the Chief Executive Officer for the purpose of resource allocation and assessment of segment performance is focussed on the two areas of Publishing (in print and online) and Contract Printing. Geographical segments are not presented as the primary segment is the UK which is greater than 90% of Group activities.

**6. Segment Information**

**a) Segment revenues and results**

The following is an analysis of the Group's revenue and results by reportable segment:

	Publishing 2012 £'000	Contract printing 2012 £'000	Eliminations 2012 £'000	Group 2012 £'000	Publishing 2011 £'000	Contract printing 2011 £'000	Eliminations 2011 £'000	Group 2011 £'000
<b>Revenue</b>								
External sales	308,438	20,253	–	328,691	344,863	28,982	–	373,845
Inter-segment sales*	–	53,019	(53,019)	–	–	61,030	(61,030)	–
<b>Total revenue before non-recurring items</b>	<b>308,438</b>	<b>73,272</b>	<b>(53,019)</b>	<b>328,691</b>	<b>344,863</b>	<b>90,012</b>	<b>(61,030)</b>	<b>373,845</b>
<b>Result</b>								
Segment result before non-recurring items	51,554	5,491	–	57,045	57,026	7,526	–	64,552
Non-recurring items	(22,667)	6,063	–	(16,604)	(164,656)	(6,875)	–	(171,531)
<b>Net segment result</b>	<b>28,887</b>	<b>11,554</b>	<b>–</b>	<b>40,441</b>	<b>(107,630)</b>	<b>651</b>	<b>–</b>	<b>(106,979)</b>
Investment income				148				67
Net finance (expense)/income on pension assets/liabilities				(2,471)				2,250
IAS 21/39 adjustments				(2,760)				(676)
Finance costs				(42,129)				(38,475)
Share of results of associates				6				10
<b>Loss before tax</b>				<b>(6,765)</b>				<b>(143,803)</b>
Tax				12,376				54,866
<b>Profit/(loss) for the period</b>				<b>5,611</b>				<b>(88,937)</b>

\* Inter-segment sales are charged at prevailing market prices.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. The segment result represents the profit/(loss) earned by each segment without allocation of the share of results of associates, investment income, finance costs (including in relation to pension assets and liabilities) and income tax expense. This is the measure reported to the Group's Chief Executive Officer for the purpose of resource allocation and assessment of segment performance.



## b) Segment assets

	2012 £'000	2011 £'000
<b>Assets</b>		
Publishing	855,372	851,548
Contract printing	99,039	132,561
<b>Total segment assets</b>	<b>954,411</b>	<b>984,109</b>
Unallocated assets	3,867	12,627
<b>Consolidated total assets</b>	<b>958,278</b>	<b>996,736</b>

For the purposes of monitoring segment performance and allocating resources between segments, the Group's Chief Executive Officer monitors the tangible, intangible and financial assets attributable to each segment. All assets are allocated to reportable segments with the exception of available-for-sale investments and derivative financial instruments.

## c) Other segment information

	Publishing 2012 £'000	Contract printing 2012 £'000	Group 2012 £'000	Publishing 2011 £'000	Contract printing 2011 £'000	Group 2011 £'000
Additions to property, plant and equipment	4,912	180	5,092	1,604	192	1,796
Depreciation expense (inc. non-recurring items)	5,077	24,877	29,954	7,618	15,529	23,147
Net impairment of intangibles	-	-	-	163,695	-	163,695

## 7. Non-recurring Items

	2012 £'000	2011 £'000
<b>Revenue</b>		
Termination of print contract	30,000	-
<b>Expenses</b>		
Impairment of intangible assets (Note 15)	-	(163,695)
Gain on sale of assets	986	-
Gain on sale of assets held for sale	-	288
Write down in value of assets held for sale (Note 19)	(7,541)	(600)
Costs from the termination of print contract	(92)	-
Return on previously written down available for sale investments	145	-
Restructuring costs of existing business including redundancy costs	(24,403)	(4,293)
Write down in value of presses in existing businesses (Note 16)	(17,239)	(5,161)
IAS 19 past service gain (Note 24)	1,540	1,930
<b>Total non-recurring expenses</b>	<b>(46,604)</b>	<b>(171,531)</b>
<b>Total non-recurring items</b>	<b>(16,604)</b>	<b>(171,531)</b>

The Group received £30.0 million during the year from News International for the partial termination of a long-term contract to provide printing facilities. The write down of value in presses of £17.2 million represents accelerated depreciation charges from the closure of the Peterborough and Sunderland printing presses to record these at their net realisable sale values.

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**8. Operating Profit/(Loss)**

	2012 £'000	2011 £'000
Operating profit/(loss) is shown after charging/(crediting):		
Depreciation of property, plant and equipment (Note 16)	12,715	17,986
Non-recurring write down in value of presses (Note 16)	17,239	5,161
Write down of assets classified as held for sale (Note 19)		
Non-recurring	7,541	600
Recurring	276	-
Profit on disposal of property, plant and equipment:		
Operating disposals	(695)	(487)
Non-recurring disposals	(986)	-
Assets held for sale disposals	(390)	(288)
Movement in allowance for doubtful debts (Note 21)	(2,069)	(1,852)
Redundancy costs (Note 9)	21,582	3,938
Staff costs excluding redundancy costs (Note 9)	131,526	147,806
Auditors' remuneration:		
Audit services		
Group	120	110
Subsidiaries	240	240
Operating lease charges:		
Plant and machinery	1,847	1,301
Other	3,841	4,510
Rentals received on sub-let property	221	313
Net foreign exchange gains	(59)	(30)
Cost of inventories recognised as expense	36,111	43,494
Write down of inventories	647	-

Staff costs shown above include £2,284,000 (2011: £2,517,000) relating to remuneration of Directors.

In addition to the auditors' remuneration shown above, the auditors received the following fees for non-audit services.

	2012 £'000	2011 £'000
Audit-related assurance services	95	54
Taxation compliance services	49	85
Other taxation advisory services	28	58
Other services	69	72
	241	269

All non-audit services were approved by the Audit Committee. The Audit Committee considers that these non-audit services have not impacted the independence of the audit process.

In addition, an amount of £19,000 (2011: £18,000) was paid to the external auditors for the audit of the Group's pension scheme.

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## 9. Employees

The average monthly number of employees, including Executive Directors, was:

	2012 No.	2011 No.
Editorial and photographic	1,786	1,913
Sales and distribution	2,134	2,648
Production	551	740
Administration	326	456
<b>Average number of employees</b>	<b>4,797</b>	<b>5,757</b>
	£'000	£'000
Staff costs:		
Wages and salaries	113,901	127,693
Social security costs	10,295	12,198
Redundancy costs	21,582	3,938
Other pension costs (Note 24)	6,724	7,343
Cost of share-based awards (Note 30)	606	572
<b>Total staff costs</b>	<b>153,108</b>	<b>151,744</b>

Full details of the Directors' emoluments, pension benefits and share options are included in the audited part of the Directors' Remuneration Report on pages 39 to 51.

## 10. Investment Income

	2012 £'000	2011 £'000
Income from available for sale investments	22	18
Interest receivable	126	49
	<b>148</b>	<b>67</b>

## 11. Finance Costs

	2012 £'000	2011 £'000
<b>a) Net finance expense/(income) on pension assets/liabilities</b>		
Interest on pension liabilities (Note 24)	22,708	23,612
Expected return on pension assets (Note 24)	(20,237)	(25,862)
	<b>2,471</b>	<b>(2,250)</b>
<b>b) Finance costs</b>		
Interest on bank overdrafts and loans	26,944	25,496
Payment-in-kind interest accrual	11,048	7,693
Amortisation of term debt issue costs	4,137	5,286
	<b>42,129</b>	<b>38,475</b>

### c) IAS 21/39 items

All movements in the fair value of derivative financial instruments are recorded in the Income Statement. In the current period, this movement was a net charge of £7.3 million (2011: charge of £0.7 million), consisting of a realised net credit of £0.2 million and an unrealised charge of £7.5 million.

The retranslation of foreign denominated debt at the period end resulted in a net credit of £4.5 million (2011: net credit of £nil) being recorded in the Income Statement. The retranslation of the Euro denominated publishing titles is shown in the Statement of Comprehensive Income.

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**12. Tax**

	2012 £'000	2011 £'000
<b>Current tax</b>		
Charge for the period	3,541	5,527
Adjustment in respect of prior periods	130	(1,657)
	<b>3,671</b>	<b>3,870</b>
<b>Deferred tax (Note 25)</b>		
Credit for the period	(4,168)	(16)
Adjustment in respect of prior periods	191	231
Deferred tax adjustment relating to the impairment of publishing titles	-	(44,041)
Credit relating to reduction in deferred tax rate to 23.0% (2011: 25.0%)	(12,070)	(14,910)
	<b>(16,047)</b>	<b>(58,736)</b>
<b>Total tax credit for the period</b>	<b>(12,376)</b>	<b>(54,866)</b>

UK corporation tax is calculated at 24.5% (2011: 26.5%) of the estimated assessable profit/(loss) for the period. The 24.5% basic tax rate applied for the 2012 period was a blended rate due to the tax rate of 26.0% in effect for the first quarter of 2012, changing to 24.0% from 1 April 2012 under the 2012 Finance Act. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdiction.

The Group has recognised a £12.1 million tax credit as a result of the change to the UK deferred tax rate from 25% to 23%.

