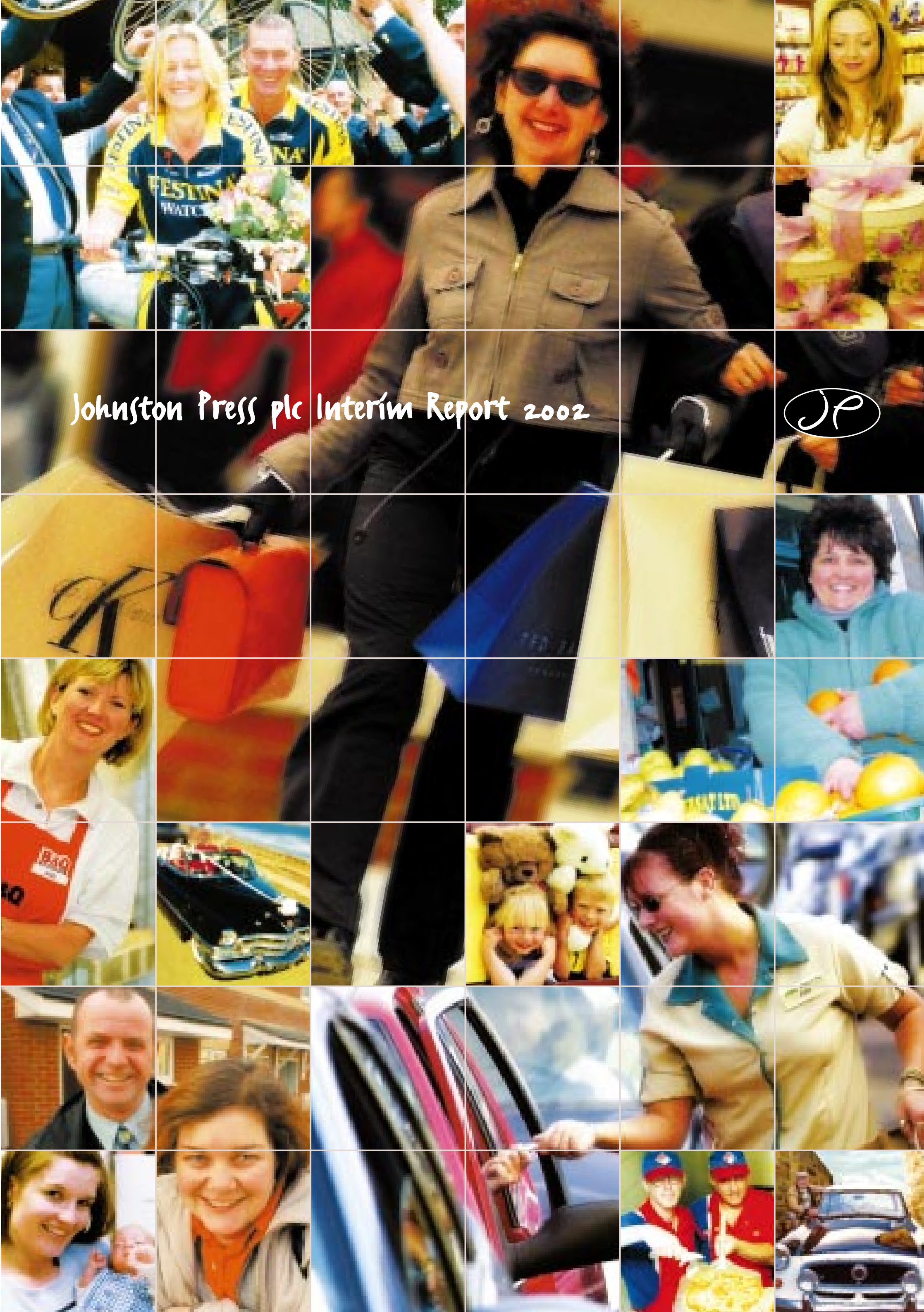
Johnston Press plc Interim Report 2002



Life is Local

Johnston Press is the only quoted newspaper publishing group in the UK that solely concentrates on the local and regional press.

