7 September 2010

Company Announcements Office
Australian Stock Exchange Limited
Level 6
20 Bridge Street
SYDNEY NSW 2000

***By electronic lodgement***

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**ANNUAL FINANCIAL STATEMENTS**

Following are the annual financial statements, for the year ending 30 June 2010.

Yours faithfully

**For and on behalf of**
**West Australian Newspapers Holdings Limited**

**Peter Bryant**
**Chief Financial Officer & Company Secretary**

**08 9482 3138**

# West Australian Newspapers Holdings Limited
**A.B.N. 91 053 480 845**

## Financial and other reports - 30 June 2010

# West Australian Newspapers Holdings Limited

## Financial and other reports - 30 June 2010

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The financial report covers the consolidated financial statements for the Group consisting of West Australian Newspapers Holdings Limited and its subsidiaries. The financial report is presented in the Australian currency.

West Australian Newspapers Holdings Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is Newspaper House, 50 Hasler Road, Osborne Park, WA 6017.

A description of the nature of the Group's operations and its principal activities is included in the review of operations and activities in the directors' and chief executive officer's reports, both of which are not part of the financial report.

The financial report was authorised for issue by the directors on 7 September 2010. The directors have the power to amend and reissue the financial report.

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## West Australian Newspapers Holdings Limited

## Chief Executive Officer's Report

I have been CEO of the Group for just under two years and I can honestly say I have enjoyed almost every day. It's a great company, with great people. We made significant progress during the 2010 financial year, against a backdrop which included the remnants of the Global Financial Crisis and more recently the ill-fated Resources Super Profits Tax (RSPT). Both events impacted the Group.

However, we appear to have ridden out the storm and through sound management practice, the efforts of a reinvigorated executive team and committed staff we have maintained margins, cash flow and profitability levels and we can now look forward to the future.

In my report last year, I said I believed that the future success of the Group was underpinned by maintaining a focus on getting the basics right.

We have come a very long way and I think we can now say with confidence the basics are looking pretty good. While there will always be scope for improvement, the business and the market in which we operate will continue to evolve and we will make changes to accommodate the evolution.

Financially, we finished the year with a solid result, despite being thrown a curve ball in early May, when the former Prime Minister, Mr Rudd, announced the RSPT, which at the time took more than a little momentum out of the Western Australian economy.

Last year's results were impacted by a one off restructuring provision, which related largely to a redundancy program. If we adjust for the impact of the redundancy program on the 2009 results, this year's NPAT is more or less at parity with the prior year.

I am very pleased with this result, which I can tell you was well up on our internal budgets.

Reported Earnings Per Share for the year was 45.0 cents, up 8.4% year on year.

The company proposes to pay a final dividend of 26 cents, fully franked. This brings the total dividends for the year to 45 cents, up 36% on last year.

The policy in relation to dividends has not changed from the one announced in February 2009, which is to pay the maximum appropriate dividend, with regard to the company's debt and capital management requirements.

The company also maintained its Dividend Reinvestment Policy (DRP) and held the discount at 3%, which is consistent with the level of discount applied to the past two dividend payments. The take up rate for the plan is currently 41.3%.

Total revenue for the Group was down 2.2% for the year due primarily to a reduction in advertising volumes. The good news is, from a soft GFC impacted start, we saw positive trends throughout the year. The reduction in revenue was offset by the effective management of consolidated expenditure, which for the year was also down 2.2%.

I have said in the past, we are not about cost cutting; we are about spending money more effectively and wisely. We have and will continue to do so.

One of our focal points during the year was newsprint, which at approximately $55 million in expenditure per annum represents the second biggest cost to the Group.

Over the past decade we have sourced 90% of our newsprint from one supplier, under a long term contract which expired on June 30 this year. Rather than simply rolling into another similar long term arrangement, with the same supplier, we saw the expiry of the contract as a unique opportunity to undertake a detailed review of our newsprint supply arrangements.

We invested a lot of time and effort to ensure we had the best possible supply arrangements for the future. Much improved in terms of financial outcome, whilst remaining conscious of environmental impact and OHS controls. I am very happy with the outcome of the newsprint review process and I would like to summarise the final position.

The Group has entered into supply contract with three newsprint suppliers: Jeonju Paper Corporation South Korea, UPM France and the incumbent, Norwegian-owned Norske Skog.

The Jeonju and UPM contracts account for 80% of consumption. The contracts, which are in Australian dollars, run for three years.

The Norske Skog contract, which accounts for the remaining 20% of consumption, runs for 12 months, at the conclusion of which we will consider our options.

## Chief Executive Officer's Report (continued)

To help mitigate increased supply chain risk, which flows from the increased complexity of importing from South Korea and France, we have more than doubled the quantity of newsprint we have in storage in Perth.

Considerable savings will be delivered by this new arrangement.

Perhaps a less obvious, but in my view more significant, message to come from the newsprint deal is the company's willingness, in fact desire, to challenge the status quo and make and embrace change when change is required.

So, what is front of mind for the year ahead?

In a word, priority one is quality, but by that I don't mean going "upmarket".

What we are focused on is quality in what we produce, quality in how we produce it and quality in our people, our systems and our processes.

To continue to invest in quality is one of the most important things we as a company and in fact an industry as a whole can do.

If there is a lesson to be taken from the decline in the newspaper sector in some overseas markets, I think it is "don't compromise your product". To the contrary, we must improve our products to ensure they remain relevant and desirable to our readers and advertisers.

Over the past year we have invested in the quality of our editorial product, and we plan to continue to focus on it as we move forward.

We have invested in the establishment of the correct structures and processes. We have a Group Editor-in-Chief, the highly respected and regarded Bob Cronin, a great Editor in Brett McCarthy and our new Walkley Award winning Deputy Editor, Michael Beach.

We have recruited two Walkley Award winners to join the team; Colleen Egan and Michael Beach. In addition, we have 22 other staff in our editorial team who have received various industry awards.

All of the above means improvement in the editorial quality of our product and I am heartened and proud of the feedback I continue to receive from the community and business alike about how they believe The West Australian continues to improve.

Under our new Sales Director, David Bignold, our focus is on developing creative, out of the box solutions for our advertising clients. We don't just want to take their ad orders; we want to work with them to come up with ways that our products can improve their profitability. If, through their relationship with us, their cash registers ring, then our future looks good.

An initiative of which I am very proud is our on-line auction, Click2Bid. Besides being spectacularly successful for advertisers, readers and the company it won first place at the Annual International News Media Association Awards, in New York, for Advertising Sales and Retention initiatives, beating out the other finalists, the Sydney Morning Herald and the New York Times.

We have also formed a unique relationship with the State Government, to organise, run and promote a trade Skills Expo in WA.

Thousands of young people were attracted to Perth from across the State for the Skills West Expo. The initiative was aimed at addressing the anticipated skills shortage in WA and actively encouraging and promoting career opportunities in the trades area.

State Government departments and large, medium and small companies supported the Skills West Expo .

## Chief Executive Officer's Report (continued)

Even if the projected skills shortage is not as bad some fear, it is a fantastic investment for WA to have its young people trained in good, solid trades.

Through the course of their working lives they will make a massive contribution to the prosperity of the State and its future generations.

Skills West Expo did not just focus on skills associated with resources and mining – there were a plethora of other industries which offered fabulous opportunities for people to develop skills and provide for a very rewarding career.

As well as the community involvement and leadership role WAN took by being the catalyst for Skills West Expo, we were also able to leverage off this initiative to secure advertising revenue across the Group. We are planning a number of other expo events, which we will conduct ourselves and which will yield additional new revenue.

Our investment in the quality of our advertising offerings has not all been focused on the front end.

We have successfully completed the implementation of a new advertising management system, which provides a solid, yet flexible backbone which can be used to facilitate more individually targeted ad packages across the Group.

We will also continue to invest in the quality of our production, infrastructure and back office function. Although these areas may lack the glitz and external exposure of the editorial and advertising functions, they are equally important. It does not matter what editorial produces, or what advertising sells, if we can't produce the product, if we can't distribute the product and if we can't ensure we get paid, then it's game over.

Our relationship with Skywest, which was formed during the year, is very strong and has delivered great results. Our Saturday Skywest service, which commenced in mid May sees our Saturday edition arrive into the North West well in advance of the shops opening, compared to the structure prior to Skywest when the paper arrived mid morning or sometimes mid afternoon. We plan to expand our current Saturday service to the North West to cover the remainder of the week.

We have continued to focus on the development and maintenance of our production facilities, to ensure they remain amongst the best in the world.

I don't use best in the world as a throw away line. Our production facilities and staff are among the best in the world, and this has been recognised internationally this year by IFRA - the World Association of Newspapers and News Publishers, who, after considerable, prolonged and stringent technical testing in 164 countries, admitted The West Australian, 7 Days magazine and The West's New Homes magazine to the International Newspaper Colour Quality Club.

Equally as important as the initiatives outlined above, we have and will continue to invest in systems and processes. We have a new Finance system due to come on-line in early 2011, and will shortly assess options for a new Circulation system.

