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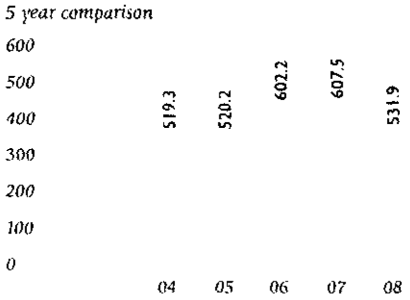
**Johnston Press plc**
Annual Report and Accounts 2008

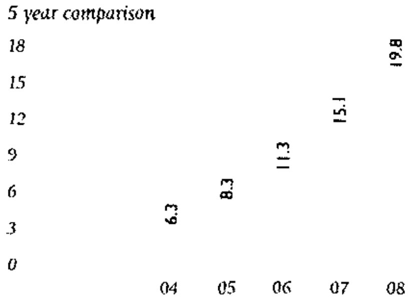
A multi-platform
community media company

# serving local communities by meeting their needs for local news, information and advertising services through 300 newspaper publications and 319 local websites reaching an audience of over 15 million per week.

## Revenue (£'m)

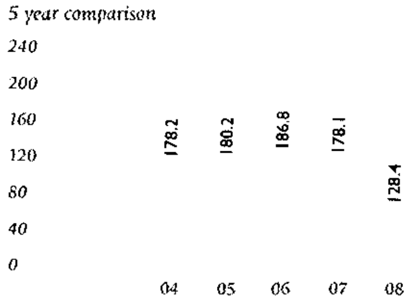



## Digital Revenues (£'m)



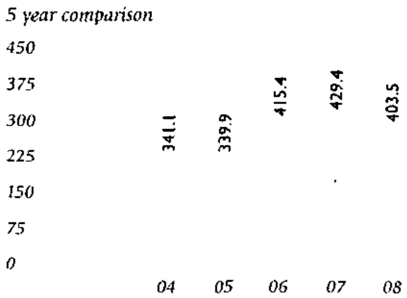

## Operating Profit* (£'m)

*before non-recurring items*



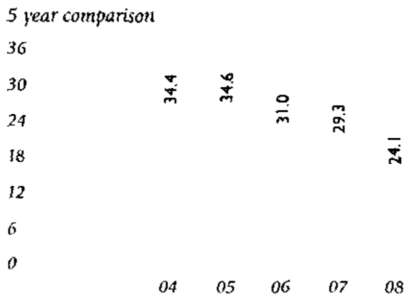

## Costs* (£'m)

*before non-recurring items*



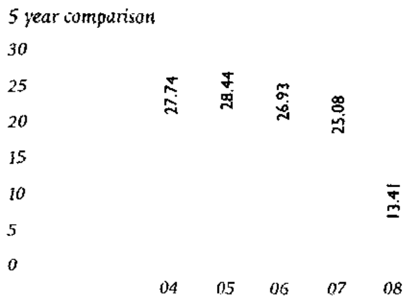

## Operating Profit Margin*(%)

*before non-recurring items*




## Underlying EPS (p)

*note 14*




* see pages 15 and 51

## Key Financials

- Total revenue down £75.6 million or 12.4%
- Digital revenues up £4.7 million or 31.1%*
- Operating margin (pre non-recurring) down from 29.3% in 2007 to 24.1% in 2008*
- Net debt to EBITDA ratio 3.1 times°
- £417.5 million net impairment charge against intangibles
- Net cash inflow of £51 million pre Rights Issue proceeds and movement in borrowings
- No final dividend proposed

## Operational Summary

- Rate of advertising decline increased during the year
- Strong cost management with total costs adjusted for price changes down £32.3 million year-on-year
- Continuing growth of online audience with unique users +49% and page impressions +168%
- Investment in digital activities to enhance local service
- Investment in IT to increase future efficiency
- Contract print revenues up 2.6%



# 12.5 million+ readers

**Print titles**
Daily - 18
Weekly - 164
Weekly free - 118

# 300 newspaper publications

**Printing from 10 regional print centres**

Plus a wide variety of complementary publications to layer the market, give consumer choice and increase advertising reach.

- Lifestyle magazines
- Community newsletters
- Commuter newspapers
- Niche publications

# 319 local websites

**Extending audience reach**
**233.5 million page impressions per month+**
**12.2 million unique users per month+**

The Group remains committed to a strategy of optimising local coverage and advertising reach through a range of media in local communities.

* See page 15
° See pages 10 and 73

+ The web statistics throughout these accounts are based on Webtrends 6. From 2009 the Group plans to report on Webtrends 8 which is more widely accepted across the industry. This will reduce these numbers although they will be quoted going forward on a like-for-like basis.

Chairman's Statement

# The past year has been a particularly challenging one for the regional press. Local publishing companies experienced a very significant and rapid decline in advertising revenues.



This was driven by the credit crisis and the consequent economic downturn. It is manifest by the major decline in the volume of advertising in respect of property and recruitment in particular but also by significant declines across all other categories. The Board recognises and regrets that 2008 has been an especially painful year for our shareholders who have suffered a substantial loss in value.

Johnston Press has faced the same difficult market conditions as other publishers. In addition, we entered the year with a relatively high level of debt, incurred as a result of earlier acquisitions, primarily in 2005. Much of the past year has been about addressing these problems, a process which remains ongoing.

**Results**

During 2008 total revenues were £531.9 million, a reduction of 12.4% compared to 2007 (£607.5 million). This decline reflects the very challenging market conditions referred to above which resulted in overall advertising revenues, in print and digital, falling by £75.2 million or 17.1% from 2007 with a significantly worsening trend as the year progressed as summarised on page 14. The only areas of revenue growth were in our digital operations, up by 31.1% to £19.8 million (2007 £15.1 million) and contract printing which grew by 2.6% to £35.9 million (2007 £35.0 million), reflecting additional revenues from News International following completion of the new press installation in Portsmouth.

At £128.4 million, operating profit before non-recurring items was 27.9% down with an operating margin of 24.1%. This was only 5.2% lower than 2007 as a result of substantial cost savings implemented during the course of the year and reflects the extent to which our business has responded to the challenges which it faces.

Roger Parry
Chairman

"...areas of revenue growth were in our digital operations, up by 31.1% to £19.8 million (2007 £15.1 million) and contract printing which grew by 2.6% to £35.9 million (2007 £35.0 million), following completion of the new press installation in Portsmouth."

Underlying earnings per share, adjusted by the discount element of the Rights Issue were 13.41p compared to 25.08p in 2007, a reduction of 46.5%.

Net debt at 31 December 2008, as summarised in note 22, was £476.8 million, a reduction of £214.9 million from the start of the year. This was achieved primarily as a result of a fund raising exercise in the first half, which netted proceeds of £205 million after the deduction of fees, through a combination of a subscription of shares by Usaha Tegas Sdn. Bhd. and a 1 for 1 Rights Issue. In addition the Group continues to generate cash with a net inflow from operations during 2008 of £126.9 million. Net debt was adversely affected by the deterioration in the value of sterling against the euro, especially towards the end of 2008. Had this weakening not occurred net debt would have been £41.0 million lower.

The loss for the year before taxation was £429.3 million, of which a profit of £98.8 million related to trading before non-recurring items. The balance related to non-recurring costs of £528.1 million. The majority related to the impairment of goodwill and the value of publishing titles, together with an intangible adjustment explained later, collectively totalling £511.4 million. The balance related to a fundamental restructuring of a number of our businesses and operations as part of a continuing exercise to align our costs more closely to the current economic environment. This included a non-cash item amounting to £7.0 million, being the accelerated depreciation on the press at Northampton closed during the year.

"The Board of Johnston Press has been consistent in believing that the strength of the Company lies in its focus on providing local communities with news, information and entertainment, thereby building large local audiences which advertisers are keen to access."

**Dividend**

Reflecting the position at the Interim Results, and in line with the intentions regarding the dividend policy as expressed in the Rights Issue prospectus, the Board has decided to recommend no final dividend payment. The Board continues to believe that the most important use of available cash in the current environment is to reduce the Group's indebtedness.

**Business Operations**

Classified advertising in local newspapers is a lead indicator of economic activity. Through movements in advertising revenues they anticipate more general changes in the wider economy. Indications of a deteriorating climate were seen very early in 2008 and this enabled the management team to anticipate a tough year ahead. As a result plans were put in place to undertake a radical restructuring of costs and also to bring down the total level of net debt through the fund raising exercise as outlined above. Both initiatives proved timely and well judged. However the severity of the advertising slump in the second half of 2008 turned out to be far worse than we anticipated.

The principal cost saving initiatives have focused on using technology to streamline and rationalise our operations. With our new press centres in Dinnington, in Yorkshire, and Portsmouth exceeding our expectations we have also been able to close several of our older printing operations. Whilst the majority of our headcount savings have come from these areas, we have also reduced numbers to a lesser extent in both advertising and editorial functions. Towards the end of 2008 we initiated a more radical restructuring of our editorial organisation by changing the approach to content production. Similarly in advertising, we embarked on a rationalisation of our tele-sales functions to create a smaller number of regional call centres. Both initiatives will result in significant additional savings during the course of 2009.

Comparing December 2008 with December 2007, the Group's full-time equivalent headcount has fallen from 7,538 to 6,408 and, as an illustration, operating costs for the month of December 2008 were £29.4 million which were 16.9% lower than in December 2007. We anticipate further cost savings during the course of 2009 with a number of plans to achieve this already in place as outlined above.

Notwithstanding the pressures under which we are having to operate, we continue to invest in our digital platforms. The result has been revenue growth of 31.1% in 2008 to reach a total of £19.8 million (2007: £15.1 million). Similarly strong growth has been achieved in unique users up by 48.8% and page impressions which increased by 167.5%. We have ambitious plans for further developments in 2009.

The result of these initiatives, coupled with continuing efforts to grow our total print audience through targeted niche product launches, has resulted in a significant expansion in total reach. Research undertaken by Survey Interactive in the autumn of 2008 indicates that our websites have extended our audience reach by 27% in the UK.

Reflecting the efforts of our local management teams, we have been rewarded with a number of awards for our print publications and our websites. The most noteworthy amongst these included Scottish weekly newspaper of the year to the Falkirk Herald; Scottish weekly paid-for newspaper of the year to the Southern Reporter; 'How do' media awards website of the year to the Lancashire Evening Post; and a number of individual awards to employees. These included the Baron Trophy for a lifetime achievement in Journalism in the Highlands and Islands to Donnie Macinnes after 40 years with the Stornoway Gazette; NCTS trainee sports reporter of the year to Jonathan Jurejko at the Doncaster Free Press and Scottish Newspaper Society Journalist of the year to Richard Elias at Scotland on Sunday.

**Strategy**

The Board of Johnston Press has been consistent in believing that the strength of the Company lies in its focus on providing local communities with news, information and entertainment, thereby building large local audiences which advertisers are keen to access. The Board has also long recognised that a reliance on print alone is insufficient and that a multi-platform approach which embraces digital channels is central to a successful long term strategy. Whilst this accepts that the business does face structural challenges to which it must respond, there is an equally strong belief that print will remain a vital part of the media mix for the long term. As a result of this, we have an ongoing programme of investment to develop our digital publishing platforms which build on our existing print franchises. Whilst this period

# Chairman's Statement continued

of extreme economic weakness adds to the challenge of pursuing this strategy, we are committed to doing so.

During the year only one very small acquisition was made being a small weekly free distribution newspaper, South Tipp Today, which circulates in County Tipperary in the Republic of Ireland. The title is performing well and ahead of expectations at the time of acquisition.

More generally, we continue to believe that industry consolidation is very beneficial to readers and advertisers alike and that in the longer term, further developments in this direction are likely. The extent to which this will be possible remains substantially dependent on the application of merger regulations. An easing of the narrow view of market definition in assessing newspaper mergers is long overdue.

**Employees**

2008 has been a year of extreme difficulty for our management and employees. It is to their collective credit that the business has responded so effectively to the tough challenges it faces, especially as we have unfortunately found it necessary to reduce the total number of people we employ. The Board thanks them for their efforts.

**Board Changes**

There have been significant changes to the Board of Johnston Press. During the year we appointed two new Non-Executive Directors, Gavin Patterson, who is a Director of BT Group plc and Chief Executive of BT Retail, and Ralph Marshall, an Executive Director of Usaha Tegas, our new major shareholder. Gavin accepted the position before his promotion to the role of CEO of BT Retail and, with the new additional calls on his time in the current economic climate, sadly Gavin has decided not to stand for election at the Annual General Meeting in April. Ralph brings to the Board a considerable breadth of business experience.

Simon Waugh, who has been a Non-Executive Director since 2003 and was Chairman of the Remuneration Committee, stood down in January 2009 following his appointment by the Government as the first Chief Executive of the new National Apprenticeship Service. Peter Cawdron, who was planning to stand down at the AGM in 2009, has agreed to stay on until the AGM in 2010. He will take on the Remuneration Committee chairmanship until that time.

Given the changes above, during 2009 a number of new independent Non-Executive Directors will be recruited to the Board.

Our long serving Chief Executive, Tim Bowdler, stepped down on 31 December 2008 after 15 years with the Company. He will remain available for a limited period to assist in a smooth handover to John Fry who has succeeded him after spending six years as Chief Executive of Archant, the UK's seventh largest regional newspaper publisher.

John was for nine years President of the information company Dun & Bradstreet for UK, Europe, Middle East and Africa, after four years as a consultant with Bain & Company. He started his career with Procter & Gamble.

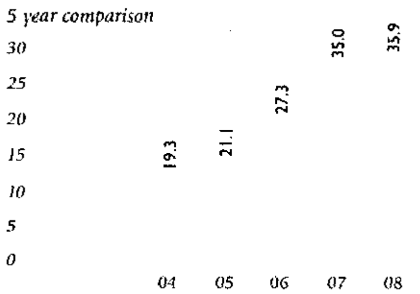
As CEO, Tim led the remarkable growth of Johnston Press by successfully acquiring numerous other regional newspaper publishing businesses. Under his leadership Johnston Press has grown from a relatively small business to become the UK's second largest regional newspaper publisher and the largest publisher of weekly newspapers in the Republic of Ireland. During much of his tenure the Company achieved significant growth in profits and earnings per share. It is unfortunate in all respects that he leaves the business after the recent sharp decline in the share price which reflects the seriousness of the current downturn and concern over the level of debt currently on the balance sheet.

Despite the recent collapse of the advertising markets, Tim leaves Johnston Press as a well run, cash generative business. On behalf of the Board and shareholders, I would like to thank him for his long and distinguished period of leadership. We wish him well for the future.

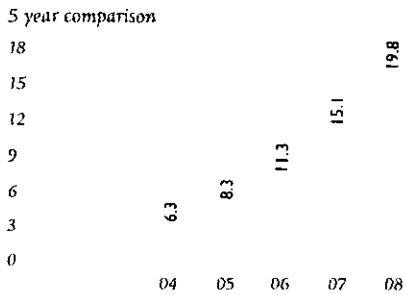
Lastly, after 12 years on the Board, eight of which as Chairman, I have decided to step down from the Board at the AGM in April. I gave an undertaking to the Board that I would take the responsibility of leading the process to recruit the right candidate to succeed Tim Bowdler. In appointing John Fry to the post, I am confident that I have met that undertaking and now seems the right time to resign from the Board and let a new team take the Company forward. Led by Peter Cawdron as the Senior Independent Director, the Board has appointed Ian Russell as Chairman elect and Ian will take over as Chairman effective from 12 March 2009. I will remain on the Board until the AGM when I will not be seeking re-election. I wish Johnston Press every success in the future.

Roger Parry
Chairman

## Contract Print Revenues (£'m)




## Digital Revenues (£'m)



# Chief Executive Officer

## Having joined Johnston Press at the beginning of January, I want to take this opportunity to set out what I see as the priorities for 2009 and the immediate prospects for the business.

Firstly, on behalf of all members of the Board, I would like to express our sincere appreciation to Roger for his contribution during the last 12 years, especially the eight years as Chairman, a period which has seen the substantial expansion of the Company to become the second largest regional newspaper publisher in the UK and the largest publisher of weekly newspapers in the Republic of Ireland. He has led this Company with great distinction. We wish him well with his future ventures.

**Priorities**

These are the key objectives that I believe are important for the company over the coming months.

1. Reducing debt by continuing to focus on cost control and seeking to maximise the cash generation of the businesses in what will be a very difficult trading year in 2009.
2. Review with the new Chairman and the Board the future strategy for the business and to plan for the turn of the cycle, which will undoubtedly happen.
3. Ensure a successful re-financing of the Group's banking facilities which expire in September 2010. This is explained further in the Business Review.
4. The Board has already started a process to recruit three new independent Non-Executive Directors and I will assist the Nomination Committee in whatever way I can to ensure the Board is properly independent and balanced.

All of the above are essentially aimed at improving shareholder value over a period of time.

**Immediate Prospects**

At the time of writing, advertising markets remain very depressed which means advertising revenues to date in 2009 are 35.9% below those for 2008. However, we are benefiting from the full effects of the 2008 cost reduction programme with more initiatives in place which will drive further efficiencies. Costs for the first two months of 2009 are running 15.7% down on the same period as 2008. In the short term there is little prospect of a turn in the advertising cycle and our expectation is for 2009 to be a very challenging year with revenues significantly below 2008 levels and only partially offset by lower costs.

### John Fry
### Chief Executive Officer

Johnston Press will continue to develop its traditional print operations in a cost effective way whilst at the same time enhancing and upgrading the digital publishing platforms. We will remain an invaluable source of news, information and entertainment in local markets which will enable us to be the business partner of choice for local advertisers as we have been for many years.

John Fry
Chief Executive Officer

Content

Whether in our long standing newspapers or on our more recently acclaimed websites the key ingredient is their extensive content. We have a leading presence in our local markets with over 2,500 locally based journalists whose work is supported by numerous local contributions.

Traffic

Knowing what our readers and viewers want allows us to have extensive local market penetration wherever we publish. Whether it is just a catch up on the local news, the breaking news story, the local sports results or even a nostalgic look back on recent history, the local community publisher is the first port of call for many whether it be in print or via digital channels.

Revenue

Our main source of income is advertising from providers of local goods and services wanting to reach our audiences. Johnston Press offers such advertisers an extremely effective means of reaching local consumers through our print and digital publications, a combination which is capable of delivering high levels of household penetration and advertiser response.

Business Review

# The speed and severity of the collapse in advertising revenues that we suffered during 2008 has been beyond the collective experience of the entire industry and even the longest serving of those who work in it.

Tim Bowdler Stuart Paterson Danny Cammiade John Fry

To comment on the results for 2008 it is essential to understand the dynamics of the changing environment in which we operate. It is also important to do so in assessing the actions we are taking to address the various impacts on our business.

Local newspapers have always provided a good lead indicator of the emerging state of the broader economy. 2007, after a difficult start to the year, saw a flattening of advertising revenues in the latter months, but unfortunately the start of 2008 brought renewed decline, led by falling property advertising which failed to recover fully from the Christmas break. A further downward adjustment in general advertising volumes was experienced over the Easter period in March. Thereafter, the trends continued to worsen month by month such that by the end of 2008, we were suffering year-on-year print advertising revenue declines in excess of 30%.

A detailed analysis of advertising trends by category is included in the Performance Review.

**Short Term Actions**

The performance of Johnston Press, in common with the remainder of the regional newspaper sector, is primarily dependent upon print advertising revenues which comprised 65.9% of total Group turnover in 2008. Newspaper publishing is a high fixed cost business which means that a large percentage of the lost advertising revenues flows through the trading results to impact on the operating profit line. For Johnston Press there is also the added burden of a relatively high level of debt which at the year end stood at £476.8 million. Whilst the Group operated well within its bank covenants at the 2008 year end test, media analysts and others have expressed concerns about our ability to do so through 2009 and beyond in the event of a continued significant worsening of advertising revenues. This risk is discussed later in this Review on page 18.

The Group recognised these growing challenges early in 2008. The actions already taken and those in contemplation are directly aimed at addressing the short term issues facing the Group, but at the same time have been carefully

# Business Review continued

assessed to ensure that they will not damage the Group's longer term ability to develop its business successfully. These actions are outlined below under three distinct and separate categories: costs, cash and debt.

"The actions already taken and those in contemplation are directly aimed at addressing the short term issues facing the Group, but at the same time have been carefully assessed to ensure that they will not damage the Group's longer term ability to develop its business successfully."

**1. Cost Management**

Given the high fixed cost nature of the business, it is essential to address this element of the cost base whilst at the same time controlling variable costs as closely as possible. The key actions we have taken are outlined below:

- headcount across the Group has been reduced by 1,130 full time equivalents during the course of 2008, falling from 7,538 to 6,408;
- a significant proportion of the headcount reductions have been achieved by exploiting the common IT systems across the Group. This has enabled a process of regionalisation or centralisation across the various functions which comprise the business;
- reflecting lower activity levels we have pursued a policy of non-replacement of vacancies whilst still maintaining quality standards in terms of content and customer service;
- partially as a result of the excellent performance of the new press installations in Dinnington and Portsmouth, we have been able to further reduce excess printing capacity and costs around the Group;
- all discretionary expenditure has been examined critically and, where appropriate, has been pared back;
- all publications are kept under close review to ensure that they continue to make a positive contribution. This has resulted in the closure of a handful of free newspapers and various niche titles;
- paginations have been kept tight, consistent with reduced advertising volumes whilst recognising the importance of maintaining value for readers. Similarly, the distribution volumes of free newspapers have been reduced where market circumstances and the needs of advertisers permit.

**2. Cash Conservation**

The importance of managing cash is well understood throughout the Group and over the course of 2008 even greater focus has been placed on the following areas:

- tight management of trade debtors resulted in year end UK debtor days of 50, the lowest level achieved throughout the year. This is a particularly good outcome in the current difficult economic environment and with falling revenues;
- capital expenditure has been reduced to the lowest possible level whilst ensuring that essential items, including those which will drive future performance, were approved. In 2008, capital expenditure fell to £21.4 million which was £10 million below the level forecast at the start of the year.

**3. Debt Management**

Johnston Press entered 2008 with £691.7 million of net debt. The trends we witnessed in the early months of the year and the marked deterioration since then have resulted in various actions including the following:

- on 14 May the Group announced its intention to raise £212 million of equity funding from a combination of a subscription of shares by Usaha Tegas Sdn. Bhd. and a 1 for 1 Rights Issue. After deduction of fees, the net proceeds of £205 million were used to reduce borrowings;
- with the Group's core bank debt facilities coming to the end of their term in September 2010, there is a need for these to be renegotiated during the course of 2009. Plans are in place for this to occur within the requisite timescale;
- an obvious and potential source of debt reduction would be in the disposal of some of our publishing titles. This is illustrated by the current process regarding the potential disposal of our Republic of Ireland businesses. The Group is determined to only dispose of assets if proceeds can be realised which will benefit shareholders;
- after paying the final dividend for 2007 in May 2008, no dividends have been declared or proposed for 2008;
- unfortunately the euro based debt taken out to fund the Republic of Ireland acquisitions in 2005 has been translated to a higher sterling debt due to the weakness in the exchange rate. Steps will be taken to reduce this exposure in 2009.

**Strategy**

The considerable impact on the Group of the recession and the associated collapse in advertising revenues has necessitated a change in our activities during 2009. As detailed above our focus has shifted towards tight management of costs, conservation of cash and reduction in our debt.

Although we do not intend to change radically the portfolio of assets we hold, we are proposing to sell our Republic of Ireland business with a consequent reduction in debt.

While there is no intention to use cash for acquisitions there are still benefits from industry consolidation. Contacts with other industry players are therefore being maintained to ensure that the Group and, in particular shareholders, can benefit from any activity within the sector.

The business vision continues to be focused on communities which are primarily locally based. Our mission is to serve those communities as the leading provider of news, information and advertising services through a variety of media channels. The four key elements of our strategy to deliver this business vision, are as follows:

**1. Maintaining the core strength of our newspaper publishing activities by:**

- remaining clearly focused on what we confidently predict will remain the major source of revenue and profit for the Group;
- reaping the benefits of our major recent investments in modern printing capacity;
- exploiting the opportunities now available from the creation of common IT platforms and working practices;
- maintaining a strong local presence in news gathering and customer contact, whilst centralising production and processing resources;
- continuing to foster the highest editorial standards and thereby maintaining our print audience.

**2. Developing a fully integrated multi-channel publishing capability by:**

- continuing to invest in digital platforms, partly by increased use of outsourcing to best-of-class solution providers;
- embedding those channels throughout the organisation as an equally important channel as print;
- ensuring that the organisation has the skills, structures and capabilities to deliver across all of our platforms;
- capturing and collating advertiser and reader data in a usable and saleable format.

**3. Extending our audience reach and advertiser response by:**

- resuming an active programme of new print launches when market conditions permit to reach underserved demographic and geographic market niches;
- extending marketing initiatives across the Group which build on our strong brands and market presence in such areas as events and exhibitions;
- packaging print and online platforms to extend overall reach and provide advertisers with a market leading response.

**4. Ensuring that we have the organisational capability and competence to deliver our strategy and vision by:**

- creating an organisational structure which is designed to produce the desired outcome and is also consistent with the development of future revenue streams;
- ensuring that our succession plans meet the longer term organisational needs;
- investing in the training and development required to equip our staff accordingly.

**Business Risks**

The business risks facing Johnston Press have undoubtedly increased during the course of 2008, reflecting the worsening economic environment and the implications this carries for both short and long term performance.

The most immediate risk is the need to renegotiate our borrowing facilities. Given the existing state of financial markets, the difficult trading environment, our current levels of debt and the problems faced by the major banks, this is likely to be a challenging process which undoubtedly has risk associated with it. We will certainly face the prospect of increased margins in the new facility which will result in higher borrowing costs for the Company. While the Board and its advisers believe there will be a successful outcome to these negotiations, this cannot be guaranteed. This is discussed in more detail under the heading of liquidity on page 18.

The macro-economic environment has deteriorated rapidly during the course of 2008 with a consequent collapse across all categories of advertising revenues. The depth and duration of the current recession has a direct link to future advertising trends. Expectations for the economy are for declining GDP at least throughout 2009 and thus in the near term, advertising revenues are expected to suffer further significant decline. As well as remaining focused on maximising revenues, as outlined earlier, the Group has taken, and will continue to take, the necessary actions to manage its cost base in response to these challenges.

The downturn will undoubtedly result in some advertisers trying alternative media channels, particularly the internet, to save money and therefore there is a real risk that the eventual cyclical upswing will not be accompanied by a commensurate rise in advertising revenues as a proportion of our advertisers may remain with these alternative channels. Currently, there is no hard evidence as yet to suggest that this is happening on a significant scale and it is therefore difficult to assess the level of any potential permanent loss. A related risk is that the current downturn, when associated with the competitive threat of the internet, could result in downward pressure on advertising rates in print. Again, as yet there is no current evidence of this happening on a widespread basis.

More generally, the regional press does continue to face increased competition from the internet, particularly for classified advertising revenues. With internet usage growing, there is evidence to suggest that some revenue migration is occurring particularly in the classified markets. Packaging advertising across our own print and digital platforms is an important part of our strategy to address this threat.

Quite apart from the challenge of the internet, we are also faced with structural changes in parts of our customer base. One of the most obvious of these is the consolidation of motor dealers into larger groupings, resulting in a reduced reliance on local newspaper advertising in their media mix. Another is in the active steps being taken by Government to reduce spend on print advertising both in terms of jobs and public notices. The industry is lobbying the Government to ensure that it understands the implications for local newspapers and for local communities in which significant numbers of people may not have ready online access. The homogenisation of the 'High Street' is another risk to local newspaper advertising as the national retail chains rely much less on local newspapers. A continuation of this trend could have adverse consequences for display advertising though the process is one which has already occurred on a significant scale.

It is clear that one of the greatest current challenges to advertising revenues remains competition from other print publications. This continues to be a feature of our markets and 2008 was no exception. The greatest incidence of this is with property advertising and the market pressures being experienced by estate agents may exacerbate this. We remain very cogniscent of such risks and continue to focus on providing advertisers and readers with good service and the delivery of quality publications.

The decline in newspaper sales, particularly of our daily titles, poses a growing risk to advertising revenues which are inextricably linked to audience reach. In response to this, and quite apart from ongoing efforts to address the problem, our strategy is to offer packages to advertisers across a number of print and digital platforms in order to extend reach accordingly. We expect the paid-for newspaper, both daily and weekly, to remain an important part of the local media mix.

Our largest costs are those related to staff. In view of the serious reduction in advertising revenues, we have announced a six month deferment of all 2009 pay reviews. When coupled with restructuring exercises to seek ongoing improvements in operating efficiency, this could pose an increased risk of industrial relations problems. We counter this by ensuring good internal communications and through fostering constructive relations with trade union officials both locally and nationally. Our contingency plans have also been reviewed.

The second most substantial element of cost is newsprint which has increased significantly from the beginning of 2009, in part due to the weakness of sterling. The financial performance of the newsprint producers is poor and there is a risk that further increases ahead of inflation could be experienced in coming years. We have taken steps to mitigate the 2009 increase but this will only be partially offset. Ways of achieving further mitigation are under consideration.

**Publishing Activities**

As already stated, 2008 was an extremely difficult year. However, despite the current difficulties, our business still has a number of inherent strengths.

Johnston Press remains a profitable, cash generative business. Despite a significant reduction in revenues, the 2008 operating margin was 24.1% producing an EBITDA (earnings before interest, tax, deprecation, amortisation and pre non-recurring items) of £153.2 million and free cash flow (cash from operating activities, less tax and interest) of £94.7 million.

The focus on local community publishing remains central to our strategy and "Life is Local" still evokes a clear sense of direction for the Group. This ensures a cohesive approach amongst the management team and has resulted in a business which remains the leading publisher in almost all of the local communities which we serve.

Despite falling circulations, Johnston Press still reaches a total readership of 12.5 million people. Locally, the print audience continues to deliver a strong advertiser response and it still represents the most effective means for many of our customers to promote their goods and services to those communities.

The rapid growth of our online audience continues and, although there is an estimated 24% overlap between readers and online visitors, the combination of channels has expanded our market reach very considerably. We actively package this capability for advertisers to enhance the response they receive. We also use our online presence to encourage people to buy the newspaper and increasingly use interactive online content to enrich our news pages.

Recent investments have resulted in a business which is well equipped for the modern publishing environment. The bulk of our printing capacity is relatively new with the major presses in Dinnington and Portsmouth representing state-of-the-art with little capital expenditure required for some years. We have built a sophisticated IT infrastructure which has brought increasing commonality of processes across the Group. This has facilitated the rationalisation of the key functional areas of our operations with consequent savings and improved efficiencies. Our programme to develop a data warehouse is gathering pace and will provide greater knowledge of readers, online visitors and advertisers. If this can be harnessed effectively, it will provide a number of new revenue opportunities including such things as affinity marketing.

Operational Review

# IT systems are at the heart of the Group's approach to improving efficiency and customer service and further progress was made in 2008 in adopting standard business processes in advertising, editorial and finance. There is a continuous process of improvement to maximise the use of technology and provide consistent service levels for our customers.

**IT Systems**

During the year, we commenced installation of modern hardware into purpose built third party co-location centres in order to make our systems more resilient, efficient and to further standardise our financial and operational reporting. The transfer of data and applications to these centres is largely complete, enhancing the operational management of IT systems and at the same time significantly reducing power consumption as the server consolidation ratio is 8:1. Updating IT infrastructure with new high speed fibre optic links at every major Group site has also provided a better real time response for customers and staff.

As part of the integration of digital activities, the Group's online development team and application specialists were brought together to form a new unit charged with developing technology solutions for internal and customer facing systems. This unit has established relationships with third party software development organisations and potential partners to update our online technology. This will consequently improve the user experience for our classified search engines while creating new revenue opportunities particularly in the online jobs marketplace. Improvements to the self-serve aspect of our online advertisement booking system are also under way with a new version at an advanced level of testing. Using third party solutions, and particularly best of breed online applications, forms a major part of our strategy going forward.

Perhaps the most exciting venture during the year was the evaluation of new content management systems to improve the way in which text, pictures, audio and video content is captured and utilised in print, online and for mobile devices. The technology was successfully trialled in the Northwest division and demonstrated the potential to improve story gathering and develop content on other media and publish it in a timely way. The trial findings are currently being evaluated, after which we expect the technology to be rolled out across the Group.