The tax credit for the period can be reconciled to the loss per the Income Statement as follows:

	2012 £'000	%	2011 £'000	%
Loss before tax	(6,765)	100.0	(143,803)	100.0
Tax at 24.5% (2011: 26.5%)	(1,657)	(24.5)	(38,108)	(26.5)
Tax effect of share of results of associate	-	-	(5)	-
Tax effect of expenses that are non-deductible in determining taxable profit	2,130	(31.5)	-	-
Tax effect of income that is non-taxable in determining taxable profit	(793)	11.7	(65)	-
Tax effect of investment income	(5)	-	7	-
Effect of different tax rates of subsidiaries	(302)	(4.5)	(359)	(0.2)
Adjustment in respect of prior periods	321	(4.7)	(1,426)	(1.0)
Effect of reduction in deferred tax rate to 23.0% (2011: 25.0%)	(12,070)	178.4	(14,910)	(10.4)
Tax credit for the period and effective rate	<b>(12,376)</b>	<b>182.8</b>	<b>(54,866)</b>	<b>(38.1)</b>

**13. Dividends**

	2012 £'000	2011 £'000
Amounts recognised as distributions to equity holders in the period:		
Preference Dividends		
13.75% Cumulative Preference Shares (13.75p per share)	104	104
13.75% 'A' Preference Shares (13.75p per share)	48	48
	<b>152</b>	<b>152</b>

No dividend is to be recommended to shareholders at the Annual General Meeting making a total for 2012 of £nil (2011: £nil).

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#### 14. Earnings per Share

The calculation of earnings per share is based on the following profits/(losses) and weighted average number of shares:

	2012 £'000	2011 £'000
<b>Earnings</b>		
Profit/(loss) for the period	5,611	(88,937)
Preference dividend	(152)	(152)
Earnings for the purposes of basic and diluted earnings per share	5,459	(89,089)
Non-recurring and IAS 21/39 items (after tax)	15,813	110,970
Earnings for the purposes of underlying earnings per share	21,272	21,881
	2012 No. of shares	2011 No. of shares
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	621,758,744	625,711,881
Effect of dilutive potential ordinary shares:		
– warrants and employee share options	2,594,333	–
– deferred bonus shares	1,788,822	–
Number of shares for the purposes of diluted earnings per share	626,141,899	625,711,881
<b>Earnings per share (p)</b>		
Basic	0.88	(14.24)
Underlying	3.42	3.50
Diluted – see below	0.87	(14.24)

The weighted average number of ordinary shares above are shown excluding treasury shares.

Underlying figures are presented to show the effect of excluding non-recurring and IAS 21/39 items from earnings per share. Diluted earnings per share are presented when a company could be called upon to issue shares that would decrease net profit or increase loss per share.

As explained in Note 27, the preference shares qualify as equity under IAS 32. In line with IAS 33, the preference dividend and the number of preference shares are excluded from the calculation of earnings per share.

#### 15. Intangible Assets

	Publishing titles £'000
<b>Cost</b>	
Opening balance	1,309,234
Exchange movements	(557)
<b>Closing balance</b>	<b>1,308,677</b>
<b>Accumulated impairment losses</b>	
Opening balance	(566,383)
Impairment losses for the period	–
<b>Closing balance</b>	<b>(566,383)</b>
<b>Carrying amount</b>	
Opening balance	742,851
<b>Closing balance</b>	<b>742,294</b>

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**15. Intangible Assets (continued)**

The exchange movement above reflects the impact of the exchange rate on the valuation of publishing titles denominated in Euros at the period end date. It is partially offset by a decrease in the euro borrowings.

The carrying amount of publishing titles by cash generating unit (CGU) is as follows:

	2012 £'000	2011 £'000
Scotland	56,013	58,575
North	272,190	279,223
Northwest	93,201	104,561
Midlands	168,190	168,731
South	60,602	45,267
Northern Ireland	73,422	63,042
Republic of Ireland	18,676	23,452
<b>Total carrying amount of publishing titles</b>	<b>742,294</b>	<b>742,851</b>

The Group tests the carrying value of publishing titles held within the publishing operating segment for impairment annually or more frequently if there are indications that they might be impaired. The publishing titles are grouped by CGUs, being the lowest levels for which there are separately identifiable cash flows independent of the cash inflows from other groups of assets.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are:

- the discount rate;
- expected changes to selling prices and direct costs during the period; and
- growth rates.

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The discount rate applied to future cash flows in 2012 was 11.0% (2011: 11.0%). The discount rate reflects management's view of the current risk profile of the underlying assets being valued with regard to the current economic environment and the risks that the regional media industry are facing.

Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. These include changes in cover prices, advertising rates as well as movement in newsprint and production costs and inflation.

Discounted cash flow forecasts are prepared using:

- the most recent financial budgets and projections approved by management for 2013 – 2015 which reflect management's current experience and future expectations of the markets the CGUs operate in;
- cash flows for 2016 to 2032 that are extrapolated based on an estimated annual long-term growth rate of 1.0%;
- a discounted residual value of 5 times the final year's cash flow; and
- capital expenditure cash flows to reflect the cycle of capital investment required.

The present value of the cash flows are then compared to the carrying value of the asset to determine if there is any impairment loss.

The total net impairment charge recognised in 2012 was £nil (2011: net impairment charge of £163.7 million).

The net nil impairment charge in the period comprises further impairment of £25.8 million primarily in the North and North West of England, offset by the reversal of past impairment in the South of England and Northern Ireland.

The Group has conducted sensitivity analysis on the impairment test of each CGU's carrying value. A decrease in the long term growth rate of 0.5% would result in an impairment for the Group of £18.8 million and an increase in the discount rate of 0.5% would result in an impairment of £31.0 million.

	Growth rate sensitivity £'000	Discount rate sensitivity £'000
Scotland	1,238	2,032
North	7,163	11,756
Northwest	2,103	3,451
Midlands	3,814	6,260
South	2,432	3,991
Northern Ireland	1,732	2,843
Republic of Ireland	367	693
<b>Total potential impairment from sensitivity analysis</b>	<b>18,849</b>	<b>31,027</b>

## 16. Property, Plant and Equipment

	Freehold land and buildings £'000	Leasehold buildings £'000	Plant and machinery £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>					
At 1 January 2011	95,881	4,382	227,232	13,984	341,479
Additions	62	10	1,724	–	1,796
Disposals	(1,331)	(1)	(8,994)	(3,809)	(14,135)
Exchange differences	(13)	–	(4)	(8)	(25)
Transferred to assets held for sale during the period	(1,921)	–	(666)	–	(2,587)
<b>At 31 December 2011</b>	<b>92,678</b>	<b>4,391</b>	<b>219,292</b>	<b>10,167</b>	<b>326,528</b>
Additions	–	1,258	3,829	5	5,092
Disposals	(2,904)	(55)	(58,659)	(4,180)	(65,798)
Exchange differences	(14)	–	(53)	(9)	(76)
Transferred to assets held for sale during the period	(20,968)	–	(20,607)	–	(41,575)
<b>At 29 December 2012</b>	<b>68,792</b>	<b>5,594</b>	<b>143,802</b>	<b>5,983</b>	<b>224,171</b>
<b>Depreciation</b>					
At 1 January 2011	12,817	1,608	119,689	12,274	146,388
Disposals	(424)	(1)	(8,977)	(3,766)	(13,168)
Charge for the period	1,873	139	14,814	1,160	17,986
Non-recurring write down in period	–	–	5,161	–	5,161
Exchange differences	(10)	–	(4)	(8)	(22)
Transferred to assets held for sale during the period	(408)	–	(563)	–	(971)
<b>At 31 December 2011</b>	<b>13,848</b>	<b>1,746</b>	<b>130,120</b>	<b>9,660</b>	<b>155,374</b>
Disposals	(964)	(55)	(56,539)	(4,156)	(61,714)
Charge for the period	3,954	168	8,214	379	12,715
Non-recurring write down in period	–	–	17,239	–	17,239
Exchange differences	(27)	–	(38)	(8)	(73)
Transferred to assets held for sale during the period	(6,707)	–	(19,886)	–	(26,593)
<b>At 29 December 2012</b>	<b>10,104</b>	<b>1,859</b>	<b>79,110</b>	<b>5,875</b>	<b>96,948</b>
<b>Carrying amount</b>					
At 31 December 2011	78,830	2,645	89,172	507	171,154
<b>At 29 December 2012</b>	<b>58,688</b>	<b>3,735</b>	<b>64,692</b>	<b>108</b>	<b>127,223</b>

## 17. Available for Sale Investments

The Group's available for sale investments are:

	2012 £'000	2011 £'000
<b>Listed investments at fair value</b>	<b>2</b>	<b>2</b>
<b>Unlisted investments</b>		
Cost	4,494	4,494
Provision for impairment	(3,526)	(3,526)
<b>Unlisted investments carrying amount</b>	<b>968</b>	<b>968</b>
<b>Total investments</b>	<b>970</b>	<b>970</b>

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**18. Interests in Associates**

The Group's associated undertakings at the period end are:

Name	Place of incorporation and operation	Proportion of ownership interest	Proportion of voting power held	Method of Accounting for investment
Classified Periodicals Ltd	England	50%	50%	Equity method

The aggregate amounts relating to associates are:

	2012 £'000	2011 £'000
Total assets	43	32
Total liabilities	(3)	(4)
Revenues	26	37
Profit after tax	6	10