Directors
R G Parry (Chairman)
T J Bowdler
S R Paterson
Sir Harry Roche
F P M Johnston, CBE
H C M Johnston
Lord Gordon of Strathblane, CBE
P E B Cawdron

Secretary
P R Cooper, ACA

Financial Calendar
August: Interim Results
November: Payment of Interim Dividend

Web Site: http://www.johnstonpress.co.uk

Registered Number 15382

Chief Executive's Half Year Statement

Despite the uncertain economic conditions that prevailed throughout the period under review, Johnston Press performed ahead of market expectations recording further satisfactory profit growth in the 26 weeks to 30 June 2002. This performance has been achieved as a result of continued modest growth in advertising revenues coupled with excellent control over operating costs throughout the Group.

The period also includes the acquisition of Regional Independent Media Holdings Limited (RIM) and the results contain an 11-week contribution from those businesses. The acquisition cost of £574 million including fees was funded by a 2 for 5 Rights Issue together with increased borrowings.

Operating profit before exceptionals increased by 29% to £62.1 million and on a like-for-like basis excluding RIM was 7% ahead. With the enlarged borrowings relating to the acquisition, and the exceptional cost of writing off the costs of the previous bank debt facility, interest charges increased by 64% to £13.2 million. Exceptional items of £3.7 million were incurred in restructuring and reorganising the RIM businesses and it is anticipated that there will be further such costs in excess of £1 million required during the balance of this year.

Headline earnings per share before exceptionals rose from 12.80p (adjusted for the bonus element of the Rights Issue) to 14.26p, an increase of 11.4%. The interim ordinary dividend payable on 1 November will be 1.8p per share, an increase of 9%, or 17% when taking into account the bonus element of the Rights Issue.

Trading Review - Existing Businesses

Total advertising revenue for the half-year grew on a like-for-like basis by 1.2%. This increase was as a result of improved yields offsetting marginally decreased volumes. With the exception of property, where there was a reduction in new homes advertising, yields increased in all categories, in part reflecting the significant recent investments in additional colour capacity. Market conditions varied significantly across the country with modest advertising revenue growth in Scotland, good increases in the North of England but declines in the South reflecting reduced volumes of recruitment advertising.

The only advertising categories to experience an overall like-for-like revenue

Chief Executive's Half Year Statement continued

decline were recruitment, which fell by 1.9% and motors by 0.2%. All other categories grew in the period under review. Property increased by 0.9% with growth strongest in the south of the country. Other classified grew by 5.3% in part reflecting a recovery from the effects of last year's foot-and-mouth outbreak. The growth of display by 2.9% was particularly encouraging and, within display, national advertising was ahead by 5.6% and local by 2.1%. The local display performance was assisted by the actions taken throughout the Group to improve sales staff retention.

The operating profit margin in the period increased from 31% to 33%. All publishing divisions achieved improved operating margins, reflecting the continued emphasis on cost management throughout the Group. There were particularly strong performances from the Northeast and North Midlands divisions with significant improvements in both margins and total operating profits.

Operating profits for the Print Division were only marginally lower, despite a reduction in external revenues as a result of our continuing strategy of printing as many of our own titles in-house as possible. The press expansion projects are now complete and press performances are showing an improvement. During the period, the closure of the Burgess Hill plant was successfully completed.

Circulations of our weekly titles increased by 0.7% in the period and two thirds of our 92 paid-for weeklies achieved growth. Performance from our 9 evening titles continued to prove more difficult with a reduction of 2.6% in the six months. This decline occurred in a period where there was inevitable temporary disruption caused by the press investment programme, and against the background of our continuing policy of reducing bulk sales.

Acquired Businesses

The acquisition of RIM was completed on 12 April 2002 and as anticipated, the quality of the business, its management and its opportunities within the enlarged Group are very encouraging. The RIM businesses have performed satisfactorily since their acquisition, integration plans are well advanced and the new operating structure is in place.

On a stand-alone basis for the 26 weeks ended 30 June 2002, the acquired companies achieved like-for-like advertising revenue growth of 1.1%. Across the various advertising categories, recruitment and motors were marginally down with increases in all other areas. Within display advertising, national was down but this was more than offset by strong local performances. The operating margin, before operating exceptionals, in the acquired businesses for the 11-week period was 27%. Rationalisation and integration costs incurred or committed as at 30 June 2002 were £3.7 million. A significant proportion of the further rationalisation costs anticipated in the second half relates to the proposed closure of the Harrogate Press.