**Organisational Structure**

Technology now enables us to interact with customers from any part of the organisation without losing the localness of the relationship. For the most part, interaction will remain at a local level, but the structure of advertising telephone sales teams was reviewed during the year and resulted in bringing disparate teams into single units to cover larger geographical areas. This will improve the standard of service to customers, eliminate the long-standing disadvantages of small widely spread advertising departments and provide better supervision and control.

As a result of these changes, it was decided during the latter part of 2008 to consolidate a number of operating companies into larger units, whilst retaining the local company status: Tweeddale Press based in Berwick and the Borders now forms part of The Scotsman Publications Ltd; Central Counties Newspapers covering the heart of

# Operational Review continued

England around Aylesbury, Banbury and Rugby has been integrated into Premier Newspapers Ltd based at Milton Keynes; our titles in Lincolnshire are managed by the management teams in Anglia and East Midlands; and T R Beckett Ltd in Eastbourne and Hastings has been consolidated into Sussex Newspapers Ltd at Horsham and Chichester.

The review reinforced the need for our companies to be well represented in their local communities and, as "Life is Local" is central to our organisation, for senior management to take an active part in these communities.

**Audience Delivery**
We have further increased our knowledge of the different audiences that use our products. Working with a number of other regional newspaper companies and advertising industry bodies we helped develop a standard process to audit and research our combined newspaper and online audience.

"Against a background of changing media consumption habits we also conducted research to understand better our newspapers' current brand image and consumer affinity. This has helped reaffirm the strength of our proposition and the potential to use the newspaper brand to sell other services and products."

We also released data on digital audiences which was audited by the industry body (ABCe). This independently certified data covers our network of local newspaper branded internet sites. The audit which will now take place every six months shows monthly, weekly and daily unique users and provides potential customers with a confidence to advertise. This audit also gives an independent assurance that our websites are attracting substantial audiences. Year-on-year unique users have grown by 48.8% and page impressions by 167.5%.

These percentage increases are based on calculations using Webtrends 6. As explained on page 1, from 1 January 2009 the Group intends to move the internal measurement of online viewers to Webtrends 8, a tool that provides a more accurate metric as it disregards the automated viewing of web pages by search engines. Again, this gives advertisers confidence they are reaching a more targeted audience than before.

We also undertook an independent online survey which, when combined with the ABCe audit figures, provides the most comprehensive knowledge of our overall audience to date. The research confirmed that the website audience tends to be both younger and a more affluent demographic than the newspaper readership. 55% of our website visitors are under the age of 44 compared to 39% of our newspaper readers, whilst 65% of website visitors in Britain fall into the ABC1 profile, compared with 51% of our print audience. The development of the websites means the company now reaches new audiences, with 45% of our website visitors only accessing our content online and this has extended our reach into the geographic markets we serve, typically by around 24%.

The development of our paid-for newspapers continues although sales remain difficult as key reader attractions such as property advertising have reduced considerably. The average decline for our daily newspapers was 6.9%. The best performing titles in the year were the Portsmouth News and the Ulster News Letter with declines of 3%. This reflected a series of strong news and sports stories, demonstrating that local communities do turn to the local newspaper for important issues. Nine of our weekly newspapers have seen sales increase, most notably the Worthing Herald and the Morpeth Herald.

Against a background of changing media consumption habits we also conducted research to understand better our newspapers' current brand image and consumer affinity. This has helped reaffirm the strength of our proposition and the potential to use the newspaper brand to sell other services and products. As a result of this research we have started to build new fledgling revenue from travel and home contents insurance, book publishing, music and DVD downloads.

**Customer Relationship Management**
The development of the Group's marketing database continued in 2008, following a decision in 2007 to rebuild our CRM database in order to improve delivery of our services. We now have a comprehensive database of over 4 million customer records which is helping us to better understand our customers' behaviour, provide them with news and information relating to their interests, and make them aware of offers and promotions that match their needs.

### Print Division

The downturn in the economy and the subsequent reduction in advertising pages, coupled with an influx of additional print capacity in the industry, created the need for the Group's print division to re-evaluate likely press hall capacity. As a result a significant amount of consolidation of printing and rescheduling has taken place to improve efficiencies and reduce costs of production. Printing at the Northampton site ceased in September and titles, including the two daily newspapers (the Northants Chronicle and Kettering Evening Telegraph), were moved to Peterborough and other sites in the division. Earlier in the year daytime production at the Leeds print site was closed with the Yorkshire Evening Post transferring to Dinnington where it is produced at high speed and in full colour on the new triple width press. The Leeds press hall continues to print the Yorkshire Post and the Financial Times under contract.

A number of weekly titles have been moved to print sites closer to their circulation areas and have benefited from improved quality and product enhancements including online inserting, stitching and trimming.

The new press hall at Carn in Northern Ireland was completed and a refurbished single width press was transferred from Portsmouth where it had become surplus to capacity following the introduction of a much larger press in 2007. The reconfigured press at Carn can produce up to 96 pages in full colour and competes on a like-for-like basis with other contract printing press installations in the region. All Group titles in Northern Ireland, including the News Letter, are now being printed in-house.

The existing press at Carn was also refurbished and additional colour units added. The press is now capable of printing up to 64 pages, 56 in full colour. This satisfies the contract to print the Guardian and Observer, which has recently been extended. Both presses feed into a new mailroom with off and online inserting, stitching and trimming, all to enhance product presentation and give revenue growth opportunities.

Contract printing has been an area of business growth in the print division and customers include News International, Times Educational Supplement, Garnett Dickinson, Bauer (formerly EMAP), Farmer's Guardian, IPC, the Financial Times, the Mirror Group and Motor Sports News. The continued commitment to quality and service has been rewarded by "Printer of the Year" and "Best Quality Publication" at several industry recognised award ceremonies.

### Staff Development and Welfare

The staff engagement survey trialled in 2007 was rolled out across every company in 2008 with over 60% of staff responding to the questionnaire. This has given a valuable insight into the motivation, commitment and views of our employees, something we have used to shape our management approach. Results have been encouraging with over 50% of staff satisfied with their development and two thirds content with their involvement and happy with the recognition they receive. Overall the Group engagement level was above the UK norm. All companies have received feedback at a departmental level with areas for improvement agreed and now monitored.

Another area for focus has been customer care and the introduction of a consistent business process to ensure customer service levels are at the required standard. To facilitate this we undertook over 1,000 courses for sales management and provided 700 delegates with training as well as side by side coaching. The continuous improvement of customer care is vital to our success and we appointed Intersperience Research Limited, an independent research organisation, to assess and analyse our performance in this area by conducting customer surveys and mystery shopping on our behalf. The results are benchmarked against Intersperience's database of other organisations in order to measure performance and identify areas for development. In 2008 our overall score improved by 20% with the most significant progress occurring in sales skills and email handling. This result can be directly attributed to the investments made in sales training, systems and procedures.

Performance Review

# In 2008 the Company suffered the greatest fall in revenues in its history. The recession and financial crisis in the UK and the Republic of Ireland hit every category of advertising. We expect 2009 to be an equally challenging year. Throughout 2008 we have been working hard to reduce our cost base such that, when the recession ends, the costs of the business will be appropriate for the future revenue streams.

The table below illustrates the worsening trend in advertising revenues during the year. The figures exclude the small number of titles acquired and sold during 2008 and 2007 to provide a fair comparison.

UK revenues fell by 16.8% and 22.6% in the Republic of Ireland. Reliable category analysis in Ireland has only been available since the introduction of new systems in the second half of 2007 and, therefore, the analysis by category that follows covers the UK only.

The greatest fall has been in property advertising which has reduced by 32.4% over the course of the year and now accounts for 15.7% of total advertising revenues.

The exit rate of decline over the last quarter was 54.8%. This is a direct reflection of the collapse of the property market both for second-hand homes and new build. Despite this, estate agents continue to advertise in our newspapers, albeit with heavily reduced volumes. The collapse of property advertising is overwhelmingly a result of the cyclical downturn and we expect that as markets recover there will be a return, though almost certainly not to the record levels of advertising we enjoyed in the recent past.

Although holding up for longer, employment advertising, which represents 23.7% of total advertising revenue, began to display a significant weakening from the month of March with growing deficits as the year progressed.

**Advertising Revenue - Print & Digital by quarter (like-for-like)**
Year to 31 December 2008

| Year/Quarters | YEAR | | | March | | | June | | | September | | | December | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2008** £'m | 2007 £'m | % Change | **2008** £'m | 2007 £'m | % Change | **2008** £'m | 2007 £'m | % Change | **2008** £'m | 2007 £'m | % Change | **2008** £'m | 2007 £'m | % Change |
| UK | | | | | | | | | | | | | | | |
| Employment | **82.0** | 101.9 | (19.5) | **26.5** | 28.8 | (7.8) | **24.5** | 26.4 | (7.3) | **18.6** | 26.0 | (28.6) | **12.3** | 20.6 | (40.0) |
| Property | **54.3** | 80.3 | (32.4) | **18.5** | 20.6 | (10.2) | **17.2** | 22.7 | (24.3) | **11.3** | 20.9 | (45.9) | **7.3** | 16.1 | (54.8) |
| Motors | **31.9** | 40.4 | (21.2) | **9.3** | 11.2 | (17.2) | **8.6** | 10.3 | (16.3) | **8.2** | 10.8 | (23.8) | **5.7** | 8.2 | (29.5) |
| Other Classified | **69.2** | 73.4 | (5.7) | **18.2** | 18.9 | (3.5) | **17.8** | 18.7 | (4.7) | **17.1** | 18.3 | (6.1) | **16.1** | 17.6 | (8.4) |
| Display | **109.2** | 120.4 | (9.3) | **29.7** | 30.2 | (1.9) | **27.5** | 30.0 | (8.1) | **26.0** | 29.2 | (11.1) | **26.1** | 31.0 | (16.0) |
| **UK Total** | **346.6** | 416.4 | (16.8) | **102.2** | 109.7 | (6.9) | **95.6** | 108.1 | (11.5) | **81.2** | 105.2 | (22.8) | **67.5** | 93.5 | (27.8) |
| **Republic of Ireland** | **18.6** | 24.0 | (22.6) | **5.2** | 6.1 | (14.8) | **5.1** | 6.2 | (18.6) | **4.3** | 5.6 | (24.5) | **4.0** | 6.0 | (32.9) |
| **Group Total** | **365.2** | 440.4 | (17.1) | **107.4** | 115.8 | (7.3) | **100.7** | 114.3 | (11.9) | **85.5** | 110.8 | (22.9) | **71.5** | 99.5 | (28.1) |

Within an overall reduction of 19.5% for the year, the last quarter fell by 40.0%. Employment advertising is a particularly strong lead indicator and the falls reflect reduced vacancies together with growth in unemployment. Expectations are that the figures will worsen well into 2009. Whilst there is no doubt that over time more jobs are being advertised online rather than in print, local newspapers still reach a large audience and for many jobs they continue to provide an excellent response. Our expectation is for a recovery in employment advertising revenues as economic conditions begin to improve but that competition from the internet will result in some erosion of share with potentially increased pressure on advertising rates.

Motors advertising has been in long term decline with its share of our advertising revenue mix falling again in 2008. During the year, this category was 21.2% down with a reduction of 29.5% in the last quarter. Whilst the emergence of strong online competition has been a factor in the decline of motors advertising in newspapers, an even more important cause has been the trend of dealer consolidation. This has resulted in bigger franchises with larger geographic footprints which in turn has precipitated a broadening of their marketing mix away from local print. The current difficult marketplace for car sales has exacerbated these trends, although we do expect a modest improvement in advertising performance when car sales recover.

The 'Other Classifieds' category, now 20.0% of total advertising, comprises entertainments, public notices, birth marriage and death announcements plus trade and personal advertisements. These have historically produced a relatively resilient revenue stream and, with a decline of 5.7% during the year and 8.4% in the final quarter, this was again evident when compared to other advertising categories. The reduction was worsened by 2.0% due to our decision in late 2007 to tighten the conditions which apply to the Group's acceptance of "personal services" advertising.
Our expectation is for this category to remain more resilient than most though there continues to be Government pressure, opposed by the industry, to remove or weaken statutory requirements for newspapers to be used to carry certain types of public notices.

Our largest single category, with a 31.5% share of total advertising, is display. In the year, total revenues were down by 9.3% with reductions in both national and local markets. In the last quarter, the year-on-year performance worsened with a 16.0% fall. This performance reflects weakening consumer confidence and the well publicised difficulties being faced by retailers generally. Display advertising has not been helped by the gradual homogenisation of the 'High Street' as national chains replace independent shopkeepers. Their use of media relies less on local newspapers than the diversity of smaller businesses which used to characterise the retail sector. Partially offsetting this trend, we have been successful in winning new areas of display advertising in business sectors such as health, leisure, education and travel. Whilst we are confident that local newspapers will remain an important advertising medium for display, short term prospects, especially in the early months of 2009, look challenging.

The table below summarises the revenues and total costs of the Group for 2008 compared with 2007.

Newspaper sales revenues decreased by 1.0%. Circulations for our daily papers decreased on average by 6.9% and our weekly titles saw declines of 5.8%. These declines were substantially offset by increased cover prices across most of our paid-for titles. We believe that the circulation decreases were higher than recent underlying trends for two principal reasons. Firstly the general economic climate leading to a squeeze on consumer spending and secondly the reduction in property advertising and interest in the property market.

Digital revenues, as a result of some of the initiatives mentioned earlier, have continued to grow, up 31.1% on 2007. However, the pace of growth declined as the year

**Performance summary for 2008 and 2007**

| | **2008 £'m** | 2007 £'m |
|---|---|---|
| Print advertising | **350.6** | 425.8 |
| Newspaper sales | **101.4** | 102.4 |
| Digital | **19.8** | 15.1 |
| Printing | **35.9** | 35.0 |
| Other | **24.2** | 29.2 |
| Total revenues | **531.9** | 607.5 |
| Costs* | **403.5** | 429.4 |
| Operating profit* | **128.4** | 178.1 |
| Operating margin %* | **24.1** | 29.3 |

** Pre non-recurring items*

progressed due to the negative impact of the reduction in employment related revenues (which make up almost 50% of our digital revenues) offsetting growing revenues for new initiatives such as iAnnounce and Local Pages. Growth in the last quarter of the year was only 2.0%.

"In total, costs adjusted for price changes - favourable in newsprint and unfavourable elsewhere - were down by £32.3 million year on year, a 7.5% reduction."

Contract printing revenues showed a marginal increase year-on-year with the full year benefit of both of our 15 year News International contracts offsetting the lost revenues from the Naas commercial print operation sold in 2007 and lost third party revenues at the presses closed.

Other revenues, of which almost 50% relates to leaflets, were down 17.1%. Leaflet revenues historically have trended in line with display revenues and 2008 was no different where the decline was 13.3%. This decline was larger than the decline in display advertising due to an overall reduction in our distribution of free newspapers as part of our cost saving programmes. In the half year to December 2008 the total distribution of free newspapers was 4% lower than the comparative period. There were also declines in premium lines, reader holidays and sale of photographs but these were offset by good growth in exhibitions and awards, sponsorship and syndication of news stories.

In total, revenues were 12.4% down on last year.

The total costs in the business pre non-recurring items reduced by £25.9 million from 2007 to 2008. There were cost reductions in almost every category despite significant inflationary pressures in the year. Specific points to note are as follows:

a) Newsprint prices reduced from 2007 to 2008 but over and above this price effect the Group reduced costs by £7.4 million. This was driven partly by reduced advertising volumes and circulations but also significantly lower waste levels, review of loss making publications together with careful management of "unsolds" and print runs.

b) There was a large reduction in production costs of £9.0 million. There were two main elements to this. Firstly the full year benefit of the closure of older inefficient presses actioned in 2007 together with the closure of the Northampton press and Leeds day shift in 2008. These closures have been facilitated by the operating efficiencies on the new presses at Dinnington and Portsmouth together with a reduction in advertising volumes (particularly property). Secondly the ongoing benefits of investment in Group wide IT systems which has allowed us to further consolidate prepress operations into major hubs where significant economies of scale are available.

c) Overhead costs reduced by £5.5 million, despite inflationary pressures, reflecting the significant cost reduction plans put in place as soon as the extent of the advertising downturn and recession became apparent. There has been significant restructuring taking place in almost every area of the business and total headcount reduced over the year (on a full time equivalent basis) by 1,130 or 15%. It should be noted that only 179 or 15.8% of this reduction was in Editorial areas.

In total, costs adjusted for price changes (favourable in newsprint and unfavourable elsewhere) were down by £32.3 million year-on-year, a 7.5% reduction.

As a result of these cost saving activities the impact of the 12.4% drop in total revenues was to some extent mitigated. The overall operating profit margin pre non-recurring items dropped from 29.3% to 24.1%.

The only acquisition made in the year was a small weekly free paper in South Tipperary. This was acquired for £1.5m and has performed ahead of expectations.

The factors that are most likely to influence the performance of the Group in the future have not changed significantly from what was reported last year. However, we have seen a marked deterioration in the general economic condition of the markets in which we operate. This is evidenced by:

- Decline in Gross Domestic Product
- Increase in unemployment rate
- Reduced number of property transactions
- Fewer new car sales and
- Falling levels of consumer confidence

All of these measures currently illustrate the cyclical downturn we are experiencing and are exerting the greatest influence over the trading performance of the Group. In addition to these major factors there are other factors listed below which we have more influence over but unfortunately, in the short term, these have a much lesser impact than the economic factors noted above.

a) Our ability to ensure that we maintain market leadership at a local level in the classified and display advertising categories.

b) Our success in growing new revenue streams in our existing market segments. The most significant of these are associated with our digital platform and internet presence but also include new print and related initiatives through building on the strength of our brands in local markets.

c) Our ability to continually improve the efficient operation of our business through appropriate investment in technology, which improves both customer service and our methods of operation.

d) Our success in adapting to our customers' requirements in terms of the way they wish to access and address their local media information needs in such a way that we continue to offer our advertisers high levels of local market penetration and response.

e) The extent to which we are able to finance and secure future acquisition opportunities which will create shareholder value.

And with added emphasis this year,

f) Our ability to re-engineer the processes and cost structure of the business in the face of reduced revenues.

**Non-Recurring Items**

In addition to the trading results detailed above and earlier in the Business Review there have been significant non-recurring items in the year. There are four distinct elements behind these charges and these are as follows:

a) Under IAS 36 the Group is required to test the carrying value of all of its intangible assets, namely publishing titles and goodwill, against the present value of anticipated discounted future cash flows from the Cash Generating Units associated with those assets. Due to the significant economic downturn and the impact that it is expected to have on the cash flows, an impairment charge against these intangible assets of £417.5 million has been recorded to reduce them to the present value of the future anticipated cash flows. Under IFRS rules goodwill must be written off before publishing titles and £144.4 million of this amount relates to goodwill. The balance of £273.1 million, being the impairment of publishing titles, has a tax implication due to the provisions of IAS 12 and the related tax credit amounts to £93.9 million. The Group has previously commented on the requirements to provide deferred tax on the value of its publishing titles because, in commercial terms, it is highly unlikely that this tax charge will ever crystallise.

   The original tax provision created when the titles were acquired had an equal and opposite effect in goodwill. Consequently, given that the goodwill has already been written off as noted above, in addition to the £93.9 million tax credit, there is an equal and opposite intangible adjustment which is also reported in non-recurring items. To comply with IFRS, the Group has no alternative but to reflect these entries in the accounts. None of these items have any cash or debt impact on the Group. Greater detail can be found in the notes to the accounts, numbers 7 and 15.

b) In September 2008 as a result of a combination of reduced advertising levels and increased efficiency of our new printing presses, the decision was made to close our printing operations in Northampton. The market for second hand equipment is currently depressed therefore the Group has taken an accelerated depreciation charge against these assets of £7.0 million.

c) As noted above, in an effort to reduce the cost base of the Group, there has been significant restructuring and reorganisation activity during the course of the year amounting to £9.7 million.

d) There is also a deferred tax charge of £8.2 million in respect of the changes to Industrial Buildings Allowances enacted by the Finance Act 2008.

It should be noted that the only non-recurring items which involved cash outflows for the business in 2008 were the restructuring and redundancy charges.

**Finance Income/Costs**

Net finance income on pension assets/liabilities was £3.5 million as the expected return on our pension fund assets exceeded the interest cost on our pension liabilities by that amount. Finance costs for the year were £34.0 million with a blended effective interest rate of 6.1%. These costs suffered in the early part of the year from the high margin between LIBOR (London Inter Bank Offer Rate), on which the Group's borrowing costs are based, and base rate. The reduction in interest rates in the second half only marginally benefited the Group as a large percentage of the borrowings post the Rights Issue are hedged. However, the reduced borrowings post the Rights Issue resulted in a lower interest cost in the second half.

**Tax Rate**

The Group tax rate for the year, excluding non-recurring items, was 26.9% with the UK rate of 28.5% being the blended rate of 30% for the first quarter and 28% for quarters 2-4. The UK rate is reduced proportionately by the businesses in the Republic of Ireland and the Isle of Man where Corporation Tax rates are considerably lower at 12.5% and zero respectively.

# Performance Review continued



**Earnings Per Share/Dividends**

Basic earnings per share are negative 68.0p, significantly down on 2007 for three reasons:

a) Underlying deterioration in trading.

b) Non-recurring beneficial tax adjustments in 2007.

c) Impairment and other non-recurring charges in 2008 detailed above.

Excluding these non-recurring items, earnings per share at the basic level was 13.4p, down 46.5% on 2007, reflecting the trading environment in the year.

There will be no dividend paid relating to 2008. This reflects the Group's desire to further reduce its outstanding debt combined with the uncertainty around the length of the current recession. It is also unlikely that there will be any dividend paid relating to 2009 unless the economy sees a significant upturn in the coming months.

**Finance Strategy/Net Debt**

As the recession started to impact our business in the first half of 2008, it became obvious that there was a considerable risk that the levels of debt the Group was carrying might not be supportable. To address this the Group successfully raised £212 million of equity through a placing and a Rights Issue. Net of fees the sum raised was £205 million. These funds were entirely used to repay both current bank and loan note facilities.

As has been the case in prior years, the Group's policy continues to be that borrowings, where possible, should be arranged at the lowest possible cost and with covenants within which the Group can comfortably operate. The increasing severity of the downturn during the year impacted the level of cash generation and debt, adding pressure to the covenant calculations going forward. As a result, together with the fact that our current bank facilities expire in September 2010, we will seek to renegotiate our borrowing arrangements in 2009 to address this. The liquidity section to follow discusses this further.

Our treasury policy requires that a minimum of 50% of the debt should be hedged against potential movements in interest rates, whilst the balance is kept under constant review. As a result of the significant reduction in debt following the Rights Issue and the hedging arrangements that were in place at that time, the Group now has approximately 73.9% of its net debt hedged for an average period of 2.4 years. This has had the benefit of protecting the Group for the majority of the LIBOR increases over 2008 but has also meant we are not currently benefiting from the lower base rates.

The Group also had, at 31 December 2008, €173.6 million of euro based debt. The currency exposure of this debt is not hedged as it represented the approximate value of the investments made in the Republic of Ireland. At 31 December 2007 this debt was translated at a rate of 1.3571, however, the exchange rate dipped at 31 December 2008 to 1.0272 and this has resulted in an adverse translation impact of £41.0 million which has increased net debt. Since 31 December 2008 the exchange rate has recovered somewhat and at the time of writing £14.6 million of this translation impact would be reversed.

As noted earlier in this review there was an impairment on the carrying value of the publishing titles and goodwill. £134 million of that impairment related to the Republic of Ireland operations and therefore the underlying value of the investment has been written down. The swaps on the euro denominated debt expire in the first half of 2009 and it is the Group's intention to reduce the euro based debt to a level more in line with the reduced investment value.

At 31 December 2008, the Group's largest investment in working capital was in trade debtors. Despite the difficult trading environment UK debtor days at 50 were broadly in line with those at 31 December 2007 and in gross terms trade debtors were £17.9 million lower than at that date. The management of debtors, especially in the current economic climate, is seen as a key task as it is subject to both Executive and local management review. At each of our regional debt management centres local incentive arrangements are also in place in an effort to ensure timely collection of all debts.

Inventory levels at 31 December 2008 were £2.2 million higher than the prior year as stock levels were built up in anticipation of the increased price of newsprint in 2009. At 31 December 2007 stocks were run down in anticipation of newsprint prices reducing in 2008.

Net debt at the end of year, reflecting the fixed rate of our currency hedges on the US dollar denominated loan notes and the £41.0 million adverse impact of the sterling/euro exchange rate was £476.8 million, a reduction of £214.9 million over the course of the year. This reduction was achieved primarily through the Rights Issue and share placing which raised a net £205 million but also through net cash generated from operating activities of £126.9 million. The reduction of our debt is still the key financial objective for the business and all opportunities that might contribute to this in 2009 will be examined. The Group currently continues to be financed through 5 year bank facilities put in place in 2005 and private placement loan notes which have outstanding terms between 4 and 8 years.

**Liquidity**

The Group's bank facilities and private placement loan notes contain certain covenant tests relating to Consolidated EBITA to Consolidated Net Borrowing Costs; Consolidated Net Borrowings to Consolidated EBITDA; and Consolidated Net Worth. The failure of a covenant test would render the facilities in default and repayable on demand at the option of the lender. The Group reports on these covenants to the providers of finance bi-annually as part of the facility agreements: as at the year end, the terms of the facilities, including covenants, were met, and hence the debt was shown as due after more than one year from the balance sheet date. The covenants are due to be tested next at 30 June 2009. The Group remains both profitable and cash generative but, due to the difficult trading conditions, it is currently paying down debt at a slower rate than had been anticipated. Within its current bank facilities, the Group continues to have significant available committed undrawn facilities, which amounted to £295m at the balance sheet date.

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 reflects the uncertain economic outlook and the significant reductions and increased volatility in advertising revenues experienced across the publishing and media sectors, which has continued into the early part of 2009. The forecasts make key assumptions, based on information available to the Directors at the time of approval of the financial statements, around:

- future advertising revenues, which show a reduction in the level of revenues in 2009 and early 2010 reflecting the current external economic environment, consistent with current market views on likely advertising revenue trends
- further cost reduction measures to reflect the reduced revenues in the business
- the successful disposal of the Republic of Ireland businesses
- the euro/sterling exchange rate
- interest rates, which are assumed to continue at the current rates paid by the Group.

Based on these forecasts the Group would continue to operate within the covenants determined by its debt facilities. However there is particular uncertainty associated with the disposal of the Irish businesses in terms of timing, quantum and ultimate completion. Discussions to date with our advisers on the transaction are encouraging in terms of the level of interest. However, should the disposal not be successfully completed there is a strong likelihood of a breach in the Consolidated Net Borrowings to Consolidated EBITDA covenant within our borrowing facilities during the course of 2009, which would render the facilities repayable on demand at the option of the lender. There is an increased risk of this covenant being breached on the Private Placement Loan Notes as the covenants are subject to ratchets dependent on circumstances and are currently at a lower multiple than the covenants in the bank facilities. In terms of mitigation of this uncertainty, the Group has alternative committed facilities available that could be used, if required, to replace these loan notes.

In addition to the ongoing disposal in relation to the Republic of Ireland businesses, the Group has appointed advisers and discussions have begun with its current debt providers to obtain a relaxation in the debt covenants, as well as putting in place more appropriate facilities extending beyond September 2010, which is the expiry date of our current bank arrangements. The initial discussions with the Group's existing providers of bank facilities have indicated support for this process.

However, in the event that a successful disposal of the Irish businesses in terms of timing and quantum is not completed and the current intentions of the Group's bankers change in respect of the ongoing availability of the facilities, the Directors would require to supplement, renew or replace those facilities with facilities that are appropriate to the Group's ongoing requirements.

Given the current economic circumstances and the heightened awareness around the concept of going concern the Directors have had detailed and ongoing discussions as a Board, as well as with the auditors. Following these discussions, although the Directors remain confident of either the disposal of the Republic of Ireland businesses or a successful renegotiation of the Group's debt facilities, they have concluded that the combination of these circumstances, as they are not within our gift, indicate the existence of a material uncertainty which may cast significant doubt on the Group's and Company's ability to continue as a going concern, and if this is the case the Group and Company may be unable to continue to realise assets and discharge liabilities in the normal course of business. These financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

After making due enquiries and considering the uncertainties described above, the Directors and the Group have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

**Financial Reporting**
In terms of impact on this report and accounts, there are no significant changes in the Financial Reporting regulations from those in force at 31 December 2007.

**Pensions**
The pension deficit over the year has increased by £5.1 million. Given the declines we have seen in investment markets over the last year, the reduction in the fair value of assets of £71.9 million or 18.3% is not as bad as it could have been and justifies the position taken in 2007 to reduce the plan's exposure to equities. The plan's liabilities have also decreased by £66.8 million or 16.4%, principally due to the increased discount rate and lower inflation assumptions. The deficit at 31 December 2008 is £18.2 million. The pension fund also concluded its first scheme specific valuation as at 31 December 2007 and the Group has agreed a deficit recovery plan and future contributions with the Trustees based on this valuation. In addition to the cost of the current service accrual, the Group has agreed to pay £2.2 million per annum towards the deficit.

## "Johnston Press has a proven management team which remains focused on the delivery of long term shareholder value."

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

Johnston Press has a long track record of delivering industry leading performance and of the successful integration of acquired businesses to produce sustained operational improvement. Despite the current challenges faced by the Group it is well placed to benefit from any eventual market upturn as the recession comes to an end. Johnston Press has a proven management team which remains focused on the delivery of long term shareholder value.

Corporate Social Responsibility

# The Board of Johnston Press has made a clear commitment to operating all of the Group's business activities to the highest standards of business ethics and integrity. These principles are not only contained in the Group's Corporate Social Responsibility Statement but it is also policy to include them in contracts of employment.



**Business Ethics**
The code of ethics specifically requires adherence to all legal requirements. It has a clear policy and procedure for addressing issues such as bribery, corruption, conflicts of interest, espionage and the giving and receiving of gifts. The Group opposes all forms of oppression and is a supporter of all human rights.

The Group's entire business is in Europe, wholly in the UK and Republic of Ireland.

An acceptable use policy has been developed for all of the company's assets including but not restricted to computer equipment, email facilities and use of the Internet. This policy is issued to employees with supporting guidance and is designed to protect both the employee and employer.

The Group has the absolute objective of always acting as a fair and reasonable employer. We also acknowledge and are keenly aware of our responsibilities to the many communities we serve; our readers, customers, suppliers, shareholders, other stakeholders and to the environment. Because of our key role in the community, a separate section is incorporated within this report detailing some of the many community orientated activities in which the Group's companies are involved.

**Board Responsibility**
The Board has delegated the day-to-day responsibility for all matters related to Corporate Social Responsibility and social issues to the Executive Directors. They are assisted by the Company Secretary, who is generally the first point of contact for any issues of this nature.

Specific responsibility for environmental issues has been delegated to the Chief Financial Officer, who also chairs the Group's Carbon Footprint Taskforce.

Whilst recognising that the practices of recruitment, employment and training are the responsibility of all managers within the Group, responsibility for formulating, updating and ensuring adherence to Group policies and relevant legislation has been delegated to the Director of Human Resources, who is responsible to the Chief Operating Officer.

Each local Managing Director has responsibility within their operation for relationships with customers, suppliers and the community. These relationships are subject to review by the Chief Operating Officer. Certain materials and services are sourced centrally such as newsprint and legal and professional services and these arrangements are subject to review by either the Chief Operating Officer or the Chief Financial Officer, depending on the nature of the supply.

As part of the main Board's review of Corporate Governance at its March 2009 meeting, the Directors also reviewed the Corporate Social Responsibility Policy.

**Health & Safety**
As discussed in the Business Review, the Group has rigorous Health & Safety management and reporting processes in place. Health & Safety is at the core of our operations, and is a specific item on all business agendas at the local, regional, Group and Board levels. There are Health & Safety Committees in every Group Company and the Chief Operating Officer chairs the Group Health & Safety Committee, which undertakes audit visits, monitors compliance with Group policies and spreads best practice.