**19. Assets Classified as Held for Sale**

	Freehold land and buildings £'000	Leasehold buildings £'000	Plant and Machinery £'000	Total £'000
<b>Cost</b>				
At 1 January 2011	8,685	762	4,069	13,516
Disposals	–	–	(4,069)	(4,069)
Transferred from property, plant and equipment during period	1,921	–	666	2,587
Exchange differences	(15)	(17)	–	(32)
<b>At 31 December 2011</b>	<b>10,591</b>	<b>745</b>	<b>666</b>	<b>12,002</b>
Disposals	(9,666)	–	(535)	(10,201)
Transferred from property, plant and equipment during period	20,968	–	20,607	41,575
Exchange differences	(12)	(16)	–	(28)
<b>At 29 December 2012</b>	<b>21,881</b>	<b>729</b>	<b>20,738</b>	<b>43,348</b>
<b>Depreciation</b>				
At 1 January 2011	6,461	762	3,222	10,445
Disposals	–	–	(3,222)	(3,222)
Non-recurring write down in carrying value	600	–	–	600
Transferred from property, plant and equipment during period	408	–	563	971
Exchange differences	(13)	(17)	–	(30)
<b>At 31 December 2011</b>	<b>7,456</b>	<b>745</b>	<b>563</b>	<b>8,764</b>
Disposals	(6,921)	–	(483)	(7,404)
Write down in carrying value	7,680	–	137	7,817
Transferred from property, plant and equipment during period	6,707	–	19,886	26,593
Exchange differences	(7)	(16)	–	(23)
<b>At 29 December 2012</b>	<b>14,915</b>	<b>729</b>	<b>20,103</b>	<b>35,747</b>
<b>Carrying amount</b>				
At 31 December 2011	3,135	–	103	3,238
<b>At 29 December 2012</b>	<b>6,966</b>	<b>–</b>	<b>635</b>	<b>7,601</b>

Assets classified as held for sale consists of land and buildings in the UK and Republic of Ireland that are no longer in use by the Group and print presses that have ceased production. All of the assets are being marketed for sale and are expected to be sold within the next year.



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## 20. Inventories

	2012 £'000	2011 £'000
Raw materials	2,850	4,709

## 21. Other Financial Assets and Liabilities

### Trade and other receivables

	2012 £'000	2011 £'000
Current:		
Trade receivables	34,800	42,967
Allowance for doubtful debts	(3,557)	(5,626)
	31,243	37,341
Prepayments	4,740	6,132
Other debtors	5,645	5,257
Total current trade and other receivables	41,628	48,730
Non-current:		
Trade receivables	6	6

#### Trade receivables

The average credit period taken on sales is 41 days (2011: 44 days). No interest is charged on trade receivables. The Group has provided for estimated irrecoverable amounts in accordance with the accounting policy described in Note 3.

Before accepting any new credit customer, the Group obtains a credit check from an external agency to assess the potential customer's credit quality and then defines credit terms and limits on a by-customer basis. These credit terms are reviewed regularly. In the case of one-off customers or low value purchases, pre-payment for the goods is required under the Group's policy. The Group reviews trade receivables past due but not impaired on a regular basis and considers, based on past experience, that the credit quality of these amounts at the period end date has not deteriorated since the transaction was entered into and so considers the amounts recoverable. Regular contact is maintained with all such customers and, where necessary, payment plans are in place to further reduce the risk of default on the receivable.

Included in the Group's trade receivable balance are debtors with a carrying amount of £14.6 million (2011: £19.9 million) which are past due at the reporting date but for which the Group has not provided as there has not been a significant change in credit quality and the Group believes that the amounts are still recoverable. The Group does not hold any security over these balances. The weighted average age of these receivables (past due) is 26 days (2011: 25 days).

#### Ageing of past due but not impaired trade receivables

	2012 £'000	2011 £'000
0 – 30 days	10,093	14,417
30 – 60 days	3,956	4,798
60 – 90 days	108	192
90+ days	406	471
Total	14,563	19,878

#### Movement in the allowance for doubtful debts

	2012 £'000	2011 £'000
Balance at the start of the year	5,626	7,478
Decrease in the allowance recognised in the Income Statement (Note 8)	(2,069)	(1,852)
Balance at the end of the year	3,557	5,626

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the balance sheet date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the Directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

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**21. Other Financial Assets and Liabilities (continued)**

**Ageing of impaired trade receivables**

Impaired trade receivables are those that have been provided for under the Group's bad debt provisioning policy, as described in the accounting policy in Note 3. The ageing of impaired trade receivables is shown below.

	2012 £'000	2011 £'000
0 – 30 days	443	26
30 – 60 days	21	199
60 – 90 days	501	732
90+ days	2,592	4,669
<b>Total</b>	<b>3,557</b>	<b>5,626</b>

The Directors consider that the carrying amount of trade and other receivables at the balance sheet date approximate to their fair value.

**Cash and cash equivalents**

Cash and cash equivalents totalling £32,789,000 (2011: £13,407,000) comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

**Trade and other payables**

	2012 £'000	2011 £'000
<b>Current:</b>		
Trade creditors and accruals	34,861	29,638
Other creditors	16,073	13,320
<b>Total current trade and other payables</b>	<b>50,934</b>	<b>42,958</b>
<b>Non-current trade and other creditors</b>	<b>142</b>	<b>148</b>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 33 days (2011: 30 days). The Group has financial risk management policies in place to ensure all payables are paid within the agreed credit terms.

The Directors consider that the carrying amount of trade payables at the balance sheet date approximate to their fair value.

**22. Borrowings**

Borrowings shown at amortised cost at the period end were:

	2012 £'000	2011 £'000
Bank loans	227,316	218,252
Private placement loan notes	119,162	141,556
Term debt issue costs	(12,273)	(4,041)
Payment-in-kind interest accrual	8,535	16,327
<b>Total borrowings</b>	<b>342,740</b>	<b>372,094</b>

The borrowings are disclosed in the financial statements as:

	2012 £'000	2011 £'000
Current borrowings	8,520	372,094
Non-current borrowings	334,220	–
<b>Total borrowings</b>	<b>342,740</b>	<b>372,094</b>

The Group's borrowings at the end of the previous period were classed as current borrowings, due to the lending facilities maturing on 30 September 2012. These facilities were renegotiated in April 2012 and now expire on 30 September 2015.

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The Group's net debt is:

	2012 £'000	2011 £'000
Gross borrowings as above	342,740	372,094
Cash and cash equivalents	(32,789)	(13,407)
Impact of currency hedge instruments	(2,854)	(11,065)
Net debt including currency hedge instruments	307,097	347,622
Term debt issue costs	12,273	4,041
Net debt excluding term debt issue costs	319,370	351,663

#### Analysis of borrowings by currency:

	Total £'000	Sterling £'000	Euros £'000	US dollars £'000
At 29 December 2012				
Bank loans	227,316	215,015	12,301	-
Private placement loan notes	119,162	33,956	-	85,206
Term debt issue costs	(12,273)	(12,273)	-	-
Payment-in-kind interest accrual	8,535	6,342	-	2,193
	342,740	243,040	12,301	87,399
At 31 December 2011				
Bank loans	218,252	205,689	12,563	-
Private placement loan notes	141,556	39,050	-	102,506
Term debt issue costs	(4,041)	(4,041)	-	-
Payment-in-kind interest accrual	16,327	12,094	-	4,233
	372,094	252,792	12,563	106,739

#### Finance facilities

On 24 April 2012, the Group entered into an amended and restated finance agreement for credit facilities with bank lenders and private placement loan note holders until 30 September 2015. The facility is secured (see Note 29) and share warrants over 12.5% of the Company's share capital have been issued to the lenders and note holders. 5.0% of the warrants were issued in August 2009, and a further 7.5% were issued in 2012, with all warrants expiring 30 September 2017. Interest rates are based on the absolute amount of debt outstanding and leverage multiples, with reductions based on agreed ratchets.

#### Bank loans

The Group has credit facilities with a number of banks. The total facility at 29 December 2012 is £237.5 million (2011: £273.9 million) of which £10.0 million is unutilised at the balance sheet date (2011: £55.0 million). The credit facilities are provided under two separate tranches as detailed below.

- Facility A – a revolving credit facility of £55.0 million. This facility includes a bank overdraft facility of £10.0 million (2011: £10.0 million). The loans can be drawn down for three month terms with interest payable at LIBOR plus a maximum cash margin of 5.00% (2011: 4.15%).
- Facility B – a term loan facility of £182.5 million (2011: £218.9 million), which can be drawn in Sterling or Euros. Interest is payable quarterly at LIBOR plus a cash margin of up to 5.00% (2011: 4.15%).

In accordance with the credit agreements in place, the Group hedges a portion of the bank loans via interest rate swaps exchanging floating rate interest for fixed rate interest and interest rate caps. At the balance sheet date, borrowings of £30.0 million (2011: £200.0 million) were arranged at fixed rate, while a further £180.0 million borrowings (2011: £nil) were hedged through interest rate caps. Further details on all of the Group's derivative instruments can be found in Note 32.

#### Private placement loan notes

The Group has total private placement loan notes at 29 December 2012 of £34.0 million and \$137.8 million (2011: £39.1 million and \$158.2 million). Interest is payable quarterly at fixed coupon rates up to 10.30% (2011: 9.45%) depending on covenants.

The private placement loan notes consist of:

- £34.0 million at a coupon rate of up to 10.30% (2011: £39.1 million at a coupon rate of up to 9.45%)
- \$58.7 million at a coupon rate of up to 9.75% (2011: \$67.4 million at a coupon rate of up to 8.9%)
- \$28.1 million at a coupon rate of up to 10.18% (2011: \$32.2 million at a coupon rate of up to 9.33%)
- \$51.0 million at a coupon rate of up to 10.28% (2011: \$58.6 million at a coupon rate of up to 9.43%)

In order to hedge the Group's exposure to US dollar exchange rate fluctuations, the Group has in place foreign exchange options. These options allow the Group to purchase US dollars at a set exchange rate, hedging the Group's cash flow risk if the market rate falls below the set rate. The options are in place to cover all interest payments and scheduled principal repayments due on the US denominated private placement notes.