Over the first six months of 2002, circulations of the RIM weekly titles increased by 1.8%. Over the same period the dailies declined by 4.1% of which 3.7% related to a reduction in bulk sales. It is encouraging to note the recent success of the Yorkshire Post in winning a number of prestigious awards including Regional Newspaper of the Year.

Media Ownership

During the period, we were disappointed by the negative outcome of the protracted Competition Commission inquiry into our proposed £16 million acquisition of eight free newspapers in the East Midlands from Trinity Mirror. As a result of consent being withheld for four of those titles, the deal did not proceed. We have made the Department of Trade & Industry aware of our concerns that the Commission failed properly to appreciate the competitive nature of the markets in which we operate or to take full account of the considerable volume of evidence we presented.

On a broader front, we are actively engaged in lobbying Government both directly and as a member of the Newspaper Society in respect of the draft Communications Bill. Whilst we welcome some of the proposals, we do have a number of concerns and we fear that the complexity of the proposed regime may not result in the deregulatory outcome envisaged by the Government.

Fair Value Adjustments

As required on acquisitions and in accordance with previous practice, Johnston Press has provisionally fair valued the assets and liabilities of RIM in line with Group accounting policies. Before the fair valuation of titles, the net impact is a reduction of £8.6 million in the vendor asset value, being the result of decreased asset and investment values, providing for the pension deficit and aligning provisioning policies on stocks, debtors, and other liabilities. These adjustments have been partially offset by recognition of a deferred tax asset.

Chief Executive's Half Year Statement continued

Borrowings and Gearing

The Group's total borrowings, before term debt issue costs, were £564 million at 30 June 2002, significantly lower than the level immediately after completion of the acquisition of RIM. This reduction has been possible because of the strong underlying cash flows in the enlarged business and lower levels of capital expenditure as the press development project comes to an end. Interest cover, before exceptionals, for the period was 5.3 times.

Outlook

We have made a satisfactory start to the second half with continued modest revenue growth. Costs remain under close control to ensure that our enlarged business is well placed to accommodate any possible reduction in advertising revenues.
The integration of RIM is proceeding satisfactorily and is expected to make a positive contribution to our performance in the coming months and years.

Although markets remain uncertain, Johnston Press is well placed to make further progress in the second half.

T J Bowdler
Chief Executive
28 August 2002

Independent Review Report to Johnston Press plc

Six Months to 30 June 2002

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2002 which comprises the profit and loss account, the balance sheet, the cash flow statement and related notes 1 to 12. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2002.

Deloitte & Touche
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh EH1 2DB
28 August 2002

Group Profit and Loss Account

Six Months to 30 June 2002

	Notes	26 weeks to 30.06.02 Before exceptional items £'000	26 weeks to 30.06.02 Exceptional items £'000	26 weeks to 30.06.02 Total £'000	26 weeks to 30.6.01 £'000	52 weeks to 31.12.01 £'000
Turnover						
Existing operations		**155,159**	**—**	**155,159**	153,935	300,615
Acquisitions		**38,405**	**—**	**38,405**	—	—
Total turnover - continuing operations	2	**193,564**	**—**	**193,564**	153,935	300,615
Operating profit						
Existing operations		**51,853**	**(548)**	**51,305**	48,052	89,461
Acquisitions		**10,278**	**(577)**	**9,701**	—	—
Total operating profit - continuing operations	3	**62,131**	**(1,125)**	**61,006**	48,052	89,461
Share of associates' operating profit		**204**	**—**	**204**	224	397
Exceptional items	4	**—**	**(3,732)**	**(3,732)**	(5,014)	(5,014)
Profit on ordinary activities before interest and taxation		**62,335**	**(4,857)**	**57,478**	43,262	84,844
Net interest	5	**(11,750)**	**(1,456)**	**(13,206)**	(8,067)	(16,298)
Profit on ordinary activities before taxation		**50,585**	**(6,313)**	**44,272**	35,195	68,546
Taxation on profit on ordinary activities	6	**(14,899)**	**1,893**	**(13,006)**	(10,199)	(19,958)
Profit for the financial period		**35,686**	**(4,420)**	**31,266**	24,996	48,588
Dividends	7	**(5,177)**	**—**	**(5,177)**	(3,395)	(10,015)
Retained profit for period		**30,509**	**(4,420)**	**26,089**	21,601	38,573
Earnings per Share - restated	12					
Headline		**14.26p**			12.80p	23.65p
Headline diluted		**14.17p**			12.73p	23.52p
Basic				**12.49p**	11.16p	21.69p
Basic diluted				**12.41p**	11.10p	21.57p