With our improved and consistent reporting processes now having been in place for more than 4 years it is possible to report some meaningful statistics and comparisons. Our reporting procedures ensure that every accident, including the most minor laceration or abrasion, is reported, hence the higher percentages recorded for our printing operations. It should, however, be noted that the vast majority of these are not reportable under RIDDOR requirements.

As can be seen in table 1, we continue to make progress across the Group in reducing the number of accidents. There has been a reduction in the number of employees involved in accidents in both our printing and publishing operations when compared to 2007 and overall the percentage of

Table 1 - Accident Reporting

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Average total employees in Group (FTE) | **7,124** | 7,664 | 7,849 |
| Employees involved in accidents | **359** | 409 | 423 |
| - Publishing | **3.9%** | 3.8% | 4.5% |
| - Printing | **14.4%** | 17.8% | 18.6% |
| - Total | **5.0%** | 5.3% | 5.4% |
| Employees with RIDDOR reportable accidents | **44** | 38 | 30 |
| - Publishing | **0.5%** | 0.4% | 0.3% |
| - Printing | **1.8%** | 1.5% | 1.9% |
| - Total | **0.6%** | 0.5% | 0.4% |
| Total working days lost through accidents | **1,197** | 718 | 538 |

employees involved in accidents reduced to 5.0%. With improved categorisation of accident reporting in 2007, we know that 66% of the total number of accidents recorded relate to slips, trips, falls, manual handling and bumps. The increased focus on these categories from our Health & Safety Committees in 2008 through training and awareness programmes has shown a reduction of 16% from 2007. RIDDOR reportable accidents unfortunately increased but this has been attributed to a better understanding of the reporting requirements. As a number of these resulted in injuries associated with long term absences the working days lost increased when compared to 2007.

Whilst there was an increase in total working days lost in 2008, we are still operating well below the national average.

The Group also has a rolling programme of independent audit visits covering property and Health & Safety risks. These visits are targeted at the locations which have the highest risk profile along with a sample of other sites. Detailed reports and recommendations are produced after each visit which require follow-up and implementation by local management. This process is monitored by the Group Management Board.

**Employee Involvement**

**Employees**
In terms of headcount we employ over 7,000 employees in the UK and Republic of Ireland and this section is about how we manage, develop and reward all of our people. Whilst we operate a de-centralised approach, our aims are common – we want to attract, retain and engage the best people in a challenging and supportive culture that drives business performance.

**Employment Policies**
It is important that all of our managers and employees understand what is expected of them in terms of their behaviour and standards. This is set out in our Value Statements, Personnel Policies & Procedures, Employee Handbook, Codes of Conduct and Contracts of Employment. Our grievance and whistleblowing procedures also allow any employee to report behaviour that is contrary to our policies or is in any way concerning to them.

**Employee Representation**
All of our employees have the right to freedom of association and, in a number of cases, we recognise trade unions at a subsidiary level in both the UK and in the Republic of Ireland. Recently we have agreed a Constitution for a *European Employee Works Council*. Employee elections will take place early in 2009 and the first meeting is scheduled for May 2009. Employee Forums already exist at a subsidiary level for the purposes of local communication and consultation.

**Diversity**
The Group recognises that a diverse workforce adds clear value to our employees, customers, shareholders and the communities we serve. We fully support the principle of equal opportunity for all and oppose all forms of illegal and unfair discrimination. Our Group Diversity Manager and Diversity Co-ordinators meet on a regular basis, with the aim of reviewing our workforce composition and taking positive action to address any imbalance. All of our Personnel Policies & Procedures, practices and training programmes are regularly reviewed to ensure that they fully comply with the equality legislation in both the UK and the Republic of Ireland.

**Employee Engagement**
Understanding our employees and engaging them in the achievement of our organisation's objectives is of paramount importance. In 2008 we conducted a confidential Engagement Survey in the UK. The survey allows us to benchmark levels of employee engagement and identify areas for improvement.

**Learning & Development**
The growth of our people remains a priority and we continue to deliver a wide range of learning and development programmes. In 2008 we delivered 1,200 programmes and in excess of 8,500 training days covering all aspects of our business including Advertising, Editorial, Digital Media, Newspaper Sales, Finance, Health & Safety, IT and HR. In 2008 we invested heavily in editorial programmes in support of our multi-platform publishing strategy.

Identifying, developing and succession planning for leadership talent at all levels will continue to be a priority. In support of this we developed and delivered a wide range of managerial and leadership development programmes.

**Workforce Statistics**
Our total workforce is represented by 49.7% male and 50.3% female and our age profile is as follows:

| | |
|---|---|
| Over 60 | 9.0% |
| 50 – 59 | 19.4% |
| 40 – 49 | 23.8% |
| 30 – 39 | 22.7% |
| Under 30 | 25.1% |

# Corporate Social Responsibility continued

**Reward & Recognition**
Our subsidiary businesses have differing pay structures based on the size of the organisation and local market conditions. Progression within these pay structures is based on competence and performance. We also operate bonus schemes for executive and sales staff. Regretfully due to the current economic and trading environment there was no Free Share award in respect of 2008.

**Disability Access**
As part of our ongoing property and Health & Safety audits we continually review the provisions made at all of our locations to ensure that we do not discriminate, in terms of access, against disabled employees or customers. Solutions have been put in place involving modification, removal, avoidance or circumvention of potential barriers at all of our locations. We also ensure that any refurbishment or upgrading of our premises, where practical, takes into account the need to enhance access for all of our disabled stakeholders. Reflecting the importance of our digital publishing activities, the Group develops its core internet sites to WAI single 'A' Standards. All pages are created using XHTML and CSS 2.0; this method provides support for our users accessing our sites via screen readers. All our newspaper sites have a sitemap that enables easy navigation on screen. The Group also supports the "Talking Newspapers" charity as one of its nominated charities. The Group has a Disability Access policy which is included in our Policy and Procedures manual.

**Community Involvement**
Johnston Press titles over many years have supported, publicised and campaigned on issues at the heart of the communities that we serve. The following is a brief synopsis of just some of the most memorable in 2008.

The Shields Gazette's Bangla Awaz awards – believed to be the first staged by a newspaper – were a resounding success. Scores of people from the town's Bangladeshi community turned out for a prize ceremony. The Burnley Express formed a partnership with the Prince of Wales to develop a five year campaign to rejuvenate and regenerate the town. The campaign started with a front page message to readers written by the Prince, who had earlier spent a day touring the town on a fact-finding mission. The paper is now working with the Prince's Trust on a series of projects.

On the anniversary front the Dewsbury Reporter celebrated its 150th year which culminated in a black tie dinner attended by local celebrities and dignitaries and the Berwick Advertiser celebrated its 200th anniversary, marking the occasion with achievement awards honouring unsung heroes.

A number of Post Offices facing closure resulted in our newspapers launching campaigns to save them. The Harrogate Advertiser was just one of the titles that successfully campaigned to save this vital facility spearheading a campaign that included a petition, march and public meeting.

Drinkers and MPs raised a toast to the Yorkshire Evening Post as it campaigned to keep Tetley's beer being brewed in the county. The paper also fronted 'Let Us Play' –designed to get improved child play facilities. Retailers and residents thanked the Wetherby News for taking on the Highways Agency over poor signposting for the town.

In Bury St Edmunds, the Bury Free Press was at the heart of a campaign to support the opening of an Asda store. The internationally famous Spalding Flower Parade was saved from the axe thanks to a campaign run by sister papers the Lincolnshire Free Press and Spalding Guardian.

The Sunderland Echo launched a campaign to honour servicemen and women fighting abroad. In a similar vein the group's Falkirk weekly titles combined to highlight Armistice Day and the Scarborough Evening News encouraged businesses including hotels to offer discounts to soldiers. The News Letter in Belfast also ran a similar campaign which resulted in an event attended by 30,000 people. At Portsmouth, the News ran a Save Our Ships campaign designed to maintain the strength of the Royal Navy.

A virtual candle of remembrance was launched on the Limerick Leader website following the murder of a rugby player – with more than 13,500 candles being lit.

There were also numerous campaigns linked to environmental issues. The Scotsman launched a major 'Let's Go Green Together' initiative with the Scottish Government to encourage people to be more environmentally aware. It also campaigned against the persecution of birds of prey. A special green edition of the Wakefield Express was produced, designed to raise awareness of environmental issues and the second Sheffield Telegraph environmental awards dinner raised £15,600. Pledge to the Planet saw the Lancashire Evening Post invite primary schools to go green for the day. The event was featured in film online and in a special print supplement. A similar campaign in Blackpool also involved the Gazette in encouraging people to ditch expensive bottled water in favour of the tap variety. Schools were issued with 2,000 life-time water bottles for children to use.

In Harrogate, the Advertiser supported the town's first symbolic Car Free Day encouraging the public to car share and use public transport. Traffic on one main route was down 10% on the day and it is likely the event will be held again. The Halifax Courier ran community and environment awards, honouring the district's green champions. The West Sussex Gazette ran a poster scheme for children.

Health issues were also high on the agenda for campaigns. A large number of our titles ran supplements to mark 60 years of the NHS. Scotland on Sunday was at the forefront of a campaign to have organ donor legislation changed. At Sheffield, The Star launched a print and online campaign to encourage people to become transplant donors resulting in 30,000 people signing up. The paper also won praise for its Boxing against Bullying campaign, which recruited star boxers to encourage youngsters to take up the sport as an anti-dote to bullying. At Bridlington, the Free Press fought hospital cuts and took a 38,000 signature petition to Downing Street as well as helping to organise a protest march by 6,000 people. There was a special award for the Eastbourne Herald, presented with a certificate to acknowledge its role in saving maternity services at the town's hospital. The Edinburgh Evening News fought to retain children's cancer services and an investigation by the paper into food standards at schools led to the reinstatement of services. A Live in Hope campaign, spearheaded by the Lancashire Evening Post concluded, having raised £1.65m for a purpose-built refuge for victims of domestic violence.

Major awards won in 2008 included:

**Scottish Newspaper Society and Newspaper Society**

| | |
|---|---|
| Yorkshire Post Newspapers | Overall feature advertising award |
| Yorkshire Post Newspapers | Property Supplement |
| Falkirk Herald | Scottish weekly newspaper of the year |
| Southern Reporter | Scottish weekly paid-for newspaper of the year |
| Scotsman | Client Sponsorship package |
| Scotland on Sunday | Entertainment and leisure supplement |
| Lancashire Publications | Weekly supplement of the year |
| Sussex Newspapers | Best niche publication |

**Yorkshire Press Awards**

| | |
|---|---|
| Harrogate Advertiser | Weekly newspaper of the year |
| Dewsbury Reporter | Breaking news story of the year (Shannon Matthews coverage) |
| Tom Hay, Harrogate Advertiser | Leader writer |
| Greg Wright, Yorkshire Post | Business writer |
| John Edwards, Bridlington Free press | Weekly reporter |
| Nick Ahad, Yorkshire Post | Daily feature writer |
| Sophie Hazan, Yorkshire Evening Post | Daily reporter of the year |
| Yorkshire Evening Post | Front page of the year |
| Kate Wobschall, Dewsbury Reporter | Headline writer |
| Kate Mason, Deborah Winn, Doncaster Free Press | Joint feature writer of the year |

**Other Awards**

| | |
|---|---|
| Richard Elias, Scotland on Sunday | Scottish Newspaper Society journalist of the year |
| Tom English, Scotland on Sunday | Scottish sports writer of the year |
| Catherine Deveney, Scotland on Sunday | Scottish feature writer of the year |
| Ian Rutherford | First Scotrail press photographer of the year |
| Donald MacLeod | First Scotrail feature photographer of the year |
| William Lyons | Louis Roederer UK regional wine writer of the year |
| Anthony Sutton, Dirt Bike Rider | Federation Internationale De Motorsyclisme Motocross journalist of the year |
| Janis Blower, Shields Gazette | Graham Stanton Lifetime achievement award |
| Lancashire Evening Post | How Do media awards website of the year |
| Steve Simpson, Blackpool Gazette | Coral Racing naps tipster |
| Colin Drury, Halifax Courier | Press Gazette columnist of the year |
| Matt Jackson, Portsmouth News | EDF south print journalist |
| Simon Toft, Portsmouth News | EDF south feature writer |
| Alan Cooper, Portsmouth News | EDF south designer |
| Portsmouth News | EDF south front page of the year |
| Jonathan Jurejko, Doncaster Free Press | NCTJ trainee sports reporter of the year |
| Patricia Feehily, Limerick Leader | Mid-West media journalist of the year |
| Donnie Macinnes | After 40 years at The Stornoway Gazette won the Baron Trophy recognising lifetime achievement in journalism in the Highlands & Islands |

**Fundraising**

Our titles again spearheaded major fund raising efforts. Cancer charities in particular have benefited.

An incredible £3m was raised by Yorkshire Evening Post readers for a cancer care centre in Leeds. And it is hoped that £1m will be raised by the Leeds 10k run in memory of cancer campaigner Jane Tomlinson, thanks to massive support from the Yorkshire Post. Help Brave Ben was the name of the Doncaster Free Press campaign that raised £25,000 in less than six months to buy a specially adapted car for ex-paratrooper Ben Parkinson from the town who lost his legs in an Afghanistan landmine explosion. Another appeal by the paper to buy a new scanner for Doncaster Royal Infirmary stands at £200,000.

The 2008 Burnley Race for Life, supported by the Express, raised more than £90,000 for cancer research. Thousands of Portsmouth soccer fans dressed in Pompey colours to support two blue days organised by the News to raise £80,000 for charity in memory of a young fan who died of cancer. A hospital breast care appeal reached its £200,000 target thanks to support from the Worksop Guardian. The Teenage Cancer Trust in Edinburgh hit a £150,000 target

# Corporate Social Responsibility continued

after support from Evening News readers. On the Isle of Man our newspapers helped raise £90,000 for a cancer victim to receive treatment in France. A smaller scale fundraising effort raised £23,000 for an Age Concern bus on the island.

A Bring £1 to work day campaign by the Melton Times raised £26,000 for an air ambulance and The Northants Evening Telegraph raised £20,000 for its local air ambulance – enough to keep the helicopter in the air for five days. An appeal for a hydro-pool for children with special needs hit its target of £300,000 thanks to support from the Suffolk Free Press and its readers. An appeal backed by the Lynn News for a new lifeboat at Hunstanton also reached its £130,000 target.

The Bourne Local may only be a small title with a circulation of 3,600 – but it has a big heart raising an incredible £30,000 in ten weeks to support twins with a life-threatening illness. Chichester Observer reporter Clare Hawkin took part in a trek to the base camp of Everest helping the Dreams Come True charity to raise £50,000. A boy, aged four, suffering a rare chest condition received treatment in America thanks to a Wigan Reporter appeal. Its sister title, the Wigan Evening Post, campaigned for a two-year-old girl to get pioneering treatment for cystic fibrosis, raising £200,000. In a similar campaign the Whitby Gazette raised £14,500 for a sufferer.

The Hartlepool Mail's Lifeline appeal raised £15,000 for a hospital specialist ventilator. A community nurse will be on her rounds in Northamptonshire thanks to a £100,000 campaign involving the British Heart Foundation and the Chronicle & Echo. Another £100,000 was raised in the county by the Evening Telegraph to provide cardiac care facilities.

The Blackpool Gazette raised £500,000 for vital children's hospital scanning facilities in the town. The paper's Presents of Mind appeal, which invited readers to donate unwanted Christmas gifts to aid a local hospice, gave the charity a £6,000 boost. An appeal to raise cash for a bereavement counsellor reached its £35,000 target, thanks to the Grantham Journal.

Mansfield Chad readers continued to support the paper's long-running Guide Dogs for the Blind appeal with money being collected for their 279th dog. Readers of the Northumberland Gazette dressed in Santa outfits for a Santa Saunter around Alnwick, raising £2,000 for local charities.

Work is now reaching fruition on the £3.2m scheme, backed by the Clitheroe Advertiser & Times, to turn the Castle Museum into a 21st century visitor attraction. Hastings Observer readers raised £15,000 for charity through an achievers awards scheme. And finally in Harrogate £100,000 was raised to fund an extension at a school for the blind, with another £25,000 being collected for an orphanage in Malawi.

In summary, during the calendar year 2008 the Group has facilitated fund raising campaigns that have raised £3.6 million, have given free space to community or environmental campaigns to the value of £800,000 and have given discounts to charity advertisers of £200,000.

**News Gathering**

On the news front, our titles broke many major news stories during the year, some of the most notable are summarised below.

Gerri Peev, The Scotsman's political reporter, broke the story which forced Samantha Power, a key Obama aide, to resign after she denounced Hillary Clinton in an unguarded moment. The Northants Evening Telegraph uncovered the fact that a Croatian wanted for war crimes was living in Corby. He was arrested on a visit to Serbia and now faces a court hearing. People from all over the world visited the Isle of Man website for detailed coverage of the collapse of the Kaupthing Singer and Friedlander Bank.

In a sign of changed times the Derry Journal reported how a man on holiday from England sat with his friends having a drink in the Bogside Inn – yards from where, 35 years earlier, he became the first British soldier to be shot in the city during the troubles. The Grantham Journal website was used to show exclusive CCTV footage of two men attacking a postmaster with samurai swords. An earthquake with its epicentre in Market Rasen was heavily accessed on the town paper's website.

LEP Live saw the Preston newspaper becoming the first in the UK to stream a live outside broadcast debating community issues.

The story about RAF Wittering personnel being banned from wearing uniforms in Peterborough was revealed by the Evening Telegraph. Delays in the Government's replacement programme for aircraft carriers were revealed by the Portsmouth News.

A super-human effort by Morpeth Herald staff resulted in extensive coverage and essential community information being provided online during the September Northumberland floods. In August a special edition of the Limerick Leader rallied behind the residents of Newcastle West, one of Limerick's biggest county towns, after it was devastated by flooding.

One of the most unusual stories was covered by the Worthing Herald after 2,000 tons of wood was washed ashore on to beaches from a stricken cargo vessel. Thousands of visitors watched the story unfold in print and online.

The revelation that child deaths in Doncaster were at a worrying high was first carried by the Doncaster Free Press. The Government had a re-think on the use of green belt land for eco-towns after a campaigning story in one of the South Yorkshire Community Newsletters and in Milton Keynes journalist Sally Murrer became a standard bearer for press freedom being sensationally cleared by a judge after getting caught up in a case involving a police officer leaking information. The judge ruled that the police bugging of her conversations with the police officer was in breach of the Human Rights Act.

**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 all customer enquiries. There are strict procedures for resolving customer complaints or queries regarding service and these are carefully monitored by management.

Local management in each operation are responsible for ensuring that their companies and all their employees comply with the requirements of all customer and competition related legislation. It is Group policy that the interests of Johnston Press only ever require strict compliance and no one in the Group has authority to give any order or direction that would result in a violation of this policy. To monitor this and for training purposes, the Group undertakes mystery shopping exercises where independent organisations interact with our business to provide feedback on our processes and procedures.

The Group has also developed a series of customer service related metrics which are in place across the organisation and subject to review by the Executive Directors at the twice yearly business reviews undertaken with every operation. The improvement of these metrics forms part of Executives' KPIs for bonus purposes. We have also commissioned independent audits of our customer services in an effort to drive continual improvement. The Group Sales Charter introduced in 2004 has become enshrined in our operations to ensure that our customers and advertisers are always dealt with in a fair and equitable manner and our terms of trade are published in the Group's newspapers as well as being linked to all of the Group's websites. Equal attention is paid to the service that 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, also mèets regularly to discuss editorial policy and issues related to content. The Group also conforms to the Press Complaints Commission Code of Practice.

**Environmental**

The Group acknowledges that the protection of the environment is one of its key corporate responsibilities. We aim to comply with all relevant regulations and see the identification, management and control of environmental risks as being an implicit requirement for adherence to the Corporate Governance Combined Code.

Back in 2002, a scoring methodology and audit programme was developed by independent environmental risk consultants to facilitate the ongoing monitoring and control of our policies and procedures. Extensive training was carried out and a rolling programme of internal audits of environmental impacts and risks was introduced. Additionally audits by external independent consultants have continued in order to verify the findings of these internal reviews.

Detailed reports are produced after each visit and the implementation of all recommendations is monitored by management.

The Group continues to benefit from its investment in more energy efficient equipment as well as the time and effort put into the monitoring and control of energy consumption. The equipment introduced for this control has enabled the Group to continue to benefit from rebates against the Climate Change Levy Tax as well as targeting sites where base load consumption levels are not showing required reductions and subjecting them to detailed audits.

In terms of energy management, 2008 saw a continuation of local efforts initiated in 2007 through the employee forums. More information is included under Carbon Footprint on page 26.

Over the period of 2005 and early 2006 the Group grew significantly by acquisition and therefore the total energy consumption of the Group increased. However, as the last of the significant acquisitions took place on 4 January 2006 we can make direct comparisons from 2006 to 2008. Table 2 below summarises the consumption of energy.

The Group's total electricity consumption fell by 6.8% in the year. The throughput in our print centres was only down by 0.7% and their consumption per tonne of newsprint fell by 3.1%. The majority of the reduction, some 2,937,842 kWh, is down to the efforts in our many publishing centres and the increased awareness of energy management across the business championed by the Carbon Footprint Taskforce and our Employee Forums. The reduction in the print centres continues to be driven by more titles being printed on the modern triple width presses which are more efficient. Gas consumption was down by 6.8% in total with almost all of the reduction coming from improvements in our print centres. We have had a rolling programme inspecting boilers, making sure they are fit for purpose, time controlled and sized correctly. This is now delivering tangible benefits. We aim to continue this programme as appropriate in the publishing centres.

The water consumption for the Group decreased by around 10% in the year. The 2007 numbers have had to be restated given some corrected billing from our suppliers relating to Q4 2007. We have not seen the size of decrease that we had hoped for in this area as the system to recycle the water used for blanket washing at Portsmouth Press is not

**Table 2 - Consumption of energy**

| | **2008** | 2007 | % | 2006 | % |
|---|---|---|---|---|---|
| **Electricity** | | | | | |
| - kWh | **56,651,808** | 60,789,592 | (6.8) | 59,556,816 | 2.1 |
| - print centres kWh/tonne | **178.5** | 184.2 | (3.1) | 208.6 | (11.7) |
| **Gas** | | | | | |
| - kWh | **29,130,352** | 31,258,224 | (6.8) | 30,924,562 | 1.1 |
| - print centres kWh/tonne | **66.7** | 77.5 | (13.9) | 95.6 | (18.9) |
| **Water** | | | | | |
| - $m^3$ | **110,370** | 122,456* | (9.9) | 121,453 | 0.8 |
| - print centres $m^3$/tonne | **0.37** | 0.42 | (11.9) | 0.55 | (23.6) |

* Prior periods adjusted to correct for actual consumption

# Corporate Social Responsibility continued

Table 3 - Motor Vehicle data

| | **2008** | 2007 | % | 2006 | % | 2005* | % | 2004 | % |
|---|---|---|---|---|---|---|---|---|---|
| Total Fleet (No of vehicles) | **1,811** | 2,057 | (12.0) | 2,109 | (2.5) | 1,960 | 7.6 | 1,852 | 5.8 |
| Total Fleet $CO^2$ rating | **296,425** | 338,154 | (12.3) | 355,145 | (4.8) | 337,726 | 5.2 | 325,237 | 3.8 |
| Average $CO^2$ rating | **164** | 164 | (0.7) | 168 | (2.4) | 172 | (2.3) | 176 | (2.3) |

* Adjusted to include acquisitions completed in December 2005

yet fully operational. However, that being said, the drop per tonne of throughput in the print centres of 11.9% is due to a greater percentage of our throughput going through the more efficient Dinnington and Portsmouth presses.

As stated in the 2007 Annual Report, the Group has achieved the target originally set in 2003 for an overall reduction of 7% in its energy consumption by 2010. After this was achieved by the end of 2006, a new target was established of a further 10% reduction between 2007 and 2010. In 2008 we have consumed 5.2% less kWh of energy than in 2006 and are just over half way to this target. Budgets have been set for 2009 encompassing further year-on-year improvements.

We have also continued to make progress on reducing the Group's car and van fleet. Total number of vehicles reduced by 12.0% in the year, although this was principally driven by the reduction in headcount. The overall $CO^2$ rating of the fleet came down by 12.3% as any new vehicles purchased had lower ratings than those vehicles they replaced. With limited capital expenditure in the year, the average $CO^2$ rating per vehicle only dropped marginally. Full details are shown in table 3.

**New Initiatives**

The new presses at Dinnington and Portsmouth reached optimum output levels in 2008. This allowed the Group to migrate more volume from less efficient machinery and decommission two older presses in the year. One of the Groups more efficient presses was relocated to its operation in Northern Ireland and was successfully commissioned in a new purpose built press hall. Again this allowed the Group's titles in this market to move from less efficient older machinery. This will hopefully lead to a reduction in paper usage of 8% as a result of this move.

The Group's Carbon Footprint initiatives to reduce energy costs through investment in new technologies continued in 2008. These included, voltage reduction equipment, variable speed compressors, low energy lighting schemes, motion sensor installations and water restrictors. Significant success was also gained in the Group's drive to communicate the importance of energy conservation with its entire staff. Campaigns including posters, meetings and forums have heightened the awareness of energy management across the Group.

**Newsprint**

Since 1991 the industry, through the Newspaper Society, has agreed targets with the Government on the recycled content of British newspapers. The target for the year 2000 was 40.0% and has been raised each year since. The industry has consistently surpassed these targets and currently 79.0% of all newsprint in the UK comes from recycled paper. This figure has increased annually consistent with the recycling of newsprint.

The average recycled content of standard newsprint bought by Johnston Press is 80%, slightly ahead of the government target, helped by the closure of the Northampton press during 2008 which predominantly used virgin paper due to its age and associated runability issues.

Newspapers cannot be recycled indefinitely due to the process requiring some virgin fibre to maintain paper strength. All virgin fibre comes from an environmentally sound, renewable resource which is monitored and certificated, mainly softwood coniferous forests, where, for every tree cut down, two or more are planted. Newspapers are not responsible for rainforest devastation as the hardwoods from such forests are not used for newsprint manufacture.

**Emissions to Air**

The Group's only Heatset press located at Caledonian Offset maintains its operation well within the emissions requirements as stated in the Pollution Prevention and Control Act 1999 - Pollution Prevention and Control (Scotland) Regulations 2000. The Katec Oxidiser unit had 99.6% destruction (removal) efficiency in 2008 and continues to work effectively, removing pollutants from the ink drying process. The process was inspected by SEPA in 2008 and passed successfully.

In 2008, Caledonian Offset introduced a non volatile organic compound blanket wash; this was acknowledged by SEPA to be environmentally proactive. There has been no requirement to go to a bypass condition during 2008.

**Waste**

In 2008 the Group continued to move its titles to short cut-off newer presses, reducing paper usage and waste generation. Ink optimisation and pre-setting is now standard across the printing operation which reduced the make-ready waste across the Groups' titles.

All paper and non-paper waste streams are segregated and audited separately. A new agreement was reached in the year to extend the Group's relationship with its two main waste partners. The Group remains committed to ensure that its recycled newsprint goes into the production of new newsprint

**Carbon Footprint**

As reported last year the Group established its Carbon Footprint Taskforce under the Chairmanship of Stuart Paterson, our Chief Financial Officer. This taskforce developed the Group's environmental policy and is responsible for co-ordinating the Group's activities in this area. The Group's environmental policy is as follows:

We will ensure that every aspect of our activities is conducted in accordance with sound environmental practices. We will achieve this by:

- Minimising the consumption of natural resources and energy, whilst consuming material goods in moderation. All newsprint consumed in the printing of our newspapers will either be from recycled sources or from sustainable managed forests. The objective is to have at least 75% of our consumption from recycled sources.
- Pursuing our Energy Policy in which, as stated earlier, our original aim was to reduce our consumption of energy on a like-for-like basis by 7% between 2003 and 2010. Between 2003 and 2006 we achieved an 18% reduction in terms of kWh and the Group is now seeking to reduce by a further 10% over 2007 to 2010.
- Reducing the creation of waste by the adoption of improved operating practices and by the recycling of materials whenever practical.
- Ensuring all waste and effluent is disposed of in a safe and responsible manner.
- Ensuring all emissions to air comply with relevant current and planned legislation and that at least 99.5% of all Volatile Organic Compounds are removed during the process.
- Complying with all environmental legislation.

Johnston Press aims to foster among its employees, suppliers, customers, shareholders, other stakeholders and communities local to its operations an understanding of environmental issues in the context of its business. Our collective task is to ensure that we continually improve the environmental impact of our activities.

By this policy Johnston Press recognises its responsibility towards the protection of the environment, and issues this statement as a commitment of both management and employees to minimising the environmental impact of its operations.

Many of the Carbon Footprint Taskforce initiatives, which are designed to reduce our impact on the environment, are implemented through the Employee Forums which operate at all of our publishing centres. Reducing the environmental impact of our operations has been an initiative that has been embraced by the forums and has resulted in many local projects.

The aims of the Carbon Footprint Taskforce are as follows:

- Establish Group policy and objectives
- Promote the general aims of "reduce, reuse, recycle"
- Work through the established Employee Forums
- Co-ordinate Group wide initiatives
- Agree under the auspices of the Newspaper Society a standard method of measuring the Carbon Footprint (Scope 2) and seek to reduce this (base year 2006) by 25% over the next 5 years
- Run an annual Group Environmental Award

The second annual Group wide survey of every publishing and printing centre was carried out towards the end of 2008. The results were particularly encouraging with every one of the 18 measures surveyed showing improvement over 2007. Highlights include 97% of our offices supplying details of local energy saving initiatives, 89% of our offices having local recycling initiatives, 86% of our offices having a Carbon Footprint Champion and 92% having carbon footprint on the agenda at every Employee Forum meeting.

The achievements of the Taskforce in 2008 were as follows:

- A Group-wide survey of every publishing and printing centre has been carried out to determine current projects, level of engagement and status
- Promoted and issued case studies to promote the use of central resource rather than desktop printers
- Purchased and distributed over 1,000 Intelliplugs to ensure all computer peripherals are powered down in line with PCs
- Increased recycling of used toner or printer cartridges with Macmillan Cancer Care
- Established a single source supplier for recycling computer equipment
- Funded and promoted pilot schemes including PIR lighting, fluorescent tube removal or upgrade, old boiler replacement, dry urinals and the use of smaller vans
- Awarded the Group's first annual Carbon Footprint Award to Northeast Press

In terms of our involvement with the community, 86% of our publishing centres have actively promoted "green" issues in their newspapers and 58% have also done this on their websites. In fact, a third of our titles now run a regular column to support these initiatives. Looking towards 2009, almost 80% of our titles already have editorial campaigns planned and more than three quarters have advertising initiatives linked to these.

As noted above, the Group has worked in partnership with Dell, its principal supplier of IT equipment, to develop a disposal channel for redundant IT equipment. During 2008, over 1,600 end-of-life items were gathered from divisional centres and sent to Dell regional collection points, minimising the environmental and transportation impact. Once collected and audited, Dell works with developing countries to provide the re-purposed computer systems to schools and emerging industry, where there is a shortage of such hardware. Anything with no value is broken down into its constituent parts and re-used in industry to avoid disposal into landfill, ensuring total compliance with all WEEE regulations and waste legislation.

**Shareholders**

Members of the Board (Executive and Non-Executive) have met a number of shareholders during the past year to discuss Corporate Social Responsibility matters and to address any questions raised by them.