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**22. Borrowings (continued)**

**Repayments**

All facilities are due for full repayment on 30 September 2015.

Scheduled repayments are due every six months in relation to both the bank loans and private placement loan notes. Scheduled repayments total £70.0 million from 30 June 2012 to 30 June 2015; however following the News International receipt, part of the scheduled repayments were brought forward to November 2012 with only £40.0 million scheduled repayments remaining.

In addition, there is a pay-if-you-can (PIYC) repayment schedule agreed for both the bank loans and private placement notes totalling £60.0 million up to 30 June 2015. £2.0 million of the PIYC payments were made ahead of schedule in 2012.

**Payment-in-kind interest**

In addition to the cash margin payable on the bank facilities and private placement loan notes, a payment-in-kind (PIK) margin accumulates and is payable at the end of the facility. The PIK accrues at a maximum margin of 4.0% depending on the absolute amount of debt outstanding and leverage multiples. If the facilities are fully repaid prior to 31 December 2014, the rate at which the PIK margin accrued throughout the period of the agreement will be recalculated at a substantially reduced rate.

At the date of the refinancing, previously accrued PIK totalling £18.8 million was capitalised and added to the outstanding borrowings under the bank loans and private placement loan notes. Accordingly, the PIK accrual at 29 December 2012 only reflects PIK accrued since 24 April 2012.

**Interest rates:**

The weighted average interest rates paid over the course of the year were as follows:

	2012 %	2011 %
Bank overdrafts	5.5	4.6
Bank loans	11.3	10.4
Private placement loan notes	12.5	9.0
	11.7	9.9

**23. Derivative Financial Instruments**

Derivatives that are carried at fair value are as follows:

	2012 £'000	2011 £'000
Interest rate swaps – current liability	(99)	(1,056)
Interest rate swaps – non-current liability	–	(306)
Interest rate caps – non-current asset	43	–
Cross currency swaps – current asset	–	11,657
Foreign exchange options – current asset	155	–
Foreign exchange options – non-current asset	2,699	–
Total derivative financial instruments	2,798	10,295

**24. Retirement Benefit Obligation**

Throughout 2012 the Group operated the Johnston Press Pension Plan (JPPP), together with the following schemes:

- A defined contribution scheme for the Republic of Ireland, the Johnston Press (Ireland) Pension Scheme.
- An ROI industry-wide final salary scheme for journalists which was closed on 31 October 2012 and a final salary scheme for a small number of employees in Limerick which has been closed to future accruals since 2010. There are no additional financial implications to the Group if these schemes are terminated. Consequently, the Group's obligation to these schemes is included in Long Term Provisions and the details shown below exclude these schemes.

The JPPP is in two parts, a defined contribution scheme and a defined benefit scheme. The latter is closed to new members and closed to future accrual. The assets of the schemes are held separately from those of the Group. The contributions are determined by a qualified actuary on the basis of a triennial valuation using the projected unit method. The contributions to the defined benefit scheme are fixed annual amounts with the intention of eliminating the deficit. Based on the outcome of the triennial valuation at 31 December 2010, the fixed annual contribution amount is £5.7 million from 1 June 2012 under the schedule of contributions agreed between the Company and the JPPP Trustees. As the defined benefit scheme has been closed to new members for a considerable period the last deferred member is scheduled to retire in 35 years with, at current mortality assumptions, the last pension paid in around 80 years (based on the mortality assumptions used for the 2010 triennial valuation). On a discounted basis the duration of the pension liabilities is circa 20 years. The financial information provided below relates to the defined benefit element of the JPPP.

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During 2012 and 2011, the Company carried out pension exchange exercises whereby a number of pensioner members were made an offer by the Company to exchange some of their future pension increases for a one-off increase in pension, where the new uplifted amount would no longer be eligible for increases in payment. The impact of this was a non-recurring credit in the Group Income Statement of £1.5 million in the year (2011: credit of £1.9 million).

The composition of the trustees of the JPPP is made up of an independent Chairman, a number of member nominated (by ballot) trustees and several Company appointed trustees. Half of the trustees are nominated by members of the JPPP, both current employees and pensioner members. The trustees appoint their own advisers and administrators of the Plan. Discussions take place with the Executive Directors of the Company to agree matters such as the contribution rates.

The defined contribution schemes provide for employee contributions between 2-6% dependent on age and position in the Group, with higher contributions from the Group. In addition, the Group bears the majority of the administration costs and also life cover.

The pension cost charged to the Income Statement for the defined contribution schemes and Irish schemes in 2012 was £6,724,000 (2011: £7,343,000).

**Major assumptions:**

	2012	2011
Discount rate	4.5%	4.9%
Expected return on scheme assets	5.6%	5.6%
Future pension increases		
Deferred revaluations (CPI)	1.9%	2.0%
Pensions in payment (RPI)	2.8%	2.9%
Life expectancy		
Male	23.1 years	23.1 years
Female	23.1 years	23.3 years

The valuation of the defined benefit scheme's funding position is dependent on a number of assumptions and is therefore sensitive to changes in the assumptions used. The impact of variations in the key assumptions are detailed below:

- A change in the discount rate of 0.1% pa would change the value of liabilities by approximately 1.7% or £8.1 million.
- A change in the life expectancy by one year would change liabilities by approximately 3.0% or £14.6 million.
- A change in the inflation rate of 0.1% pa would change the value of the liabilities by 1.1% or £5.6 million.

Amounts recognised in the Income Statement in respect of defined benefit schemes:

	2012 £'000	2011 £'000
Net interest expense/(income)	2,471	(2,250)
Past service gain	(1,540)	(1,930)
	931	(4,180)

There was no current service costs in 2012 (2011: £nil) as the Defined Benefit scheme was closed to future accrual in 2010.

An actuarial loss of £21,065,000 (2011: loss of £49,584,000) has been recognised in the Group Statement of Comprehensive Income in the current period. This has been shown net of deferred tax of £5,188,000 (2011: £13,278,000). The cumulative amount of actuarial gains and losses recognised in the Group Statement of Comprehensive Income since the date of transition to IFRS is a loss of £105,530,000 (2011: loss of £84,465,000). The actual return on scheme assets was a £28,494,000 profit (2011: £1,198,000 loss).

Amounts included in the Statement of Financial Position:

	2012 £'000	2011 £'000
Present value of defined benefit obligations	504,111	472,708
Fair value of plan assets	(382,792)	(368,718)
Total liability recognised in the Statement of Financial Position	121,319	103,990
Amount included in current liabilities	(5,700)	(2,200)
Amount included in non-current liabilities	115,619	101,790

The amounts of contributions expected to be paid to the scheme during 2013 is £5,700,000 (2011: £2,200,000 annually rising to £5,700,000 annually from 1 June 2012).

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**24. Retirement Benefit Obligation (continued)**

**Movements in the present value of defined benefit obligations:**

	2012 £'000	2011 £'000
Balance at the start of the period	472,708	446,095
Interest costs	22,708	23,612
Age related rebates	630	74
Changes in assumptions underlying the defined benefit obligations	29,322	22,524
Past service gain	(1,540)	(1,930)
Benefits paid	(19,717)	(17,667)
Balance at the end of the period	504,111	472,708

**Movements in the fair value of plan assets:**

	2012 £'000	2011 £'000
Balance at the start of the period	368,718	385,309
Expected return on plan assets	20,237	25,862
Actual return less expected return on plan assets	8,257	(27,060)
Contributions from the sponsoring companies	4,667	2,200
Age related rebates	630	74
Benefits paid	(19,717)	(17,667)
Balance at the end of the period	382,792	368,718

**Analysis of the plan assets and the expected rate of return:**

	Expected return		Fair value of assets	
	2012 %	2011 %	2012 £'000	2011 £'000
Equity instruments	6.8	6.8	240,011	224,549
Debt instruments	3.8	3.8	100,674	98,816
Property	4.8	4.8	17,991	21,754
Other assets	2.7	2.6	24,116	23,599
	5.6	5.6	382,792	368,718

**Five year history:**

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Present value of defined benefit obligations	504,111	472,708	446,095	446,114	340,060
Fair value of scheme assets	(382,792)	(368,718)	(385,309)	(362,006)	(321,849)
Deficit in the plan	121,319	103,990	60,786	84,108	18,211
Experience adjustments on scheme liabilities					
Amount (£'000)	(29,332)	(22,524)	2,925	(100,425)	80,193
Percentage of plan liabilities (%)	(5.8%)	(4.8%)	0.7%	(22.5%)	23.6%
Experience adjustments on scheme assets					
Amounts (£'000)	8,257	(27,060)	11,139	29,137	(92,340)
Percentage of plan assets (%)	2.2%	(7.3%)	2.9%	8.0%	(28.7%)

## 25. Deferred Tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods.

	Properties not eligible £'000	Accelerated tax depreciation £'000	Intangible assets £'000	Pension balances £'000	Other timing differences £'000	Total £'000
At 1 January 2011	14,802	12,226	244,193	(16,412)	(1,854)	252,955
(Credit)/charge to income	(502)	(1,764)	(44,041)	1,723	758	(43,826)
Credit to equity	–	–	–	(13,388)	–	(13,388)
Reduction in tax rate – income	(1,067)	(785)	(14,212)	1,088	66	(14,910)
Reduction in tax rate – equity	–	–	–	992	–	992
Currency movements	–	2	(227)	–	11	(214)
At 31 December 2011	13,233	9,679	185,713	(25,997)	(1,019)	181,609
(Credit)/charge to income	(1,437)	(3,866)	–	934	392	(3,977)
Credit to equity	–	–	–	(5,266)	–	(5,266)
Reduction in tax rate – income	(852)	(474)	(12,787)	2,005	38	(12,070)
Reduction in tax rate – equity	–	–	–	421	–	421
Currency movements	–	3	(140)	–	4	(133)
At 29 December 2012	10,944	5,342	172,786	(27,903)	(585)	160,584

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (before offset) for financial reporting purposes:

	2012 £'000	2011 £'000
Deferred tax liabilities	189,072	208,625
Deferred tax assets	(28,488)	(27,016)
	160,584	181,609

Temporary differences arising in connection with interests in associates are insignificant.