The significance of these system changes, coupled with the recently commissioned new Advertising system, should not be underestimated. As previously said, these systems are replacing 20-plus-year-old "green screen" technology. The impact of the change has been, and will be, significant. Both in terms of the change being absorbed by our staff, and in terms of the flexibility the new systems will give us as we move forward.

As it has been in the past, Digital remains front of mind. We are very aware of the digital environment. We are very happy with the advances we have made, but we understand the need to continue to develop our digital assets.

We don't have an innate desire to be at the cutting edge, or perhaps more appropriately, the bleeding edge, when it comes to Digital. We are very happy to take well thought out steps that enhance our business. We are not happy to jump in boots and all, with our eyes closed, simply so we can claim to be in the digital space.

Our news site continues to perform exceptionally well from a site traffic perspective and is, and has been since it launched, the number one site in WA.

The reality is, even as the number one site, it just washes its face. A fact that is perhaps reflective of the challenges the industry faces in the provision of on-line news.

We continue to closely monitor the industry and moves being made to implement a user pays model. We were happy to see News Corp make steps towards a user paid model, with the establishment of a paywall for The Times and The Sunday Times in London. We were also happy to see a user paid model for their iPad application for The Australian.

Our Wjobs site, which was launched in Quarter 4, currently has a total of 15,000 jobs, with 3,000 in WA. The site has experienced modest growth in traffic since its launch, and we are continuing to focus on growing the site.

## Chief Executive Officer's Report (continued)

In July 2010 we acquired a 25% equity holding in bloo.com.au, WA's number one business directory.

Finally on Digital we are continuing to investigate opportunities in various classified categories. There are a couple we like, which may or may not materialise. When, and if they do, we will let you know.

We have invested in, and worked hard on, our Regional assets over the past year and I am very pleased with the progress we have made. There is still work to be done to bring our regional infrastructure, office systems and processes up to standard, but we have already reached a point where there is scope to expand.

In June we relocated our Radio Group into new state-of-the-art, purpose built studios, in our Newspaper House complex.

We now have capacity that facilitates expansion. That said, expansion in the radio space is highly regulated by licensing laws, thus to grow our footprint is likely to require acquisition. We have our eyes on some assets. Who knows if we will be able to convert desire to reality.

Our newspaper Group is not constrained by licensing laws and expansion in this market will likely be through creation, not acquisition.

Finally, the basics – Advertising, Circulation, Editorial and cost management.

Our focus on quality is all related to the basics. It is a sub-section really - quality will enhance all of the basics.

We have a great business, one that we are very proud of and one that I am very proud to be a part of.

Finally, and most importantly, I would like to thank our excellent Board for their support and guidance, the dynamic Executive team for their ongoing efforts and our fine staff for their continued support. We will, continue to embark on some significant changes to the way we do business. The ultimate prize will be growth of the Group and increased shareholder returns.

## Directors' report

Your directors present their report on the Group consisting of West Australian Newspapers Holdings Limited and the entities it controlled at the end of, or during, the year ended 30 June 2010.

### Directors

The following persons were directors of West Australian Newspapers Holdings Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

KM Stokes AC – Chairman
DR Flynn
PJT Gammell
GT John AO
DR Voelte
SMC Walsh AO

RK Stokes and BI McWilliam are alternate directors to KM Stokes and PJT Gammell respectively. Mr Stokes and Mr McWilliam do not receive any remuneration for acting as alternate directors.

**Kerry Stokes AC - Chairman - Non-executive director**
Mr Stokes, 69, has been the Executive Chairman of Seven Group Holdings Limited since its formation in May 2010, prior to which he was the Executive Chairman of Seven Network Limited, from July 1999, and Non-Executive Chairman from June 1995.

He is Chairman of Australian Capital Equity Pty Limited, which has significant interests in activities which include media and entertainment, research and technology development, property and industrial activities.

Mr Stokes is a Companion in the General Division of the Order of Australia (AC).

**Doug Flynn - Independent non-executive director**
Mr Flynn, 61, graduated in chemical engineering from the University of Newcastle, New South Wales. He received an MBA with distinction from Melbourne University in 1979.

Mr Flynn was appointed Chief Executive of newspaper publisher Davies Brothers Limited in 1987, the company was acquired by News Corporation in 1989.

During his career at News Limited Group, Mr Flynn held positions as Deputy Managing Director of News International Newspapers Ltd, Director of News International Plc, and Managing Director of News International Plc.

Mr Flynn then held Chief Executive positions with Aegis Group Plc and Rentokil Initial Plc in London, before returning to Australia in 2008.

In April 2008 he became a consultant to, and a director of, Qin Jia Yuan Media Services Ltd, the leading private television company in China.

**Peter Gammell - Non-executive director**
Mr Gammell, 53, is the Deputy Chairman of Australian Capital Equity Pty Ltd (ACE), the holding company associated with Mr Kerry Stokes. He was the Managing Director for the last 20 years.

Mr Gammell was recently appointed Chief Executive Officer of Seven Group Holdings Limited, a public company listed on the Australian Stock Exchange which was formed as a result of the merger of Seven Network Limited and WesTrac Holdings Pty Ltd.

Mr Gammell served as a Director of Seven Network Limited for the last 14 years. He was Chairman of the Seven Network Limited Finance Committee and was a member of the Audit committee. He is the Chairman of Coates Hire, Australia's largest equipment hire company.

Mr Gammell is a former Director of Federal Capital Press Pty Ltd, the publisher of the Canberra Times (1989 – 1998) and is a former Director of the Community Newspaper Group (1996 – 1998).

Mr Gammell is a member of the Institute of Chartered Accountants of Scotland and holds a Bachelor of Science degree from the University of Edinburgh.

**Graeme John AO - Independent non-executive director**
Mr John, 67, was Managing Director of Australia Post from 1993 to 2009. He is a Fellow of the Chartered Institute of Transport and a Member of the Australian Institute of Company Directors. He is a Board member of QR National, Racing Victoria and an AFL Commissioner.

He is a former Chairman of the Board of the Kahala Posts Group, Board member of the International Post Corporation (Netherlands), and Vice-Chairman of Sai Cheng Logistics International (China), a joint venture with China Post.

Mr John was awarded the Officer of the Order of Australia (AO) in 2003, for service to business and to the community. He is also a recipient of the Centennial Medal and the Australian Sports Medal.

## Directors' report (continued)

### Directors (continued)

#### Don Voelte - Independent non-executive director

Mr Voelte, 57, has significant experience in the global oil and gas industry, and has been Managing Director and Chief Executive Officer of Woodside Petroleum Limited since joining the company in 2004.

Prior to joining Woodside Petroleum Limited, Mr Voelte held a number of Senior Executive positions in the oil and gas sector.

Mr Voelte is a member of the Board of Woodside Petroleum Limited and the University of Western Australia Business School, and is a member of the Society of Petroleum Engineers, the American Society of Civil Engineers, the Chi Epsilon Honor Society, a Foreign Fellow to ATSE (FTSE) and a Fellow to the Australian Institute of Company Directors (AICD). He is a trustee of the University of Nebraska Foundation and was awarded the University of Nebraska Engineering Alumni of Year in 2002.

He has a degree in Civil Engineering, from the University of Nebraska.

#### Sam Walsh AO - Independent non-executive director

Mr Walsh, 60, was appointed Chief Executive of Rio Tinto Iron Ore in December 2004, with responsibilities including Rio Tinto's iron ore operations in Australia, Canada, Guinea and India.

In June 2009, Mr Walsh was appointed as an executive director to the Boards of Rio Tinto Plc and Rio Tinto Limited, and in November 2009 he was appointed chief executive of Rio Tinto Australia. He is also the Rio Tinto Executive Committee sponsor for Australia, India and West Africa.

Prior to joining Rio Tinto, Mr Walsh worked in the automotive industry for more than 20 years in Australia and the USA.

He has a Bachelor of Commerce from Melbourne University and has completed a Fellowship Program at Kettering University in Michigan. He was awarded Honorary Doctor of Commerce in January 2010 by Edith Cowan University.

Mr Walsh is a Fellow of the Australian Institute of Management, the Australian Institute of Mining & Metallurgy, the Chartered Institute of Purchasing & Supply and the Australian Institute of Company Directors, a Vice president of the Australia-Japan Business Co-operation Committee, Chair of the WA Chapter of the Australia Business Arts Foundation, and the Chairman of the Rio Tinto Western Australia Future Fund, patron of the State Library of Western Australia Foundation, a patron of the UWA Hackett Foundation and President of Scouts Australia (WA Branch).

In 2007, Mr Walsh was awarded an Australian Export Hero and Western Australian Citizen of the Year - Industry & Commerce.

Mr Walsh was awarded an Order of Australia (AO) in 2010, for his work in the mining industry and establishing employment programs for Indigenous Australians.

#### Peter Bryant – Chief Financial Officer & Company secretary

Mr Bryant, 43, joined the company in April 2008.

Prior to joining the West Australian Newspapers Holdings Group he was the Company Secretary and Chief Financial Officer of GRD Limited, where he had been employed for eight years.