# Group Management Board

**Tim Bowdler**
Chief Executive Officer (to 31 December 2008)

**John Fry**
Chief Executive Officer (from 5 January 2009)

**Stuart Paterson**
Chief Financial Officer

**Danny Cammiade**
Chief Operating Officer

**Richard Cooper**
Company Secretary

**Malcolm Vickers**
Director of Human Resources

**Andrew Richardson**
Business Development Manager

**Lori Cunningham**
Digital Strategy Director

# Divisional Managing Directors

**Michael Johnston**
Scotland

**Chris Green**
North

**Margaret Hilton**
Northwest

**Nick Mills**
Midlands

**Gary Fearon**
South

**Jean Long**
Northern Ireland

**Barry Brennan**
Republic of Ireland

**David Crow**
Printing

**Roger Davies**
IT

**Chris Pennock**
Newspaper Sales and Marketing

1 **R G Parry**
Chairman (55)
Non-Executive Chairman and Chairman of the Nomination Committee until 11 March 2009. Joined the Board in 1997. Executive Chairman of Media Square plc. Non-Executive Chairman of Future plc, Mobile Streams plc and YouGov plc. Chairman at Shakespeare's Globe Trust. Will resign from Board on 24 April 2009.
rparry@johnstonpress.co.uk

2 **I S M Russell CBE**
Non-Executive (56)
Joined the Board in 2007. Chairman of the Audit Committee until 11 March 2009. Chairman elect and Chairman of the Nomination Committee from 12 March 2009. Chairman of Advanced Power AG and of Remploy Ltd, Non-Executive Director of the Mercantile Trust plc and British Assets plc, adviser to Bergemann Power Group and Chairman of the campaign board for the University of Edinburgh.
irussell@johnstonpress.co.uk

3 **J A Fry MBA**
Chief Executive Officer (52)
Joined the Board in 2009. Formerly Chief Executive of the Norwich based regional media group, Archant. Previously President of Dun & Bradstreet for UK, Europe, Middle East and Africa, and a consultant with Bain & Company.
jfry@johnstonpress.co.uk

4 **T J Bowdler CBE, BSc, MBA**
Formerly Chief Executive Officer (61)
Joined the Board in 1994 and resigned on 31 December 2008. Former Managing Director of Cape Architectural & Building Products Ltd, a division of Cape plc. Non-Executive Director of The Miller Group Ltd and The Press Association Ltd. Chairman of the Press Standards Board of Finance. Former President of the Newspaper Society.
tbowdler@johnstonpress.co.uk

5 **S R Paterson MA, CA**
Chief Financial Officer (51)
Joined the Board in 2001. Chartered Accountant. Former Finance Director of Aggreko plc. Non-Executive Director of Devro plc and Mirago plc.
spaterson@johnstonpress.co.uk

6 **D Cammiade**
Chief Operating Officer (48)
Joined the Board in 2005. Joined the Group in 1992 through its acquisition of TR Beckett Ltd. Appointed Managing Director of West Sussex County Times Ltd in 1994 and held various Divisional Managing Director roles until appointed Director of Operations in 2001. Chairman of the Newspaper Society Marketing Committee.
dcammiade@johnstonpress.co.uk

7 **P E B Cawdron**
Non-Executive (65)
Joined the Board in 1998. Senior Independent Director. Chairman of Remuneration Committee from 30 January 2009. Member of the Audit and Nomination Committees. Former Group Strategy Development Director of Grand Metropolitan PLC. Chairman of Punch Taverns plc and Spice plc. Non-Executive Director of GCap Media plc, Capita Group plc, BUPA and Prostrakan Group plc.
pcawdron@johnstonpress.co.uk

8 **F P M Johnston CBE**
Non-Executive (73)
Joined the Board in 1959. Former Managing Director and Chairman of the Group. Former Non-Executive Director of the Scottish Mortgage Investment Trust plc and Lloyds TSB Scotland plc. Former President of the Newspaper Society.
fjohnston@johnstonpress.co.uk

9 **M A King**
Non-Executive (48)
Joined the Board in 2003. Member of the Remuneration, Audit and Nomination Committees. Former Managing Director, Country Operations Europe, at Yahoo! UK Ltd. Non-Executive Director of Capita Group plc and IMD plc.
mking@johnstonpress.co.uk

10 **S J Waugh**
Non-Executive (51)
Joined the Board in 2003 and resigned on 30 January 2009. Formerly Chairman of Remuneration Committee and member of Audit and Nomination Committees. Chief Executive of National Apprenticeship Service. Chairman of AWD Group plc. Director of CMC Capital Markets plc. Life Fellow of Marketing Society and Institute of Direct Marketing.
swaugh@johnstonpress.co.uk

11 **A R Marshall**
Non-Executive (57)
Joined the Board in 2008. Executive Director of Usaha Tegas Sdn. Bhd. Serves on the Boards of several companies listed on the Bursa Malaysia Securities Berhad including Astro All Asia Networks plc as Executive Deputy Chairman.
rmarshall@johnstonpress.co.uk

12 **G E Patterson**
Non-Executive (41)
Joined the Board in 2008 and intends to step down at the AGM. Member of the Remuneration Committee. Director of BT Group plc and Chief Executive of BT Retail.
gpatterson@johnstonpress.co.uk

13 **P R Cooper ACA**
Company Secretary (52)
Appointed Company Secretary in 1996. Chartered Accountant. Former Finance Director of Yorkshire Weekly Newspaper Group Limited.
rcooper@johnstonpress.co.uk

# Corporate Governance

The Company is committed to the principles of Corporate Governance contained in the Combined Code on Corporate Governance that was issued in 2006 by the Financial Reporting Council ("The Code") for which the Board is accountable to shareholders.

**Statement of Compliance with The Code of Best Practice**
The Company has complied throughout the year with the Provisions of The Code set out in Section 1 of The Code. Due to resignations from the Board in the early part of 2009, the Board temporarily lacks the appropriate balance of independent Non-Executive Directors and a process is already underway to identify and recruit.

**Statement of Application of The Principles of Good Governance**
The Company has applied the principles set out in Section 1 of The Code as reported above. Further explanation of how the principles have been applied is set out below and, in connection with directors' remuneration, in the Directors' Remuneration Report.

**Board Effectiveness**
The Board considers that it has shown its commitment to leading and controlling the Company by meeting nine times in the year, but can meet when necessary for any matters which may arise. The Remuneration Committee met on seven occasions, the Audit Committee twice and the Nomination Committee five times.

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, plans the succession of key executives, and determines appropriate remuneration levels.

The core values of the Board are integrity, independence and objectivity. All Directors must take decisions in the interests of the Company and all of its shareholders.

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 consider one 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, national sales, digital publishing, the Group's debt facilities and human resources trends and issues.

**Board Meeting Agenda**
The Board receives a formal schedule of matters specifically reserved to it for decision, such as future strategy, acquisitions and disposals, dividend policy, approval of the Annual Report and Accounts, capital expenditure, trading and capital budgets and Group borrowing facilities.

The Board considers monthly reports from the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer and Minutes of the Board and Committees are circulated to all Board members. It has also made the Company Secretary responsible to the Board for the timeliness and quality of information.

**Board Responsibilities**
The Board acknowledges the division of responsibilities for running the Board and managing the Company's business with, throughout 2008, Mr R G Parry as Non-Executive Chairman, Mr P E B Cawdron as Senior Independent Director (SID) and Mr T J Bowdler as the Company's Chief Executive Officer. On 5 January 2009, Mr J A Fry replaced Mr T J Bowdler following the previously announced retirement of Mr T J Bowdler, who resigned as a Director on 31 December 2008. Mr I S M Russell will replace Mr R G Parry as Non-Executive Chairman on 12 March 2009, the day after the 2008 Annual Results of the Company are announced, and Mr R G Parry will not be seeking re-election at the Annual General Meeting on 24 April 2009.

Throughout 2008, the Chairmen of the Remuneration, Audit and Nomination Committees were Mr S J Waugh, Mr I S M Russell, who is a chartered accountant, and Mr R G Parry respectively. In addition to the Board changes above, Mr S J Waugh resigned as a Non-Executive Director of the Company on 30 January 2009 following his acceptance of a government post and, following his promotion to Chief Executive of BT Retail, Mr G E Patterson will step down from the Board at the AGM. Mr P E B Cawdron was appointed Chairman of the Remuneration Committee in place of Mr S J Waugh. This is a temporary appointment and it is anticipated that a further change will take place later in the year. When Mr I S M Russell is appointed Non-Executive Chairman of the Company, he will step down as a member of the Audit Committee and he will Chair the Nomination Committee. A new Audit Committee Chairman is being sought as part of the Non-Executive Director recruitment process.

Mr P E B Cawdron is available to address any concerns that shareholders may have, which have not been resolved through the normal communication channels of the Chairman or Executive Directors. Previously he had decided to retire from the Board at the AGM in 2009 but, because of the other Board changes noted above, has now agreed to continue for a further twelve months.

**Board Attendance**
During 2008, every director attended all meetings with the exception that Mr F P M Johnston was unable to attend the January meeting and Mr P E B Cawdron, Mr S J Waugh and Mr G E Patterson all missed the August meeting. In advance of the formal Board meeting in November, led by the Senior Independent Director, the Directors excluding the Chairman met and, as part of the agenda of that meeting, appraised the performance of the Chairman. Also in November, the Board met without the Executive Directors and Company Secretary being present.

The meetings of the Remuneration, Audit and Nomination Committees were attended by all members either personally or by telephone other than Mrs M A King who missed two Remuneration Committee meetings and Mr S J Waugh who missed one Audit Committee meeting.

**Board Balance**
Of the Company's current ten Directors, three are Executive and the remainder Non-Executive, of whom four are regarded as independent, excluding the Chairman. As explained above, this imbalance is temporary due to the very recent resignations of Mr S J Waugh and Mr G E Patterson. With the appointment of Mr I S M Russell as Non-Executive Chairman, effective from 12 March 2009, and Mr R G Parry stepping down from the Board at the AGM, there will also be a need for another independent Non-Executive Director. The process of recruiting three new directors has already commenced.

Mr A R Marshall and Mr G E Patterson were appointed as Non-Executive Directors on 27 June 2008 and 7 July 2008 respectively. Mr A R Marshall is regarded as non-independent because he was appointed to the Board as the nominee Director of Usaha Tegas, which owns 20% of the Company's issued share capital. Mr G E Patterson is an independent Non-Executive Director.

Mr F P M Johnston is regarded as non-independent because he has a large shareholding in the Company and previously served the Group in an executive role. It is the view of the Board that such circumstances do not lessen the value of the contributions made by Mr F P M Johnston. He plans to step down from the Board at the AGM in 2010.

Mr P E B Cawdron has served on the Board for more than nine years. The unanimous view of the Board is that his experience and professional knowledge is invaluable to the Board, and that he continues to be independent. Given the recent Board changes he has agreed to continue as an independent Non-Executive Director but he plans to retire from the Board at the AGM in 2010.

When Mr R G Parry stands down as Chairman on 12 March 2009, despite serving more than nine years as a Director, the Board will regard him as independent up to the date of the AGM. He is an innovative and independent thinker and has wide experience in the media sector.

All Directors who have served for more than nine years will retire at the Annual General Meeting and, other than Mr R G Parry, they will be seeking re-election.

Throughout 2008 at least half the Board, excluding the Chairman, comprised Non-Executive Directors determined by the Board to be independent. The recent Board changes have impacted this position but it will be corrected as soon as practicably possible with the appointment of new independent Non-Executive Directors.

**Nomination Committee**
The Nomination Committee has been chaired by Mr R G Parry. When he steps down as Chairman he will be replaced by Mr I S M Russell. Reporting to the Board, its duty is to seek suitably skilled and experienced candidates, with sufficient time to devote to the role, as Non-Executive Directors and to oversee all Board appointments. Once the skillset and experience of a vacancy has been determined, the Committee considers the appointment of external recruitment consultants to assist with the search. As explained in last year's Annual Report, given the importance of the recruitment of the new Chief Executive Officer during 2008, it was decided that the Nomination Committee should comprise all the Non-Executive Directors.

The terms of reference of the Committee are displayed on the Company's website in the Investor Centre section.

The Committee's unanimous choice for the position as Chief Executive Officer, Mr J A Fry, was appointed as a Director and CEO on 5 January 2009, succeeding Mr T J Bowdler. Throughout the efficiently run process the Company was advised by Egon Zehnder, which also assisted in the appointment of Mr G E Patterson. With the subsequent resignation of Mr G E Patterson and the other Board changes, the Committee has commenced the process of recruiting three independent Non-Executive Directors.

It is proposed that one of these will be a chartered accountant who will take over as Chairman of the Audit Committee. The required experience and skill set of the other two independent Non-Executive Director vacancies has been specified. Mr P E B Cawdron and Mr F P M Johnston have intimated that they intend to retire from the Board at the Annual General Meeting in 2010. Taking into account the expertise and experience of the current Directors being recruited, the Committee will then determine the brief required to replace the Directors retiring in 2010.

When Mr R G Parry announced that he planned to resign at the AGM, the recruitment process to select a new Chairman was led by the Nomination Committee chaired by Mr P E B Cawdron. Mr R G Parry had no involvement in the choice of Mr I S M Russell as the new Chairman.

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 Committee itself as well as by all members of the Board. The results of this process were positive and confirmed the effectiveness of the Committee.

**Information and Professional Development**
The Chairman arranged a detailed induction process for both Mr A R Marshall and Mr G E Patterson, including meetings and discussions with advisers and senior management where appropriate, together with the preparation of a full induction pack and seminars both internally and externally. A more extensive programme was developed for Mr J A Fry which included a full tour of the Group's operations.

A similar process to that described above for Mr A R Marshall and Mr G E Patterson will be undertaken when any new Non-Executive Director is appointed. A new Chairman of the Remuneration Committee will be appointed later in 2009 and a detailed training programme has already been outlined which will involve internal briefings and the input of Hewitt New Bridge Street, the Committee's advisers.

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 Company Secretary is available to all Directors and he is responsible for ensuring that all Board procedures are complied with.

### Board Performance Evaluation
During the last year, the Board has conducted a rigorous evaluation of its own performance. This involved the completion of an 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, the response to the current economic recession; and the overall effectiveness of the Board. There was a continued emphasis on a scoring system for assessing individual, Committee and Board performance, together with a focus on the future strategy of the Group especially in the area of digital publishing. The completed questionnaires were submitted to the Company Secretary who prepared a summary of the conclusions which was presented to the Board meeting in January 2009. Separately, the Secretary produced a detailed report summarising any individual recommendations for the consideration of the Chairman and the Chairman elect. This was and will be followed up by meetings as appropriate with individual Directors.

### Training
Training is undertaken as required during the year. The feedback from the recent questionnaires will assist in the training plan for the forthcoming year. The Board arranges for its Non-Executive Directors to visit the Group's principal locations at certain intervals to discuss the operations with local management. In addition, at least one Board meeting is held at one of the Group's centres where the Board receives a presentation from the local Managing Director and a tour of the business. Individual Directors attend a range of seminars presented by professionals throughout the year.

At the annual meeting when the Non-Executive Directors meet on their own, this is one of the standard topics for the Board to consider, both individually and collectively.

### Board Re-election
It is the policy of the Board that all Directors are subject to election at the first Annual General Meeting after their appointment and thereafter to re-election every three years. All Directors who have served nine years or more or who are above age 70 are subject to re-election annually.

Mr I S M Russell as Chairman elect has, following the formal evaluation process described above, considered the performance of the Directors subject to election and re-election at the 2009 Annual General Meeting and is satisfied that the individuals' performance continues to be effective and that they have demonstrated a clear commitment to the role.

### Financial Reporting
The Board has shown its commitment to presenting appropriate information about the Group's financial position by complying with best practice and standards issued by the International and UK Accounting Standards Boards relating to the disclosures which are included in this Annual Report.

### Statement of Directors' Responsibilities
The Directors are responsible for preparing the Annual Report, Directors' Remuneration 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. The Directors are required by the IAS Regulation to prepare the Group financial statements under IFRSs as adopted by the European Union. The Group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- 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.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. 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 judgement, 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. However, there are material risks associated with this assessment and these are discussed on page 18.

### Internal Control
The Board has applied principle C.2 of the Combined 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 Combined 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. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and 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 Internal Financial Control Committee (IFCC). The Audit Committee assists the Board in discharging its review responsibilities.

During the course of its review of the system of internal control, the Board has not identified nor 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 ongoing continuous process during the period under review have been:

- Formal Board reporting on a monthly basis by the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer on the Group's performance and on any emerging risks and issues. The monthly management accounts break down the results of the Group's operations by individual business performance and 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 local 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. The Group Management Board, comprising the Executive Directors, the Company Secretary, the Director of Human Resources, the Digital Strategy Director and the Business Development Manager, meets every month to review financial and operational issues as well as the risks facing the Group.

- Formal Board approval for capital expenditure over £250,000 and for other investment decisions. Approval was granted for all acquisitions and disposals submitted after due enquiry.

- 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 department's future strategy as part of the operational topics considered at Board meetings during the year.

- Review by the Audit Committee 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 Company Secretary 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 by each operation to head office monthly. This work is strongly 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.

- Review by the Audit Committee 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 conduct of risk assessment involving all senior managers of the Group's businesses in addition to the Executive Directors. A risk matrix is reviewed on a regular basis both in the local operations and by the Group Management Board. One risk is discussed at every monthly executive meeting both locally and at Group level. The results of these assessments are summarised and reported to the entire Board. These risk assessment sessions are held at each operation and will evaluate and address the risks identified. During 2008, the Group Management Board has focused particularly on customer care metrics; impairment testing of the Group's publishing titles; disaster recovery plans in fewer but larger prepress and press centres; national advertising sales; a whistle blowing incident; management succession planning; digital strategy; bad debts in the economic slowdown; management stretch; daily newspaper sales; and corporate strategy.

On an ongoing basis, steps are taken to embed best practice into all the operations of the business and to deal with areas of improvement which come to Management's and the Board's attention.

In addition, the Group Management Board has the ongoing responsibility to set policies, procedures and standards as detailed in the Group's policy guidelines. These are reviewed and revised on an annual basis and a tailored version has been released for all the businesses in the Republic of Ireland. The guidelines include policies on:

- Finance
- Cash/treasury controls
- 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
- Business continuity.

The Directors at the Board meeting on 30 January 2009 reviewed the need for an internal audit department and concluded that they did not believe it necessary for the Group to maintain such a department given the very effective role played by the IFCC and the current independent review and monitoring procedures in operation.

**Audit Committee**
The Audit Committee is chaired by Mr I S M Russell, a chartered accountant, and includes Mrs M A King and Mr S J Waugh up to the date of his resignation from the Board on 30 January 2009. Mr P E B Cawdron, a chartered accountant, was appointed to the Committee from that date. All are independent Non-Executive Directors. Mr I S M Russell ensured that all matters relating to the Annual Report and Accounts were complete before standing down as Chairman of the Audit Committee on 12 March 2009. The Company is actively recruiting a new independent Non-Executive Director to chair the Committee going forward.

The Committee has written terms of reference that outline its authority and duties. These are displayed on the Company's website in the Investor Centre section. The terms include a review of the arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other areas.

The Committee normally meets three times each year. It 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. In 2008 this meeting was combined with the Interim Financial Review.

The two other meetings follow the Interim Financial Review and the year-end audit. They cover a comprehensive report from the external auditors on their work and their conclusions. The Committee focuses in particular on the areas of financial judgement by the Group. As part of the main Board it also reviews the summary of the Group's key business risks and discusses any revisions. The Committee is actively involved in the ongoing review of internal controls by the main Board.

In addition, these two meetings consider a report on the work of the IFCC. Its work is described in the Internal Control section and, given the detail and comfort included in the report, the Committee regards this approach as the most effective way to review the financial controls in the business rather than establish an internal audit function.

The Audit Committee meetings to consider the financial results of the Group are attended by the Chief Financial Officer and 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 both meetings, all Executives leave in order for the Committee to have a private discussion with the auditors. The Chairman also has a private meeting with the audit partner during the course of the year to discuss any relevant issues.

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. These are fully explored and discussed and the Committee is satisfied that the objectivity and independence of the external audit is safeguarded. During 2008 the Company has used several professional firms for different projects and the Republic of Ireland taxation compliance and advisory work is undertaken by a professional firm other than the Group's auditors.

As explained on page 34, 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 Committee itself as well as by all members of the Board. The results of this process were positive and confirmed the effectiveness of the Committee.

Any significant non-audit work by the auditors is approved by the Committee in advance of any engagement letter being signed. The Committee will only approve such work where they are satisfied the scope of work and level of fees will not impact on the independence of the auditors.

The Committee oversaw the appointment of Deloitte LLP in 2002 and have a primary responsibility for the appointment, re-appointment and removal of auditors. The Audit Partner at Deloitte rotated at the commencement of the 2007 Interim Review.

**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 and the Senior Independent Director personally contact the leading shareholders in the Company on a yearly 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 the half yearly presentations is circulated to the Board. Brokers' reports and analysts' briefings are included in the Board papers sent to the Directors every month.

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 more fully understand their views.

**Annual General Meeting**
The Board seeks to encourage shareholders to attend its Annual General Meeting. Directors are present to answer any questions from shareholders. It is the policy of the Board that all Directors should attend the Annual General Meeting. It uses the Annual General Meeting to communicate with private investors and encourages their participation.

All Directors attended the AGM in 2008.

# Directors' Remuneration Report

This report has been prepared in accordance with Schedule 7A to the Companies Act 1985. It also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles of good governance relating to directors' remuneration as set out in the Combined Code. As required by the Act, 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 Act requires a section of this Report to be audited and this can be found on pages 43 to 45.

**The Remuneration Committee**

Throughout 2008 the Committee was chaired by Mr S J Waugh, an independent Non-Executive Director, and comprised two other independent Non-Executive Directors, Mrs M A King and Mr I S M Russell. On 1 January 2009 Mr I S M Russell stepped down from the Committee and was replaced by Mr G E Patterson, an independent Non-Executive Director. Following Mr Waugh's acceptance of a government appointment, he resigned from the board on 30 January 2009. On a temporary basis Mr P E B Cawdron, an independent Non-Executive Director, has been appointed Chairman of the Committee. It is anticipated that a permanent replacement will be announced later in 2009. Mr G E Patterson will not be seeking election at the Annual General Meeting on 24 April 2009 and his place on the Committee will be taken by one of the new independent Non-Executive Directors currently being recruited.

The Committee is required to meet at least annually and as necessary. During 2008 it met on seven occasions, four meetings being held by telephone. Mrs M A King was unable to attend two meetings but she expressed her views to the Chairman in advance of both meetings.

The Committee is charged with recommending to the Board the remuneration of the Chairman and Executive Directors as well as changes to employment conditions, the Executive Share Option Schemes, Share Incentive Plan, Long Term Incentive Plans and the Sharesave Plan, together with the introduction of any new incentive or remuneration schemes. The Committee is consulted on, and notified of, all senior management appointments and related remuneration. It is also consulted on major organisational changes.

In the early part of 2009, the Committee also considered and approved the fee for the Chairman elect.

The remuneration of the Non-Executive Directors, other than the Chairman, is determined by the Executive Directors and ratified by the Board.

None 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. The Committee makes recommendations to the Board. Other Directors attend meetings when invited by the Committee and the Company Secretary acts as secretary to the Committee. No Director plays a part in any discussion about his or her own remuneration.

The Committee has appointed Hewitt New Bridge Street (HNBS) to provide advice on structuring directors' remuneration packages. HNBS attended three of the meetings of the Committee during the year but did not otherwise provide any other services to the Company in 2008. The terms of engagement between the Company and HNBS are displayed on the Company's website in the Investor Centre section.

There is an ongoing 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. Other specific training is arranged as required. A training programme is being prepared for the Chairman of the Committee to succeed Mr P E B Cawdron.

As explained on page 34, 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 Committee itself as well as by all members of the Board. The results of this process were positive and confirmed the effectiveness of the Committee.

The terms of reference of the Committee are displayed on the Company's website in the Investor Centre section. These are reviewed annually by the Board.

**Remuneration Policy**

Executive remuneration packages are prudently designed to attract, motivate and retain directors of the high calibre needed to maintain the Group's strong position in its local markets, to drive the future success of the business and to reward them for maximising and protecting long term value to shareholders.

Throughout 2008 there were four main elements of the remuneration package for Executive Directors and senior management:

- Basic annual salary and benefits;
- Performance related bonuses;
- Performance Share Plan;
- Pension arrangements.

The Executive Directors have a one-year rolling contract. The most recently executed contracts for Mr J A Fry, Mr S R Paterson and Mr D Cammiade are dated 23 September 2008, 24 May 2001 and 27 February 2006 respectively. In the event of termination, the Executive Directors would be entitled to remuneration for the notice period, subject to mitigation.

Executive Directors' service contracts, which include details of remuneration, will be available for inspection at the Annual General Meeting.

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:

| | |
|---|---|
| Mr R G Parry | 27 June 2003 |
| Mr P E B Cawdron | 25 January 2002 |
| Mr F P M Johnston | 25 January 2002 |
| Mrs M A King | 25 April 2003 |
| Mr S J Waugh (resigned - 30 January 2009) | 25 April 2003 |
| Mr I S M Russell | 14 January 2007 |
| Mr A R Marshall | 27 June 2008 |
| Mr G E Patterson | 7 July 2008 |

Mr R G Parry and Mr G E Patterson will both resign at the Company's Annual General Meeting on 24 April 2009.

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

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

In 2008, Mr T J Bowdler and Mr S R Paterson held external non-executive posts and received £66,000 and £35,000 in fees respectively.

In reviewing Remuneration Policy, the Committee has the discretion to take into consideration corporate performance on environmental, social and governance (ESG) issues. The Committee ensures that ESG risks are not raised by the incentive structure through inadvertently motivating irresponsible behaviour.

Whilst Mr T J Bowdler resigned as a Director on 31 December 2008, he continues to be employed by the Company as a consultant working on specific projects until his retirement date on 16 May 2009. His contractual terms referred to below relating to 2008, other than the bonus scheme, will continue until he retires. There was no increase in salary on 1 January 2009.

Mr J A Fry was appointed Chief Executive Officer on 5 January 2009 and the structure of his remuneration package is explained below.

One change was made to the Remuneration Policy of the Company at the beginning of 2009. Effective from 1 January 2009, the two elements of the performance related bonus, profit and KPI, will continue but any KPI related element will be subject to achieving a certain percentage of the profit target.

In the second half of 2008 an award of a deferred cash retention bonus was made to Mr S R Paterson.

**Basic Salary**
An Executive Director's basic salary is determined by the Committee prior to the beginning of each calendar year and when an individual changes position or responsibility. In deciding appropriate levels, the Committee considers the Group as a whole and relies on objective research carried out by its external consultants which gives up-to-date information on comparator groups of companies. As a benchmark, it aims to pay broadly at the median level.

In addition to basic salary, the Executive Directors receive certain benefits-in-kind, principally a car or a cash buyout and private medical insurance.

With effect from 1 January 2009 the salaries of Mr S R Paterson and Mr D Cammiade remained unchanged at £360,720 and £323,592 respectively. Mr J A Fry's salary effective from 5 January 2009 was £525,000.

**Performance Related Bonus**
The Committee considers and approves the objectives that must be met for each financial year if a cash bonus is to be paid. In setting the appropriate bonus parameters the Committee, having taken advice, takes into account the Company's internal budgets and analysts' expectations for the forthcoming year. The bonus increases as performance above target increases and the targets are especially stretched at the top end. The Committee believes that this ties any incentive payments to the interests of shareholders.

The maximum bonus level is set at 150% of salary and there is a level of compulsory deferral in shares for three years of 50% of the bonus payable. A forfeiture clause applies to the shares for bad leavers.

For the 2008 calendar year, of the 150% maximum bonus, 115% of salary was based on a profit target stretched at the top end, which was set by the Board on the recommendation of the Remuneration Committee. The remaining 35% of the bonus was based on individual key performance targets, which were specific and clearly measurable.

Of the profit related bonus, 55% of salary was payable on achievement of a challenging target with additional sums payable on a sliding scale which was stretched at the top end to achieve maximum bonus. If the target was not achieved, bonus would be lost at almost three times the rate of the sliding scale on the upside.

Based on the actual profits achieved for the 2008 financial year, no profit based bonus was payable.

The individual key performance targets varied by Executive Director. These included new revenue streams, total audience (in print and online), digital developments, cost management and cashflow, together with specific individual projects. All Executive Directors, including Mr T J Bowdler, achieved the majority of their individual KPI's.

Given the reduction in earnings in 2008 and the significant drop in the Company's share price in the year every Director voluntarily agreed to forego any bonus for 2008 and none was paid.

The Board retains the discretion to recognise performance outside this arrangement where exceptional circumstances apply, but any such discretion is restricted to a total bonus, including the performance related element, of 25% of salary. No discretion was applied in 2008.

The same bonus structure will apply for the 2009 financial year except that any KPI bonus earned will only be payable if a profit related threshold is achieved.

**Retention Bonus**

Over the last few years the external communication of the Group to shareholders, analysts and other stakeholders has been led by Mr T J Bowdler and Mr S R Paterson. With the retirement of Mr T J Bowdler at 31 December 2008 the Committee discussed the key role that Mr S R Paterson plays in this process and his vital importance more generally to the Group. After careful consideration the Committee decided on 5 August 2008 to award Mr S R Paterson a one-off conditional cash retention bonus of £250,000 contingent on him remaining a director of the Company, and not serving notice on or prior to, 5 January 2011, two years after Mr J A Fry was appointed Chief Executive Officer. The retention bonus was approved by the Committee under Listing Rule 9.4.2R(2) specifically to facilitate Mr S R Paterson's retention as a director of the Company for the reasons described above.

The retention bonus may only be satisfied in cash and will not be pensionable.

In the event that Mr S R Paterson is dismissed for any reason before 5 January 2011, other than in the case of summary dismissal, the retention bonus will be payable in full in addition to the terms of his service contract. If Mr S R Paterson resigns or terminates his office for any reason or is summarily dismissed before 5 January 2011 he will forfeit all rights to receive the retention bonus.

The retention bonus will not become payable early in the event of a takeover or winding-up of the Company and will continue on its original terms.

The retention bonus will not be adjusted in the event of any variation of the Company's share capital. The Committee will not amend the terms or amount of the retention bonus in any respect to the advantage of Mr S R Paterson other than a minor alteration made to benefit the administration of the retention bonus, to take account of a change in legislation or to obtain or maintain favourable tax or regulatory treatment for Mr S R Paterson or for any company in the Company's group.

Given the strict conditions relating to the payment of this retention bonus, no provision has been made in these financial statements.

**One-off Long Term Incentive Plan**

A one-off LTIP was agreed for the new Chief Executive Officer.

As part of the terms of his recruitment, the Committee agreed on 22 September 2008 to award a conditional one-off long term incentive based on share price growth to facilitate, in unusual circumstances, the appointment of Mr J A Fry as Chief Executive Officer. This was approved to secure his recruitment in a difficult trading environment with a falling share price.

Since the terms of the LTIP were approved by the Committee, the Company's share price has continued to fall and the Company has received feedback on the plan from shareholders. As a result, the Committee has decided that the proposed LTIP is no longer fit for purpose and it is impractical to implement. Given that the LTIP was appended to Mr J A Fry's service contract, a summary of the terms is set out below.

An alternative LTIP is currently being considered by the Committee. It will consult with major shareholders before the terms are finalised and any award is granted. The Committee will seek full shareholder approval if required.

An award of £1.5 million worth of ordinary shares was approved by the Committee. The base share price was calculated on the average share price for the 10 days prior to Mr J A Fry signing his service contract which was executed on 23 September 2008. This was a share price of 43.825p, resulting in a share award of 3,422,703 shares.

It was agreed by the Committee that the performance targets would be based on the base share price above of 43.825p plus 25p for a vesting of 30% of the award, with increases on a straight line basis, with full vesting at 43.825p plus 200p to be achieved over a three year period.

The award would normally have vested after the third anniversary of the date of the grant, subject to the satisfaction of the performance condition and Mr J A Fry being a director or employee within the Company's group on that date. The award would have been capable of vesting early in the event that Mr J A Fry ceased to be a director or employee for certain compassionate reasons, subject to the satisfaction of the performance conditions. Furthermore the award would have been capable of vesting (in whole or part) in the event of a change of control of the Company.

The total number of shares subject to the award would have been capable of being adjusted in the event of any variation of the Company's share capital. The Committee may not have amended the award to the advantage of Mr J A Fry without the prior approval of shareholders. The award would not have been pensionable or transferable.

**Share Schemes**

The Company operates a number of Share Schemes and these are described below.

a) A Performance Share Plan (PSP) with awards being shown below and in note 32 to the financial statements. The Plan replaced an Executive Share Option Scheme which has a number of share options outstanding but it is not currently proposed to approve any further grants under this Scheme.