The Group estimates that the future rate changes to 21.0% would reduce its UK actual deferred tax liability provided at 29 December 2012 by £13,402,000, however the impact will be dependent on our deferred tax position at that time.

## 26. Provisions

	Onerous leases and dilapidations £'000	Unfunded pensions £'000	Post retirement health costs £'000	Obligations to industry sponsored pension schemes £'000	Total £'000
At 31 December 2011	4,213	1,189	203	362	5,967
Credit to income	98	–	–	–	98
Actuarial valuation	–	–	–	21	21
Utilisation of provision	(441)	–	(49)	–	(490)
At 29 December 2012	3,870	1,189	154	383	5,596

The provisions are disclosed in the financial statements as:

Current provisions	1,278	–	49	–	1,327
Non-current provisions	2,592	1,189	105	383	4,269
<b>Total provisions</b>	<b>3,870</b>	<b>1,189</b>	<b>154</b>	<b>383</b>	<b>5,596</b>

The unfunded pension provision and obligations to industry sponsored pension schemes are assessed by a qualified actuary at each period end. The post retirement health costs represent management's estimate of the liability concerned. The provision for onerous leases and dilapidations represent management's estimate of the liability for future lease obligations.

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**27. Share Capital**

	2012 £'000	2011 £'000
Issued		
639,746,083 Ordinary Shares of 10p each (2011: 639,746,083)	63,975	63,975
756,000 13.75% Cumulative Preference Shares of £1 each (2011: 756,000)	756	756
349,600 13.75% 'A' Preference Shares of £1 each (2011: 349,600)	350	350
<b>Total issued share capital</b>	<b>65,081</b>	<b>65,081</b>

The Company has only one class of ordinary shares which has no right to fixed income. All the preference shares carry the right, subject to the discretion of the Company to distribute profits, to a fixed dividend of 13.75% and rank in priority to the ordinary shares. Given the discretionary nature of the dividend right, the preference shares are considered to be equity under IAS 32.

Since the balance sheet date, 2,796,518 ordinary shares of 10p each have been issued following the exercise of a number of share warrants.

At the balance sheet date 79,622,023 warrants were outstanding.

**28. Notes to the Cash Flow Statement**

	2012 £'000	2011 £'000
Operating profit/(loss)	40,441	(106,979)
Adjustments for:		
Impairment of intangibles – non-recurring	–	163,695
Depreciation of property, plant and equipment (including write-downs)	29,954	23,147
Write down in carrying value of assets held for sale	7,817	600
Currency differences	(59)	(360)
Charge from share-based payments	606	572
Profit on disposal of property, plant and equipment	(2,047)	(775)
Movement in long-term provisions	119	(679)
Net pension funding contributions	(4,668)	(2,200)
IAS 19 past service gain (non-recurring)	(1,540)	(1,930)
<b>Operating cash flows before movements in working capital</b>	<b>70,623</b>	<b>75,091</b>
Decrease/(increase) in inventories	1,859	(178)
Decrease in receivables	6,769	1,431
Decrease in payables	(3,153)	(5,137)
<b>Cash generated from operations</b>	<b>76,098</b>	<b>71,207</b>

Cash and cash equivalents (which are presented as a single class of assets on the face of the Statement of Financial Position) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

**29. Guarantees and Other Financial Commitments**

**Lease commitments**

The Group has entered into non-cancellable operating leases in respect of motor vehicles and land and buildings, the payments for which extend over a period of years.

	2012 £'000	2011 £'000
Minimum lease payments under operating leases recognised as an expense in the year	5,688	5,798

At the period end date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2012 £'000	2011 £'000
Within one year	4,709	6,170
In the second to fifth years inclusive	15,239	17,011
After five years	23,191	20,622
<b>Total future minimum lease payments</b>	<b>43,139</b>	<b>43,803</b>



Operating lease payments represent rentals payable by the Group for certain of its office properties and motor vehicle fleet. Leases are negotiated for an average term of 10 years in the case of properties and 4 years for vehicles. The rents payable under property leases are subject to renegotiation at various intervals specified in the lease contracts. The Group pays insurance, maintenance and repairs of these properties. The rents payable for the vehicle fleet are fixed for the full rental period.

#### Assets pledged as security

Under the refinancing agreement signed on 28 August 2009 and amended and extended on 24 April 2012, the Group and all its material subsidiaries have entered into a security agreement with the Group's bankers and private placement loan note holders. The security provided includes a fixed charge over the assets of the Group including investments, fixed assets, goodwill, intellectual property and a floating charge over its present and future undertakings.

### 30. Share-based Payments

#### Equity-Settled Share Option Scheme

Options over ordinary shares are granted under the Executive Share Option Scheme. Options are exercisable at a price equal to the closing quoted market price of the Company's shares on the day prior to the date of grant. The vesting period is 3 years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest. No options have been granted under the Executive Share Option Scheme since 2005.

Details of the share options outstanding during the period:

	2012		2011	
	Number of share options	Weighted average exercise price (in p)	Number of share options	Weighted average exercise price (in p)
Outstanding at the beginning of period	245,947	266	312,657	246
Lapsed/forfeited during the period	(109,466)	268	(66,710)	229
Outstanding at the end of the period	136,481	265	245,947	266
Exercisable at the end of the period	136,481	265	245,947	266

No share options were exercised during the period. The options outstanding at the period end had a weighted average exercise price of 265p and a weighted average remaining contractual life of 0.2 years.

Previous grants were valued using the Black-Scholes model. As far as the assumptions were concerned, expected volatility was determined by calculating the historical volatility of the Group's share price over the previous full year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised a charge of £nil related to equity-settled share-based payment transactions in 2012 for the Executive Share Option Scheme (2011: charge of £nil).

#### Group Savings-Related Share Option Scheme

The Company operates a Group Savings-Related Share Option Scheme. This has been approved by the Inland Revenue and is based on eligible employees being granted options and their agreeing to save weekly or monthly in a sharesave account with Computershare Plan Managers for a period of either 3, 5 or 7 years. The right to exercise is at the discretion of the employee within six months following the end of the period of saving.

Options outstanding under the Savings-Related Scheme at the period end:

Option Grant Date	Number of Shares	Issue Price Per Share
29 September 2005	16,635	291.60p
29 September 2006	14,214	224.76p
29 September 2006	4,002	228.80p
27 September 2007	101,217	226.41p
27 September 2007	3,165	220.17p
26 September 2008	813,152	37.60p
26 September 2008	16,655	37.60p
25 September 2009	2,125,558	28.60p
25 September 2009	51,270	28.60p
28 September 2010	6,429,706	15.75p
28 September 2010	11,459	15.75p

The Group recognised a net charge of £220,000 in 2012 (2011: charge of £391,000) related to equity-settled share-based payment transactions for the Savings-Related Share Option Scheme.

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**30. Share-based Payments (continued)**

The above options granted on 29 September 2006 and earlier were issued to employees at a price equivalent to the average mid-market price for the 30 days prior to 27 August 2004, 2 September 2005 and 1 September 2006 respectively. The subsequent options were granted at the closing mid-market price on the day prior to the invitation being sent to employees on 3 September 2007, 1 September 2008, 1 September 2009 and 1 September 2010 respectively. This follows the approval of the revised Sharesave Scheme at the Annual General Meeting in April 2007. A discount of 20% to the average mid-market price was applied to the issues up to and including 2009. No discount was applied to the 2010 issue.

There were no options granted under the Savings-Related Share Option Scheme in either 2012 or 2011.

**Performance Share Plan**

The Company makes awards to Executive Directors and certain senior employees on an annual basis under the Performance Share Plan. The awards vest after three years if certain performance criteria are met during that period.

Awards outstanding under the Performance Share Plan at the period end:

Grant Date	Number of Shares	Market Price on Award	Vesting Dates
16 April 2010	3,152,454	31.75p	16 April 2013
21 April 2011	4,026,742	7.40p	21 April 2014
31 May 2011	720,000	7.00p	31 May 2014
11 November 2011	10,471,204	4.78p	11 November 2014
14 September 2012	11,998,916	6.00p	14 September 2015
21 December 2012	180,000	14.50p	21 December 2015

The Group recognised a net charge of £260,000 in 2012 (2011: net credit of £30,000) related to equity-settled share-based payment transactions for the Performance Share Plan.

**Company Share Option Plan**

The Company granted options to certain senior managers to purchase shares in the Company at a certain market price, under the Company Share Option Plan. The awards vest after three years provided the employee remains employed by the Group.

Options outstanding under the Company Share Option Plan at the period end:

Grant Date	Number of Shares	Market Price on Award	Vesting Dates
28 June 2012	7,229,018	5.05p	28 June 2015

The Group recognised a net charge of £12,000 in 2012 (2011: £nil) related to equity-settled share-based payment transactions for the Company Share Option Plan.

**Deferred Share Bonus Plan**

It is the Company's policy that a proportion of any bonus paid to Executive Directors and certain senior employees is paid in shares deferred for three years. Shares are purchased at the time the bonus is awarded and held by the Company until either the three years are completed or the employee leaves and is treated as a good leaver. 5,650,530 shares are held by the Company in relation to the Deferred Share Bonus Plan.