His commercial experience also includes several financial and management rolls within a significant private, Perth based, entrepreneurial group.

He is a Chartered Accountant. He commenced his professional career with Ernst & Young, spending time in their offices in Perth, UK and USA.

### Principal activities

The principal continuing activities of the Group consisted of newspaper and digital (online) publishing, commercial printing and radio broadcasting.

## Directors' report (continued)

### Dividends - West Australian Newspapers Holdings Limited

Dividends paid to members during the financial year were as follows:

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Final ordinary dividend for the year ended 30 June 2009 of 10 cents (2008 - 32 cents) per share paid on 30 September 2009 | 21,071 | 66,244 |
| Interim ordinary dividend for the year ended 30 June 2010 of 19 cents (2009 - 23 cents) per share paid on 31 March 2010 | 40,309 | 47,657 |
| | 61,380 | 113,901 |

In addition to the above dividends, since the end of the financial year the directors have declared the payment of a final ordinary dividend of $55,797,000 (26 cents per share) to be paid on 30 September 2010.

### Review of operations

A summary of consolidated results is set out below:

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Profit before income tax | 134,109 | 122,095 |
| Income tax expense | (37,886) | (34,851) |
| Profit attributable to ordinary equity holders of West Australian Newspapers Holdings Limited | 96,223 | 87,244 |
| Profit before income tax expense includes the following specific expenses whose disclosure is relevant in explaining the financial performance of the Group: | | |
| Restructuring costs | | |
| Personnel costs including employee redundancy provisions and payments | - | (13,672) |
| Other | - | (395) |
| | - | (14,067) |

A review of operations of the Group is given on pages 1 to 4.

### Significant changes in the state of affairs

Significant changes in the state of affairs of the Group which occurred during the financial year were as follows:

(a) A decrease in current provisions of $14,735,000 from $19,460,000 to $4,725,000 due mainly to utilisation of the provision for restructuring created in the previous financial year.

(b) A decrease in non-current borrowings of $57,000,000 from $318,000,000 to $261,000,000 due in part to the lower cash outflows as a result of the dividend reinvestment plan.

### Matters subsequent to the end of the financial year

There are no matters or circumstances which have arisen since 30 June 2010 that have significantly affected or may significantly affect:

(a) the Group's operations in future financial years; or

(b) the results of those operations in future financial years; or

(c) the Group's state of affairs in future financial years.

## Directors' report (continued)

### Likely developments and expected results of operations

In the opinion of the directors it would prejudice the Company's interests if any further information on likely developments in the operations of the Group and the expected results of operations were included in this report, and the omission of such information is hereby disclosed.

### Environmental regulation

The Group's major production complex does not require a discharge licence under the Environmental Protection Act 1986 and no formal reporting is required to either the Environmental Protection Authority or the National Pollutant Inventory.

Minor spillages in prior years had resulted in a need for remedial work to be carried out. In May 2009, the Department of Environment and Conservation confirmed the remediation had been completed and reclassified the site as remediated for restricted use.

### Greenhouse gas and energy data reporting requirements

With the introduction in 2008/09 of a national greenhouse gas emissions and energy reporting framework for businesses through a combination of new legislation *(National Greenhouse and Energy Reporting Act 2007)* and existing legislation *(Energy Efficiency Opportunities Act 2006)*, the Group underwent an initial analysis of emissions from its sites. Collectively, emissions from the Group's businesses did not meet the thresholds for mandatory reporting, with total consumption well below 87,500 tonnes of greenhouse gas emissions and 350 terajoules of energy.

### Meetings of directors

The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2010, and the numbers of meetings attended by each director were:

| | Meetings of Directors | | Audit and Risk | | Remuneration and Nomination | |
|---|---|---|---|---|---|---|
| | (a) | (b) | (a) | (b) | (a) | (b) |
| *Directors* | | | | | | |
| KM Stokes AC | 8 | 8 | - | - | 2 | 2 |
| DR Flynn | 8 | 8 | 5 | 6 | - | - |
| PJT Gammell | 8 | 8 | 6 | 6 | - | - |
| GT John AO | 8 | 8 | - | - | 2 | 2 |
| DR Voelte | 8 | 8 | - | - | 2 | 2 |
| SMC Walsh AO | 8 | 8 | 6 | 6 | - | - |
| *Alternate directors* | | | | | | |
| BI McWilliam | - | - | - | - | - | - |
| RK Stokes | - | - | - | - | - | - |

(a) Number of meetings attended.
(b) Number of meetings held during the time the director held office or was a member of the committee during the year.

### Directors' interests in shares

As at the date of this report the interests of the directors in the shares of the Company were:

| | Number of ordinary shares |
|---|---|
| KM Stokes AC | 51,637,034 |
| DR Flynn | 9,209 |
| PJT Gammell | 9,423 |
| GT John AO | 8,288 |
| DR Voelte | 8,057 |
| SMC Walsh AO | 24,075 |

## Remuneration report

This report describes the remuneration arrangements for directors and executives of the West Australian Newspapers Holdings Limited Group.

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001.*

The Board has established a Remuneration & Nomination Committee (the "Committee"). Its role is described in the corporate governance statement in this annual report, and includes the following :

- To recommend to the Board the remuneration of non-executive directors, within the aggregate approved by shareholders;
- To recommend to the Board the remuneration and other conditions of service of the chief executive officer;
- To approve the remuneration and other conditions of service for senior executives reporting to the chief executive officer, based on the recommendations of the chief executive officer;
- To design the executive incentive plans and approve payments or awards under such plans; and
- To establish the performance hurdles associated with the incentive plans.

This report is set out under the following main headings:

A. Principles used to determine the nature and amount of remuneration

B. Details of remuneration

C. Service agreements

D. Share-based compensation

### *A. Principles used to determine the nature and amount of remuneration*

*Directors*

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed by the Committee and, where appropriate, changes are recommended to the board. The Committee has the discretion to seek the advice of independent remuneration consultants to ensure non-executive directors' fees are appropriate and in line with the market. The chairman's fees are determined in the same way.

The aggregate of payments each year to non-executive directors must be no more than the amount approved by shareholders in general meeting. The current aggregate is $1,200,000, which was approved at the AGM held on 5 November 2008.

The current fees paid are $120,000 per annum for non-executive directors and $300,000 per annum for the chairman. The Company's statutory superannuation contributions are included in these amounts. Non-executive director fees were last increased in July 2007.

In order to more closely align the interests of the non-executive directors with shareholder interests in the creation of value for shareholders as a whole, non-executive directors are obliged to receive at least 25% of their annual fees in shares in the Company. These shares are purchased on-market at prevailing prices and must be held in trust for ten years unless the director retires or a specified event occurs.

## *A. Principles used to determine the nature and amount of remuneration* (continued)

*Chief executive officer*

The remuneration package of the chief executive officer, including performance based incentives, is set by the Board, on the recommendation of the Committee. Where appropriate, the Committee seeks independent advice.

Mr Wharton was appointed chief executive officer on 15 December 2008.

Mr Wharton's annual remuneration comprises a fixed annual remuneration (FAR) component, which is inclusive of superannuation and other benefits, a short term cash incentive (STI) and a long term equity incentive (LTI).

Mr Wharton's STI is assessed annually, based on his performance against a basket of Key Performance Indicators (KPIs), established at the commencement of each annual review period by the Committee and approved by the Board. The KPIs comprise both qualitative and quantitative targets, with each category given equal rating. Within the qualitative grouping there are six KPIs, which for the year ended 30 June 2010 focused on the development of the Group's reputation, engagement with the community, the development of the Group's Regional and Digital assets and the establishment of a quality management team. The quantitative grouping comprised five KPIs and focused on revenue generation, circulation growth, cost management, profitability and health, safety and environment. The maximum STI that can be earned by Mr Wharton equates to 50% of his FAR.

Mr Wharton's LTI program, under which equity in the Company can be earned, has two hurdles, or assessment points, which ultimately determine his LTI entitlement.

The first hurdle provides access to the program, and establishes an unvested number of share rights. The second hurdle determines the number of shares that vest and thus will be received by the CEO.

Under the first hurdle, which is applied annually on 30 June, the CEO may be granted unvested share rights, in accordance with the following :

- Where reported EPS growth for the year is equal to CPI + 6%, the CEO is granted an allocation equal in value to 25% of his FAR.
- Where reported EPS growth for the year is equal to CPI + 8%, the CEO is granted an allocation equal in value to 50% of his FAR.
- Where reported EPS growth is between the two thresholds above, the allocation is determined on a pro-rata basis.

Once share rights have been granted, a second hurdle is applied to determine the number of shares that will ultimately vest.

The second hurdle is assessed three years after the shares were granted. The second hurdle is based on the Company's Total Shareholder Return (TSR).

The TSR performance hurdles are :

- If TSR is within the 50-75 percentile of a comparative group, then the percentage ranking, multiplied by the available LTI share rights, will vest.
- If TSR is within the 75-100 percentile of a comparative group, then the percentage of available LTI share rights that vest will be from 75% to 150% of the available share rights, calculated on a pro-rata basis.