Under the rules of the PSP, Performance Shares may be granted over a three year performance period to the Executive Directors and Senior Executives on an annual basis. The scheme rules permit 125% as a normal annual maximum and 150% of salary in exceptional circumstances. In 2008 Mr S R Paterson and Mr D Cammiade received 100% of salary but in 2009 the Committee will assess the number of shares to be awarded taking into account of the falling share price and being fully aware of the dilution limits and it is expected that the level of award as a percentage of salary will be significantly lower than in 2008. No payment is made by the Executives for the award itself, nor for the shares that actually vest.

For PSP awards made prior to April 2007 to Senior Executives, 50% of the initial award of Performance Shares will vest based on compound real growth in the Group's underlying earnings per share (EPS). 25% of this allocation will vest on an EPS growth of RPI plus 3% per annum up to 100% of the allocation for an EPS growth of RPI plus 8% per annum, with a sliding scale between the lower and upper limits.

For awards after April 2007, the EPS performance condition was replaced by a target based on Return on Capital Employed (ROCE). The Committee chose this alternative to motivate the Executives to maximise the returns from capital invested in the business thereby ensuring that the financial efficiency of the business is optimised. ROCE is defined as profit after tax but before interest, divided by shareholders funds plus net debt as determined by the Committee. For the 2008 award, 25% of the ROCE related part of the award will vest if, on average over the six half years between 2008 to 2010, ROCE exceeds the Company's Weighted Average Cost of Capital (WACC) by 2%. For full vesting, average ROCE must exceed WACC by 4%, with there being pro rata vesting for intermediate performance.

The remaining 50% of the award of Performance Shares will vest based on Total Shareholder Return (TSR) performance relative to the FTSE 350 Media Companies. The comparator group is specified in the rules of the Scheme and in relation to the 2008 award comprised the following companies; Aegis Group, British Sky Broadcasting Group, Daily Mail, Emap, EMI Group, Euromoney Institutional Investor, GCap Media, Informa, ITV, Pearson, Reed Elsevier, Reuters Group, Taylor Nelson Sofres, Trinity Mirror, United Business Media, WPP Group and Yell Group. The Committee has discretion to modify the group to take account of certain events, for example, a takeover. 25% of this allocation will vest if the Group achieves the median TSR performance of the comparator group over the three year period with a 100% allocation if the Group achieves upper quartile performance and a sliding scale between the two levels.

The Committee considers the TSR based performance measure aligns the interests of executives with shareholders by requiring superior TSR performance compared to the companies in the comparator group.

Following the vesting of any awards, a payment in shares and/or cash will be made equivalent to the dividend that would have been paid on the shares that vest during the performance period.

When an award of Performance Shares is approved, the Company ensures that sufficient shares are purchased by the Johnston Press plc Employee Share Trust, administered by Lloyds TSB Offshore in Jersey, to meet the projected number of shares required at the end of the performance period.

In the event of a change in control, all PSP awards will vest early to the extent that the performance conditions have, or would have, in the opinion of the Committee, been satisfied up to the date of the relevant event. Awards will also be pro-rated to reflect the reduced period of time between the commencement of the performance period and the date of vesting relative to a period of three years, unless the Committee determines that a pro-rata reduction would be inappropriate in the circumstances.

b) The Executive Share Option Scheme was replaced by the PSP and no options have been granted under the Scheme since 30 June 2005. There are options outstanding and details are shown below and in note 32. All options were granted for nil consideration. These options are only capable of being exercised if the compound real growth in the Group's underlying earnings per share is between 3% to 5% depending on the level of the grant. In order to exercise a grant above 0.5 times or above 1 times salary, the growth in the Group's underlying earnings per share must exceed the growth in the retail price index by more than 4% or 5% per annum respectively. The Committee has decided that there will be no retesting of performance on any options granted after 1 January 2004 and performance will be measured over a single three year period. For options granted prior to 31 December 2003, performance is always tested from a fixed base over a period of at least three years and may not be retested after the fifth anniversary of the option grant.

The exercise price of the options granted under the Executive Share Option Scheme is equal to the market value of the Company's shares at the time when the options were granted.

In the event of a change in control of the Company, any options granted are exercisable within one month of the option holders being notified of the change in control. In such circumstances the performance conditions will apply. However, in exceptional circumstances the Committee may, at its discretion, treat the performance condition as satisfied taking into account the underlying performance of the Company up until the relevant event.

All the Executive Share Options granted in 2005 lapsed in 2008 due to the performance conditions not being met.

c) 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 a maximum aggregate savings equal to £250 per month. Consistent with the legislation and normal practice, the SAYE Sharesave Plan does not require the imposition of performance conditions.

A Scheme was introduced during 2006 to provide employees in the Republic of Ireland with a similar benefit. This was amended during 2008 and approved by the Irish Revenue to ensure that the grant price calculation mirrors the Johnston Press 2007 Sharesave Plan.

Both Schemes were operated in 2008.

d) A Share Incentive Plan (SIP) for all eligible employees. The SIP has been approved by HM Revenue and Customs and is in two parts; 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 provides employees who have joined the Scheme with free shares up to a maximum value. The shares are held in a UK resident Trust, administered by Halifax plc, and after a period of five years the shares may be withdrawn free of any tax and national insurance. Shares may be withdrawn from the Trust earlier in certain circumstances, although early withdrawal may result in a charge to tax and national insurance. Employees who leave the Group as a bad leaver within three years of the shares being awarded forfeit the Free Shares. For Free Shares, the Committee sets a minimum Group profit target and a base fund to be utilised to purchase shares in the Company. Performance above the target generates additional amounts payable into the fund on a sliding scale up to a maximum payout. The Free Shares are allocated to employees based on hours worked and are not pro rata to salary. In the calendar year 2008, the profit achievement did not meet the minimum target set by the Committee and therefore no award was made.

It is not possible to invite employees based in the Republic of Ireland to participate in the SIP.

At the 2007 AGM, shareholders approved the Johnston Press Restricted Stock Unit Scheme (the "RSU Scheme"), for use in the Republic of Ireland, which mirrors as closely as possible the UK Free Shares Scheme. However, the Irish Commissioner would not approve any scheme which includes a forfeiture provision if employees leave and, therefore, tax will be payable by Irish employees when beneficial ownership of shares acquired under the RSU Scheme passes to the employees after a period of five years.

e) The Share Matching Plan was suspended on 1 January 2007. Previously it applied to the Executive Directors and certain Senior Executives. Participants invested part of their annual bonus in buying shares in the Company and they had the prospect of receiving extra matching shares after three years, paid for by the Company. The matching ratio ranged from 0.5 times to 2 times the number of shares that could have been acquired with the pre-tax equivalent of the annual bonus invested, subject to achieving compound real growth in the Group's underlying earnings per share of between 3% to 8% per annum over a fixed three year period. Minimum and maximum levels of awards applied to participants.

The Share Matching Plan permitted a payment to be made (in cash or shares) on the vesting of an award equivalent to the dividends that would have been paid on the shares that vest during the performance period.

When any grant of matching shares was approved, the Company ensured that there were sufficient shares to cover the projected number of shares required to meet the maximum match for the current year, together with the number of shares required to cover previous awards based on performance to date within the vesting period and projections for the coming year. These shares are held in the Johnston Press plc Employee Share Trust.

The performance conditions for the matching awards granted in 2005 were not met and the awards have lapsed. It is expected that the same will apply to the matching awards granted in 2006 and 2007.

The number of shares held by the Trust to meet the outstanding Matching Share grants and awards of Performance Shares on 31 December 2008 was 8,895,972.

The Company Secretary is responsible for ensuring the exercise criteria are met for all the Share Schemes and this is verified by the Committee.

Options under b) and c) above are satisfied by the issue of new shares. As indicated above, the Company's Employee Share Trust currently holds shares purchased in the open market sufficient to meet awards under a), and e). Shares are purchased in the open market to satisfy the Free Shares award within d).

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.

At 31 December 2008 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 3.7% of the issued share capital with a maximum limit of 10%.

**Pension Arrangements**

Throughout 2008, the Group operated one main pension scheme for UK employees, the Johnston Press Pension Plan (JPPP), with defined benefit and defined contribution sections. The defined benefit section is closed to new members. The assets of the JPPP are totally separate from the assets of the Company and of the Group, and are invested by independent fund managers.

A professional independent trustee and member nominated trustees are appointed to the pension scheme. A firm of external actuaries and consultants act as advisers. Pension scheme members receive a report from the trustees and a statement of their benefits each year.

Contributions to the JPPP (defined benefit section) were at a fixed annual amount, paid monthly, up until 31 October 2008, then based on the triennial valuation at 31 December 2007, annual contributions are to be based on a percentage of pensionable salaries plus a fixed annual amount to recover the deficit. These changes were agreed between the trustees of the JPPP and the Company. The executive section of the Plan provides for a retirement age of 62, a maximum pension of two thirds of salary based on either a 45th accrual rate or a full 2/3rds at retirement date, a member's contribution of 10.5% of salary with a spouse's pension of a third of pensionable salary in the event of death in service. There are no provisions for beneficial rights on early retirement apart from a number of employees in The Scotsman section of the defined benefit scheme. The employee and employer contributions were increased in 2005 to increase the funding level of the scheme which is currently in deficit.

Employer contributions to the defined contribution section of the JPPP vary depending on age, employee contribution and position in the Company. Rates vary between 4% and 12% of salary.

In addition to the JPPP, the Group participates in three final salary schemes in the Republic of Ireland. Two are multi employer industry schemes and the third is for a small number of employees in Limerick. There are no financial implications to the Group if these schemes are terminated. The Group also inherited a number of defined contribution schemes.

The Group has launched a defined contribution scheme in the Republic of Ireland, the Johnston Press (Ireland) Pension Scheme (JPIPS). All employees not members of a pension scheme or those employees who are members of other defined contribution schemes have been invited to join the JPIPS. Employer contribution rates vary between 3% to 12%.

Mr T J Bowdler participates in the JPPP for a pension of two-thirds of the scheme specific salary limit. He also receives a contribution which is a total cost to the Company of 50% of salary per annum including the tax cost. Throughout 2008, this contribution has been paid by way of a salary supplement taking account of the employer NIC cost. These pension provisions were revised during 2002 and in order to compensate Mr Bowdler for the changes to his detriment, the Annual General Meeting in that year approved an award of 169,896 Restricted Shares to Mr Bowdler. This award was increased in 2008 to 178,669 to reflect the discount factor of the Rights Issue completed in June 2008. He is entitled to acquire a proportion of these shares every six months for a cost of £1 until 2009. No performance conditions apply to the Restricted Shares as they were granted to replace reduced pension rights. A share price underpin at the time of his retirement of 284.57p, reduced to 209.02p by the discount element of the Rights Issue, was agreed as part of the revised arrangements in 2002. Including employers NIC, it is anticipated that there will be a payment close to £400,000 on his retirement.

Mr D Cammiade is an uncapped member of the executive section of the JPPP. Mr S R Paterson does not participate in the JPPP and the Company has agreed instead to make a contribution equivalent to 25% of his basic salary into his private pension scheme. With effect from 1 January 2005, the Company has also agreed to match any additional annual contribution made by Mr S R Paterson, up to a maximum of 5% of salary. Mr J A Fry is entitled to receive a percentage of salary into his private pension scheme. For the first year this will be 30%, increasing by 1.25% per annum each year up to a maximum of 40%.

The changes to the pension regime which came into effect in April 2006 have not resulted in an increase in the overall cost of pension provision for the Group.

**Non-Executive Directors**

All Non-Executive Directors have specific terms of engagement and their remuneration is determined by the Board within the limits set by the Articles of Association and based on 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-Executives receive further fees for additional work performed for the Company in respect of the chairing of the Remuneration Committee and Audit Committee, together with the responsibilities as Chairman and Senior Independent Director. The Chairman of the Audit Committee, Remuneration Committee and Senior Independent Director each receive an additional £7,500 per annum. The Chairman's fee is £130,000 per annum.

Non-Executive Directors cannot participate in the bonus plans or in any of the Company's Share Schemes and are not eligible to join the Company's pension schemes.

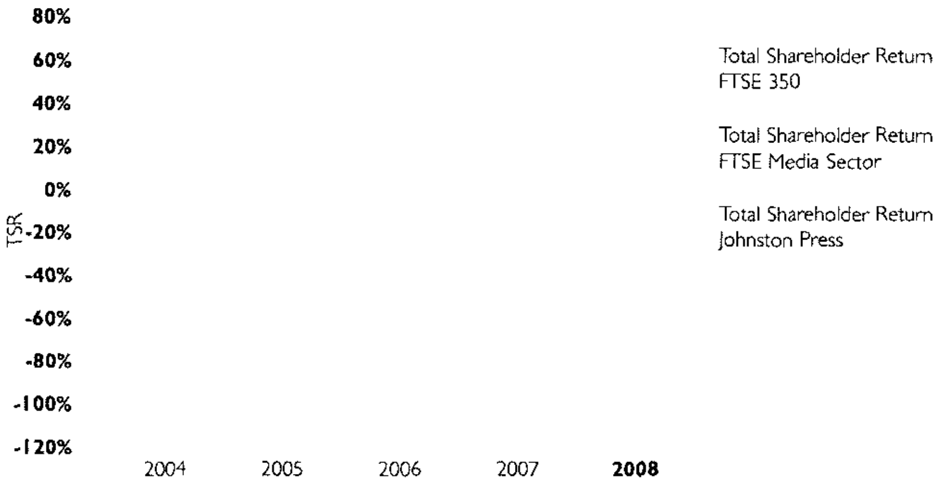
**Senior Executives Below Board Level**

The four elements of the remuneration package are described on page 37. The salaries are determined by the Executive Directors after consultation with the Remuneration Committee based on individual roles and responsibilities. The targets for the performance related bonuses are primarily profit related but also include personal performance based targets. The maximum bonus for 2008 was 100% of salary with a compulsory deferral of 30% of the bonus. 75% of the 100% maximum bonus relates to the profit based element and 25% for KPI's. The majority of the Executives are members of the defined benefit section of the JPPP. The Company contributes a maximum of 12% of salary to those who are members of the defined contribution scheme. The Performance Share Plan and other share scheme benefits and performance conditions are as described for the Executive Directors except the maximum level of PSP awards to date has been 50% of salary.

**Performance Graph**

The following graph shows the Company's performance, measured by total shareholder return, compared with the performance of the FTSE 350 and FTSE Media Sector also measured by total shareholder return. The FTSE 350 and FTSE 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.

**5 Year Return Index for Johnston Press as at 31 December 2008**




**Directors' Remuneration - Audited Section**

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

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Emoluments | **1,686** | 2,750 |
| Gains on exercise of share options* | **17** | 90 |
| Money purchase contributions | **108** | 88 |
| | **1,811** | 2,928 |

* No shares were sold as part of the exercise of the share options.

b) Directors' Emoluments

| | Salary/Fees | | Taxable Benefits | | Performance Related Bonus | | Total Emoluments | |
|---|---|---|---|---|---|---|---|---|
| | **2008 £'000** | 2007 £'000 | **2008 £'000**[1] | 2007 £'000 | **2008 £'000**[2] | 2007 £'000 | **2008 £'000** | 2007 £'000 |
| **Chairman** | | | | | | | | |
| R G Parry | **130** | 115 | — | — | — | — | **130** | 115 |
| **Executive Directors** | | | | | | | | |
| T J Bowdler - resigned 31 December 2008 | **573** | 556 | **11** | 16 | — | 516 | **584** | 1,088 |
| S R Paterson | **361** | 350 | **2** | 1 | — | 304 | **363** | 655 |
| D Cammiade | **324** | 314 | **18** | 15 | — | 291 | **342** | 620 |
| **Non-Executive Directors** | | | | | | | | |
| P E B Cawdron | **51** | 53 | — | — | — | — | **51** | 53 |
| Lord Gordon of Strathblane - resigned 27 April 2007 | — | 12 | — | — | — | — | — | 12 |
| L F Hinton - resigned 11 December 2007 | — | 37 | — | — | — | — | — | 37 |
| H C M Johnston - resigned 27 April 2007 | — | 12 | — | — | — | — | — | 12 |
| F P M Johnston | **40** | 37 | — | — | — | — | **40** | 37 |
| M A King | **40** | 37 | — | — | — | — | **40** | 37 |
| S J Waugh - resigned 30 January 2009 | **48** | 45 | — | — | — | — | **48** | 45 |
| I S M Russell | **48** | 39 | — | — | — | — | **48** | 39 |
| A R Marshall - appointed 27 June 2008 | **20** | — | — | — | — | — | **20** | — |
| G E Patterson - appointed 7 July 2008 | **20** | — | — | — | — | — | **20** | — |
| | **1,655** | 1,607 | **31** | 32 | — | 1,111 | **1,686** | 2,750 |

1 *Taxable benefits* include car, telephone, life insurance and health insurance.
2 The Executive Directors waived their entitlement to performance related bonuses in 2008.

# Directors' Remuneration Report continued

c) Pension Benefits

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

| | Years of pensionable service | Total accrued pension at 31.12.07 £'000 | Increase in accrued pension during year £'000 | Transfer value of increase £'000 | **Total accrued pension at 31.12.08 £'000** | Transfer value of total accrued pension at 31.12.07 £'000 | **Transfer value of total accrued pension at 31.12.08 £'000** | Increase in value of pension during year £'000 |
|---|---|---|---|---|---|---|---|---|
| T J Bowdler | 15 | 70 | 7 | 61 | **77** | 1,324 | **1,392** | 68 |
| D Cammiade | 18 | 131 | 11 | 37 | **142** | 1,877 | **1,969** | 92 |

Mr D Cammiade was a member of the Group Pension Schemes before the introduction of the pensionable salary cap in May 1989. The pension arrangements for Mr T J Bowdler were varied in 2002 and the above figures now only represent his total final salary benefit. Further details of his pension provision are explained on page 42. In addition to the above, the Group funded £108,300 into a defined contribution scheme for Mr S R Paterson and paid a salary supplement to Mr Bowdler, the total cost to the Group being £286,500. All Executive Directors have life cover of four times basic salary.

d) Share Schemes

| | **At 01.01.08** | Number of options during the year: Granted/ Awarded | Number of options during the year: Rights Issue Adjustment | Exercised | Lapsed | **At 31.12.08** | Market price p | On exercise Gains **2008 £'000** | On exercise Gains 2007 £'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Executive Share Option Scheme** | | | | | | | | | |
| T J Bowdler | **143,617** | — | — | — | 143,617 | — | | | |
| S R Paterson | **64,530** | — | — | — | 64,530 | — | | | |
| D Cammiade | **100,368** | — | — | — | 100,368 | — | | | |
| **Savings Related Scheme** | | | | | | | | | |
| T J Bowdler | **2,355** | — | 851 | — | — | **3,206** | | | |
| S R Paterson | **5,399** | 25,531 | — | — | 5,399 | **25,531** | | | |
| D Cammiade | **12,306** | 44,547 | 2,299 | — | 5,944 | **53,208** | | | |
| **Restricted Share Scheme** | | | | | | | | | |
| T J Bowdler | **36,408** | — | 8,773 | 28,659 | — | **16,522** | 57.63 | **17** | 90 |
| **Share Matching Plan** | | | | | | | | | |
| T J Bowdler | **47,328** | — | 10,534 | — | 18,181 | **39,681** | | | |
| S R Paterson | **29,342** | — | 7,056 | — | 9,817 | **26,581** | | | |
| D Cammiade | **25,507** | — | 5,878 | — | 9,244 | **22,141** | | | |
| **Performance Share Plan** | | | | | | | | | |
| T J Bowdler | **242,911** | — | 87,799 | — | — | **330,710** | | | |
| S R Paterson | **152,945** | 961,920 | 55,281 | — | — | **1,170,146** | | | |
| D Cammiade | **137,202** | 862,912 | 49,591 | — | — | **1,049,705** | | | |

The above options are exercisable as follows:

T J Bowdler

**Savings Related Scheme**

3,206 at a price of 291.60p between 01.11.2008 and 30.04.2009

S R Paterson

**Savings Related Scheme**

25,531 at a price of 37.6p between 01.11.2011 and 30.04.2012

D Cammiade

**Savings Related Scheme**

8,661 at a price of 204.93p between 01.11.2009 and 30.04.2010

44,547 at a price of 37.6p between 01.11.2013 and 30.04.2014

d) Share Schemes (continued)
The share options within the Restricted Share Scheme are exercisable six monthly between 16 May 2003 and 16 May 2009 in equal tranches at a price of £1 on each exercise.

The matching awards granted under the Share Matching Plan are exercisable for a nominal total payment of £1 as shown below.
The matching factor ranges from 0.5 times to 1.5 times the number of shares granted for awards made before 2006 and from 2006 onwards the matching factor ranges from 0.5 times to 2 times.

| | |
|---|---|
| 24,488 | between 30.05.2009 and 29.05.2016 - market price on award on 30 May 2006 332.73p |
| 63,915 | between 30.03.2010 and 29.03.2017 - market price on award on 30 May 2007 331.63p |

The awards within the Performance Share Plan are exercisable at nil cost at the end of the three year vesting period.
The breakdown by individual is shown above and the total awards to the Executive Directors for each year are as follows:

| | |
|---|---|
| 351,675 | awards will vest on 06.06.2009 - market price on award on 6 June 2006 336.96p |
| 374,054 | awards will vest on 05.06.2010 - market price on award on 5 June 2007 326.31p |
| 1,824,832 | awards will vest on 25.09.2011 - market price on award on 25 September 2008 37.5p |

The options, matching awards and performance shares listed above, other than those in the Restricted Share Scheme and the Savings Related Scheme, are only exercisable subject to the level of achievement of the performance criteria denoted in the Directors' Remuneration Report. All awards and market prices pre 2008 have been amended to reflect the discount factor in the Rights Issue.

The middle market price of the Ordinary Shares, adjusted for the discount element of the Rights Issue, was as follows:

| | | |
|---|---|---|
| On 1 January 2008 | 201.99p | Highest price during year 201.99p |
| On 31 December 2008 | 12.00p | Lowest price during year 6.56p |

This Report was approved by the Board of Directors on 11 March 2009 and signed on its behalf by:

Peter Cawdron

# Directors' 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, together with associated websites, as well as specialist publications in print, online or via mobile technologies.

**Review of Business**
The results for the year 2008 are set out in the Group Income Statement on page 51. The Group loss for the year before taxation was £429,258,000 (2007: profit of £124,714,000) which results in a net loss for the year of £365,470,000 (2007: profit of £113,555,000). 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 7 to 19.

**Dividends**
No interim dividend was paid and the Directors recommend no final dividend for the year. In the short term, the Board believes the most important use of available cash is to reduce the Group's net debt position. The preference dividend was paid on 30 June and 31 December 2008.

**Share Capital**
Details of share capital are shown in note 28.

**Environmental Policy**
The Board acknowledges that environmental protection is one of the Company's business responsibilities. It aims for a continuous improvement in the Company's environmental performance and to comply with all relevant regulations. Following an internal audit and an assessment by external advisers, the Group put in place, and there is in force, a documented environmental policy to monitor performance and to take action where appropriate. Further details of this policy are provided in the Corporate Social Responsibility statement.

**Donations**
Charitable donations amounted to £41,000 (2007: £136,000). There were no payments for political purposes.

**Supplier Payment Policy**
The Company'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 31 December 2008 were equivalent to 17 days purchases (2007 - 27 days), based on the average daily amount invoiced by suppliers during the year.

**Financing Policy and Derivatives**
The Group's policies are set out in notes 21 to 23 and note 34, these also including details of financial instruments and derivatives.

**Auditors**
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 auditors are 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 auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

**Forward-looking Statements**
Where the Directors' Report (including the performance highlights, business review, operational review, performance review, and 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 be elected at the first Annual General Meeting after their appointment. In addition, any Director who has served more than 9 years automatically offers himself/herself for re-election every year.

Given that Mr R G Parry and Mr G E Patterson are resigning from the Board at the Annual General Meeting, the Directors who are retiring and offering themselves for re-election are Mr F P M Johnston and Mr P E B Cawdron. Directors appointed during the year and who are seeking election are Mr J A Fry and Mr A R Marshall.

The Directors during the year and their direct interests in the share capital of the Company were as follows:

Ordinary Shares of 10p each

| | % of Share capital | 31 December 2008 | 31 December 2007 Pre Rights Issue |
|---|---|---|---|
| R G Parry | 0.04 | **252,920** | 116,618 |
| T J Bowdler (resigned 31 December 2008) | | | 516,039 |
| J A Fry | — | — | — |
| S R Paterson | 0.04 | **234,676** | 108,653 |
| D Cammiade | 0.03 | **196,710** | 81,645 |
| P E B Cawdron | — | **19,600** | 9,800 |
| F P M Johnston | 1.64 | **10,469,386** | 12,717,696 |
| M A King | — | **3,600** | 1,800 |
| S J Waugh | — | **8,810** | 4,405 |
| I S M Russell | 0.13 | **815,420** | 7,710 |
| A R Marshall | — | — | — |
| G E Patterson | — | — | — |

Mr A R Marshall, Mr G E Patterson and Mr J A Fry were appointed Directors on 27 June 2008, 7 July 2008 and 5 January 2009 respectively. Mr S J Waugh resigned as a Director on 30 January 2009 and Mr R G Parry and Mr G E Patterson have announced their resignations effective from the Annual General Meeting on 24 April 2009. Mr T J Bowdler resigned on 31 December 2008.

In addition to the shareholdings shown above, which are all held beneficially, Mr J A Fry, Mr T J Bowdler, Mr S R Paterson and Mr D Cammiade hold an interest in 8,895,972 (2007: 669,793) shares by virtue of their status as potential beneficiaries of the Johnston Press Employee Share Trust.

Since 31 December 2008, Mr S R Paterson and Mr D Cammiade have both purchased 3,370 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 authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 28. On 30 May 2008 the Company placed 31,486,988 ordinary shares with Usaha Tegas for a consideration of 135.75p per share. In addition, on 24 June 2008, the Company successfully completed a 1 for 1 Rights Issue at a price of 53p per share, increasing the issued share capital from 319,869,883 to 639,739,766 shares. 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% of the total issued nominal value of all share capital.

There are no specific restrictions on the size of a holding nor 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 32.

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 Combined Code, 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 the Main Board Terms of Reference, copies of which are available on request, and the Corporate Governance Statement on pages 32 to 36.

Under its Articles of Association, the Company has authority, given at the Extraordinary General Meeting held in May 2008, to issue 213,246,588 ordinary shares.

**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 | Nature of Holding |
|---|---|---|---|
| Pan Ocean Management Ltd (on behalf of Usaha Tegas) | 20.0 | 127,947,952 | Direct |
| Orbis Investment Management Ltd | 10.1 | 64,882,329 | Indirect |
| Harris Associates LP | 9.0 | 57,666,365 | Direct |
| Cedar Rock Capital Ltd | 6.2 | 39,609,776 | Indirect |
| Jupiter Asset Management Ltd | 4.5 | 28,997,022 | Indirect |
| Legal & General Group of Companies | 4.1 | 26,116,637 | Direct |
| FMR Corp | 3.3 | 20,964,588 | Indirect |

# Directors' Report continued

**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.

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 within the Group, and to protect the interests of existing members of the staff who are disabled.

The Group is committed to 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.

**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 in control the Group's lenders, both the Private Placement note holders and the various Banks, have the option to declare all amounts outstanding repayable.

**Directors' Liability**

As permitted by the Companies Act 2006, 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 enclosed with this Annual Report.

**Special Business**

Three resolutions are set out under special business in the notice of this year's Annual General Meeting. The first of these resolutions will be proposed as an ordinary resolution and the others as special resolutions.

The purpose of the first of these resolutions is to renew the Directors' authority to allot shares up to a maximum nominal amount of £21,324,658 representing 33.33% of the existing issued ordinary share capital. The Directors have, however, no current intention of exercising that authority.

The second resolution relates to the limited power given to the Directors to allot equity securities for cash representing up to 5% of the existing issued ordinary share capital, without the statutory pre-emption provisions of the Companies Act 1985 applying. This power, which accords with normal practice, 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.

The third 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. This resolution 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 when they consider it to be in the best interests of shareholders generally and 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 Companies Act 1985 and the Financial Services Authority.

**Auditors**

A resolution to re-appoint Deloitte LLP as the Company's auditors will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

P R Cooper ACA
Secretary
53 Manor Place
Edinburgh
EH3 7EG
11 March 2009

# Directors' Responsibility Statement

We confirm to the best of our knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, 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 they face.

By Order of the Board

J A Fry
Chief Executive Officer
11 March 2009

S R Paterson
Chief Financial Officer
11 March 2009

# Independent Auditors' Report to the members of Johnston Press plc

We have audited the group and parent company financial statements (the "financial statements") of Johnston Press plc for the year ended 31 December 2008 which comprise the Group Income Statement, the Group Statement of Recognised Income and Expense, the Group Reconciliation of Shareholders' Equity, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement and the related notes 1 to 45. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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 auditors**
The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Group and Company Statements of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business Review that is cross referred from the Review of Business section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

**Basis of audit opinion**
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

**Opinion**
In our opinion:
- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2008;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

**Emphasis of matter – Going concern**
In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 3 to the financial statements concerning the company's and group's ability to continue as a going concern. These include the following uncertainties:

- While the group is currently forecasting to operate within its current debt covenants this is particularly dependent on the successful disposal of the Republic of Ireland businesses.
- To mitigate the increased risk of a covenant breach should the disposal not be concluded on satisfactory terms the group has commenced negotiations with the current providers of debt over the terms relating to the current facilities.

These conditions, along with other matters explained in note 3 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's and group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company and group were unable to continue as a going concern.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
Edinburgh
United Kingdom
11 March 2009

# Group Income Statement for the year ended 31 December 2008

| | Notes | 2008 Before non-recurring items £'000 | 2008 Non-recurring items £'000 | 2008 Total £'000 | 2007 Before non-recurring items Restated £'000 | 2007 Non-recurring items Restated £'000 | 2007 Total Restated £'000 |
|---|---|---|---|---|---|---|---|
| **Revenue** | 6 | 531,899 | — | 531,899 | 607,504 | — | 607,504 |
| Cost of sales | 6 | (294,787) | — | (294,787) | (311,756) | — | (311,756) |
| **Gross profit** | | 237,112 | — | 237,112 | 295,748 | — | 295,748 |
| Operating expenses | 6/7 | (108,698) | (16,675) | (125,373) | (117,606) | (6,829) | (124,435) |
| Impairment of intangibles | 7/15 | — | (417,522) | (417,522) | — | — | — |
| Intangible adjustment | 7/15 | — | (93,893) | (93,893) | — | (5,874) | (5,874) |
| Total operating expenses | | (108,698) | (528,090) | (636,788) | (117,606) | (12,703) | (130,309) |
| **Operating profit/(loss)** | 8 | 128,414 | (528,090) | (399,676) | 178,142 | (12,703) | 165,439 |
| Investment income | 10 | 807 | — | 807 | 607 | — | 607 |
| Net finance income on pension assets/liabilities | 11a | 3,489 | — | 3,489 | 4,514 | — | 4,514 |
| Finance costs | 11b | (33,963) | — | (33,963) | (45,922) | — | (45,922) |
| Share of results of associates | 18 | 85 | — | 85 | 76 | — | 76 |
| **Profit/(loss) before tax** | | 98,832 | (528,090) | (429,258) | 137,417 | (12,703) | 124,714 |
| Tax | 12 | (26,577) | 90,365 | 63,788 | (38,876) | 27,717 | (11,159) |
| **Profit/(loss) for the year** | | 72,255 | (437,725) | (365,470) | 98,541 | 15,014 | 113,555 |
| **Earnings per share (p)** | | | | | | | |
| Earnings per share - Basic | 14 | 13.41 | (83.84) | (67.99) | 25.08 | 3.83 | 28.91 |
| Earnings per share - Diluted | 14 | 13.41 | (83.84) | (67.99) | 25.04 | 3.82 | 28.86 |

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

The earnings per share for 2007 has been restated to reflect the discount element of the Rights Issue.