The Group recognised a net charge of £114,000 in 2012 (2011: £211,000) related to equity-settled bonus payments for the Deferred Share Bonus Plan.

**31. Related Party Transactions**

**Associated parties**

The Group undertook transactions, all of which were on an arms' length basis, and had balances outstanding at the period end with related parties as shown below.

Related party	Purchases		Creditors		Sales		Debtors	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Classified Periodicals Ltd	22	34	3	4	—	—	—	—

Classified Periodicals Ltd is an associated undertaking of Johnston Press plc, which re-publishes in a separate publication classified advertisements that appear in the Group's titles and those of certain other publishers.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

**Key management personnel**

The remuneration of the Executive Directors, who are the key management personnel of the Group, is set out in the audited section of the Directors' Remuneration Report.

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## 32. Financial Instruments

### a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2011.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 22, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in Note 27 and in the Group Statement of Changes in Equity.

### b) Gearing ratio

The Board of Directors formally reviews the capital structure of the Group when considering any major corporate transactions. As part of these reviews, the Board considers the cost of capital and the risks associated with each class of capital. Based on the recommendations of the Board, the Group will balance its overall capital structure when appropriate through new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The gearing ratio at the period end is as follows:

	2012 £'000	2011 £'000
Debt	342,740	372,094
Cash and cash equivalents	(32,789)	(13,407)
Net debt (excluding the impact of cross-currency hedges)	309,951	358,687
Equity	273,917	284,364
Gearing ratio	53.0%	55.8%

Debt is defined as long and short-term borrowings as detailed in Note 22. Equity includes all capital and reserves of the Group attributable to equity holders of the parent.

### c) Externally imposed capital requirements

The Group is not subject to externally imposed capital requirements.

### d) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the financial statements.

### e) Categories of financial instruments

	2012 £'000	2011 £'000
<b>Financial assets (current and non-current)</b>		
Derivative instruments	2,897	11,657
Trade receivables	31,243	37,341
Cash and cash equivalents	32,789	13,407
Available for sale financial assets	970	970
<b>Financial liabilities (current and non-current)</b>		
Derivative instruments	(99)	(1,362)
Trade payables	(14,531)	(13,632)
Borrowings at amortised cost	(342,740)	(372,094)

### f) Financial risk management objectives

The Group's Corporate Treasury function provides services to the business and monitors and manages the financial risks relating to the operations of the Group through assessment of the exposures by degree and magnitude of risk. These risks include market risk (including currency risk and interest rate risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board and guidelines agreed with the Group's lenders that must be operated within. The Group does not enter into or trade in financial instruments, including derivative financial instruments, for speculative purposes.

The Corporate Treasury function reports regularly to the Executive Directors and the Board.

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**32. Financial Instruments (continued)**

**g) Market risk**

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (refer to section h) and interest rates (refer to section i). The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- Borrowings in Euros to manage the foreign currency risk associated with the Group's net investment in its foreign operations;
- Interest rate swaps and caps to mitigate the risk of rising interest rates; and
- Foreign currency options and currency swaps to manage the foreign currency risk associated with the US dollar denominated private placement loan notes.

At a Group and Company level, market risk exposures are assessed using sensitivity analyses.

There have been no changes to the Group's exposure to market risks or the manner in which it manages and measures risk.

**h) Foreign currency risk management**

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise.

The Group utilises currency derivatives to hedge significant future transactions and cash flows. In particular, the Group has a cash flow exposure to fluctuations in the US dollar on the private placement borrowings and interest payments. At the balance sheet date, the Group had in place a number of foreign exchange options which allow the Group to purchase US dollars at a set exchange rate when interest and principal payments are due on the borrowings. This protects the Group's cashflows if the US dollar rate falls below the agreed option rate.

The following table details the forward foreign currency options outstanding as at the period end:

	Average exchange rate		US \$ value		Notional value		Fair value	
	2012	2011	2012 \$'000	2011 \$'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Within 1 year	1.55	-	24,400	-	15,742	-	155	-
1 to 2 years	1.55	-	153,800	-	99,226	-	2,699	-
	1.55	-	178,200	-	114,968	-	2,854	-

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
<b>Euro</b>				
Trade receivables	-	-	1,239	1,766
Cash and cash equivalents	-	-	1,845	1,349
Trade payables	(1,730)	(2,170)	-	-
Borrowings	(12,301)	(12,563)	-	-
<b>US dollar</b>				
Cash and cash equivalents	-	-	94	142
Borrowings	(87,399)	(106,739)	-	-

**Foreign currency sensitivity**

As noted above, the Group is mainly exposed to movements in Euros and US dollars rates. The following table details the Group's sensitivity to a 5% change in pounds sterling against the euro and a 5% change in pounds sterling against the US dollar. These percentages are the rates used by management when assessing sensitivities internally and represent management's assessment of the possible change in foreign currency rates.

The sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period. A positive number indicates an increase in profit or loss and other equity where pounds sterling strengthens against the respective currency. For a 5% weakening of the sterling against the relevant currency, there is an equal and opposite impact on profit or loss and other equity, and the balances below reverse signs.

	Euro currency impact		US Dollar currency impact	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Profit or loss	462	450	4,262	183
Other equity	-	-	-	-

Of the impact on profit or loss an increase of £586,000 (2011: increase of £598,000) relates to the retranslation of the Group's euro denominated borrowings. The £4,262,000 (2011: £183,000) impact on profit or loss from US dollar exposure relates to the retranslation of US dollar private placement loan notes.

#### i) Interest rate risk management

The Group is exposed to interest rate risk as the Parent Company borrows funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings and by the use of interest rate swap contracts and interest rate caps. Hedging activities are evaluated regularly to align interest rate views, define risk appetite and the requirements of the funding agreements in place, ensuring optimal hedging strategies are applied, by either positioning the balance sheet or interest expense through different interest rate cycles.

#### Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the period end date. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the period end date was outstanding for the whole year. A 50 basis points increase is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

At the reporting date, if interest rates had been 50 basis points higher and all other variables were held constant, the Group's:

- net profit would decrease by £499,000 (2011: net profit would decrease by £374,000), mainly due to the impact of increased interest on sterling denominated borrowings; and
- net profit would increase by £36,000 (2011: net profit would increase by £377,000) as a result of the changes in the fair value of the Group's cash flow hedges.

For a decrease of 50 bps, the numbers shown above would have the opposite effect.

#### Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued floating rate debt held.

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date. The average interest rate is based on the outstanding balances at the end of the financial year. In the tables below, positive values in the fair value columns denote financial assets and negative values denote financial liabilities.

#### Cash flow hedges (outstanding receive floating: pay fixed contracts and receive fixed: pay fixed contracts)

	Average contract fixed interest		Notional principal amount		Fair value	
	2012 %	2011 %	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Within 1 year	1.90	3.79	30,000	223,548	(99)	6,101
1 to 2 years	–	1.90	–	30,000	–	(306)
	1.90	3.57	30,000	253,548	(99)	5,795

The interest rate swaps settle on a quarterly basis with interest being paid monthly or quarterly on the underlying principal amount. The floating rate on the interest rate swaps is 3 months LIBOR. The Group settles the difference between the fixed and floating interest rates on a net basis. All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest rate amounts are entered into in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings.

#### Fair value hedges (outstanding receive fixed: pay floating contracts)

	Average contract fixed interest		Notional principal amount		Fair value	
	2012 %	2011 %	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Within 1 year	–	8.85	–	37,758	–	4,500

All of the hedges shown in the table above matured during 2012.

#### Interest rate caps

Under interest rate caps, the Group has capped the floating 3 month libor rate through a one-off upfront payment. This protects the Group from interest rates rising above the cap, while continuing to pay floating libor while it remains below the cap. The interest rate caps settle on a quarterly basis.

	Interest rate cap		Notional principal amount		Fair value	
	2012 %	2011 %	2012 £'000	2011 £'000	2012 £'000	2011 £'000
2 to 5 years	2.0	–	180,000	–	43	–

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**32. Financial Instruments (continued)**

**Measurement**

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into 3 levels based on the extent to which the fair value is observable. The levels are classified as follows:

Level 1: fair value is based on quoted prices in active markets for identified financial assets and liabilities.

Level 2: fair value is determined using directly observable inputs other than level 1 inputs.

Level 3: fair value is determined on inputs not based on observable market data.

In the current and prior period, the interest rate and cross currency swaps, foreign currency options and interest rate caps are classified as level 2 financial instruments. The available for sale investments are classified as level 3 financial instruments. There have been no transfers between the various levels of the fair value hierarchy during the period.

**j) Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a way of mitigating the risk of financial loss from defaults. The Group's policy on dealing with trade customers is described in Notes 3 and 21.

The Group's exposure and the credit ratings of its counterparties are continuously monitored. As far as possible, the aggregate value of transactions is spread across a number of approved counterparties.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics, the latter being defined as connected entities, other than with some of the larger advertising agencies. In the case of the latter, a close relationship exists between the Group and the agencies and appropriate allowances for doubtful debts are in place. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies, and the funds and financial instruments are held with a number of banks to spread the risk.

The following table shows the total estimated exposure to credit risk for all of the Group's financial assets, excluding trade receivables which are discussed in Note 21:

	2012		2011	
	Carrying value £'000	Exposure to credit risk £'000	Carrying value £'000	Exposure to credit risk £'000
Available for sale investments	970	-	970	-
Cash and cash equivalents	32,789	-	13,407	-
Derivative instruments	2,897	-	11,657	-
	<b>36,656</b>	<b>-</b>	<b>26,034</b>	<b>-</b>

**k) Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has agreed an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 22 is a description of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

Liquidity risk is further discussed in the Business Review on page 23.