In the event that minimum TSR performance hurdle for year three is not achieved, the share rights granted can be carried forward for two years, with a re-test performed in each of these years, based on the TSR over four or five years respectively.

The maximum value of shares issued under the LTI program, assuming all hurdles are passed at the highest level, equates to 75% of Mr Wharton's FAR.

For the year ended 30 June 2010 no share rights were granted under the terms of Mr Wharton's LTI program.

The Board believes it is in the best interest of the Company to ensure that the CEO's annual remuneration package is reasonable and represents an appropriate reward for both the financial and operational results achieved during the period. The Board therefore reserves the right to, in exceptional circumstances, make a discretionary allocation of share rights to the CEO.

Should the Company terminate Mr Wharton's contract, other than for serious misconduct, Mr Wharton will be entitled to 3 months notice. In lieu of such notice, he may be paid an amount determined by reference to his fixed annual remuneration.

## Remuneration report (continued)

### *A. Principles used to determine the nature and amount of remuneration* (continued)

*Executives*

The remuneration packages of executives, including performance based incentives, are set by the Committee, on the recommendation of the CEO. Where appropriate, the Committee seeks independent advice.

The objective of the Company's executive reward framework is to ensure reward for performance is competitive with other employers and appropriate for the results delivered.

The reward structure aligns the interests of executives with shareholders' interests as it has economic profit as a core component of the plan's design, coupled with a focus on key non-financial drivers of value. The plan provides a clear structure for earning rewards and provides recognition for contribution to growth in the Company's profits and value.

The executive remuneration packages provide a mix of fixed annual remuneration (FAR) and at risk short term cash incentives (STIs).

Executives' FAR is reviewed annually, or in line with promotion or increased responsibility, to ensure the executive's remuneration is competitive with the market.

Executives' FAR can include non-cash benefits, which may include the use of a motor vehicle.

There are no guaranteed FAR increases included in any executive's contract.

The executives participate in an STI program. Under the program, should the executives achieve pre-determined targets set by the Committee then cash incentives are payable to executives. The incentive targets are leveraged for performance above a threshold to provide an incentive for executive performance.

The maximum STI that can be earned by the executives is between 35% and 75% of the executive's FAR. Details of the relative proportions for each executive are contained in section B of this report.

Targets, which are established annually at the commencement of each annual review period, include both a quantitative and qualitative component, developed with reference to the accountabilities of the role and its impact on organisation or business unit performance.

Although the exact composition of KPIs varies for each executive, broadly speaking each executive has eight KPIs which are given equal weighting between qualitative and quantitative targets.

Within the qualitative grouping the KPIs, for the year ended 30 June 2010, focused on the development of the Group's reputation, engagement with the community, the development of the Group's Regional and Digital assets and the establishment of appropriately resourced and structured operating divisions. The quantitative KPIs focused on revenue generation, circulation growth, cost management, profitability and health, safety and environment.

The average STI payout ratio, for the year, was 85%.

*Link between remuneration policy and company performance*

The Company's remuneration policy aligns the level of STIs paid to the chief executive officer and executives to the profit growth of the Company. The theme of linking remuneration policy directly to company performance for 2010/11 is extended to long term incentives (LTIs) granted to the chief executive officer, who is entitled to receive share rights on the basis outlined above.

The Committee considers that the performance linked remuneration structure adopted by the Company is generating an outcome that is directly aligned with the generation of shareholder wealth.

**Remuneration report** (continued)

## *A. Principles used to determine the nature and amount of remuneration* (continued)

The following table sets out the Company's performance over the last 5 financial years:

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Profit after tax (before noteworthy items*) ($'000's) | 107,508 | 128,437 | 127,342 (a) | 97,091 | 96,223 |
| Profit after tax (as reported) ($'000's) | 69,264 | 53,968 | 109,935 | 87,244 | 96,223 |
| Ordinary dividends per share with respect to year (cents) | 50.0 | 61.0 | 53.0 | 33.0 | 45.0 |
| Diluted earnings per share (as reported) (cents) | 33.1 | 25.8 | 52.5 | 41.5 | 45.0 |
| Diluted earnings per share (before noteworthy items*) (cents) | 51.4 | 61.4 | 60.9 (a) | 46.2 | 45.0 |
| Growth/(decline) in earnings per share (before noteworthy items*) (%) | 10.6 | 19.5 | 13.8 (a) | (24.1) | (2.6) |
| Share price as at 30 June ($) | 8.73 | 13.70 | 7.90 | 4.36 | 6.54 |

(a) For the purposes of calculating the 2008 percentage EPS movement, the profit after tax (before noteworthy items) for 2007 was restated to $111,885,000 to exclude the discontinued Hoyts operations. In 2008, the after-tax profit on the sale of the commercial printing operation's property of $5,386,000 was a management KPI and is thus included in the profit after tax.

* For details of noteworthy items refer note 8 to the financial statements.

## *B. Details of remuneration*

*Amounts of remuneration*

Details of the remuneration of the directors of West Australian Newspapers Holdings Limited and key management personnel (as defined in AASB 124 *Related Party Disclosures*) of the Group, are set out in the following tables. Personnel noted include the 5 highest paid executives of the Group.

The key management personnel of the Group at 30 June 2010 are the directors of West Australian Newspapers Holdings Limited (as per page 5 above), the chief executive officer and certain executives that report directly to the chief executive officer, being:

| | |
|---|---|
| DM Bignold | *Sales Director (appointed 1/8/09)* |
| RA Billington | *General Marketing – Marketing and Circulation* |
| PJ Bryant | *Company Secretary & Chief Financial Officer* |
| BA McCarthy | *Editor, The West Australian* |
| LM Roche | *General Manager – Group Operations and Information Technology* |
| CS Wharton | *Chief Executive Officer* |

## Directors' report (continued)

### Remuneration report (continued)

### *B. Details of remuneration* (continued)

| 2010 | Short-term benefits | | | Post-employment benefits | | | |
|---|---|---|---|---|---|---|---|
| Name | Cash salary and fees $ | Cash bonus & incentives $ | Non-monetary benefits $ | Super-annuation $ | Termination benefits $ | Share-based payments $ | Total $ |
| **Non-executive directors of the Company** | | | | | | | |
| KM Stokes AC - Chairman | 214,691 | - | - | 13,745 | - | (i) 71,564 | 300,000 |
| DR Flynn | 42,700 | - | - | 50,000 | - | (i) 27,300 | 120,000 |
| PJT Gammell | 81,900 | - | - | 10,800 | - | (i) 27,300 | 120,000 |
| GT John AO | 81,900 | - | - | 10,800 | - | (i) 27,300 | 120,000 |
| DR Voelte | 81,900 | - | - | 10,800 | - | (i) 27,300 | 120,000 |
| SMC Walsh AO | 54,600 | - | - | 10,800 | - | (i) 54,600 | 120,000 |
| **Other key management personnel of the Group** | | | | | | | |
| DM Bignold *(viii)* | 242,368 | (ii) 200,000 | (vii) 25,320 | 25,680 | - | - | 493,368 |
| RA Billington | 259,255 | (iii) 140,304 | - | 14,461 | - | - | 414,020 |
| PJ Bryant | 381,704 | (iv) 125,339 | (vii) 27,510 | 14,461 | - | - | 549,014 |
| BA McCarthy | 266,255 | (v) 200,000 | - | 12,983 | - | - | 479,238 |
| LM Roche | 237,490 | (vi) 188,004 | (vii) 30,239 | 49,461 | - | - | 505,194 |
| CS Wharton | 739,599 | (iv) 333,466 | - | 14,461 | - | (ix) - | 1,087,526 |
| TL Garven *(retired 6/11/09)* | 92,878 | - | - | 50,006 | (x) 57,054 | - | 199,938 |
| PF Stevens *(retired 30/11/09)* | 70,916 | - | (vii) 10,614 | 55,942 | (x) 154,897 | - | 292,369 |
| **Totals** | **2,848,156** | **1,187,113** | **93,683** | **344,400** | **211,951** | **235,364** | **4,920,667** |

(i) Shares in the Company acquired on-market in terms of The Non-Executive Directors Share Plan approved by Shareholders at the annual general meeting of the Company on 7 November 2002.
(ii) STI being 89% of available STI (11% forfeited).
(iii) STI being 69% of available STI (31% forfeited).
(iv) STI being 87% of available STI (13% forfeited).
(v) STI being 95% of available STI (5% forfeited).
(vi) STI being 79% of available STI (21% forfeited).
(vii) Provision of motor vehicle
(viii) Mr Bignold commenced with the Group during the previous financial year and was appointed to the position of Sales Director on 1/8/09. Remuneration disclosed in this report is for the whole of the financial year ended 30/6/10.
(ix) No share rights available under Mr Wharton's LTI program were granted. Subsequent to the 2010 financial year a discretionary granting of share rights was made to Mr Wharton – refer note below.
(x) Termination benefits are determined by reference to the employee's contractual entitlement. Amount does not include termination benefits accrued at 30/6/09 and paid during 2009/10 – refer page 10 for details

Subsequent to the conclusion of the 2010 financial year, the Board, on the recommendation of the Remuneration & Nomination Committee, approved a discretionary granting of 41,081 share rights to Mr Wharton on 3 August 2010. In making this discretionary allocation, the Board considered the following items:

- The Group had been impacted by the Global Financial Crisis and had performed very well, under the circumstances.
- The Group's reported net profit after tax was up 18% on internal budgets.
- The Company share price was up 50%, compared to the prior year.
- The Group had reduced net debt by 18%.
- The CEO had successfully delivered significant change and improvement to the Group.