# Group Statement of Recognised Income and Expense for the year ended 31 December 2008

| | Revaluation Reserve £'000 | Hedging and Translation Reserve £'000 | Retained Earnings £'000 | Total £'000 |
|---|---|---|---|---|
| Loss for the year | — | — | **(365,470)** | **(365,470)** |
| Actuarial loss on defined benefit pension schemes (net of tax) | — | — | **(8,785)** | **(8,785)** |
| Revaluation adjustment | **(63)** | — | **63** | — |
| Exchange differences on translation of foreign operations | — | **19,019** | — | **19,019** |
| Change in fair value of interest rate swaps | — | **(11,504)** | — | **(11,504)** |
| Change in fair value of cross currency swaps | — | **10,687** | — | **10,687** |
| Deferred taxation | — | **228** | **(323)** | **(95)** |
| **Total recognised income and expense** | **(63)** | **18,430** | **(374,515)** | **(356,148)** |

**For the year ended 31 December 2007**

| | Revaluation Reserve £'000 | Hedging and Translation Reserve £'000 | Retained Earnings £'000 | Total £'000 |
|---|---|---|---|---|
| Profit for the year | — | — | 113,555 | 113,555 |
| Actuarial gain on defined benefit pension schemes (net of tax) | — | — | 16,063 | 16,063 |
| Revaluation adjustment | (63) | — | 63 | — |
| Exchange differences on translation of foreign operations | — | 2,245 | — | 2,245 |
| Change in fair value of interest rate swaps | — | (2,406) | — | (2,406) |
| Change in fair value of cross currency swaps | — | 4,691 | — | 4,691 |
| Deferred taxation | — | (686) | — | (686) |
| Change in deferred tax rate to 28% | — | 175 | (338) | (163) |
| **Total recognised income and expense** | **(63)** | **4,019** | **129,343** | **133,299** |

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

# Group Reconciliation of Shareholders' Equity for the year ended 31 December 2008

| | 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 | 29,944 | 332,750 | 8,679 | 2,459 | (3,435) | 8,131 | 305,247 | 683,775 |
| **Total recognised income and expense** | — | — | — | **(63)** | — | **18,430** | **(374,515)** | **(356,148)** |
| Recognised directly in equity | | | | | | | | |
| Dividends (note 13) | — | — | — | — | — | — | (19,419) | (19,419) |
| New share capital subscribed | 35,136 | 170,068 | — | — | — | — | — | 205,204 |
| Own shares purchased | — | — | — | — | (977) | — | — | (977) |
| Provision for share-based payments (note 32) | — | — | 1,385 | — | — | — | — | 1,385 |
| Net changes directly in equity | 35,136 | 170,068 | 1,385 | — | (977) | — | (19,419) | 186,193 |
| Total movements | 35,136 | 170,068 | 1,385 | (63) | (977) | 18,430 | (393,934) | (169,955) |
| **Equity at the end of the year** | **65,080** | **502,818** | **10,064** | **2,396** | **(4,412)** | **26,561** | **(88,687)** | **513,820** |
| **For the year ended 31 December 2007** | | | | | | | | |
| Opening balances | 29,893 | 331,289 | 4,265 | 2,522 | (1,628) | 4,112 | 203,360 | 573,813 |
| **Total recognised income and expense** | — | — | — | **(63)** | — | **4,019** | **129,343** | **133,299** |
| Recognised directly in equity | | | | | | | | |
| Dividends (note 13) | — | — | — | — | — | — | (27,456) | (27,456) |
| New share capital subscribed | 51 | 1,461 | — | — | — | — | — | 1,512 |
| Provision for share-based payments (note 32) | — | — | 2,607 | — | — | — | — | 2,607 |
| Reclassification | — | — | 1,807 | — | (1,807) | — | — | — |
| Net changes directly in equity | 51 | 1,461 | 4,414 | — | (1,807) | — | (27,456) | (23,337) |
| Total movements | 51 | 1,461 | 4,414 | (63) | (1,807) | 4,019 | 101,887 | 109,962 |
| **Equity at the end of the year** | **29,944** | **332,750** | **8,679** | **2,459** | **(3,435)** | **8,131** | **305,247** | **683,775** |

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

# Group Balance Sheet at 31 December 2008

| | Notes | 2008 £'000 | 2007 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 15 | **864** | 130,010 |
| Other intangible assets | 15 | **1,057,022** | 1,373,614 |
| Property, plant and equipment | 16 | **260,498** | 273,381 |
| Available for sale investments | 17 | **2,712** | 2,712 |
| Interests in associates | 18 | **60** | 39 |
| Trade and other receivables | 21 | **18** | 31 |
| Derivative financial instruments | 23/34 | **36,488** | 4,192 |
| | | **1,357,662** | 1,783,979 |
| **Current assets** | | | |
| Inventories | 20 | **6,557** | 4,334 |
| Trade and other receivables | 21 | **149,268** | 89,533 |
| Cash and cash equivalents | | **20,135** | 17,470 |
| Derivative financial instruments | 23/34 | **303** | — |
| | | **176,263** | 111,337 |
| **Total assets** | | **1,533,925** | 1,895,316 |
| **Current liabilities** | | | |
| Trade and other payables | 21 | **54,319** | 77,120 |
| Tax liabilities | | **99,705** | 17,612 |
| Obligations under finance leases | 26 | **13** | — |
| Retirement benefit obligation | 24 | **5,980** | 3,300 |
| Borrowings | 22 | **7,864** | 15,714 |
| | | **167,881** | 113,746 |
| **Non-current liabilities** | | | |
| Borrowings | 22 | **510,311** | 672,834 |
| Derivative financial instruments | 23/34 | **7,615** | 16,082 |
| Retirement benefit obligation | 24 | **12,231** | 9,843 |
| Deferred tax liabilities | 25 | **318,692** | 395,320 |
| Trade and other payables | 21 | **1,802** | 2,094 |
| Long term provisions | 27 | **1,573** | 1,622 |
| | | **852,224** | 1,097,795 |
| **Total liabilities** | | **1,020,105** | 1,211,541 |
| **Net assets** | | **513,820** | 683,775 |
| **Equity** | | | |
| Share capital | 28 | **65,080** | 29,944 |
| Share premium account | | **502,818** | 332,750 |
| Share-based payments reserve | | **10,064** | 8,679 |
| Revaluation reserve | | **2,396** | 2,459 |
| Own shares | | **(4,412)** | (3,435) |
| Hedging and translation reserve | | **26,561** | 8,131 |
| Retained earnings | | **(88,687)** | 305,247 |
| **Total equity** | | **513,820** | 683,775 |

The financial statements were approved by the Board of Directors and authorised for issue on 11 March 2009.

They were signed on its behalf by:

John Fry

*J A Fry, Chief Executive Officer* S R Paterson, Chief Financial Officer

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

# Group Cash Flow Statement for the year ended 31 December 2008

| | Notes | 2008 £'000 | 2007 £'000 |
|---|---|---|---|
| Cash generated from operations | 30 | 144,548 | 193,846 |
| Income tax paid | | (17,635) | (20,211) |
| **Net cash from operating activities** | | 126,913 | 173,635 |
| **Investing activities** | | | |
| Interest received | | 807 | 607 |
| Dividends received from associated undertakings | | 64 | 70 |
| Proceeds on disposal of property, plant and equipment | | 1,791 | 5,461 |
| Proceeds on disposal of businesses | | — | 114 |
| Purchases of property, plant and equipment | | (23,221) | (31,027) |
| Acquisition of businesses | 29 | (1,530) | (11,413) |
| Net cash in businesses acquired | 29 | 51 | 1 |
| Net cash in subsidiaries sold | | — | (10) |
| **Net cash used in investing activities** | | (22,038) | (36,197) |
| **Financing activities** | | | |
| Dividends paid | | (19,419) | (27,456) |
| Interest paid | | (33,053) | (46,538) |
| Interest paid on finance leases | | (4) | (5) |
| Repayments of borrowings | | (184,467) | (77,830) |
| Repayment of loan notes | | — | (8,272) |
| Repayment of senior notes | | (61,644) | — |
| Issue of shares | | 42,744 | 1,512 |
| Net proceeds from rights issue | | 162,460 | — |
| Purchase of own shares | | (977) | — |
| (Decrease)/increase in bank overdrafts | | (7,850) | 13,985 |
| **Net cash used in financing activities** | | (102,210) | (144,604) |
| Net increase/(decrease) in cash and cash equivalents | | 2,665 | (7,166) |
| Cash and cash equivalents at the beginning of year | | 17,470 | 24,636 |
| **Cash and cash equivalents at the end of year** | | 20,135 | 17,470 |

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

# Notes to the Consolidated Financial Statements for the year ended 31 December 2008

## 1. General information

Johnston Press is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on the back page. The nature of the Group's operations and its principal activities are set out in note 5 and in the Business Review on pages 7 to 19.

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

In the current year, two interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* and IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The adoption of these interpretations has not led to any changes in the Group's accounting policies.

At the date of the 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)/IAS 27 (amended) | *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* |
| IFRS 2 (amended) | *Share-based Payment – Vesting Conditions and Cancellations* |
| IFRS 3 (revised 2008) | *Business Combinations* |
| IFRS 8 | *Operating Segments* |
| IAS 1 (revised 2007) | *Presentation of Financial Statements* |
| IAS 23 (revised 2007) | *Borrowing Costs* |
| IAS 27 (revised 2008) | *Consolidated and Separate Financial Statements* |
| IAS 32 (amended)/IAS 1 (amended) | *Puttable Financial Instruments and Obligations Arising on Liquidation* |
| IFRIC 12 | *Service Concession Arrangements* |
| IFRIC 15 | *Agreements for the Construction of Real Estate* |
| IFRIC 16 | *Hedges of a Net Investment in a Foreign Operation* |
| Improvements to IFRSs (May 2008) | |

The Directors anticipate that the adoption of these Standards and the Interpretations in future periods will have no material impact on the financial statements of the Group except for:

- additional segment disclosures when IFRS 8 comes into effect for periods commencing on or after 1 January 2009;
- treatment of acquisition of subsidiaries when IFRS 3 comes into effect for business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 July 2009.

## 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. 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 31 December each year. 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 7 to 19. In addition, note 34 to the financial statements include 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.

### Going concern

The financial statements have been prepared on a going concern basis which the Directors believe to be appropriate for the reasons set out in the *Liquidity section of the Business Review* on page 18.

## 3. Significant Accounting Policies (continued)

### Going concern (continued)

The conditions described in the Business Review indicate the existence of a material uncertainty which may cast significant doubt on the Company's and the Group's ability to continue as a going concern and therefore the Company and the Group may be unable to continue to realise assets and discharge liabilities in the normal course of business. These financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

### Non-recurring items

Non-recurring items include significant exceptional transactions, the fundamental restructuring of businesses and material one-off items such as the disposal of a significant property, together with the associated tax impact. The Company consider such items are material to the Income Statement and their separate disclosure is necessary for a relevant understanding of the Group's financial performance.

### 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, plus any costs directly attributable to the business combination. 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 resale in accordance with IFRS 5 Non Current Assets Held for Sale and Discounted Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

### Publishing titles

The Group's principal intangible assets are publishing titles. The Group does not capitalise internally generated goodwill or 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. Every six months impairment tests are undertaken, as outlined with goodwill, 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 based on the net present value of estimated future cash flows discounted at the Group's pre-tax weighted average cost of capital. 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.

### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least every six months. Any impairment is recognised immediately in profit or loss and cannot be subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment every six months, 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 any goodwill allocated to the unit, second to 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.

Goodwill can also arise as an equal and opposite offset to deferred tax on publishing titles acquired after 1 January 2005 under the technical provisions of IAS 12.

On disposal of a subsidiary or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

### 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.

Advertising revenue is recognised on publication and circulation revenue is recognised at the point of sale. Printing revenue is recognised when the service is provided.

The trading for both years in these financial statements comprised 52 weeks.

### 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 Balance Sheet date, monetary assets and liabilities *that are denominated in* foreign currencies are retranslated at the rates prevailing on the Balance Sheet date. 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.

### 3. Significant Accounting Policies (continued)

**Foreign currencies (continued)**
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 in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also 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 Balance Sheet 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.

Goodwill and 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.

**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 | 15% on written down value<br>6.67%, 10%, 20%, 25% and 33% straight line basis |
| Motor vehicles | 25% straight line basis |

**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 Balance Sheet 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, net of transaction costs.

Subsequent to initial recognition, investments in subsidiaries are measured at cost and investments in associates are accounted for using the equity method in the Group financial statements and the cost method in the Company financial statements. Therefore, the Group financial statements include the Group's share of the profit and net assets of associated undertakings.

**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 balance sheet 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.

## 3. Significant Accounting Policies (continued)

**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, cross currency swaps and forward foreign exchange contracts. The Group does not use derivative financial instruments for speculative purposes.

The Group designates certain derivatives as either hedges of the fair value of recognised liabilities (fair value hedges) or hedges of foreign currency risk (cash flow hedges).

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at fair value at each reporting date. The accounting treatment of the resulting gain or loss of fair value hedges and cash flow hedges is discussed below.

The fair value of hedging derivatives is classified as a non-current asset or liability if the remaining maturity of the hedge relationship is more than 12 months and as a current asset or liability if the remaining maturity of the hedge relationship is less than 12 months.

**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 host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

**Hedge accounting**
The Group designates its hedging instruments as either fair value hedges or cash flow hedges.

At the inception of the hedge relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on a six monthly basis, the Group documents whether the hedging instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

**Fair value hedge**
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement immediately as they arise, together with any change in the fair value of the hedged item that is attributable to the hedged risk.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

**Cash flow hedge**
The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as part of other expenses or other income.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

**Hedges of net investments in foreign operations**
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity in the translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Gains and losses deferred in the translation reserve are recognised in profit or loss on disposal of the foreign operation.

**Debt and equity instruments issued by the Company**
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.

**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.

# Notes to the Consolidated Financial Statements for the year ended 31 December 2008 - continued

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

**Leases**
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Assets held under the finance leases are capitalised within property, plant and equipment and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the Income Statement over the period of the leases on the effective interest method. All other leases are classified as operating leases and rentals are charged on a straight line basis over the lease term.

**Development grants**
Development grants for revenue expenditure are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense. Grants relating to property, plant and equipment are treated as deferred income and released to the Income Statement over the expected useful lives of the related assets.

**Operating (loss)/profit**
Operating (loss)/profit 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.

**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 Balance Sheet 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 has been 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 balance sheet 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 Recognised Income and Expense. 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 Balance Sheet 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.

## 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.

**Deferred tax balances on publishing titles and properties not eligible for tax allowances**

Deferred tax amounting to £288,460,000 at 31 December 2008 (2007 - £377,656,000), has been provided pursuant to IAS 12 (Income Taxes) on the values of the publishing titles in the Group's Balance Sheet and in 2007 on the value of properties that are not eligible for tax allowances. In 2008 the amount relating to deferred tax on the value of properties of £5,389,000 has been classified into a separate heading.

Management has considered it appropriate to provide this entire deferred tax balance in order to comply with the technical requirements of IAS 12 despite the fact that management cannot foresee any future circumstances in which such a tax liability would arise. If a decision was taken to dispose of any of the assets concerned, it is unlikely that the titles would be sold separately from the legal entities that own the assets. As such, management is confident that this tax provision will never be required to be paid. Representations have been made to the IASB on this matter, but in the meantime the deferred tax balance has been provided in order to comply with the technical provisions of the standard.

**Valuation of publishing titles on acquisition**

During the year the Group completed the acquisition described in note 29. 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 fair value attributed to the title acquired in 2008 is set out in note 29 and this value will be reviewed for impairment at a minimum twice annually in the future.

**Valuation of share-based payments**

The Group estimates the expected value of 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 32 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 Balance Sheet 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 goodwill and publishing titles**

Determining whether goodwill or publishing titles are impaired requires an estimation of the value in use of the cash generating units to which these assets are allocated. The value in use calculation requires the Group to identify appropriate cash generating units, to estimate the future cash flows expected to arise from each cash generating unit and a suitable discount rate in order to calculate present value. An impairment loss was identified in 2008 and provided for in the accounts. The carrying amount of goodwill was £864,000 at 31 December 2008 and the carrying amount of publishing titles was £1,057,022,000 at the same date. Details of the impairment reviews that the Group performs are provided in note 15.

**Valuation of pension liabilities**

The Group records in its Balance Sheet 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. This is determined each year based on the yield on corporate bonds
- the actual returns on investments experienced as compared to the expected rates used in the previous pension scheme valuation
- the actual rates of salary and pension increase as compared to the expected rates used in the previous valuation
- mortality assumptions.

Details of the assumptions used to determine the liability at 31 December 2008 are set out in note 24.

**Bad debt allowance**

The trade receivables balance recorded in the Group's Balance Sheet comprises large numbers of comparatively 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.

# Notes to the Consolidated Financial Statements for the year ended 31 December 2008 - continued

**5. Business and Geographical Segments**

For management purposes the Group has two business segments, newspaper publishing (in print and online) and contract printing.

The business operates in two geographical segments which are the United Kingdom and the Republic of Ireland. Revenue, profit and the carrying value of assets in the Republic of Ireland are less than 10 per cent in both the current year and prior year and so have not been disclosed separately.

**6. Segmental Analysis**

**a) Revenue**
An analysis of the Group's revenue is as follows:

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Newspaper publishing | **496,000** | 572,488 |
| Contract printing | **35,899** | 35,016 |
| Revenue sub total | **531,899** | 607,504 |
| Investment income | **807** | 607 |
| Total revenue | **532,706** | 608,111 |

The printing revenues excludes inter group revenue of £72 million (2007: £86 million). The revenues include £705,000 relating to the post acquisition trading of the acquisition referred to in note 29.

**b) Operating (loss)/profit**
An analysis of the Group's operating (loss)/profit is as follows:

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Newspaper publishing | **(399,272)** | 158,060 |
| Contract printing | **(404)** | 7,379 |
| | **(399,676)** | 165,439 |

Operating (loss)/profit in newspaper publishing above is net of non-recurring items including an impairment of intangible assets of £417,522,000 and an intangible adjustment of £93,893,000 referred to in note 15. It also includes a profit of £205,000 relating to the post acquisition trading of the acquisition referred to in note 29.

The 2008 results for contract printing were impacted by a non-recurring write down of the value of presses amounting to £7 million.

**c) Cost of sales and operating expenses**

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Cost of sales | **294,787** | 311,756 |
| **Operating expenses** | | |
| Distribution costs | **44,450** | 46,156 |
| Administrative expenses before non-recurring | **64,248** | 71,450 |
| | **108,698** | 117,606 |
| Non-recurring - administrative expenses | **16,675** | 6,829 |
| - impairment of intangible assets (note 15) | **417,522** | — |
| - intangible adjustment (note 15) | **93,893** | 5,874 |
| | **636,788** | 130,309 |

## 6. Segmental Analysis (continued)

### d) Other information

An analysis of the Balance Sheet and property, plant and equipment information by segments is as follows:

| | Newspaper publishing 2008 £'000 | Contract printing 2008 £'000 | Consolidated Total 2008 £'000 | Newspaper publishing 2007 £'000 | Contract printing 2007 £'000 | Consolidated Total 2007 £'000 |
|---|---|---|---|---|---|---|
| Additions to property, plant and equipment | **12,970** | **4,751** | **17,721** | 5,074 | 26,341 | 31,415 |
| Depreciation expense | **11,763** | **20,065** | **31,828** | 11,793 | 12,259 | 24,052 |
| **Balance sheet** | | | | | | |
| **Assets** | | | | | | |
| Intangibles | **1,057,886** | **—** | **1,057,886** | 1,503,624 | — | 1,503,624 |
| Property, plant and equipment | **78,320** | **182,178** | **260,498** | 79,538 | 193,843 | 273,381 |
| Interests in associates | **60** | **—** | **60** | 39 | — | 39 |
| Inventories | **556** | **6,001** | **6,557** | 525 | 3,809 | 4,334 |
| Trade and other receivables | **143,396** | **5,890** | **149,286** | 83,622 | 5,942 | 89,564 |
| Cash and cash equivalents | **20,135** | **—** | **20,135** | 17,453 | 17 | 17,470 |
| | **1,300,353** | **194,069** | **1,494,422** | 1,684,801 | 203,611 | 1,888,412 |
| **Unallocated corporate assets** | | | | | | |
| Available for sale investments | | | **2,712** | | | 2,712 |
| Derivative financial instruments | | | **36,791** | | | 4,192 |
| **Total consolidated assets** | | | **1,533,925** | | | 1,895,316 |
| **Liabilities** | | | | | | |
| Trade and other payables | **53,364** | **2,757** | **56,121** | 69,425 | 9,789 | 79,214 |
| Obligations under finance leases | **13** | **—** | **13** | — | — | — |
| | **53,377** | **2757** | **56,134** | 69,425 | 9,789 | 79,214 |
| **Unallocated corporate liabilities** | | | | | | |
| Tax liabilities | | | **99,705** | | | 17,612 |
| Borrowings | | | **518,175** | | | 688,548 |
| Derivative financial instruments | | | **7,615** | | | 16,082 |
| Retirement benefit obligations | | | **18,211** | | | 13,143 |
| Provisions | | | **1,573** | | | 1,622 |
| Deferred tax liability | | | **318,692** | | | 395,320 |
| **Total consolidated liabilities** | | | **1,020,105** | | | 1,211,541 |

## 7. Non-Recurring Items

Non-recurring items are as follows:

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Impairment of intangible assets (note 15) | **417,522** | — |
| Intangible asset adjustment (note 15) | **93,893** | 5,874 |
| Restructuring costs of acquired businesses | **—** | 502 |
| Restructuring costs of existing business | **9,675** | 7,361 |
| Write down of value of presses in existing businesses | **7,000** | — |
| Profit on sale of property in existing business | **—** | (1,884) |
| Loss on disposal of businesses | **—** | 850 |
| | **528,090** | 12,703 |

The intangible adjustment of £5,874,000 in 2007 relates to the reduction in the rate of corporation tax to 28% in the 2007 Finance Act. Deferred tax provided on the value of publishing titles in all acquisitions since 1 January 2005 has been offset by an equal and opposite entry in goodwill. With the reduction in the deferred tax provision to 28%, IAS 12 requires the tax adjustment to be flowed through the Income Statement. This leaves an unmatched goodwill balance which was only created by the original deferred taxation provision and, in line with IFRS, must be written off against operating profit. This non-recurring adjustment of £5,874,000 is offset by an equal and opposite deferred tax credit as shown in note 12. The adjustment in no way reflects any reduction in the underlying value of the Group's trading assets.

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

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Operating profit/(loss) is shown after charging/(crediting): | | |
| Depreciation of property, plant and equipment (note 16) | 31,828 | 24,052 |
| Profit on disposal of property, plant and equipment | (730) | (2,103) |
| Movement in allowance for doubtful debts (note 21) | 1,968 | 592 |
| Redundancy costs | 10,389 | 9,166 |
| Staff costs (note 9) | 198,014 | 209,466 |
| Auditors' remuneration: | | |
| Audit services | | |
| Company | 40 | 40 |
| Group and subsidiaries | 325 | 325 |
| Operating lease charges: | | |
| Plant and machinery | 629 | 989 |
| Other | 5,742 | 5,030 |
| Net foreign exchange gains | (80) | (168) |
| Cost of inventories recognised as expense | 53,840 | 65,540 |

Staff costs shown above included £1,811,000 (2007: £2,928,000) relating to remuneration of Directors.

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

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Review of Interim Financial Statements | 35 | 37 |
| Audit of circulation and distribution figures of the Group's newspaper titles | 302 | 278 |
| Taxation compliance | 89 | 86 |
| Taxation advisory | 134 | 59 |
| Rights Issue | 247 | — |
| Review of Group strategy | 1,000 | — |
| | 1,807 | 460 |

All non-audit services were approved by the Audit Committee. Audits of the circulation and distribution of the Group's paid-for and free newspapers are an industry requirement and with Deloitte undertaking this work, it assists with the year end audit of newspaper sales. The other large items above include the fees involved in Deloitte providing independent assurance services on the working capital report during the Rights Issue process and in addition, a team independent of the audit were engaged to assist with a review of Group strategy. The Audit Committee considers that these non-audit services have not impacted the independence of the audit process.

In addition, an amount of £22,000 (2007: £22,000) was paid to the external auditors for the audit of the Group's pension schemes.

**9. Employees**

The average monthly number of employees, including Executive Directors, key management personnel and the acquired businesses on a pro rata basis, was:

| | 2008 No. | 2007 No. |
|---|---|---|
| Editorial and photographic | 2,510 | 2,555 |
| Sales and distribution | 3,660 | 3,625 |
| Production | 1,004 | 1,520 |
| Administration | 747 | 830 |
| | 7,921 | 8,530 |

| | £'000 | £'000 |
|---|---|---|
| Staff costs: | | |
| Wages and salaries | 170,859 | 179,489 |
| Social security costs | 16,065 | 16,878 |
| Other pension costs (note 24) | 9,705 | 10,492 |
| Cost of share-based awards (note 32) | 1,385 | 2,607 |
| | 198,014 | 209,466 |

*Full details of the Directors'* emoluments, pension benefits and share options are included in the audited part of the Directors' Remuneration Report on pages 37 to 45.

## 10. Investment Income

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Income from available for sale investments | **3** | 53 |
| Interest receivable | **804** | 554 |
| | **807** | 607 |

## 11. Finance Costs

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| **a) Net finance income on pension assets/liabilities** | | |
| Interest on pension liabilities | **23,321** | 21,303 |
| Expected return on pension assets | **(26,810)** | (25,817) |
| | **(3,489)** | (4,514) |
| **b) Finance costs** | | |
| Interest on bank overdrafts and loans | **33,281** | 45,532 |
| Interest on obligations under finance leases | **1** | 1 |
| Amortisation of term debt issue costs | **681** | 389 |
| | **33,963** | 45,922 |

## 12. Tax

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Current tax | **19,459** | 29,849 |
| Deferred tax (note 25) | | |
| Charge for year | **2,397** | 7,515 |
| Charge relating to the Finance Act 2008 on abolition of IBA's | **8,249** | — |
| Deferred taxation adjustment relating to the impairment of publishing titles | **(93,893)** | — |
| Credit relating to change in tax rate on titles held on adoption of IFRS and other timing differences | **—** | (20,331) |
| Credit relating to change in tax rate on titles acquired since 1 January 2005 | **—** | (5,874) |
| | **(63,788)** | 11,159 |

UK corporation tax is calculated at 28.5% (2007: 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdiction.

The tax (credit)/charge for the year can be reconciled to the profit per the Income Statement as follows:

| | 2008 £'000 | 2008 % | 2007 £'000 | 2007 % |
|---|---|---|---|---|
| (Loss)/profit before tax | **(429,258)** | **100.0** | 124,714 | 100.0 |
| Tax at 28.5% (2007: 30%) | **(122,339)** | **(28.5)** | 37,414 | 30.0 |
| Tax effect of share of results of associate | **(24)** | **—** | 23 | — |
| Tax effect of expenses that are non deductible in determining taxable profit | **51,679** | **12.0** | 2,085 | 1.7 |
| Tax effect of investment income | **(1)** | **—** | (16) | — |
| Effect of different tax rates of subsidiaries | **(1,299)** | **(0.3)** | (1,558) | (1.2) |
| Gain on sale of properties rolled over | **—** | **—** | (565) | (0.5) |
| Over provision in prior years | **(53)** | **—** | (19) | — |
| Non-recurring charge relating to 2008 Finance Act | **8,249** | **1.9** | — | — |
| Effect on reduction in deferred tax rate to 28% | **—** | **—** | (26,205) | (21.0) |
| Tax (credit)/charge for the year and effective rate | **(63,788)** | **(14.9)** | 11,159 | 9.0 |

## 13. Dividends

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Amounts recognised as distributions to equity holders in the period: | | |
| Final dividend for the year ended 31 December 2007 of 6.7p (2006: 6.2p) | **19,267** | 17,818 |
| Interim dividend for the year ended 31 December 2008 of nil (2007: 3.3p) | — | 9,486 |
| Preference Dividends | | |
| 13.75% Cumulative Preference Shares | **104** | 104 |
| 13.75% "A" Preference Shares | **48** | 48 |
| | **19,419** | 27,456 |

No dividend is to be recommended to shareholders at the Annual General Meeting making a total for the year of nil (2007: 10p).

## 14. Earnings per Share

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

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| **Earnings** | | |
| (Loss)/profit for the year | **(365,470)** | 113,555 |
| Preference dividend | **(152)** | (152) |
| Earnings for the purposes of basic and diluted earnings per share | **(365,622)** | 113,403 |
| Non-recurring items (after tax) | **437,725** | (15,014) |
| Earnings for the purposes of underlying earnings per share | **72,103** | 98,389 |

| | 2008 No. of shares | Restated 2007 No. of shares |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **537,784,956** | 392,239,871 |
| Effect of dilutive potential ordinary shares: | | |
| - share options | **1,543,723** | 727,211 |
| Number of shares for the purposes of diluted earnings per share | **539,328,679** | 392,967,082 |
| **Earnings per share (p)** | | |
| Basic | **(67.99)** | 28.91 |
| Underlying | **13.41** | 25.08 |
| Diluted - see below | **(67.99)** | 28.86 |

Underlying figures are presented to show the effect of excluding non-recurring 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. Exercising out of the money options would have the effect of reducing the loss per share, as a result no adjustment has been made in 2008 to the diluted loss per share.

As explained in note 28, the preference shares are considered to be 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.

In 2008, the weighted average number of shares has increased due to the placing of shares with Usaha Tegas on 30 May 2008 and the 1 for 1 Rights Issue on 23 June 2008. Further details of the movement in shares are shown in note 28. The weighted average number of shares, and therefore the earnings per share, for the previous periods in 2007 have been restated to reflect the dilution factor of the Rights Issue.

In 2008, the net non-recurring items amounted to £437.7 million of which £417.5 million related to the impairment of goodwill and publishing titles.

## 15. Goodwill and Other Intangible Assets

| | Goodwill £'000 | Publishing Titles £'000 |
|---|---|---|
| **Cost** | | |
| Opening balance | 130,010 | 1,373,614 |
| Acquisition of business (note 29) | 289 | 1,448 |
| Non-recurring adjustment - see below | — | (93,893) |
| Exchange movements | 14,955 | 48,985 |
| **At 31 December 2008** | **145,254** | **1,330,154** |
| **Accumulated impairment losses** | | |
| At 1 January 2008 | — | — |
| Impairment losses for the period | (144,390) | (273,132) |
| **At 31 December 2008** | **(144,390)** | **(273,132)** |
| **Carrying amount** | | |
| **At 31 December 2008** | **864** | **1,057,022** |
| At 31 December 2007 | 130,010 | 1,373,614 |

Under IFRS, on acquisition of the publishing titles a deferred tax provision was created with an equal and opposite offset in goodwill. In the impairment losses above, all goodwill relating to impaired cash generating units (CGUs) has been written off. The non-recurring adjustment of £93,893,000 is a tax credit, related to the deferred tax on the impairment of publishing titles in the UK at the rate of 28% and in the Republic of Ireland at the rate of 20%, being the local capital gains tax rate. Recording this adjustment results in the closing deferred tax provision representing the recorded value of publishing titles at the appropriate tax rates in the UK and the Republic of Ireland.

The sterling/euro exchange rate dropped significantly during 2008 to an exchange rate of 1.0272 at 31 December 2008. The exchange movement above reflects the impact of this exchange rate on the valuation of goodwill and publishing titles in the Republic of Ireland at the balance sheet date and before the impairment. It is offset by an increase in the euro borrowings.