Group Balance Sheet

At 30 June 2002

		Notes	At 30.6.02 £'000	At 30.6.01 £'000 Restated	At 31.12.01 £'000
Fixed Assets					
Intangible		8	**932,567**	425,219	425,494
Tangible			**163,782**	106,104	118,541
Investments			**5,050**	5,177	5,137
			1,101,399	536,500	549,172
Current Assets					
Stocks			**2,885**	2,038	2,030
Debtors:	due within one year		**72,771**	47,461	35,503
	due after more than one year		**6,556**	3,287	6,501
Cash at bank and in hand		10	**11,859**	7,194	9,138
			94,071	59,980	53,172
Creditors:	amounts falling due within one year		**(138,413)**	(87,620)	(89,826)
Net current liabilities			**(44,342)**	(27,640)	(36,654)
Total assets less current liabilities			**1,057,057**	508,860	512,518
Creditors:	amounts falling due after more than one year		**(518,116)**	(228,734)	(212,016)
Provisions for liabilities and charges			**(3,277)**	(9,462)	(12,493)
Net assets			**535,664**	270,664	288,009
Capital and Reserves					
Called-up share capital		9	**29,363**	21,219	21,242
Reserves			**506,301**	249,445	266,767
Shareholders' funds		11	**535,664**	270,664	288,009

The Interim Report was approved by the Board of Directors on 28 August 2002.

Group Cash Flow Statement

Six Months to 30 June 2002

	26 weeks to 30.6.02 £'000	26 weeks to 30.6.01 £'000	52 weeks to 31.12.01 £'000
Operating profit	**61,006**	48,052	89,461
Exceptional items	**(3,456)**	(160)	(621)
Depreciation	**7,725**	5,755	11,600
Development grant amortisation	**—**	—	(14)
Loss/(profit) on sale of tangible fixed assets	**111**	(25)	79
Decrease/(increase) in working capital	**900**	(10,194)	(2,883)
Net cash inflow from operating activities	**66,286**	43,428	97,622
Income from fixed asset investments	**1,016**	1,239	1,346
Net interest paid	**(11,933)**	(9,342)	(17,187)
Preference dividends paid	**(76)**	(76)	(152)
Returns on investment and servicing of finance	**(10,993)**	(8,179)	(15,993)
Taxation	**(8,108)**	(6,190)	(19,317)
Purchase of tangible fixed assets	**(8,329)**	(10,830)	(25,910)
Sale of tangible fixed assets	**1,137**	571	1,609
Sale of investment	**2**	—	5
Capital expenditure and financial investment	**(7,190)**	(10,259)	(24,296)
Purchase of businesses and subsidiary undertakings	**(573,537)**	(5,935)	(6,230)
Sale of subsidiary undertakings	**225**	225	225
Acquisitions and disposals	**(573,312)**	(5,710)	(6,005)
Equity dividends paid	**(6,559)**	(6,034)	(9,353)
Net cash (outflow)/inflow before financing	**(539,876)**	7,056	22,658
Issue of ordinary share capital	**221,665**	33	472
Additional/(repayment of) loan capital - net	**325,370**	(10,440)	(28,999)
Finance leases	**(31)**	(9)	(17)
Term debt issue costs	**(6,845)**	—	—
Financing	**540,159**	(10,416)	(28,544)
Increase/(decrease) in net cash	**283**	(3,360)	(5,886)

Notes

Six Months to 30 June 2002

1. Basis of Preparation

The Interim Reports for the six months ended 30 June 2002 and 30 June 2001 are unaudited, but have been prepared on the basis of accounting policies expected to be adopted in the annual accounts for the year ending 31 December 2002. These are consistent with those set out in the audited accounts for the year ended 31 December 2001. The results for the year ended 31 December 2001 are an abridged version of the Company's full accounts which carried an unqualified auditors' report and which have been filed with the Registrar of Companies.