The share rights will vest in accordance with the TSR hurdles, outlined earlier in this report.

Further information on remuneration of directors and other key personnel is set out in the corporate governance statement and note 28 to the financial statements.

## Directors' report (continued)

### Remuneration report (continued)

### *B. Details of remuneration* (continued)

| 2009 | Short-term benefits | | | Post-employment benefits | | | |
|---|---|---|---|---|---|---|---|
| **Name** | **Cash salary and fees $** | **Cash bonus & incentives $** | **Non-monetary benefits (viii) $** | **Super-annuation $** | **Termination benefits (xii) $** | **Share-based payments $** | **Total $** |
| **Non-executive directors of the Company** | | | | | | | |
| KM Stokes AC – Chairman *(appointed 25/9/08)* | 140,479 | - | - | 10,028 | - | (i) 46,827 | 197,334 |
| DR Flynn *(appointed 6/8/08)* | 12,576 | - | - | 71,124 | - | (i) 24,585 | 108,285 |
| PJT Gammell *(appointed 25/9/08)* | 63,018 | - | - | 8,310 | - | (i) 21,006 | 92,334 |
| GT John AO *(appointed 3/12/08)* | 47,775 | - | - | 6,300 | - | (i) 15,925 | 70,000 |
| DR Voelte *(appointed 11/12/08)* | 47,775 | - | - | 6,300 | - | (i) 15,925 | 70,000 |
| SMC Walsh AO *(appointed 11/12/08)* | 31,850 | - | - | 6,300 | - | (i) 31,850 | 70,000 |
| E Fraunschiel *(retired 5/11/08)* | 28,438 | - | - | 3,750 | - | (i) 9,479 | 41,667 |
| PJ Mansell *(resigned 3/12/08)* | 56,875 | - | - | 11,250 | - | (i) 56,875 | 125,000 |
| JA Seabrook *(resigned 3/12/08)* | 34,125 | - | - | 4,500 | - | (i) 11,375 | 50,000 |
| MK Ward *(resigned 3/12/08)* | 34,125 | - | - | 4,500 | - | (i) 11,375 | 50,000 |
| **Executive director of the Company** | | | | | | | |
| KN Steinke *(resigned 11/12/08)* | 397,613 | - | - | 36,902 | 1,852,793 | (xi) (901,200) | 1,386,108 |
| **Other key management personnel of the Group** | | | | | | | |
| RA Billington | 259,255 | (vii) 30,000 | - | 13,745 | - | (ix) - | 303,000 |
| PJ Bryant | 312,924 | (v) 31,500 | - | 13,745 | - | (ix) - | 358,169 |
| TL Garven | 278,005 | (iii) 100,000 | - | 99,995 | (xiii) 756,000 | (ix) - | 1,234,000 |
| BA McCarthy *(appointed 23/3/09)* | 73,006 | (v) 32,308 | - | 1,478 | - | (ix) - | 106,792 |
| LM Roche | 272,490 | (iv) 85,000 | 30,249 | 13,745 | - | (ix) - | 401,484 |
| PF Stevens | 184,744 | (vi) 42,000 | 30,249 | 100,000 | (xiii) 635,040 | (ix) - | 992,033 |
| CS Wharton *(appointed 15/12/08)* | 394,048 | (ii) 100,000 | - | 8,018 | - | (ix) - | 502,066 |
| PA Armstrong *(resigned 16/1/09)* | 205,049 | - | 16,492 | 28,384 | 471,717 | - | 721,642 |
| AR Bradshaw *(resigned 31/12/08)* | 108,890 | - | - | 9,644 | 155,121 | - | 273,655 |
| BO Yates *(retired 31/7/08)* | 13,722 | (x) 30,000 | 2,004 | 3,935 | - | - | 49,661 |
| **Totals** | **2,996,782** | **450,808** | **78,994** | **461,953** | **3,870,671** | **(655,978)** | **7,203,230** |

(i) Shares in the Company acquired on-market in terms of the Non-Executive Directors Share Plan approved by shareholders at the annual general meeting of the Company on 7 November 2002.
(ii) STI being 50% of available STI (50% forfeited).
(iii) STI being 66% of available STI (34% forfeited).
(iv) STI being 67% of available STI (33% forfeited).
(v) STI being 100% of available STI (none forfeited).
(vi) STI being 33% of available STI (67% forfeited).
(vii) STI being 27% of available STI (73% forfeited).
(viii) Provision of motor vehicle
(ix) No amounts available under the WANH Deferred Bonus Plan were earned (100% forfeited).
(x) Discretionary bonus paid on retirement.
(xi) Value ascribed to the forfeiture of share rights upon termination.
(xii) Termination benefits are determined by reference to the employee's contractual entitlement.
(xiii) Represents accrual as at 30 June 2009, benefits will be paid in 2009/10.

Further information on remuneration of directors and other key personnel is set out in the corporate governance statement and note 28 to the financial statements.

## B. *Details of remuneration* (continued)

The relative proportions of total possible remuneration that are linked to performance and those that are fixed are as follows:

| Name | Fixed remuneration | | At risk – STI (at max) | | At risk – LTI (at max) | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 * | 2009 |
| **Executive director of West Australian Newspapers Holdings Limited** | | | | | | |
| KN Steinke *(resigned 11/12/08)* | - | 100% | - | - | - | - |
| **Other key management personnel of the Group** | | | | | | |
| DM Bignold *(appointed 1/8/09)* | 57% | - | 43% | - | - | - |
| RA Billington | 57% | 57% | 43% | 23% | - | 20% |
| PJ Bryant | 75% | 73% | 25% | 7% | - | 20% |
| BA McCarthy *(appointed 23/3/09)* | 57% | 56% | 43% | 24% | - | 20% |
| LM Roche | 57% | 55% | 43% | 24% | - | 21% |
| CS Wharton *(appointed 15/12/08)* | 50% | 50% | 25% | 25% | 25% | 25% |
| PA Armstrong *(resigned 16/1/09)* | - | 100% | - | - | - | - |
| AR Bradshaw *(resigned 31/12/08)* | - | 100% | - | - | - | - |
| TL Garven *(retired 6/11/09)* | 100% | 57% | - | 23% | - | 20% |
| PF Stevens *(retired 30/11/09)* | 100% | 55% | - | 24% | - | 21% |
| BO Yates *(retired 31/7/08)* | - | 100% | - | - | - | - |

* The LTI plan for executives other than the chief executive officer was terminated on 1 July 2009.

Further information on remuneration of directors and other key personnel is set out in the corporate governance statement and note 28 to the financial statements.

## C. *Service agreements*

The terms of employment for the chief executive officer and the other key management personnel are formalised in employment contracts, the major provisions of which are set out below.

*Chief executive officer*

- Employment agreement, no fixed term, 3 months notice of termination;
- A performance related short term cash incentive, reviewed annually;
- A long term incentive, which provides the opportunity to earn the right to have shares in the Company issued or transferred to him.

*Other key management personnel*

- Employment agreement, no fixed term, between 3 to 12 months notice of termination;
- A performance related short term cash incentive, reviewed annually.

## D. *Share-based compensation*

### (a) *Executive and employee share plans*

Prior to 2003, the Company offered plans for the purchase of shares in the Company by executives and employees. Details of the plans are as follows:

*(i) West Australian Newspapers Holdings Limited Executive Share Purchase and Loan Plan*
This plan was approved at the annual general meeting of the Company on 9 October 1992. The operation of this plan has been suspended and no executives have been invited to apply for shares since 2002.

*(ii) West Australian Newspapers Holdings Limited Employee Share Plan*
This plan was approved at the annual general meeting of the Company on 22 October 1993. The operation of the plan has been suspended and no employees have been invited to apply for shares since 2002.

## Remuneration report (continued)

### *D. Share-based compensation* (continued)

**(b) Share rights granted as compensation**

Subsequent to the conclusion of the 2010 financial year, the Board, on the recommendation of the Remuneration & Nomination Committee, approved a discretionary granting of 41,081 share rights to Mr Wharton. In making this discretionary allocation, the Board considered the following items:

- The Group had been impacted by the Global Financial Crisis and had performed very well, under the circumstances.
- The Group's reported net profit after tax was up 18% on internal budgets.
- The Company share price was up 50%, year on year.
- The Group had reduced net debt by 18%.
- The CEO had successfully delivered significant change and improvement to the Group.

The share rights will vest in accordance with the TSR hurdles, outlined earlier in this report.

**(c) *Non-executive directors share plan***

Information regarding shares issued under the non-executive directors share plan can be found in sections A and B of the remuneration report on pages 9 to 15 and in note 38 to the financial statements.