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. The carrying value of goodwill and publishing titles by CGU is as follows:

| | Goodwill | | Publishing Titles | |
|---|---|---|---|---|
| | **2008 £'000** | 2007 £'000 | **2008 £'000** | 2007 £'000 |
| **Newspaper and contract printing segment CGUs:** | | | | |
| Scotland Newspaper Division | — | 52,857 | **120,322** | 198,516 |
| North Newspaper Division | — | 107 | **405,128** | 449,138 |
| Northwest Newspaper Division | — | — | **109,183** | 163,000 |
| Midlands Newspaper Division | **864** | 864 | **176,592** | 176,592 |
| South Newspaper Division | — | — | **80,111** | 132,549 |
| Northern Ireland Newspaper Division | — | 33,459 | **71,856** | 115,380 |
| Republic of Ireland Newspaper Division | — | 42,723 | **93,830** | 138,439 |
| | **864** | 130,010 | **1,057,022** | 1,373,614 |

The Group tests goodwill and publishing titles every six months for impairment, or more frequently if there are indications that they might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. These assumptions have been revised in the year in light of the current economic environment. 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. Given the current volatility in the debt and equity markets, this has led to an increase in the cost of capital and therefore the discount rate applied to future cash flows has increased from 7.98% in 2007 to 8.85% in 2008. The growth rates assume an annual RPI increase only and no underlying growth. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

**15. Goodwill and Other Intangible Assets (continued)**

The Group prepares discounted cash flow forecasts derived from the most recent financial budgets approved by management for the next year and extrapolates cash flows for 20 years from the date of testing based on an estimated annual growth rate of 2.5%. A discounted residual value of 5 times the final year's cashflow is included in the forecast. The present value of the cash flows are then compared to the carrying value of the asset.

Given the current difficult trading climate, and the anticipated downturn effect on the 2009 budgeted cashflows, this has resulted in an impairment charge of £417.5 million. Goodwill has been impaired by £144.4 million and publishing titles have been impaired by £273.1 million. The impairment particularly affects the recent acquisitions in the Republic of Ireland, Scotland and Northern Ireland, with £134 million, £110 million and £65 million being impaired respectively.

The Group has conducted a 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 a further impairment for the Group of £44 million, and an increase in the discount rate of 0.5% would result in a further impairment of £45 million.

The only CGU that has not been impaired is the Midlands Division. For the carrying value of the goodwill and intangibles to be impaired in this division, a decrease in the growth rate of over 0.85%, or an increase in the discount rate of over 0.8%, would be required.

There was no impairment charge in 2007, as the fair value of the intangibles were substantially in excess of their book value.

**16. Property, Plant and Equipment**

| | Freehold land and buildings £'000 | Leasehold buildings £'000 | Plant and machinery £'000 | Motor vehicles £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| At 1 January 2007 | 97,496 | 5,419 | 289,253 | 26,813 | 418,981 |
| Additions | 3,953 | 110 | 23,259 | 4,093 | 31,415 |
| Acquisition of subsidiaries | 310 | — | 78 | — | 388 |
| Asset reclassification | 123 | (123) | — | — | — |
| Disposals | (804) | (1) | (4,043) | (7,410) | (12,258) |
| Disposal of subsidiary | — | — | — | (20) | (20) |
| Exchange differences | 46 | 55 | 635 | 27 | 763 |
| At 31 December 2007 | 101,124 | 5,460 | 309,182 | 23,503 | 439,269 |
| Additions | 4,552 | 14 | 11,898 | 1,257 | 17,721 |
| Acquisition of subsidiaries | — | — | 6 | 15 | 21 |
| Disposals | (450) | (400) | (9,164) | (6,605) | (16,619) |
| Exchange differences | 170 | 204 | 2,486 | 116 | 2,976 |
| **At 31 December 2008** | **105,396** | **5,278** | **314,408** | **18,286** | **443,368** |
| **Depreciation** | | | | | |
| At 1 January 2007 | 6,233 | 1,341 | 124,321 | 18,744 | 150,639 |
| Disposals | — | — | (1,826) | (7,074) | (8,900) |
| Charge for the year | 1,886 | 169 | 18,279 | 3,718 | 24,052 |
| Asset reclassification | 20 | (20) | — | — | — |
| Disposal of subsidiary | — | — | — | (9) | (9) |
| Exchange differences | 5 | 4 | 82 | 15 | 106 |
| At 31 December 2007 | 8,144 | 1,494 | 140,856 | 15,394 | 165,888 |
| Disposals | (100) | (94) | (8,932) | (6,432) | (15,558) |
| Charge for the year | 2,128 | 179 | 26,103 | 3,418 | 31,828 |
| Exchange differences | 26 | 21 | 604 | 61 | 712 |
| **At 31 December 2008** | **10,198** | **1,600** | **158,631** | **12,441** | **182,870** |
| **Carrying amount** | | | | | |
| **At 31 December 2008** | **95,198** | **3,678** | **155,777** | **5,845** | **260,498** |
| At 31 December 2007 | 92,980 | 3,966 | 168,326 | 8,109 | 273,381 |

Freehold land amounting to £12,447,000 (2007 - £12,401,000) has not been depreciated.

**16. Property, Plant and Equipment (continued)**

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| a) Freehold land and buildings comprise: | | |
| At valuation | **36,860** | 37,126 |
| At cost | **68,536** | 63,998 |
| | **105,396** | 101,124 |

Professional valuations were carried out by members of the Royal Institution of Chartered Surveyors on certain of the Group's buildings at 31 December 1997. Valuations were also carried out at 31 December 1996 by professional valuers on those properties acquired from Emap plc and Newsquest Media Group Ltd. The valuations were prepared on an existing use basis.

The freehold properties acquired from Regional Independent Media Holdings Ltd and from the various acquisitions in 2005 and 2006 were valued by the Directors following advice from a firm of Chartered Surveyors as part of the fair value accounting.

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| b) Historical cost figures for freehold buildings are: | | |
| Cost | **101,143** | 96,911 |
| Depreciation | **(11,315)** | (8,966) |
| | **89,828** | 87,945 |

| | £'000 |
|---|---|
| c) Assets in the course of construction | |
| Plant and machinery | |
| At 1 January 2007 | 7,872 |
| Additions | 9,852 |
| Press plant commissioned | (17,217) |
| At 31 December 2007 | 507 |
| Additions | 4,672 |
| Press plant commissioned | (5,179) |
| **At 31 December 2008** | — |

The Group plant additions for 2008 do not include any progress payments in respect of new press plants which have not been commissioned. In 2007 £507,000 of progress payments were included. No depreciation was charged until the date that the press plants were available for commercial operations.

## 17. Available for Sale Investments

The Group's available for sale investments are:

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Listed investments at fair value | **2** | 2 |
| Unlisted investments | | |
| Cost | **4,494** | 4,494 |
| Provision for impairment | **(1,784)** | (1,784) |
| Unlisted investments carrying amount | **2,710** | 2,710 |
| Total investments | **2,712** | 2,712 |

## 18. Interests in Associates

The Group's associated undertakings at 31 December 2008 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 |
| Free Admart Ltd | England | 25% | 25% | Equity method |

The aggregate amounts relating to associates are:

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Total assets | **177** | 120 |
| Total liabilities | **(26)** | (15) |
| Revenues | **215** | 215 |
| Profit | **85** | 76 |

## 19. Investments in Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion owned, is given in note 38 to the Company's separate financial statements.

## 20. Inventories

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Raw materials | **6,322** | 4,097 |
| Work-in-progress | **8** | 1 |
| Goods for resale | **227** | 236 |
| | **6,557** | 4,334 |

## 21. Other Financial Assets and Liabilities

Trade and other receivables

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Current: | | |
| Trade receivables | **66,385** | 84,301 |
| Allowance for doubtful debts | **(9,770)** | (7,802) |
| | **56,615** | 76,499 |
| Prepayments | **6,833** | 5,994 |
| Other debtors (see note below) | **85,531** | 7,040 |
| Corporation tax recoverable | **289** | — |
| | **149,268** | 89,533 |
| Non current: | | |
| Trade receivables | **18** | 30 |
| Prepayments | **—** | 1 |
| | **18** | 31 |

**Trade receivables**

The average credit period taken on sales is 57 days (2007: 53 days). No interest is charged on trade receivables. The Group has provided for estimated irrecoverable amounts in accordance with its 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 Balance Sheet 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 £30.7 million (2007: £43.5 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 35 days (2007: 31 days).

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

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| 0 - 30 days | **19,546** | 27,451 |
| 30 - 60 days | **5,512** | 10,779 |
| 60 - 90 days | **1,868** | 3,337 |
| 90+ days | **3,808** | 1,892 |
| Total | **30,734** | 43,459 |

**Movement in the allowance for doubtful debts**

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Balance at the start of the year | **7,802** | 7,210 |
| Increase in the allowance recognised in the Income Statement (note 8) | **1,968** | 592 |
| Total | **9,770** | 7,802 |

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

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.

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of £378,000 (2007: £38,000) which are owed by customers who have been placed in liquidation. These amounts have been provided for in full.

**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.

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| 0 - 30 days | 164 | 587 |
| 30 - 60 days | 204 | 463 |
| 60 - 90 days | 1,116 | 592 |
| 90+ days | 8,286 | 6,160 |
| Total | 9,770 | 7,802 |

As a result of the current economic climate, particularly in the Republic of Ireland, the allowance for doubtful debts has increased during 2008. The Directors consider that the carrying amount of trade and other receivables at the balance sheet date approximates their fair value.

**Other debtors**
As explained in note 31d the Group is anticipating to pay HMRC an amount of £80 million relating to the sale of the RIM companies by United Business Media Plc (UBM) in 1998. This event took place before the Group acquired the RIM companies in 2002 but the assessment has been raised on one of the Group subsidiary companies. The Group holds a tax indemnity from UBM and other debtors reflects the amount receivable from UBM to cover the tax and interest payable.

**Cash and cash equivalents**
Cash and cash equivalents totalling £20,135,000 (2007: £17,470,000) 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**

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Current: | | |
| Trade creditors and accruals | 48,397 | 69,186 |
| Other creditors | 5,922 | 7,934 |
| | 54,319 | 77,120 |
| Non current: | | |
| Trade and other creditors | 1,802 | 2,094 |

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 17 days (2007: 27 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 approximates their fair value.

**22. Borrowings**

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Bank overdrafts | 8,254 | 16,104 |
| Bank loans - sterling | 166,000 | 352,000 |
| Bank loans - euro denominated | 169,003 | 126,446 |
| 2003 Private placement of 10 year senior notes | 101,245 | 117,578 |
| 2006 Private placement of 8 and 10 year senior notes | 74,177 | 77,605 |
| Term debt issue costs | (504) | (1,185) |
| Total borrowings | 518,175 | 688,548 |

## 22. Borrowings (continued)

**The borrowings are disclosed in the financial statement as:**

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Current borrowings | **7,864** | 15,714 |
| Non-current borrowings | **510,311** | 672,834 |
| | **518,175** | 688,548 |

**The Group's net debt is:**

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Gross borrowings as above | **518,175** | 688,548 |
| Finance leases | **13** | — |
| Cash and cash equivalents | **(20,135)** | (17,470) |
| Impact of currency hedge contracted rates | **(21,238)** | 20,645 |
| Net debt at currency hedge contracted rates | **476,815** | 691,723 |

**Analysis of borrowings by currency:**

**At 31 December 2008**

| | Total £'000 | Sterling £'000 | Euros £'000 | US Dollars £'000 |
|---|---|---|---|---|
| Bank overdrafts | 8,254 | 8,254 | — | — |
| Bank loans | 335,003 | 166,000 | 169,003 | — |
| 2003 Private placement of 10 year senior notes | 101,245 | 46,200 | — | 55,045 |
| 2006 Private placement of 8 and 10 year senior notes | 74,177 | — | — | 74,177 |
| Term debt issue costs | (504) | (504) | — | — |
| | **518,175** | **219,950** | **169,003** | **129,222** |

At 31 December 2007

| | Total £'000 | Sterling £'000 | Euros £'000 | US Dollars £'000 |
|---|---|---|---|---|
| Bank overdrafts | 16,104 | 16,104 | — | — |
| Bank loans | 478,446 | 352,000 | 126,446 | — |
| 2003 Private placement of 10 year senior notes | 117,578 | 60,000 | — | 57,578 |
| 2006 Private placement of 8 and 10 year senior notes | 77,605 | — | — | 77,605 |
| Term debt issue costs | (1,185) | (1,185) | — | — |
| | 688,548 | 426,919 | 126,446 | 135,183 |

**Bank overdrafts**

The Group's bank overdraft facility is £30 million and is repayable on demand. Interest payable is determined based on base rate plus 1%.

**Bank loans**

The Group has Credit Facilities with a number of banks.The total facility is £630.0 million (2007: £630.0 million) of which £295.0 million is unutilised at the balance sheet date (2007: £152.0 million). The initial principal amounts were taken out on 20 October 2005 with additional funding being taken out on 15 June 2006. Repayment of principal amounts is due in full on 30 September 2010.The loans carry interest at 1% above LIBOR, with adjustments dependent on financial ratios. Maturity intervals can be weekly, monthly, quarterly or half yearly.

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. Borrowings of £352.5 million (2007: £350.0 million) were arranged at fixed rates and expose the Group to fair value interest rate risk. Further details on all of the Group's hedging arrangements can be found in note 34.

**22. Borrowings (continued)**

**2003 Private Placement of 10 year senior notes**
The 2003 Private Placement of 10 year Senior Notes is made up of £46.2 million (2007: £60.0 million) at a fixed rate of 6.3% and $79.7 million (2007: $115.0 million) at a fixed rate of 5.75%. The latter tranche has been swapped into floating sterling to hedge the Group's exposure to US dollar interest rates. A repayment was made to both tranches during the year after the Rights Issue.

**2006 Private Placement of 8 and 10 year senior notes**
The Private Placement of 2006 Senior Notes is made up of $38.1 million (2007: $55.0 million) at a fixed rate of 6.18% and $69.3 million (2007: $100.0 million) at a fixed rate of 6.28%. The total amount of $107.4 million (2007: $155.0 million) has been swapped back into fixed sterling of £37.1 million (2007: £40.2 million) and floating sterling of £20.4 million (2007: £42.9 million), again to hedge the Group's exposure to US dollar interest rates. A repayment was made to both tranches during the year after the Rights Issue.

**Interest rates:**
The weighted average interest rates paid were as follows:

| | 2008 % | 2007 % |
|---|---|---|
| Bank overdrafts | 6.1 | 6.6 |
| Bank loans | 5.8 | 6.4 |
| Guaranteed loan stock | — | 5.3 |
| 2003 Private placement of 10 year senior notes | 6.9 | 6.8 |
| 2006 Private placement of 8 and 10 year senior notes | 6.5 | 6.1 |
| | 6.1 | 6.4 |

**23. Derivative Financial Instruments**

Derivatives that are designated and effective as hedging instruments carried at fair value are as follows:

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Interest rate swaps - current asset | 303 | — |
| Interest rate swaps - non current (liability)/asset | (7,615) | 4,192 |
| Cross currency swaps - non current asset/(liability) | 36,488 | (16,082) |
| | 29,176 | (11,890) |

## 24. Retirement Benefit Obligation

Throughout 2008 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.
- Through the acquisitions in the Republic of Ireland in the second half of 2005, the Group inherited three final salary schemes. Two are industry wide schemes and the third is for a small number of employees in Limerick. There are no additional financial implications to the Group if these schemes are terminated. Consequently, the Group's obligations 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. 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 were fixed annual amounts to October 2008 and thereafter a percentage of salary with a reduced fixed amount, with the intention of eliminating the deficit within 10 years from the date of the last triennial valuation on 31 December 2007. As the defined benefit section has been closed to new members for a considerable period the last active member is scheduled to retire in 37 years with, at current mortality assumptions, the last pension paid in 57 years. 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.

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 and past employees. The trustees appoint their own advisors and the administrators of the Plan. Discussions take place with the Executive Directors of the Company to agree matters such as the contribution rates. Over the past few years the trustees have reduced the risk exposure to UK equities from a level of 75% of the Plan to 58% at 31 December 2008.

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 was as follows:

| | **2008 £'000** | 2007 £'000 |
|---|---|---|
| Defined benefit schemes | **2,904** | 3,977 |
| Defined contribution schemes and Irish schemes | **6,801** | 6,515 |
| | **9,705** | 10,492 |

**Major assumptions:**

| | **Valuation at 2008** | Valuation at 2007 |
|---|---|---|
| Discount rate | **6.3%** | 5.8% |
| Expected return on scheme assets | **6.7%** | 6.9% |
| Expected rate of salary increases | **3.3%** | 4.1% |
| Future pension increases | **2.8%** | 3.1% |
| Life expectancy | | |
| Male | **19.5 years** | 18.1 years |
| Female | **22.4 years** | 21.0 years |

The valuation of the defined benefits 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 2% or £7.0 million.
- A change in the life expectancy by one year would change liabilities by approximately 3% or £10.0 million.

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

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

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Current service cost | 2,904 | 3,977 |
| Interest cost | 23,321 | 21,303 |
| Expected return on scheme assets | (26,810) | (25,817) |
| | (585) | (537) |

Of the current service cost for the year, £2,178,000 (2007 - £3,080,000) has been included in cost of sales and £726,000 (2007: £897,000) has been included in operating expenses. Actuarial gains and losses have been reported in the Group Statement of Recognised Income and Expense.

**Amounts included in the Balance Sheet:**

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Present value of defined benefit obligations | 340,060 | 406,900 |
| Fair value of scheme assets | 321,849 | 393,757 |
| Deficit in scheme | 18,211 | 13,143 |
| Past service cost not yet recognised in balance sheet | — | — |
| Total liability recognised in balance sheet | 18,211 | 13,143 |
| Amount included in current liabilities | (5,980) | (3,300) |
| Amount included in non-current liabilities | 12,231 | 9,843 |

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

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| At 1 January | 406,900 | 420,913 |
| Service costs | 2,904 | 3,977 |
| Interest costs | 23,321 | 21,303 |
| Contribution from scheme members | 3,730 | 4,949 |
| Changes in assumptions underlying the defined benefit obligations | (80,193) | (30,179) |
| Benefits paid | (16,602) | (14,063) |
| At 31 December | 340,060 | 406,900 |

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

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| At 1 January | 393,757 | 375,474 |
| Expected return on scheme assets | 26,810 | 25,817 |
| Actual return less expected return on scheme assets | (92,340) | (4,895) |
| Contributions from the sponsoring companies | 6,494 | 6,475 |
| Contributions from scheme members | 3,730 | 4,949 |
| Benefits paid | (16,602) | (14,063) |
| At 31 December | 321,849 | 393,757 |

## 24. Retirement Benefit Obligation (continued)

Analysis of the scheme assets and the expected rate of return:

| | Expected return | | Fair value of assets | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **%** | % | **£'000** | £'000 |
| Equity instruments | **7.6%** | 7.8% | **186,673** | 236,254 |
| Debt instruments | **5.4%** | 5.3% | **90,118** | 98,439 |
| Property | **5.6%** | 6.3% | **22,529** | 31,501 |
| Other assets | **1.5%** | 5.5% | **22,529** | 27,563 |
| | **6.7%** | 6.9% | **321,849** | 393,757 |

History of experience adjustments:

| | **2008** | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| | **£'000** | £'000 | £'000 | £'000 | £'000 |
| Present value of defined benefit obligations | **340,060** | 406,900 | 420,913 | 364,727 | 312,194 |
| Fair value of scheme assets | **321,849** | 393,757 | 375,474 | 309,538 | 241,608 |
| Deficit in the scheme | **18,211** | 13,143 | 45,439 | 55,189 | 70,586 |
| Experience adjustments on scheme liabilities | | | | | |
| Amount (£'000) | **80,193** | 30,179 | 2,547 | (37,623) | (15,202) |
| Percentage of scheme liabilities (%) | **23.6%** | 7.4% | 0.6% | (10.3%) | (4.9%) |
| Experience adjustments on scheme assets | | | | | |
| Amounts (£'000) | **(92,340)** | (4,895) | 7,828 | 36,454 | 5,073 |
| Percentage of scheme assets (%) | **(28.7%)** | (1.2%) | 2.1% | 11.8% | 2.1% |

The estimated amounts of contributions expected to be paid to the scheme during 2009 is £5,980,000.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2008 - continued

### 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 period.

| | Properties not eligible £'000 | Accelerated tax depreciation £'000 | Intangible assets £'000 | Pension balances £'000 | Share based payments £'000 | Other timing differences £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2007 | — | 19,814 | 397,383 | (18,154) | (409) | 540 | 399,174 |
| Charge/(credit) to income | — | 4,008 | — | 4,092 | 404 | (989) | 7,515 |
| Debit to equity | — | — | — | 8,994 | — | 686 | 9,680 |
| Acquisition of businesses | — | — | 3,102 | — | — | (60) | 3,042 |
| Disposal of business | — | — | (34) | — | — | — | (34) |
| Reduction in tax rate | — | (1,588) | (24,780) | 338 | — | (12) | (26,042) |
| Currency movements | — | — | 1,985 | — | — | — | 1,985 |
| At 31 December 2007 | — | 22,234 | 377,656 | (4,730) | (5) | 165 | 395,320 |
| Reclassification | 5,389 | — | (5,389) | — | — | — | — |
| Charge/(credit) to income | 8,249 | (1,064) | (93,893) | 3,073 | (318) | 706 | (83,247) |
| Debit/(credit) to equity | — | — | — | (3,442) | 323 | (228) | (3,347) |
| Acquisition of businesses | — | — | 289 | — | — | — | 289 |
| Currency movements | — | 25 | 9,797 | — | — | (145) | 9,677 |
| **At 31 December 2008** | **13,638** | **21,195** | **288,460** | **(5,099)** | **—** | **498** | **318,692** |

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:

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Deferred tax liabilities | **323,791** | 400,055 |
| Deferred tax assets | **(5,099)** | (4,735) |
| | **318,692** | 395,320 |

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £40,838,000 (2007: £25,747,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

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

### 26. Obligations Under Finance Leases

| | Present value of minimum lease payments 2008 £'000 | 2007 £'000 |
|---|---|---|
| **Amounts payable under finance leases** | | |
| Within one year | 13 | — |
| | 13 | — |

### 27. Long Term Provisions

| | Unfunded pensions £'000 | Post retirement health costs £'000 | Obligations to industry sponsored pension schemes £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 January 2008 | 1,220 | 383 | 19 | 1,622 |
| Exchange differences | — | — | 7 | 7 |
| Paid during the year | — | (56) | — | (56) |
| **At 31 December 2008** | **1,220** | **327** | **26** | **1,573** |

The unfunded pension provision is assessed by a qualified actuary at each year end. The post retirement health costs represent management's estimate of the liability concerned.

### 28. Share Capital

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Authorised | | |
| 860,000,000 Ordinary Shares of 10p each (2007 - 390,000,000) | **86,000** | 39,000 |
| 756,000 13.75% Cumulative Preference Shares of £1 each (2007 - 756,000) | **756** | 756 |
| 415,000 13.75% "A" Preference Shares of £1 each (2007 - 415,000) | **415** | 415 |
| | **87,171** | 40,171 |
| Issued | | |
| 639,739,766 Ordinary Shares of 10p each (2007 - 288,380,658) | **63,974** | 28,838 |
| 756,000 13.75% Cumulative Preference Shares of £1 each (2007 - 756,000) | **756** | 756 |
| 349,600 13.75% "A" Preference Shares of £1 each (2007 - 349,600) | **350** | 350 |
| | **65,080** | 29,944 |

During the year ended 31 December 2008, 351,359,108 Ordinary Shares of 10p each were issued and allotted as follows:

| | £'000 |
|---|---|
| 2,237 shares under the terms of the save as you earn scheme for a consideration of £6,316 | — |
| 31,486,988 shares placed with Usaha Tegas on 30 May after shareholder approval for a consideration of £42,743,586 (£1.3575 per share) | **3,149** |
| 319,869,883 shares following a 1 for 1 Rights Issue completed on 24 June 2008 at a price of 53p per share for a consideration of £169,531,038 | **31,987** |
| Total at 31 December 2007 | **28,838** |
| **Total at 31 December 2008** | **63,974** |

Details of options outstanding are shown in note 32.

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.

### 29. Acquisition of Businesses

On 7 March 2008, the Group acquired Clonnad Ltd. which publishes one main title, South Tipp Today, for a cash consideration of £1,459,000 together with £71,000 of costs. This transaction has been accounted for by the purchase method of accounting. Of the net assets acquired, £1,448,000 related to the value of the publishing titles.

| | Book value £'000 | Fair value adjustments £'000 | Fair value £'000 |
|---|---|---|---|
| Net assets acquired | | | |
| Publishing titles | — | 1,448 | 1,448 |
| Property, plant and equipment | 27 | (6) | 21 |
| Trade and other receivables | 329 | (183) | 146 |
| Cash and cash equivalents | 51 | — | 51 |
| Trade and other payables | (148) | (8) | (156) |
| Deferred tax and corporation tax asset | 20 | — | 20 |
| Deferred tax liability on publishing titles | — | (289) | (289) |
| | 279 | 962 | 1,241 |
| Goodwill | | | 289 |
| **Total consideration** | | | **1,530** |
| **Satisfied by:** | | | |
| Cash | | | 1,459 |
| Directly attributable costs | | | 71 |
| | | | **1,530** |

**Net cash flows arising on acquisition**

| | |
|---|---|
| Cash consideration including costs settled on acquisition | 1,530 |
| Cash and cash equivalents acquired | (51) |
| Net cash flow arising on acquisition | **1,479** |

## 30. Notes to the Cash Flow Statement

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| **Operating profit** | **(399,676)** | 165,439 |
| Adjustments for: | | |
| Intangible adjustment - non-recurring | **93,893** | 5,874 |
| Impairment of intangibles - non-recurring | **417,522** | — |
| Depreciation of property, plant and equipment | **31,828** | 24,052 |
| Currency differences | **(80)** | 473 |
| Cost of share based payments | **1,385** | 2,607 |
| Profit on disposal of property, plant and equipment | **(730)** | (2,103) |
| Movement on pension provision | **(3,645)** | (2,724) |
| Loss on disposal of businesses | — | 850 |
| Operating cash flows before movements in working capital | **140,497** | 194,468 |
| (Increase)/decrease in inventories | **(2,012)** | 1,357 |
| Decrease/(increase) in receivables | **22,364** | (6,560) |
| (Decrease)/increase in payables | **(16,301)** | 4,581 |
| Cash generated by operations | **144,548** | 193,846 |

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

## 31. Guarantees and Other Financial Commitments

**a) Lease commitments**

The Group has entered into non-cancellable operating leases in respect of plant and machinery, the payments for which extend over a period of years. The total annual rental for 2008 was £629,000 (2007: £989,000). In addition, the Group leases certain land and buildings on short-term and long-term operating leases. The annual rental on these leases was £5,742,000 (2007: £5,030,000). The rents payable under property leases are subject to renegotiation at various intervals specified in the leases. The Group pays insurance, maintenance and repairs of these properties.

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| The total amounts payable under the foregoing leases are as follows: | | |
| Plant | | |
| Within one year | **277** | 451 |
| Between two and five years | **144** | 245 |
| | **421** | 696 |
| Land and buildings | | |
| Within one year | **3,856** | 4,593 |
| Between two and five years | **13,014** | 15,264 |
| After five years | **31,675** | 38,611 |
| | **48,545** | 58,468 |

**b) Capital commitments**

| | | |
|---|---|---|
| Contracted for but not provided | — | 4,436 |

**c) Assets pledged as security**

None of the Group's assets are specifically pledged as security. A guarantee is in place with the Group's bankers and Private Placement Senior Note holders which requires a specific proportion of the Group's assets and profits to be held within the guarantor group of companies.

**d) Tax assessment**

In March 2004, HMRC issued a tax assessment for £86 million against one of the RIM Group companies Johnston Press acquired in 2002. The assessment which was appealed relates to the sale of the RIM companies by United Business Media Plc (UBM) in 1998. At a Special Commissioner's hearing in 2006, the Chairman ruled in favour of HMRC. This decision was appealed to the High Court and in March 2007 the Judge upheld the decision of the Special Commissioner. An appeal was lodged with the Court of Appeal and was heard earlier this year. By a majority verdict the Court of Appeal upheld the decision of the High Court and refused leave to appeal to the House of Lords. A petition to the House of Lords for the right to appeal was declined in November. As all appeal procedures have now been exhausted, the Group has provided for the estimated tax liability and the debtor due from UBM under the terms of the full tax indemnity. Although the tax assessment has not been finalised, following discussions with UBM and a review of its financial statements, an estimated tax liability of £80 million has been provided with an equal offset in debtors. In the event that the liability is proved to be a higher sum, this will be recoverable from UBM under the terms of tax indemnity. There is no impact on net assets as a result of these entries.

# Notes to the Consolidated Financial Statements for the year ended 31 December 2008 - continued

### 32. Share-based Payments

**Equity-settled share option scheme**
Options over ordinary shares are granted under the Executive's 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.

Following the Rights Issue, which concluded on 24 June 2008, all options, awards and prices were amended to reflect the discount element of the Rights Issue. Options and awards increased by a multiple of 1.361446 and option/award prices reduced by 0.734513. The information below reflects these changes.

**Details of the share options outstanding during the year:**

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **Number of share options** | **Weighted average exercise price (in p)** | Number of share options | Weighted average exercise price (in p) |
| Outstanding at beginning of period | **1,065,690** | **453** | 1,929,313 | 506 |
| Lapsed/forfeited during the period | **(802,204)** | **473** | (731,497) | 532 |
| Adjustment for the Rights Issue | **121,440** | — | — | — |
| Exercised during the period | — | — | (132,126) | 325 |
| Outstanding at the end of the period | **384,926** | **234** | 1,065,690 | 453 |
| Exercisable at the end of the period | **384,926** | **234** | 322,717 | 353 |

No share options were exercised during the period. The options outstanding at 31 December 2008 had a weighted average exercise price of 234p, and a weighted average remaining contractual life of 3.5 years. No options were granted in 2006, 2007 or 2008. The options outstanding at the end of June 2008 and the exercise prices were amended to reflect the discount element of the Rights Issue.

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 total expenses of £177,000 and £1,459,000 related to equity-settled share-based payment transactions in 2008 and 2007 respectively for the Executive Share Option Scheme.

**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 Halifax plc 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 Savings-Related Scheme at 31 December 2008:**

| Option Grant Date | Number of Shares | Issue price per Share |
|---|---|---|
| 27.09.01 | 40,775 | 201.73p |
| 27.09.02 | 210,347 | 204.93p |
| 26.09.03 | 248,754 | 253.77p |
| 29.09.04 | 156,133 | 304.46p |
| 29.09.05 | 462,762 | 291.60p |
| 29.09.06 | 488,824 | 224.76p |
| 29.09.06 | 48,432 | 228.80p |
| 27.09.07 | 591,459 | 226.41p |
| 27.09.07 | 16,592 | 220.17p |
| 26.09.08 | 11,490,200 | 37.60p |
| 26.09.08 | 252,891 | 37.60p |

### 32. Share-based Payments (continued)

The above options granted on 29 September 2006 and before were issued to employees at a price equivalent to the average mid-market price for the 30 days prior to 6 September 1999, 4 September 2000, 3 September 2001, 30 August 2002, 29 August 2003, 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 and 1 September 2008 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 in 2002 and thereafter.

**Awards outstanding under Share Matching Plan at 31 December 2008**

| Date | Matching Awards | Market Price on Award | Vesting Dates |
|---|---|---|---|
| 30.05.06 | 24,488 | 332.73p | 30.05.09 to 29.05.16 |
| 30.03.07 | 86,721 | 331.63p | 30.03.10 to 29.03.17 |

The Group recognised total expenses of £nil and £189,000 related to equity-settled share-based payment transactions in 2008 and 2007 respectively for the Share Matching Plan. The awards granted in 2005 lapsed during the year due to the performance conditions not being met.

**Awards outstanding under Performance Share Plan at 31 December 2008**

| Date | PSP Awards | Market Price on Award | Vesting Dates |
|---|---|---|---|
| 06.06.06 | 1,054,117 | 336.96p | 06.06.09 |
| 05.06.07 | 1,272,331 | 326.31p | 05.06.10 |
| 25.09.08 | 7,889,155 | 37.50p | 25.09.11 |

The Group recognised total expenses of £1,208,000 and £959,000 related to equity-settled share-based payment transactions in 2008 and 2007 respectively for the Performance Share Plan.