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### Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities as at 29 December 2012. The tables have been drawn up on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

#### Period ended 29 December 2012

	Bank loans £'000	Private placement notes £'000	Trade payables £'000	Total £'000
Within 1 year	19,025	15,236	14,531	48,792
In 1 to 2 years	18,704	14,870	–	33,574
In 2 to 5 years	225,882	123,753	–	349,635
	<b>263,611</b>	<b>153,859</b>	<b>14,531</b>	<b>432,001</b>

#### Period ended 31 December 2011

	Bank loans £'000	Private placement notes £'000	Trade payables £'000	Total £'000
Within 1 year	237,722	157,413	13,632	408,767
	<b>237,722</b>	<b>157,413</b>	<b>13,632</b>	<b>408,767</b>

The maturity profile of the Group's financial derivatives (which include interest rate and foreign currency caps, swaps and options), using undiscounted cash flows, is as follows:

	2012		2011	
	Payable £'000	Receivable £'000	Payable £'000	Receivable £'000
Within 1 year	<b>284</b>	<b>75</b>	94,852	105,650
In 1-2 years	–	–	141	124
	<b>284</b>	<b>75</b>	<b>94,993</b>	<b>105,774</b>

The Group has access to financial facilities, the total unutilised amount of which is £10.0 million (2011: £55.0 million) at the reporting date. The Group expects to meet its obligations from operating cash flows and proceeds of maturing financial assets.

#### 1) Fair value of financial instruments

The fair values of financial assets and financial liabilities are provided by the counterparty to the instrument.

Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

## Group Five-Year Summary

	2008 £'000	2009 <sup>1</sup> £'000	2010 £'000	2011 £'000	2012 £'000
<b>Income statement</b>					
Revenue	531,899	427,996	398,084	373,845	328,691
Operating profit on ordinary activities <sup>2</sup>	128,414	71,784	71,991	64,552	57,045
Share of associates' operating profit	85	22	10	10	6
Non-recurring items	(528,090)	(162,398)	(17,133)	(171,531)	(16,604)
(Loss)/profit before interest and taxation	(399,591)	(90,592)	54,868	(106,969)	40,441
Net finance costs	(29,667)	(28,465)	(41,505)	(36,158)	(44,446)
Non-recurring finance costs and IAS 21/39 items	-	5,282	3,166	(676)	(2,760)
(Loss)/profit before taxation	(429,258)	(113,775)	16,529	(143,803)	(6,765)
Taxation	63,788	26,517	19,535	54,866	12,376
(Loss)/profit for the year	(365,470)	(87,258)	36,064	(88,937)	5,611
<b>Statistics</b>					
Basic (loss)/earnings per share	(67.99p)	(13.66p)	5.61p	(14.24p)	0.88p
Underlying earnings per share	13.41p	5.53p	3.67p	3.50p	3.42p
Operating profit <sup>2</sup> to turnover	24.1%	16.8%	18.1%	17.3%	17.4%
<b>Balance sheet</b>					
Intangible assets	1,057,886	923,377	907,455	742,851	742,294
Property, plant and equipment	260,498	219,608	195,091	171,154	127,223
Investments	2,772	1,000	982	984	990
Derivative financial instruments	36,488	15,794	15,757	-	2,742
	1,357,644	1,159,779	1,119,285	914,989	873,255
<b>Net current assets/(liabilities)</b>	8,400	(41,473)	11,483	(340,805)	16,823
Total assets and current assets/(liabilities)	1,366,044	1,118,306	1,130,768	574,184	890,078
Non-current liabilities	(519,728)	(405,973)	(403,404)	(454)	(334,362)
Long-term provisions	(332,496)	(342,309)	(316,177)	(289,366)	(281,799)
<b>Net assets</b>	513,820	370,024	411,187	284,364	273,917
Shareholders' Funds					
Ordinary Shares	63,974	63,974	63,975	63,975	63,975
Preference Shares	1,106	1,106	1,106	1,106	1,106
Reserves	448,740	304,944	346,106	219,283	208,836
<b>Capital employed</b>	513,820	370,024	411,187	284,364	273,917

<sup>1</sup> All periods related to 52 trading weeks with the exception of 2009 which was a 53 week period.

<sup>2</sup> Before non-recurring and IAS21/39 items.




**Company Balance Sheet**  
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	Notes	2012 £'000	2011 £'000
<b>Fixed assets</b>			
Tangible	34	3	5
Investments	35	529,598	529,292
		<b>529,601</b>	<b>529,297</b>
<b>Current assets</b>			
Debtors – due within one year	36	86,007	83,343
– due after more than one year	36	441,798	443,754
Cash at bank and in hand		23,972	6,968
		<b>551,777</b>	<b>534,065</b>
<b>Creditors: amounts falling due within one year</b>	37	<b>(117,374)</b>	<b>(495,751)</b>
<b>Net current assets</b>		<b>434,403</b>	<b>38,314</b>
<b>Total assets less current liabilities</b>		<b>964,004</b>	<b>567,611</b>
<b>Creditors: amounts falling due after more than one year</b>	38	<b>(334,220)</b>	<b>(306)</b>
<b>Provisions for liabilities</b>	41	<b>(1,189)</b>	<b>(1,189)</b>
<b>Net assets</b>		<b>628,595</b>	<b>566,116</b>
<b>Capital and reserves</b>			
Called-up share capital			
Ordinary	27	63,975	63,975
Preference	27	1,106	1,106
		<b>65,081</b>	<b>65,081</b>
Reserves	42	563,514	501,035
<b>Shareholders' funds</b>		<b>628,595</b>	<b>566,116</b>

The comparative numbers are as at 31 December 2011.

The financial statements of Johnston Press plc, registered number 15382, were approved by the Board of Directors on 19 March 2013 and were signed on its behalf by:

  
**Ashley Highfield**  
 Chief Executive Officer

  
**Grant Murray**  
 Chief Financial Officer

The accompanying notes are an integral part of these financial statements.

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## Notes to the Company Financial Statements For the 52 week period ended 29 December 2012

### 33. Significant Accounting Policies

#### Basis of accounting and preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards. No Profit and Loss Account is presented as permitted by section 408 of the Companies Act 2006. The Company's result for the period, determined in accordance with the Act, was a profit of £61,727,000 (2011: loss of £70,184,000). The financial statements have been prepared on the historical cost basis except for derivative financial instruments. The principal accounting policies adopted are set out below.

The 2012 period was for the 52 weeks ended 29 December 2012 with the prior year being for the 52 weeks ended 31 December 2011.

#### Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that both the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the financial statements.

#### Tangible fixed assets

Tangible fixed asset balances are shown at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all property, plant and equipment, excluding land, at varying rates calculated to write-off cost over the useful lives. The principal rates employed are:

Plant and machinery	6.67%, 10%, 20%, 25% and 33% straight-line basis
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#### Investments

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment. Unlisted investments are shown at Directors' valuation. Upward revaluations are credited to the revaluation reserve. Downward revaluations in excess of any previous upward revaluations are taken to the Profit and Loss Account.

#### Borrowings

Interest-bearing loans and bank overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premia payable on settlement or redemption and direct issue costs, are charged to the Profit and Loss Account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Fees incurred in negotiating borrowings are held on the Balance Sheet and amortised to the Profit and Loss Account over the term of the underlying debt.

#### Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the period end date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the period end date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the period end date.

#### Share-based payments

The Company issues equity settled share-based benefits to certain employees. These share-based payments are measured at their fair value at the date of grant and the fair value of expected shares is expensed to the Profit and Loss Account on a straight-line basis over the vesting period. Fair value is measured by use of the Black-Scholes model, as amended to take account of the Directors' best estimate of probable share vesting and exercise.

#### Dividends

Dividends payable to the Company's shareholders are recorded as a liability in the period in which the dividends are approved. In the Company's financial statements, dividends receivable from subsidiaries are recognised as assets in the period in which the dividends are approved.

#### Financial instruments

Financial assets and financial liabilities are recognised on the Balance Sheet when the Company becomes a party to the contractual provisions of that instrument.

The Company's activities and funding structure give rise to some exposure to the financial risks of changes in interest rates and foreign currency exchange rates. The Company uses interest rate swaps and cross currency interest rate swaps to manage these exposures. The Company does not use derivative financial instruments for speculative purposes.

Changes in the fair value of derivative financial instruments are recognised directly in the Profit and Loss Account.

Full details of the Group policy are summarised on page 66.

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### Retirement benefit obligations

The Company participates in a Group-wide scheme, the Johnston Press Pension Plan, which has a defined benefit section (providing benefits based on final pensionable pay) and a defined contribution section (see Note 24). The assets of the scheme are held separately from those of the Company. The pension costs for the defined contribution section are charged to the Profit and Loss Account on the basis of contributions due in respect of the financial year. In relation to the defined benefit section of the scheme, the Company is unable to identify its share of the underlying assets and liabilities on a consistent and reliable basis and therefore, as required by FRS 17, the Company accounts for this scheme as a defined contribution scheme. As a result, the amount charged to the Profit and Loss Account in respect of the defined benefit section represents the contributions payable to the scheme in respect of the period.