**Insurance of directors and officers**

During the financial year, the Company paid a premium in respect of a contract insuring all directors and officers (including employees) of the Company and of related bodies corporate against certain liabilities specified in the contract. The contract prohibits disclosure of the nature of the liabilities insured and the amount of the premium.

**Non-audit services**

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

The board of directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001.* The directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor's independence as set out in APES 110 *Code of Ethics for Professional Accountants.*

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 17.

Details of amounts paid or payable to the auditor, PricewaterhouseCoopers, for audit and non-audit services provided during the year are set out in note 29 to the financial statements.

**Rounding of amounts**

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of the directors.

KM Stokes AC
*Chairman*

Perth, Western Australia
7 September 2010

**PricewaterhouseCoopers**
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## Auditor's Independence Declaration

As lead auditor for the audit of West Australian Newspapers Holdings Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of West Australian Newspapers Holdings Limited and the entities it controlled during the period.

Justin Carroll
Partner
PricewaterhouseCoopers

Perth
7 September 2010

## Corporate governance statement

This statement outlines the main corporate governance practices that were in place throughout the financial year, unless otherwise stated.

### The board

The board has adopted a board charter* setting out the purpose and role of the board, its responsibilities and powers. The charter also documents the way the board functions.

The board is assisted in carrying out its responsibilities by the audit and risk committee and the remuneration and nomination committee.

The board has established a framework for the management of the Company which includes a system of internal control, a business risk management process and the establishment of appropriate ethical standards for directors and employees.

The board currently consists of six non-executive directors, including the chairman, a majority of whom are independent directors. In determining whether a director is independent, the guidelines contained in Accounting Standard AASB 1031 "Materiality" are followed in determining whether a supplier or customer is a material supplier or customer.

All non-executive directors, other than Mr Stokes AC and Mr Gammell are independent directors.

Mr Stokes AC and Mr Gammell are not regarded as independent within the framework of the guidelines because of their positions within Seven Group Holdings Limited, which is ultimately a major shareholder. Seven Group Holdings Limited was formed during the year as a result of the merger of Seven Network Limited and WesTrac Holdings Pty Ltd. Both Mr Stokes AC and Mr Gammell have lodged Standing Notices of Interest, in relation to their previous positions with Seven Network Limited, with the Company, which were tabled at the board meeting on 4 November 2008.

Procedures have been put in place to ensure observance of both the letter and the spirit of dealing correctly with issues which might give rise to a conflict of interest.

The board has adopted a written code of conduct* for directors which establishes guidelines for their conduct in matters such as ethical standards and conflicts of interests. The code is based on that developed by the Australian Institute of Company Directors. Directors have the right to seek independent professional advice at the expense of the Company. Directors are permitted to trade in securities of the Company at any time subject to applicable statutory restrictions and after reference to the company secretary.

The board undertakes reviews of its own performance, with external advice as appropriate.

### Directors

Details regarding the Company's directors are set out in the directors' report.

### Meetings of directors

The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2010, and the numbers of meetings attended by each director are set out in the directors' report.

### Remuneration and nomination committee

A charter* sets out the role and responsibilities of the committee which comprised the following members, all of whom are independent directors, except for Mr Stokes AC:

DR Voelte (Chairman)
KM Stokes AC
GT John AO
PJ Bryant (Secretary)

The committee reviews remuneration packages and policies applicable to the chief executive officer and senior executives. This includes share schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefit policies and professional indemnity and liability insurance policies. External advice is sought as appropriate.

The committee also obtains independent advice on the appropriateness of the level of fees payable to non-executive directors and makes recommendations to the board.

Further details of directors' and executives' remuneration, superannuation and retirement payments are set out in the remuneration report which forms part of the directors' report and notes 28 and 38 to the financial statements.

## Corporate governance statement (continued)

The composition of the board is regularly reviewed by the committee to ensure that the board has the appropriate mix of expertise and experience. When a vacancy exists, through whatever cause, or where it is considered that the board would benefit from the services of a new director with particular skills, potential candidates are identified by the committee with advice from an external consultant if deemed appropriate. The board then appoints the most suitable candidate who must stand for election at the next general meeting.

The chief executive officer is invited to committee meetings, as required, to discuss management performance and remuneration packages.

### Audit and risk committee

A charter* sets out the role and responsibilities of the committee which during the year comprised the following members, all of whom are independent directors except for Mr Gammell:

PJT Gammell (Chairman)
DR Flynn
SMC Walsh AO
PJ Bryant (Secretary)

Mr Gammell is considered by the board to be suitably qualified to discharge the responsibilities of chairing the committee. The relationship between the Company and Seven Group Holdings Limited is not such as to affect his independence of mind regarding the office he holds.

The role of the committee is to advise on the establishment and maintenance of a framework of internal control for the management of the Company, to ensure that the Company has an effective risk management system in order for risks to be identified and managed effectively, that accounting policies are appropriately applied and that financial information is fairly and correctly reported. The internal and external auditors, and the chief executive officer, are invited to meetings at the discretion of the committee.

The Company requires that the external audit firm rotates the engagement partner in accordance with accepted best practice.

### Internal control framework

The board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective control system will preclude all errors and irregularities. To assist in discharging this responsibility, the board has instigated an internal control framework which includes:

*Internal audit*
An internal auditor reports directly to the company secretary and the chairman of the audit and risk committee and is responsible for monitoring, investigating and reporting on the internal control systems.

*Financial reporting*
There is a comprehensive budgeting system with an annual budget approved by the directors. Weekly and monthly actual results are reported against budget and revised forecasts for the year are prepared regularly. The Company reports to the Australian Securities Exchange (ASX) quarterly - see "Continuous Disclosure" below.

*Special reports*
The Company has identified a number of key areas which are subject to regular reporting to the board such as environmental, legal and health and safety matters.

### Business risks

The board requires reports on major risks affecting the Company and requires management to develop strategies to mitigate these risks.

To assist the board in this regard, the audit and risk committee of the board established a risk assessment panel to investigate, monitor and report on all material areas of risk affecting the Group. The panel comprises senior executives with Group wide responsibilities under the chairmanship of the internal audit manager. External advice is sought as appropriate.

Once a major risk is identified, an action plan is instigated. Corrective action is taken as soon as practicable and the committee informed of the action taken. Major business risks arise from such matters as action by competitors; government policy changes; changes in the price of raw materials; difficulties in sourcing raw materials; the purchase, development and use of information and production systems; and the impact, or potential impact, of digital media on newspaper circulation.

## Corporate governance statement (continued)

### Continuous disclosure
The Company is committed to complying with the continuous disclosure obligations of the *Corporations Act 2001* and the listing rules of the ASX and has adopted a continuous disclosure policy*.

The Company follows a program of quarterly disclosures to the market on financial and operational results and has established policies and procedures to ensure that a wide audience of investors has access to information given to ASX for market release. Media releases, quarterly financial reports and results presentations are lodged with ASX and upon confirmation of receipt by ASX, they are posted to the Company's website.

In order to protect against inadvertent disclosure of price sensitive information, the Company imposes communication blackout periods for financial information between the ends of financial reporting periods (31 March, 30 June, 30 September and 31 December) and the announcement of results to the market.

### Code of conduct
The Company has adopted a code of conduct for employees*. It provides a framework of ethical principles for conducting business and dealing with customers, employees and other stakeholders. The code sets out the responsibilities of employees to the Company and requires employees to avoid conflicts of interest, misuse of Company property and accepting or offering inappropriate gifts. Employees are permitted to trade in securities of the Company at any time subject to applicable statutory restrictions and, if senior executives, after reference to the company secretary.

### Shareholder communication
The Company recognises the right of shareholders to be informed of matters which affect their investment in the Company and has adopted a shareholder communication policy*. The Company maintains a website which displays both corporate governance documents and up to date information released to ASX.

### Corporate Governance Principles and Recommendations (2nd Edition)
In August 2007, the ASX Corporate Governance Council issued a paper entitled 'Corporate Governance Principles and Recommendations (2nd Edition)'.

The paper replaces the best practice recommendations issued in March 2003 and is applicable for the first financial year, commencing on or after 1 July 2008.

The Company elected for the early adoption of 'Corporate Governance Principles and Recommendation (2nd Edition)', and applied its principles for the year ended 30 June 2008. The extent to which the Company has followed these recommendations is summarised below.

1. *Lay solid foundations for management and oversight*
   The board has adopted a charter setting out its roles and responsibilities*.

   Key terms and conditions relating to the appointment of non-executive directors and senior executives, appointed after the recommendations became effective, are set out in formal engagement letters.

   The process adopted by the Company to evaluate the performance of senor executives and non-executive directors is documented within the annual report.

   The chief executive officer and chief financial officer are employed pursuant to engagement agreements which include formal job descriptions.

2. *Structure the board to add value*
   The board has adopted the recommended definition of 'independent director' and has addressed the issue of materiality.

   The majority of non-executive directors are independent.

   The roles of the chairman and chief executive officer are separate.

   The board has established a remuneration and nomination committee* to oversee the selection and appointment of new directors.