### 33. Related Party Transactions

The Group undertook transactions, all of which were on an arms' length basis, and had balances outstanding at 31 December 2008 and 2007 with related parties as shown below.

| | Purchases | | Creditors | | Sales | | Debtors | |
|---|---|---|---|---|---|---|---|---|
| Related party | **2008 £'000** | 2007 £'000 | **2008 £'000** | 2007 £'000 | **2008 £'000** | 2007 £'000 | **2008 £'000** | 2007 £'000 |
| Classified Periodicals Ltd | **54** | 57 | **10** | 15 | **42** | 55 | **10** | 16 |
| Free Admart Ltd | **115** | 95 | **15** | 31 | — | — | — | — |

Classified Periodicals Ltd is an associated undertaking of Johnston Press plc, which re-publishes in a separate publication classified advertisements which appear in the Group's titles and those of certain other publishers. Free Admart Ltd publishes a separate title in conjunction with other newspaper publishers. The Group provided certain administrative, distribution and production services to Classified Periodicals Ltd.

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.

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

**34. 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 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 28 and in the Group Reconciliation of Shareholders' Equity.

**(b) Gearing ratio**
The Board of Directors formally reviews the capital structure of the Group twice each year and also 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 the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

In 2008, as a result of a capital structure review, the Board decided to proceed with a 1 for 1 Rights Issue and the issue of new share capital to Usaha Tegas. In addition, a decision to not pay any dividends for 2008 was made, to further strengthen the capital structure of the Group.

The gearing ratio at the year end is as follows:

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Debt | 518,175 | 688,548 |
| Cash and cash equivalents | (20,135) | (17,470) |
| Net debt | 498,040 | 671,078 |
| Equity | 513,820 | 683,775 |
| Gearing ratio | 49.2% | 49.5% |

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**

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| **Financial assets (current and non-current)** | | |
| Derivative instruments in designated hedge accounting relationships | 36,791 | 4,192 |
| Trade receivables | 56,633 | 76,529 |
| Cash and cash equivalents | 20,135 | 17,470 |
| Available for sale financial assets | 2,712 | 2,712 |
| **Financial liabilities (current and non-current)** | | |
| Derivative instruments in designated hedge accounting relationships | (7,615) | (16,082) |
| Trade payables | (11,546) | (19,158) |
| Borrowings | (518,175) | (688,548) |

**(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 requirements of the bank loan and private placement funding agreements, which provide guidelines which 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.

## 34. 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:

- Currency swaps to manage the foreign currency risk associated with foreign currency denominated borrowings, namely the US dollar denominated private placement senior notes;
- Borrowings in euros to manage the foreign currency risk associated with the Group's net investment in its foreign operations; and
- Interest rate swaps to mitigate the risk of rising interest rates.

At a Group and company level, market risk exposures are assessed using sensitivity analyses.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures risk other than relating to the amount of borrowings in euros. This level of debt in euros was historically set by the purchase price of the businesses. With the impairment charge in 2008 and the current recession the Group believes it has too much debt outstanding in euros and plans to reduce this amount when the exchange rate reaches certain agreed levels.

### (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. The Group is a party to a number of cross currency interest rate swaps at the year end in the management of its exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the Group's overseas subsidiaries (namely euros) and in US dollars in order to hedge the risks associated with the US dollar denominated senior loan notes. There were no open foreign currency forward contracts at the year end (2007: nil).

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **£'000** | £'000 | **£'000** | £'000 |
| **Euro** | | | | |
| Trade receivables | **—** | — | **11,302** | 9,520 |
| Cash and cash equivalents | **—** | — | **3,240** | 4,168 |
| Trade payables | **(5,033)** | (1,114) | **—** | — |
| Borrowings | **(169,003)** | (126,446) | **—** | — |
| **US Dollar** | | | | |
| Borrowings | **(129,222)** | (135,183) | **—** | — |

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. All hedges are assumed to be 100% effective. 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 | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Profit or loss | **(410)** | (398) | **—** | — |
| Other equity | **8,033** | 5,981 | **—** | — |

Of the impact on other equity an increase of £8,048,000 (2007: £6,021,000) relates to the retranslation of the Group's euro denominated borrowings which are part of the net investment hedge.

The movement in the magnitude of the impact on profit or loss in 2007 and 2008 is not significant. With regard to the magnitude of the impact on other equity, the increased impact is driven by the fair values of the euro denominated interest rate swaps. At the end of 2008, the interest rate swaps were unfavourable for the Group, due to the volatile interest rates and movement in the exchange rate experienced in the year.

During 2008, the sterling/euro exchange rate dropped significantly from 1.3571 to 1.0272 at year end. This resulted in a foreign translation loss of £41m for the financial year. This is offset by an increase in the value of the publishing titles and goodwill as shown in note 15.

**34. Financial Instruments (continued)**

**(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. Hedging activities are evaluated regularly to align interest rate views, defined 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.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in section (k).

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 balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis points decrease 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 lower and all other variables were held constant, the Group's:

- Net loss would decrease by £1,163,000 (2007: profit increase of £1,702,000). The increase in the current year is mainly due to the impact of the Group's fair value hedges; and
- Other equity reserves would decrease by £1,071,000 (2007: £3,433,000) as a result of the changes in the fair value of the Group's cash flow hedges.

For an increase of 50 bps, the numbers shown above would have the opposite sign.

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 | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **%** | % | **£'000** | £'000 | **£'000** | £'000 |
| Within 1 year | **3.09** | — | **68,146** | — | **303** | — |
| 2 to 5 years | **4.54** | 4.24 | **200,000** | 251,580 | **(7,613)** | 4,192 |
| 5+ years | **5.72** | 5.72 | **37,128** | 40,182 | **16,849** | (59) |
| | **4.36** | 4.44 | **305,274** | 291,762 | **9,539** | 4,133 |

Contracts with nominal values of €70 million have fixed interest payments at an average rate of 3.09% for periods up to 2009, contracts with a nominal value of £100 million have fixed interest payments at an average of 4.59% for periods up to the beginning of 2011, contracts with a nominal value of £100 million have fixed interest payments at an average of 4.49% for the period to 2010 and contracts with a nominal value of $69.3 million have fixed interest payments at an average rate of 5.72% for the period to 2016.

The interest rate swaps settle on a quarterly basis with interest being paid weekly or monthly on the underlying principal amount. The floating rate on the interest rate swaps is 3 months LIBOR for the sterling denominated principal amounts and 3 months EURIBOR for the euro denominated principal amounts. 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 designated as cash flow hedges 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 | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **%** | % | **£'000** | £'000 | **£'000** | £'000 |
| 2 to 5 years | **5.76** | — | **50,443** | — | **9,478** | — |
| 5+ years | **6.18** | 5.93 | **20,412** | 115,646 | **10,159** | (16,023) |
| | **5.88** | 5.93 | **70,855** | 115,646 | **19,637** | (16,023) |

## 34. Financial Instruments (continued)

The interest rate swaps settle on a quarterly or six-monthly basis. The average floating rate on the interest rate swaps is 3 month LIBOR plus a margin of 1.37% and 6 month LIBOR plus a margin of 0.71%. The Group settles the difference between the fixed and floating interest rates on a net basis.

### (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 exposure to credit risk for all of the Group's financial assets, excluding trade receivables which are discussed in note 21:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **Carrying value £'000** | **Exposure to credit risk £'000** | Carrying value £'000 | Exposure to credit risk £'000 |
| Available for sale investments | **2,712** | — | 2,712 | — |
| Cash and cash equivalents | **20,135** | — | 17,470 | — |
| Derivative instruments in designated hedge accounting relationships | **36,791** | — | 4,192 | — |
| | **59,638** | — | 24,374 | — |

### (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 reserve 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 18.

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. 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.

**34. Financial Instruments (continued)**

**Year ended 31 December 2008**

| | Bank overdraft £'000 | Bank loans £'000 | 2003 Private Placement £'000 | 2006 Private Placement £'000 | Finance leases £'000 | Trade payables £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| Within 1 year | 8,254 | 7,426 | 6,076 | 4,632 | 13 | 11,546 | 37,947 |
| In 1-2 years | — | 341,638 | 6,076 | 4,632 | — | — | 352,346 |
| 2-3 years | — | — | 6,076 | 4,632 | — | — | 10,708 |
| 3-4 years | — | — | 6,076 | 4,632 | — | — | 10,708 |
| 4-5 years | — | — | 104,283 | 4,632 | — | — | 108,915 |
| 5+ years | — | — | — | 82,505 | — | — | 82,505 |
| | **8,254** | **349,064** | **128,587** | **105,665** | **13** | **11,546** | **603,129** |

**Year ended 31 December 2007**

| | Bank overdraft £'000 | Bank loans £'000 | 2003 Private Placement £'000 | 2006 Private Placement £'000 | Finance leases £'000 | Trade payables £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| Within 1 year | 16,104 | 27,699 | 7,091 | 4,846 | — | 19,158 | 74,898 |
| In 1-2 years | — | 25,111 | 7,091 | 4,846 | — | — | 37,048 |
| 2-3 years | — | 497,622 | 7,091 | 4,846 | — | — | 509,559 |
| 3-4 years | — | — | 7,091 | 4,846 | — | — | 11,937 |
| 4-5 years | — | — | 7,091 | 4,846 | — | — | 11,937 |
| 5+ years | — | — | 121,123 | 91,163 | — | — | 212,286 |
| | 16,104 | 550,432 | 156,578 | 115,393 | — | 19,158 | 857,665 |

The maturity profile of the Group's financial derivatives (which include interest rate and foreign currency exchange swaps), using undiscounted cash flows, is as follows:

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Payable £'000** | **Receivable £'000** | Payable £'000 | Receivable £'000 |
| Within 1 year | **13,876** | **14,757** | 20,226 | 21,058 |
| In 1-2 years | **11,427** | **12,371** | 18,656 | 18,248 |
| 2-3 years | **6,392** | **8,510** | 16,180 | 15,567 |
| 3-4 years | **5,615** | **7,803** | 10,529 | 9,404 |
| 4-5 years | **54,231** | **61,263** | 9,336 | 8,163 |
| 5+ years | **63,357** | **82,504** | 168,608 | 169,472 |
| | **154,898** | **187,208** | 243,535 | 241,912 |

The Group has access to financial facilities, the total unused amount of which is £295 million (2007: £152 million) at the balance sheet date. The Group expects to meet its obligations from operating cash flows and proceeds of maturing financial assets.

**(l) Fair value of financial instruments**
The fair values of financial assets and financial liabilities are provided by the counterparty to the instrument and are sense-checked by the Group using an on-line toolkit available from the Royal Bank of Scotland plc.

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.

# Company Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records that 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 1985. 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.

# Company Balance Sheet at 31 December 2008

| | Notes | 2008 £'000 | 2007 £'000 |
|---|---|---|---|
| **Fixed Assets** | | | |
| Tangible | 37 | **609** | 895 |
| Investments | 38 | **747,112** | 1,100,698 |
| | | **747,721** | 1,101,593 |
| **Current assets** | | | |
| Stocks | 39 | **243** | 253 |
| Debtors - due within one year | 40 | **77,640** | 80,019 |
| - due after more than one year | 40 | **478,303** | 445,671 |
| Cash at bank and in hand | | **401** | 1,319 |
| | | **556,587** | 527,262 |
| **Creditors:** amounts falling due within one year | 41 | **(105,966)** | (95,614) |
| **Net current assets** | | **450,621** | 431,648 |
| **Total assets less current liabilities** | | **1,198,342** | 1,533,241 |
| **Creditors:** amounts falling due after more than one year | 42 | **(517,926)** | (688,916) |
| **Provisions for liabilities** | 44 | **(1,220)** | (1,220) |
| **Net assets** | | **679,196** | 843,105 |
| **Capital and reserves** | | | |
| Called-up share capital | | | |
| Ordinary | 28 | **63,974** | 28,838 |
| Preference | 28 | **1,106** | 1,106 |
| | | **65,080** | 29,944 |
| Reserves | 45 | **614,116** | 813,161 |
| **Shareholders' funds** | | **679,196** | 843,105 |

The financial statements were approved by the Board of Directors on 11 March 2009 and were signed on its behalf by:

J A Fry, Chief Executive Officer

S R Paterson, Chief Financial Officer

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

# Notes to the Company Financial Statements for the year ended 31 December 2008 - continued

### 35. Significant Accounting Policies

The separate financial statements of the Company are presented as required by the Companies Act 1985. As permitted by that Act, the separate financial statements have been prepared in accordance with United Kingdom Applicable Accounting Standards. No profit and loss account is presented as permitted by section 230 of the Companies Act 1985. The Company's loss for the year, determined in accordance with the Act was £349,286,000 (2007: profit of £52,539,000). The financial statements have been prepared on the historical cost basis except for the revaluation of certain fixed assets and derivative financial instruments. The principal accounting policies adopted are set out below.

#### Going concern

The financial statements have been prepared on a going concern basis which the Directors believe to be appropriate for the reasons set out in the Liquidity section of the Business Review on page 18. The conditions described in the Business Review indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern and therefore the Company may be unable to continue to realise assets and discharge liabilities in the normal course of business. These financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

#### 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:

| | |
|---|---|
| Heritable and freehold property (excluding land) | 2.5% on written down value |
| Leasehold land and buildings | equal annual instalments over lease term |
| Other plant and machinery | 15% on written down value |
| | 6.67%, 10%, 20%, 25% and 33% straight line basis |
| Motor vehicles | 25% straight line basis |

#### 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.

#### Stocks

Stocks 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.

#### 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.

#### 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 balance sheet 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 balance sheet date. Timing differences are differences between the Group'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 balance sheet 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.

# Notes to the Company Financial Statements for the year ended 31 December 2008 - continued

### 35. Significant Accounting Policies (continued)

**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 hedge 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 a hedging and translation reserve.

Full details of the Group policy are summarised on page 59.

**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. 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 year.

### 36. Staff Costs

| | 2008 No. | 2007 No. |
|---|---|---|
| **Average number of employees** | | |
| Sales | 1 | 1 |
| Production | 6 | 7 |
| Administration | 28 | 24 |
| | 35 | 32 |

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| **Employee costs** | | |
| Wages and salaries | 3,016 | 3,591 |
| Social security costs | 322 | 325 |
| Other pension costs | 653 | 569 |
| | 3,991 | 4,485 |

## 37. Tangible Fixed Assets

| | Freehold buildings £'000 | Leasehold buildings £'000 | Plant and machinery £'000 | Motor vehicles £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| At 1 January 2007 | 590 | 400 | 267 | 59 | 1,316 |
| Additions | — | — | 56 | 97 | 153 |
| Disposals | — | — | (77) | (84) | (161) |
| At 31 December 2007 | 590 | 400 | 246 | 72 | 1,308 |
| Additions | 65 | — | — | — | 65 |
| Disposals | — | (400) | — | — | (400) |
| Asset reclassification | 54 | — | (54) | — | — |
| **At 31 December 2008** | **709** | **—** | **192** | **72** | **973** |
| **Depreciation** | | | | | |
| At 1 January 2007 | 120 | 81 | 229 | 55 | 485 |
| Disposals | — | — | (76) | (63) | (139) |
| Charge for year | 12 | 8 | 28 | 19 | 67 |
| At 31 December 2007 | 132 | 89 | 181 | 11 | 413 |
| Disposals | — | (94) | — | — | (94) |
| Charge for year | 20 | 5 | 2 | 18 | 45 |
| **At 31 December 2008** | **152** | **—** | **183** | **29** | **364** |
| **Carrying amount** | | | | | |
| **At 31 December 2008** | **557** | **—** | **9** | **43** | **609** |
| At 31 December 2007 | 458 | 311 | 65 | 61 | 895 |

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| a) Freehold land and buildings comprise: | | |
| At valuation | **590** | 590 |
| At cost | **119** | — |
| | **709** | 590 |

Professional valuations were carried out by members of the Royal Institute of Chartered Surveyors on certain of the Company's buildings at 31 December 1997.

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| b) Historical cost figures for freehold buildings are: | | |
| Cost | **661** | 542 |
| Depreciation | **(146)** | (133) |
| | **515** | 409 |

**38. Investments**

| | Subsidiary Undertakings £'000 | Unlisted investments £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2008 | 1,098,956 | 3,526 | 1,102,482 |
| Amounts relating to share based payments | 6,414 | — | 6,414 |
| **At 31 December 2008** | **1,105,370** | **3,526** | **1,108,896** |
| **Provisions for impairment** | | | |
| At 1 January 2008 | — | 1,784 | 1,784 |
| Provision for impairment | 360,000 | — | 360,000 |
| **At 31 December 2008** | **360,000** | **1,784** | **361,784** |
| **Net book value** | | | |
| **At 31 December 2008** | **745,370** | **1,742** | **747,112** |
| Net book value | | | |
| At 1 January 2008 | 1,098,956 | 1,742 | 1,100,698 |

An impairment charge has been reflected in the accounts 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.

**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 |
| Johnston (Falkirk) Ltd | Scotland | 100% | Newspaper publishers |
| Strachan & Livingston Ltd | Scotland | 100% | Newspaper publishers |
| Wilfred Edmunds Ltd | England | 100% | Newspaper publishers |
| North Notts Newspapers Ltd | England | 100% | Newspaper publishers |
| Yorkshire Weekly Newspaper Group Ltd | England | 100% | Newspaper publishers |
| Sussex Newspapers Ltd | England | 100% | Newspaper publishers |
| T R Beckett Ltd | England | 100% | Newspaper publishers |
| *Halifax Courier Ltd | England | 100% | Newspaper publishers |
| *Isle of Man Newspapers Ltd | Isle of Man | 100% | Newspaper publishers and printers |
| South Yorkshire Newspapers Ltd | England | 100% | Newspaper publishers |
| Yorkshire Regional 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 |
| Bedfordshire Newspapers Ltd | England | 100% | Newspaper publishers |
| Peterboro' Web Ltd | England | 100% | Contract printers |
| *Northampton Web Ltd | England | 100% | Contract printers |
| *Portsmouth Publishing & Printing Ltd | England | 100% | Newspaper publishers and printers |
| *Northeast Press Ltd | England | 100% | Newspaper publishers and printers |
| *The Tweeddale Press Group Ltd | Scotland | 100% | Newspaper publishers |
| *Yorkshire Post Newspapers Ltd | England | 100% | Newspaper publishers and printers |
| *Ackrill Newspapers Ltd | England | 100% | Newspaper publishers |
| *The Reporter Ltd | England | 100% | Newspaper publishers |
| *Sheffield 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 |

### 38. Investments (continued)

| Name of company | Country of incorporation and operation | Proportion of ownership interest | Nature of Business |
|---|---|---|---|
| *Blackpool Gazette & Herald Ltd | England | 100% | Newspaper publishers |
| *East Lancashire Newspapers Ltd | England | 100% | Newspaper publishers |
| Score Press Ltd | Scotland | 100% | Holding company |
| *Morton Newspapers Ltd | Northern Ireland | 100% | Newspaper publishers and printers |
| *Kilkenny People Publishing Ltd | Republic of Ireland | 100% | Newspaper publishers and printers |
| *Angus County Press Ltd | Scotland | 100% | Newspaper publishers |
| *Galloway Gazette Ltd | Scotland | 100% | Newspaper publishers |
| *Stornoway Gazette Ltd | Scotland | 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 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 and printers |
| *Tallaght Publishing Ltd | Republic of Ireland | 100% | Newspaper publishers |
| *Derry Journal Ltd | Northern Ireland | 100% | Newspaper publishers |
| *Century Newspapers Ltd | Northern Ireland | 100% | Newspaper publishers |
| *Donegal Democrat Ltd | Republic of Ireland | 100% | Newspaper publishers |
| The Scotsman Publications Ltd | Scotland | 100% | Newspaper publishers |
| *Clonnad Ltd | Republic of Ireland | 100% | Newspaper publishers |

*Held through 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.

### 39. Stocks

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Raw materials | 15 | 16 |
| Work-in-progress | 1 | 1 |
| Goods for resale | 227 | 236 |
| | 243 | 253 |

### 40. Debtors

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| **Amounts falling due within one year** | | |
| Amounts owed by subsidiary undertakings | 65,269 | 64,693 |
| Corporation tax recoverable | 11,913 | 15,105 |
| Trade and other debtors and prepayments | 155 | 221 |
| Derivative financial instruments - see note 23 | 303 | — |
| | 77,640 | 80,019 |
| **Amounts falling due after more than one year** | | |
| Amounts owed by subsidiary undertakings | 440,401 | 440,401 |
| Derivative financial instruments - see note 23 | 36,488 | 4,192 |
| Deferred tax asset - see below | 1,414 | 1,078 |
| | 478,303 | 445,671 |

# Notes to the Company Financial Statements for the year ended 31 December 2008 - continued

**40. Debtors (continued)**

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 | Share-based payments £'000 | Other timing differences £'000 | Total £'000 |
|---|---|---|---|---|---|
| At 31 December 2007 | 30 | 342 | 5 | 701 | 1,078 |
| Credit to profit and loss account | 2 | — | 318 | 339 | 659 |
| Debit to equity | — | — | (323) | — | (323) |
| **At 31 December 2008** | **32** | **342** | **—** | **1,040** | **1,414** |

**41. Creditors: amounts falling due within one year**

| | **2008 £'000** | 2007 £'000 |
|---|---|---|
| Borrowings - see note 43 | **10,202** | 19,466 |
| Amounts owed to subsidiary undertakings | **87,483** | 67,830 |
| Corporation tax | **—** | 126 |
| Other taxes and social security costs | **186** | 217 |
| Accruals and deferred income | **8,067** | 7,962 |
| Other creditors | **28** | 13 |
| | **105,966** | 95,614 |

**42. Creditors: amounts falling due after more than one year**

| | **2008 £'000** | 2007 £'000 |
|---|---|---|
| Borrowings - see note 43 | **510,311** | 672,834 |
| Derivative financial instruments - see note 23 | **7,615** | 16,082 |
| | **517,926** | 688,916 |

**43. Borrowings**

| **The Company's bank overdrafts and loans comprise:** | **2008 £'000** | 2007 £'000 |
|---|---|---|
| Bank overdrafts | **10,592** | 19,856 |
| Bank loans - sterling | **166,000** | 352,000 |
| Bank loans - euro denominated | **169,003** | 126,446 |
| 2003 Private placement of 10 year senior notes | **101,245** | 117,578 |
| 2006 Private placement of 8 and 10 year senior notes | **74,177** | 77,605 |
| | **521,017** | 693,485 |

## 43. Borrowings (continued)

| The borrowings are repayable as follows: | 2008 £'000 | 2007 £'000 |
|---|---|---|
| On demand or within one year | **10,592** | 19,856 |
| Within one to two years | **335,003** | — |
| Within two to five years | **101,245** | 478,446 |
| After more than five years | **74,177** | 195,183 |
| | **521,017** | 693,485 |
| Less amount due for settlement within one year | **(10,592)** | (19,856) |
| Amount due for settlement after more than one year | **510,425** | 673,629 |

The borrowings are shown in the Balance Sheet net of term debt issue costs of £504,000 of which £390,000 is deducted from current liabilities (2007: £1,185,000 of which £390,000 is deducted from current liabilities).

Other details relating to the bank overdrafts and loans are set out in note 22.

## 44. Provisions for liabilities

| | Unfunded pensions £'000 |
|---|---|
| At 31 December 2007 and 31 December 2008 | 1,220 |

The unfunded pension provision is assessed by a qualified actuary at each year end.

## 45. Reserves

| | Share Premium £'000 | Share-based Payments Reserve £'000 | Revaluation Reserve £'000 | Hedging and Translation Reserve £'000 | Retained Earnings £'000 | Other Reserves £'000 | Own Shares £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| Opening balance | 332,750 | 8,679 | 49 | 8,755 | 446,853 | 19,510 | (3,435) | 813,161 |
| Loss for the year | — | — | — | — | (349,286) | — | — | (349,286) |
| Revaluation adjustment | — | — | (1) | — | 1 | — | — | — |
| Dividends | — | — | — | — | (19,419) | — | — | (19,419) |
| Share premium on new share capital subscribed | 170,068 | — | — | — | — | — | — | 170,068 |
| Own shares purchased | — | — | — | — | — | — | (977) | (977) |
| Provision for share based payments | — | 1,385 | — | — | — | — | — | 1,385 |
| Change in fair value of financial instruments | — | — | — | (816) | — | — | — | (816) |
| **At 31 December 2008** | **502,818** | **10,064** | **48** | **7,939** | **78,149** | **19,510** | **(4,412)** | **614,116** |

Further details of share-based payments are shown in note 32.

# Group Five Year Summary

| | 2004 £'000 | 2005 £'000 | 2006 £'000 | 2007 £'000 | **2008 £'000** |
|---|---|---|---|---|---|
| **Income Statement** | | | | | |
| Revenue | 519,299 | 520,154 | 602,221 | 607,504 | **531,899** |
| Operating profit on ordinary activities | 178,211 | 180,210 | 186,773 | 178,142 | **128,414** |
| Share of associates' operating profit | 174 | 81 | 60 | 76 | **85** |
| Non-recurring items | (769) | (2,614) | (15,143) | (12,703) | **(528,090)** |
| Profit/(loss) before interest and taxation | 177,616 | 177,677 | 171,690 | 165,515 | **(399,591)** |
| Net interest payable | (27,817) | (26,314) | (40,136) | (40,801) | **(29,667)** |
| Profit/(loss) before taxation | 149,799 | 151,363 | 131,554 | 124,714 | **(429,258)** |
| Taxation | (43,187) | (43,572) | (35,899) | (11,159) | **63,788** |
| Profit/(loss) for the year | 106,612 | 107,791 | 95,655 | 113,555 | **(365,470)** |
| **Statistics** | | | | | |
| Basic earnings per share* | 27.47p | 27.67p | 24.42p | 28.91p | **(67.99p)** |
| Underlying earnings per share* | 27.74p | 28.44p | 26.93p | 25.08p | **13.41p** |
| Operating profit to turnover | 34.4% | 34.6% | 31.0% | 29.3% | **24.1%** |
| **Balance Sheet** | | | | | |
| Intangible assets | 927,557 | 1,300,443 | 1,483,733 | 1,503,624 | **1,057,886** |
| Property, plant and equipment | 156,742 | 222,178 | 268,342 | 273,381 | **260,498** |
| Investments | 2,798 | 2,760 | 2,745 | 2,751 | **2,772** |
| Derivative financial instruments | — | — | 6,598 | 4,192 | **36,791** |
| | 1,087,097 | 1,525,381 | 1,761,418 | 1,783,948 | **1,357,947** |
| Net current assets/(liabilities) | (84,836) | (41,147) | 24,526 | (2,378) | **8,097** |
| Total assets less current liabilities | 1,002,261 | 1,484,234 | 1,785,944 | 1,781,570 | **1,366,044** |
| Non current liabilities | (264,002) | (600,888) | (769,321) | (691,010) | **(519,728)** |
| Long term provisions | (342,872) | (400,876) | (442,810) | (406,785) | **(332,496)** |
| **Net Assets** | 395,387 | 482,470 | 573,813 | 683,775 | **513,820** |
| Shareholders' Funds | | | | | |
| Ordinary Shares | 28,532 | 28,666 | 28,787 | 28,838 | **63,974** |
| Preference Shares | 1,106 | 1,106 | 1,106 | 1,106 | **1,106** |
| Reserves | 365,749 | 452,698 | 543,920 | 653,831 | **448,740** |
| **Capital Employed** | 395,387 | 482,470 | 573,813 | 683,775 | **513,820** |

The 2004 year was a 53 week period. All years are reported under IFRS.

* The earnings per share have been restated to reflect the dilution factor of the Rights Issue completed in June 2008.

# Notice of Meeting

Notice is hereby given that the eightieth Annual General Meeting of the Company will be held in The Boardroom, The Caledonian Hilton Hotel, Princes Street, Edinburgh on 24 April 2009 at 12.00 noon to transact the following business of the Company:

1. To receive the Accounts for the year ended 31 December 2008 and the reports of the Directors and Auditors thereon.

2. To receive the Directors' Remuneration Report for the year ended 31 December 2008.

3. To re-elect Mr F P M Johnston and Mr P E B Cawdron and to elect Mr A R Marshall and Mr J A Fry as Directors of the Company.

4. To re-appoint Deloitte LLP, Chartered Accountants and Registered Auditors, as auditors of the Company and to authorise the Directors to fix their remuneration.

As special business, to consider and, if thought fit, pass the following Resolutions of which number 5 will be proposed as an Ordinary Resolution and numbers 6 and 7 will be proposed as Special Resolutions:-

**Ordinary Resolution**

5. That the Directors be and are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 ("the Act") to exercise all powers of the Company to allot relevant securities (as defined for the purpose of that section) up to a maximum nominal amount of £21,324,658. This authority shall expire on 24 April 2014 save that the Company may, before this authority expires, make an offer or agreement which would or might require relevant securities to be allotted after it expires. All previous general authorities under Section 80 of the Act shall cease to have effect.

**Special Resolutions**

6. That, subject to the passing of Resolution 5 set out in the notice of this meeting, the Directors be and are hereby empowered pursuant to the provisions of Section 95 of the Companies Act 1985 ("the Act") to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the authority granted by that Resolution for cash, as if sub-section (1) of Section 89 of the Act did not apply to any such allotment provided that this power shall be limited:

   (i) to the allotment of such equity securities in connection with a rights issue in favour of Ordinary Shareholders where the equity securities respectively attributable to the interests of all Ordinary Shareholders are proportionate (as nearly as may be) to the respective numbers of Ordinary Shares held by them subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body in, any territory; and

   (ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal value of £3,198,698.

   This power shall expire, unless previously revoked or varied, on the date of the Annual General Meeting of the Company held in 2010 save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

7. That the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of 10p each in the Company ('Ordinary Shares') PROVIDED THAT:

   (i) the maximum number of Ordinary Shares hereby authorised to be acquired is 63,000,000;

   (ii) the maximum price which may be paid for any such Ordinary Share is an amount equal to 105% of the average of the middle market quotations for an Ordinary Share as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased and the minimum price which may be paid for any such share is 10p (in each case exclusive of associated expenses); and

   (iii) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or 12 months from the date of the passing of this resolution, whichever is the earlier; but a contract of purchase may be made before such expiry which will or may be completed wholly or partly thereafter, and a purchase of Ordinary Shares may be made in pursuance of any such contract.

By Order of the Board

P R Cooper, ACA
Secretary
53 Manor Place
Edinburgh
EH3 7EG
11 March 2009

# Notice of Meeting - continued

**Notes**

A In accordance with the Articles of Association, only holders of Ordinary Shares of the Company are entitled to attend and vote at the Meeting.

B The time by which a person must be entered on the Company's Register of Members in order to attend, speak or vote at the meeting is 6pm on Wednesday 22 April 2009.

C An Ordinary Shareholder entitled to attend and vote at the Meeting is entitled to appoint a proxy to exercise all or any of his rights to attend and to speak and to vote on his behalf at the Meeting. An Ordinary Shareholder may appoint more than one proxy provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that Ordinary Shareholder. A proxy need not be a member of the Company.

D A form of proxy is enclosed for Ordinary Shareholders which, to be valid, must be completed in accordance with the instructions printed thereon and be lodged with the Company's Registrars not later than 48 hours before the time of the Meeting.

E Any person to whom this Notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") does not have the right to appoint a proxy. However a Nominated Person may, under an agreement between him and the Member by whom he was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he may, under any such agreement, have a right to give instructions to the Shareholder as to the exercise of voting rights.

F The statement of the rights of Shareholders in relation to the appointment of proxies in Notes B and C above does not apply to Nominated Persons The rights described in these paragraphs can only be exercised by Ordinary Shareholders of the Company.

G CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting and any adjournment thereof by using the procedures described in the CREST manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST manual. All messages relating to the appointment of a proxy or an instruction to a previously appointed proxy must be transmitted so as to be received by Computershare (ID 3RA50) no later than 6pm on Wednesday 22 April 2009. Normal system timings and limitations will apply in relation to the input of CREST proxy instructions. It is therefore the responsibility of the CREST member concerned to take such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsor(s) or voting service provider(s) are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST systems and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

H The Register of Directors' interests in the share capital of the Company maintained under section 325 of the Companies Act 1985, will be available for reference at the place of the Meeting from 11.30am until its conclusion.

I Corporate representatives: In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (icsa.org.uk) for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.

J Copies of all Directors' Service Contracts and letters of appointment of Non-Executive Directors will be available for inspection at the Registered Office of the Company during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this Notice until the date of the Meeting and on that date at the place of the Meeting from 11.30am until its conclusion.

# Advisers

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