### 34. Tangible Fixed Assets

	Plant and machinery £'000
<b>Cost</b>	
At 31 December 2011	8
Disposals	-
<b>At 29 December 2012</b>	<b>8</b>
<b>Depreciation</b>	
At 31 December 2011	3
Charge for the period	2
<b>At 29 December 2012</b>	<b>5</b>
<b>Carrying amount</b>	
At 31 December 2011	5
<b>At 29 December 2012</b>	<b>3</b>

### 35. Investments

	Subsidiary undertakings £'000	Unlisted investments £'000	Total £'000
<b>Cost</b>			
At the start of the period	1,105,840	3,526	1,109,366
Amounts relating to share-based payments	306	-	306
<b>At the end of the period</b>	<b>1,106,146</b>	<b>3,526</b>	<b>1,109,672</b>
<b>Provisions for impairment</b>			
At the start of the period	(576,548)	(3,526)	(580,074)
Provision for impairment	-	-	-
<b>At the end of the period</b>	<b>(576,548)</b>	<b>(3,526)</b>	<b>(580,074)</b>
<b>Net book value</b>			
At the start of the period	529,292	-	529,292
<b>At the end of the period</b>	<b>529,598</b>	<b>-</b>	<b>529,598</b>

An impairment charge has been reflected in the financial statements of the Group. Full details are explained in Note 15. Inevitably this affects the value of the investments held by the Parent Company and the element of the impairment of intangible assets relating to the investments held by the Company only has been processed as an impairment of investments.

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**35. Investments (continued)**

The Company's principal subsidiary undertakings are as follows:

Name of company	Country of incorporation and operation	Proportion of ownership interest	Nature of business
Johnston Publishing Ltd	England	100%	Newspaper publishers
Johnston Press Ireland Ltd*	Republic of Ireland	100%	Newspaper publishers
Isle of Man Newspapers Ltd*	Isle of Man	100%	Newspaper publishers and printers
Score Press Ltd	Scotland	100%	Holding company
Score Press Ireland*	Republic of Ireland	100%	Holding company
The Scotsman Publications Ltd	Scotland	100%	Newspaper publishers
Johnston (Falkirk) Ltd	Scotland	100%	Newspaper publishers
Strachan & Livingston Ltd	Scotland	100%	Newspaper publishers
The Tweeddale Press Ltd*	Scotland	100%	Newspaper publishers
Angus County Press Ltd*	Scotland	100%	Newspaper publishers
Galloway Gazette Ltd*	Scotland	100%	Newspaper publishers
Stornoway Gazette Ltd*	Scotland	100%	Newspaper publishers
Northeast Press Ltd*	England	100%	Newspaper publishers and printers
Yorkshire Post Newspapers Ltd*	England	100%	Newspaper publishers and printers
Ackrill Newspapers Ltd*	England	100%	Newspaper publishers
Yorkshire Weekly Newspaper Group Ltd	England	100%	Newspaper publishers
Halifax Courier Ltd*	England	100%	Newspaper publishers
Yorkshire Regional Newspapers Ltd	England	100%	Newspaper publishers
Lancashire Evening Post Ltd*	England	100%	Newspaper publishers
Lancashire Publications Ltd*	England	100%	Newspaper publishers
Lancaster & Morecambe Newspapers Ltd*	England	100%	Newspaper publishers
Blackpool Gazette & Herald Ltd*	England	100%	Newspaper publishers
East Lancashire Newspapers Ltd*	England	100%	Newspaper publishers
Johnston Letterbox Direct Ltd*	England	100%	Newspaper publishers
Wilfred Edmunds Ltd	England	100%	Newspaper publishers
South Yorkshire Newspapers Ltd	England	100%	Newspaper publishers
East Midlands Newspapers Ltd*	England	100%	Newspaper publishers
Lincolnshire Newspapers Ltd	England	100%	Newspaper publishers
Anglia Newspapers Ltd	England	100%	Newspaper publishers
Northamptonshire Newspapers Ltd	England	100%	Newspaper publishers
Central Counties Newspapers Ltd	England	100%	Newspaper publishers
Premier Newspapers Ltd	England	100%	Newspaper publishers
Sheffield Newspapers Ltd*	England	100%	Newspaper publishers and printers
Peterboro' Web Ltd	England	100%	Contract printers
Northampton Web Ltd*	England	100%	Contract printers
Portsmouth Publishing & Printing Ltd*	England	100%	Newspaper publishers and printers
Sussex Newspapers Ltd	England	100%	Newspaper publishers
T R Beckett Ltd	England	100%	Newspaper publishers
Morton Newspapers Ltd*	Northern Ireland	100%	Newspaper publishers and printers
Derry Journal Ltd*	Northern Ireland	100%	Newspaper publishers
Donegal Democrat Ltd*	Republic of Ireland	100%	Newspaper publishers
Longford Leader Ltd*	Republic of Ireland	100%	Newspaper publishers
Leitrim Observer Ltd*	Republic of Ireland	100%	Newspaper publishers
Leinster Leader Ltd*	Republic of Ireland	100%	Newspaper publishers
Leinster Express Newspapers Ltd*	Republic of Ireland	100%	Newspaper publishers
Dundalk Democrat Ltd*	Republic of Ireland	100%	Newspaper publishers
Limerick Leader Ltd*	Republic of Ireland	100%	Newspaper publishers
Clonnad Ltd*	Republic of Ireland	100%	Newspaper publishers
Kilkenny People Publishing Ltd*	Republic of Ireland	100%	Newspaper publishers

\*Held through a subsidiary.

There is no difference in the proportions of ownership interest shown above and the voting power held. All investments in subsidiary undertakings are held at cost less, where appropriate, provisions for impairment.

### 36. Debtors

	2012 £'000	2011 £'000
<b>Amounts falling due within one year</b>		
Amounts owed by subsidiary undertakings	83,399	60,459
Corporation tax recoverable	1,896	9,611
Trade and other debtors and prepayments	557	1,616
Derivative financial instruments (Note 23)	155	11,657
	<b>86,007</b>	<b>83,343</b>
<b>Amounts falling due after more than one year</b>		
Amounts owed by subsidiary undertakings	438,708	443,400
Derivative financial instruments (Note 23)	2,742	–
Deferred tax asset – see below	348	354
	<b>441,798</b>	<b>443,754</b>

The following are the major deferred tax assets recognised by the Company and movements thereon during the year:

	Accelerated tax depreciation £'000	Pension balances £'000	Other timing differences £'000	Total £'000
At the start of the period	15	297	42	354
Charge to profit and loss account	(3)	–	27	24
Reduction in tax rate	(1)	(24)	(5)	(30)
<b>At the end of the period</b>	<b>11</b>	<b>273</b>	<b>64</b>	<b>348</b>

### 37. Creditors: Amounts Falling Due Within One Year

	2012 £'000	2011 £'000
Borrowings (Note 39)	8,520	372,094
Amounts owed to subsidiary undertakings	98,706	117,068
Other taxes and social security costs	448	421
Accruals and deferred income	9,524	5,106
Other creditors	77	6
Derivative financial instruments (Note 23)	99	1,056
	<b>117,374</b>	<b>495,751</b>

### 38. Creditors: Amounts Falling Due After More Than One Year

	2012 £'000	2011 £'000
Borrowings (Note 39)	334,220	–
Derivative financial instruments (Note 23)	–	306
	<b>334,220</b>	<b>306</b>

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**39. Borrowings**

The Company's bank overdrafts and loans comprise:	2012 £'000	2011 £'000
Bank loans	227,316	218,252
Private placement loan notes	119,162	141,556
Term debt issue costs	(12,273)	(4,041)
Payment-in-kind interest accrual	8,535	16,327
<b>Total borrowings</b>	<b>342,740</b>	<b>372,094</b>

The borrowings are repayable as follows:	2012 £'000	2011 £'000
On demand or within one year	8,520	372,094
Within one to two years	334,220	–
<b></b>	<b>342,740</b>	<b>372,094</b>

All borrowings at the prior period end were classed as current borrowings, due to the lending facilities maturing on 30 September 2012. These facilities were renegotiated in April 2012 and now expire on 30 September 2015.

Other details relating to the bank overdrafts and loans are set out in Note 22.

**40. Lease Commitments**

The Company leases certain buildings on short-term operating leases. The rental expense on these leases during 2012 was £21,000 (2011: £nil). The Company pays all insurance, maintenance and repairs of these properties.

Annual commitments under non-cancellable operating leases are as follows:

Operating leases which expire:	2012 £'000	2011 £'000
Within 1 year	68	–

**41. Provisions For Liabilities**

	Unfunded pensions £'000
At the start and end of the period	1,189

The unfunded pension provision is assessed by a qualified actuary at each period end.

**42. Reserves**

	Share premium £'000	Share-based payments reserve £'000	Retained earnings £'000	Other reserves £'000	Own shares £'000	Total £'000
Opening balance	502,818	17,845	(33,759)	19,510	(5,379)	501,035
Profit for the period	–	–	61,727	–	–	61,727
Dividends (Note 13)	–	–	(152)	–	–	(152)
Provision for share-based payments	–	606	–	–	–	606
Share warrants issued	–	551	–	–	–	551
Release of deferred bonus payments	–	(43)	–	–	43	–
Own shares purchased	–	–	–	–	(253)	(253)
<b>At the end of the period</b>	<b>502,818</b>	<b>18,959</b>	<b>27,816</b>	<b>19,510</b>	<b>(5,589)</b>	<b>563,514</b>

Further details of share-based payments are shown in Note 30.

The own shares reserve represents the cost of shares in Johnston Press plc purchased in the market and held by the Johnston Press plc Employee Share Trust (the 'JP EST') to satisfy options under the Group's share options schemes (see Note 30). The number of ordinary shares held by the JP EST as at 29 December 2012 was 16,198,517 (2011: 11,958,165). In addition to the JP EST, a further 1,788,822 shares are held regarding the deferred share bonus plan (2011: 2,076,037).

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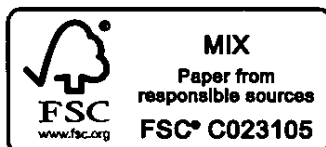
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