3. *Promote ethical and responsible decision making*
   The board undertakes reviews of its own performance, with external advice, as appropriate.

   The board has adopted a code of conduct for directors and employees* which includes a policy on trading in the Company's securities.

## Corporate governance statement (continued)

4. *Safeguard integrity in financial reporting*
   The board requires the chief executive officer and chief financial officer to state in writing to it that the Company's financial reports represent a true and fair view, in all material respects, of the Company's financial condition and operational results in accordance with the relevant accounting standards.

   The board has established an audit and risk committee*. While the chairman is not an independent director, he is considered suitable for the role.

5. *Make timely and balanced disclosure*
   The board has adopted a continuous disclosure policy*.

6. *Respect the rights of shareholders*
   The board has adopted a shareholder communication policy*.

   Shareholders are given a reasonable opportunity to ask questions of the board at general meetings. The external auditor is available at such meetings to answer questions from shareholders on matters relating to the audit of the Company's financial statements.

7. *Recognise and manage risk*
   The board has adopted an internal control framework and a risk management policy both of which are discussed earlier in this report.

   The chief executive officer and chief financial officer are required to state in writing to the board that the risk management and internal compliance and control systems are operating effectively and efficiently in all material respects.

8. *Remunerate fairly and responsibly*
   The board's remuneration policy is discussed in the remuneration report which forms part of the directors' report.

* *These documents can be found on the Company's website at www.thewest.com.au or copies can be requested from the company secretary.*

## West Australian Newspapers Holdings Limited

**Consolidated statement of comprehensive income** for the year ended 30 June 2010

| | Notes | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|---|
| **Revenue from operations** | 5 | 409,174 | 418,619 |
| Other income | 6 | 468 | 40 |
| Finance costs | 7 | (19,938) | (21,011) |
| Depreciation and amortisation | 7 | (20,932) | (20,529) |
| Editorial contributions | | (3,239) | (3,211) |
| Electricity | | (2,211) | (2,016) |
| Maintenance agreements | | (2,505) | (3,833) |
| Marketing and promotion expenses | | (5,991) | (6,378) |
| Newsprint consumed | | (56,415) | (55,357) |
| News services | | (2,848) | (2,848) |
| Personnel costs | | | |
| - Recurring | | (111,816) | (114,675) |
| - Redundancy cost | 8 | - | (13,672) |
| Printing services – external | | (1,071) | (1,243) |
| Raw materials and consumables used (excluding newsprint) | | (9,326) | (9,409) |
| Repairs and maintenance | | (3,275) | (2,888) |
| Road and air freight | | (17,917) | (17,559) |
| Other expenses from ordinary activities | | (21,918) | (26,212) |
| Share of net profit of associate accounted for using the equity method | 35(b) | 3,869 | 4,277 |
| **Profit before income tax** | | 134,109 | 122,095 |
| Income tax expense | 9 | (37,886) | (34,851) |
| **Profit attributable to the ordinary equity holders of the Company** | 26(c) | 96,223 | 87,244 |
| **Other comprehensive income** | | | |
| Interest rate cash flow hedges | 26(a) | 3,334 | (13,371) |
| Income tax relating to components of other comprehensive income | 26(a) | (1,000) | 4,011 |
| **Other comprehensive income for the year, net of tax** | | 2,334 | (9,360) |
| **Total comprehensive income for the year attributable to owners of the Company** | | 98,557 | 77,884 |
| **Earnings per share for profit attributable to the ordinary equity holders of the Company** | | | |
| Basic earnings per share | 37(a) | 45.4 cents | 42.1 cents |
| Diluted earnings per share | 37(b) | 45.0 cents | 41.5 cents |

*The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.*

## West Australian Newspapers Holdings Limited

### **Consolidated balance sheet** as at 30 June 2010

| | Notes | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 10 | 12,065 | 14,982 |
| Trade and other receivables | 11 | 57,705 | 53,592 |
| Inventories | 12 | 13,123 | 12,270 |
| Total current assets | | 82,893 | 80,844 |
| **Non-current assets** | | | |
| Investments accounted for using the equity method | 13 | 11,228 | 11,609 |
| Available-for-sale financial assets | 14 | 777 | 777 |
| Property, plant and equipment | 15 | 213,523 | 224,303 |
| Intangible assets | 17 | 132,869 | 130,023 |
| Total non-current assets | | 358,397 | 366,712 |
| **Total assets** | | 441,290 | 447,556 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 18 | 23,940 | 25,685 |
| Derivative financial instruments | 19 | 257 | 4,137 |
| Current tax liabilities | | 6,434 | 6,692 |
| Provisions | 20 | 4,725 | 19,460 |
| Other liabilities | 21 | 1,962 | 825 |
| Total current liabilities | | 37,318 | 56,799 |
| **Non-current liabilities** | | | |
| Borrowings | 22 | 261,000 | 318,000 |
| Derivative financial instruments | 19 | 547 | - |
| Deferred tax liabilities | 16, 23 | 10,924 | 3,988 |
| Provisions | 24 | 950 | 966 |
| Total non-current liabilities | | 273,421 | 322,954 |
| **Total liabilities** | | 310,739 | 379,753 |
| **Net assets** | | 130,551 | 67,803 |
| **EQUITY** | | | |
| Contributed equity | 25 | 126,520 | 100,949 |
| Reserves | 26 | (413) | (2,747) |
| Retained profits/(accumulated deficit) | 26(c) | 4,444 | (30,399) |
| **Total equity** | | 130,551 | 67,803 |

*The above consolidated balance sheet should be read in conjunction with the accompanying notes.*

## West Australian Newspapers Holdings Limited

**Consolidated statement of changes in equity** for the year ended 30 June 2010

| | Notes | Contributed equity $'000 | Reserves $'000 | (Accumulated deficit)/ retained earnings $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| **Balance at 1 July 2008** | | 88,037 | 8,085 | (3,742) | 92,380 |
| **Total comprehensive income for the year** | | - | (9,360) | 87,244 | 77,884 |
| **Transactions with owners in their capacity as owners** | | | | | |
| Decrease in equity compensation reserve | 26(b) | - | (1,472) | - | (1,472) |
| Proceeds relating to shares issued pursuant to the executive and employee share purchase plans | 25(b) | 362 | - | - | 362 |
| Dividend reinvestment plan share issues | 25(b) | 12,550 | - | - | 12,550 |
| Dividends paid | 27 | - | - | (113,901) | (113,901) |
| | | 12,912 | (1,472) | (113,901) | (102,461) |
| **Balance at 30 June 2009** | | 100,949 | (2,747) | (30,399) | 67,803 |
| **Total comprehensive income for the year** | | - | 2,334 | 96,223 | 98,557 |
| **Transactions with owners in their capacity as owners** | | | | | |
| Proceeds relating to shares issued pursuant to the executive and employee share purchase plans | 25(b) | 1,128 | - | - | 1,128 |
| Dividend reinvestment plan share issues | 25(b) | 24,443 | - | - | 24,443 |
| Dividends paid | 27 | - | - | (61,380) | (61,380) |
| | | 25,571 | - | (61,380) | (35,809) |
| **Balance at 30 June 2010** | | 126,520 | (413) | 4,444 | 130,551 |

*The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.*

## West Australian Newspapers Holdings Limited

**Consolidated statement of cash flows** for the year ended 30 June 2010

| | Notes | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of goods and services tax) | | 447,216 | 472,348 |
| Payments to suppliers and employees (including redundancy payments and inclusive of goods and services tax) | | (296,080) | (289,273) |
| | | 151,136 | 183,075 |
| Dividends received | | 4,250 | 4,550 |
| Interest received | | 483 | 589 |
| Finance costs | | (20,227) | (21,154) |
| Income taxes paid | | (32,207) | (33,671) |
| **Net cash inflow from operating activities** | 39 | 103,435 | 133,389 |
| **Cash flows from investing activities** | | | |
| Payments for computer software | | (5,738) | (4,726) |
| Payments for property, plant and equipment | | (8,208) | (5,835) |
| Proceeds from sale of property, plant and equipment | | 394 | 7,616 |
| **Net cash outflow from investing activities** | | (13,552) | (2,945) |
| **Cash flows from financing activities** | | | |
| Proceeds relating to shares issued pursuant to the executive and employee share purchase plans | | 1,128 | 362 |
| Proceeds from borrowings | | 176,000 | 205,000 |
| Repayment of borrowings | | (233,000) | (229,000) |
| Dividends paid | | (36,928) | (101,346) |
| **Net cash outflow from financing activities** | | (92,800) | (124,984) |
| **Net (decrease)/increase in cash held** | | (2,917) | 5,460 |
| Cash and cash equivalents at the beginning of the financial year | | 14,982 | 9,522 |
| **Cash and cash equivalents at end of the year** | 10 | 12,065 | 14,982 |

*The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.*

## 1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of this consolidated financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Consolidated Entity consisting of West Australian Newspapers Holdings Limited ("Company" or "Parent Entity") and its subsidiaries.

### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

*Compliance with IFRS*

The consolidated financial statements of the West Australian Newspapers Holdings Limited Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

*Historical cost convention*

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative instruments held at fair value.