The Group has adopted the provisions of FRS10 in respect of the valuation of intangible fixed assets. In our assessment of the value of our publishing titles, shown as intangible assets, it has been decided that these should not be depreciated since they have an indefinite life, and impairment tests, in accordance with FRS11, support this treatment.

The Group adopted the provisions of FRS19 in fully providing for deferred taxation at 31 December 2001. The balance sheet at 30 June 2001 has been restated to reflect the full provision for deferred taxation at that date.

On 12 April 2002, the Group acquired Regional Independent Media Holdings Limited.

2. Turnover

	26 weeks to 30.6.02 £'000	26 weeks to 30.6.01 £'000	52 weeks to 31.12.01 £'000
Turnover represents:			
Continuing operations			
Newspapers and contract printing			
Existing operations	**155,159**	153,935	300,615
Acquisitions	**38,405**	—	—
Total turnover	**193,564**	153,935	300,615

3. Operating Profit

	26 weeks to 30.6.02 £'000	26 weeks to 30.6.01 £'000	52 weeks to 31.12.01 £'000
Operating profit represents:			
Continuing operations			
Newspapers and contract printing			
Existing operations	**51,305**	48,052	89,461
Acquisitions	**9,701**	—	—
Total operating profit	**61,006**	48,052	89,461

Notes continued

4. Exceptional Items

	26 weeks to 30.6.02 £'000	26 weeks to 30.6.01 £'000	52 weeks to 31.12.01 £'000
Closure of Southern Web operation	**—**	5,014	5,014
Fundamental reorganisation of production, new media and administration departments following acquisition of new titles	**3,732**	—	—
	3,732	5,014	5,014

£1,125,000 of other exceptional items relating to other redundancy and restructuring costs are included within operating profit (26 weeks to 30 June 2001 - £237,000)

5. Net Interest

	26 weeks to 30.6.02 £'000	26 weeks to 30.6.01 £'000	52 weeks to 31.12.01 £'000
Net interest paid	**11,750**	8,067	16,298
Exceptional cost of writing off term debt issue costs of previous bank facility	**1,456**	—	—
	13,206	8,067	16,298

6. Taxation

The taxation charge for the six months to 30 June 2002 has been provided on the basis of the estimated effective tax rate for the year to 31 December 2002. The charge for the six months to 30 June 2002 includes a tax credit of £1,893,000 (26 weeks to 30 June 2001 - £1,575,000) in respect of the exceptional items in notes 4 and 5.

7. Dividends

	26 weeks to 30.6.02 £'000	26 weeks to 30.6.01 £'000	52 weeks to 31.12.01 £'000
Preference	**76**	76	152
Ordinary	**5,101**	3,319	9,863
	5,177	3,395	10,015

The interim ordinary dividend of 1.8p per share (2001 – 1.65p) is payable on 1 November 2002 to shareholders on the register at close of business on 8 October 2002.

8. Intangible Assets

The increase in intangible assets arises from the acquisition of Regional Independent Media Holdings Ltd.

	£'000
Cost of investment	**573,537**
Fair value of net assets acquired	**(375,677)**
Cost allocated to intangible assets	**197,860**
Value of intangible assets included in net assets acquired	**309,213**
Increase in value of intangible assets	**507,073**

9. Share Capital

	At 30.6.02 000's	At 30.6.01 000's	At 31.12.01 000's
Ordinary shares of 10p each	**282,575**	201,134	201,365
13.75% Cumulative Preference shares of £1 each	**756**	756	756
13.75% "A" Preference shares of £1 each	**350**	350	350

The increase from 31 December 2001 in the number of Ordinary shares arose from:

	000's
A rights issue of 2 for 5 relating to the Group's acquisition of Regional Independent Media Holdings Ltd	**80,730,857**
Exercise of share options under the Group's Sharesave and Executive Share Option Schemes	**479,417**

10. Analysis of Net Debt

	31 December 2001 £'000	Cash flow £'000	Other non-cash charges £'000	30 June 2002 £'000
Cash at bank and in hand	9,138	2,721	—	**11,859**
Overdrafts	(5,877)	(2,438)	—	**(8,315)**
Increase in net cash	3,261	283	—	**3,544**
Bank loans	(179,881)	(343,204)	—	**(523,085)**
Loan stock	(61,742)	17,834	—	**(43,908)**
Finance leases	(133)	31	—	**(102)**
Term debt issue costs	1,627	6,845	(1,969)	**6,503**
Net debt	(236,868)	(318,211)	(1,969)	**(557,048)**
Interest Cover (excluding exceptional items)	5.6 times			**5.3 times**

Notes continued

11. Reconciliation of Movements in Shareholders' Funds

	26 weeks to 30.6.02 £'000	26 weeks to 30.6.01 £'000 Restated	52 weeks to 31.12.01 £'000
Profit for the period	**31,266**	24,996	48,588
Dividends	**(5,177)**	(3,395)	(10,015)
Other recognised gains and losses (net)	**(99)**	33	(33)
Share issues net	**221,665**	33	472
Net increase in shareholders' funds	**247,655**	21,667	39,012
Opening shareholders' funds	**288,009**	248,997	248,997
Closing shareholders' funds	**535,664**	270,664	288,009

12. Earnings per Share

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

	Headline		Basic/Diluted	
	June 2002 £'000	June 2001 £'000	**June 2002 £'000**	June 2001 £'000
Profit for the period	**31,266**	24,996	31,266	24,996
Exceptional items (notes 4 and 5)	**6,313**	5,251	—	—
Tax effect of exceptional items	**(1,893)**	(1,575)	—	—
Preference dividend	**(76)**	(76)	(76)	(76)
	35,610	28,596	31,190	24,920

	June 2002 No. of shares	June 2001 No. of shares
Weighted average number of shares		
For headline/basic earnings per share	**249,768,704**	223,331,127
Exercise of share options	**1,472,856**	1,230,091
For diluted earnings per share	**251,241,560**	224,561,218

The weighted average number of shares for both periods has been adjusted by the dilution effect of the rights issue.

Divisional Structure

Newspaper Publishing

Johnston Newspapers (Scotland)
Johnston (Falkirk) Ltd
Strachan & Livingston Ltd
The Tweeddale Press Group Ltd
Regional Independent Media Scotland Ltd
Isle of Man Newspapers Ltd
Johnston Newspapers (Northeast)
Northeast Press Ltd
Johnston Newspapers (North of England)
Yorkshire Post Newspapers Ltd
The Halifax Courier Ltd
Yorkshire Weekly Newspaper Group Ltd
Yorkshire Regional Newspapers Ltd
Ackrill Newspapers Ltd
The Reporter Ltd
Johnston Newspapers (Northwest)
Lancashire Evening Post Ltd
Blackpool Gazette & Herald Ltd
Lancashire Publications Ltd
East Lancashire Newspapers Ltd
Lancaster & Morecambe Newspapers Ltd
Johnston Newspapers (North Midlands/South Yorkshire)
Sheffield Newspapers Ltd
Wilfred Edmunds Ltd
North Notts Newspapers Ltd
South Yorkshire Newspapers Ltd
Johnston Newspapers (East Midlands)
East Midlands Newspapers Ltd
Welland Valley Newspapers Ltd
Anglia Newspapers Ltd
Johnston Newspapers (South Midlands)
Northamptonshire Newspapers Ltd
Premier Newspapers Ltd
Central Counties Newspapers Ltd
Bedfordshire Newspapers Ltd
Johnston Newspapers (South of England)
Portsmouth Publishing & Printing Ltd
TR Beckett Ltd
Sussex Newspapers Ltd

Web Printing

Peterboro' Web Ltd
Northampton Web Ltd
Hartlepool Web
Sunderland Web
Portsmouth Web
Leeds Web
Sheffield Web

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