*Critical accounting estimates*

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

*Financial statement presentation*

The Group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective from 1 July 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group changed the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard. This revised standard impacts presentation only and has no effect on reported results.

*Comparatives*

Comparative information is reclassified where appropriate to enhance comparability.

### (b) Principles of consolidation

(i) *Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of West Australian Newspapers Holdings Limited as at 30 June 2010 and the results of all subsidiaries for the year then ended. West Australian Newspapers Holdings Limited and its subsidiaries together are referred to in this financial report as the "Group" or the "Consolidated Entity".

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

## 1. Summary of significant accounting policies (continued)

### (b) Principles of consolidation (continued)

(ii) *Associates (continued)*

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the consolidated financial statements as a reduction in the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. The chief operating decision makers have been identified as the chief executive officer, the chief financial officer and other relevant members of the executive team.

*Change in accounting policy*

The Group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting*. The new standard requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. Previously reported segments were determined in accordance with criteria prescribed in AASB 114. This has resulted in an increase in the number of reportable segments presented.

There has been no impact on the measurement of the Group's assets and liabilities.

Segment disclosures in note 4 have been disclosed in accordance with the new standard, and comparatives have been restated.

### (d) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is the Group's presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

### (e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of commissions, discounts, rebates, returns, trade allowances and duties and taxes paid. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable the future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

## 1. Summary of significant accounting policies (continued)

### (e) Revenue recognition (continued)

Revenue is recognised for the major business activities as follows:

(i) *Advertising*
Revenue is recognised when the advertisement has been published or broadcast.

(ii) *Circulation and commercial printing*
Revenue is recognised when control of goods has passed to the buyer.

(iii) *Rendering of services*
Revenue is recognised when the service has been performed.

(iv) *Rents*
Rents are recognised on a time proportion basis.

(v) *Interest*
Interest revenue is recognised on a time proportion basis that takes into account the effective yield on the asset.

(vi) *Dividends*
Dividends are recognised when the right to receive payment is established.

### (f) Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the national income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Management have determined that deferred tax assets and deferred tax liabilities associated with intangibles that have an indefinite useful life, such as mastheads, should be measured based on the tax consequences that would follow from the sale of that asset. Deferred tax assets are only booked where recovery of that asset is probable.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in other comprehensive income are also recognised directly in other comprehensive income.

## 1. Summary of significant accounting policies (continued)

### (g) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Lease income from operating leases, where the Group is a lessor, is recognised in income on a straight-line basis over the lease term.

### (h) Acquisition of assets and business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

*Change in accounting policy*

A revised AASB 3 *Business Combinations* became operative on 1 July 2009. While the revised standard continues to apply the acquisition method to business combinations, there have been some significant changes.

All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under the Group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net identifiable assets.

If the Group recognises previous acquired deferred tax assets after the initial acquisition accounting is completed there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the Group's net profit after tax.

## 1. Summary of significant accounting policies (continued)

### (i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### (j) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand and deposits held at call with financial institutions.

### (k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 45 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amounts directly. A provision for impairment of trade receivables is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 45 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss in other expenses. When a trade receivable for which a provision for impairment had been recognised becomes uncollectible in a subsequent period, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

### (l) Inventories

Finished goods, raw materials and stores are stated at the lower of cost and net realisable value. Cost comprises direct materials and direct labour. Costs are assigned to individual items of inventory, generally on the basis of first-in first-out. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### (m) Discontinued operations

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of comprehensive income.

### (n) Investments and other financial assets

The Group classifies its financial assets in the following categories:

(i) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet. Loans and receivables are carried at amortised cost using the effective interest method.

## 1. Summary of significant accounting policies (continued)

### (n) Investments and other financial assets (continued)

(ii) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative assets and include investments in equity securities in which the Group does not have significant influence or control. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period.

Regular purchases and sales of financial assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Financial assets, other than those at fair value through profit and loss, are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets are subsequently carried at fair value or cost if fair value cannot be reliably measured. Unrealised gains and losses arising from changes in their fair value are recognised in other comprehensive income.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are included in profit or loss as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is reclassified from other comprehensive income and recognised in profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in profit or loss.

### (o) Derivatives and hedging activities

The Group is party to derivative financial instruments on recognised liabilities in the normal course of business in order to hedge exposure to fluctuations in interest rates. These derivatives are designated as cash flow hedges.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in cash flows of hedged items. The fair values of derivative financial instruments designated as cash flow hedges are disclosed in note 19. Movements in the hedging reserve in shareholders' equity are shown in note 26(a). The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item (i.e. cash flows) is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

The gain or loss from re-measuring the hedging instruments to fair value is recognised in other comprehensive income and accumulated in a hedging reserve, to the extent that the hedge is effective, and is recognised in profit or loss within finance costs when the hedged interest expense is recognised.

## 1. Summary of significant accounting policies (continued)

### (o) Derivatives and hedging activities (continued)

The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time 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 reported in equity is immediately reclassified to profit or loss.

### (p) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

### (q) Property, plant and equipment

All property, plant and equipment is stated at historical cost to the Group less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

| | |
|---|---|
| Operational buildings | 40 years |
| Printing presses | 15 years |
| Publishing equipment | 15 years |
| Other plant and equipment | 5-10 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)). Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

### (r) Intangible assets

(i) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and jointly controlled entities is included in investments in associates and jointly controlled entities. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (note 4).

## 1. Summary of significant accounting policies (continued)

**(r) Intangible assets** (continued)

(ii) *Newspaper mastheads and radio licenses*

The newspaper mastheads and radio licences of the Group are considered by the directors to be identifiable intangible assets. The carrying amounts of these assets are not amortised as the directors have determined them to have indefinite useful lives. Instead, mastheads and radio licences are tested for impairment annually, or whenever there is an indication that they may be impaired - refer note 1(i). Mastheads and radio licences are carried at cost less accumulated impairment losses.

(iii) *Computer software*

Costs incurred in developing products or systems and costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Cost capitalised include external direct costs of materials and service. Amortisation is calculated on a straight-line basis over periods generally ranging from 3 to 5 years.

**(s) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 45 days of recognition.

**(t) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

**(u) Borrowing costs**

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

**(v) Provisions**

Provisions for libel and legal claims against the Group are recognised when it has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

**(w) Employee benefits**

(i) *Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in trade payables and other accrued expenses. Sick leave is recognised in profit or loss when the leave is taken and measured at the rates paid.

(ii) *Other long-term employee benefit obligations*

The liability for long service leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

## 1. Summary of significant accounting policies (continued)

### (w) Employee benefits (continued)

(iii) *Share-based payments*

Share-based compensation benefits are provided to executives and employees in accordance with the Company's share purchase and loan plans and employment agreements. Information relating to these plans is set out in note 38.

The fair value of the rights granted is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the rights granted, which includes any market performance conditions but excludes the impact of any service and non-market performance vesting conditions and the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of rights that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimate of the number of rights that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

(iv) *Short term incentives and bonus plans*

A liability for employee benefits in the form of short term incentives and bonus plans is recognised in trade payables and other accrued expenses when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit
- the amounts to be paid are determined before the time of completion of the financial report, or
- past practice gives clear evidence of the amount of the obligation.

Liabilities for short term incentives and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(v) *Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more then 12 months after the end of the reporting period are discounted to present value.

(vi) *Superannuation*

Contributions made by the Company to defined contribution employee superannuation funds are charged to profit or loss in the period employees' services are provided.

### (x) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### (y) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

### (z) Earnings per share

(i) *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

(ii) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

## 1. Summary of significant accounting policies (continued)

### (aa) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

### (ab) Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

### (ac) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) ***AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions [AASB 2]*** *(effective from 1 January 2010)*
The amendments made by the AASB to AASB 2 confirm that an entity receiving goods or services in a Group share-based payment arrangement must recognise an expense for those goods or services regardless of which entity in the Group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the Group share-based payment arrangement should be measured, that is, whether it is measured as an equity or a cash-settled transaction. The Group will apply these amendments retrospectively for the financial reporting period commencing on 1 July 2010. There will be no impact on the Group's financial statements.

(ii) ***AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]*** (effective from 1 February 2010)
In October 2009 the AASB issued an amendment to AASB 132 *Financial Instruments: Presentation* which addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment must be applied retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The Group will apply the amended standard from 1 July 2010. As the Group has not made any such rights issues, the amendment will not have any effect on the Group's financial statements.

(iii) ***AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9*** (effective from 1 January 2013)
AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. The future impact of this amendment is yet to be assessed. The standard is not applicable until 1 January 2013 but is available for early adoption.

(iv) ***AASB Interpretation 19 Extinguishing financial liabilities with equity instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19*** (effective from 1 July 2010)
AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The Group will apply the interpretation from 1 July 2010. It is not expected to have any impact on the Group's financial statements since it is only retrospectively applied from the beginning of the earliest period presented (1 July 2009) and the Group has not entered into any debt for equity swaps since that date.

## 1. Summary of significant accounting policies (continued)

**(ac) New accounting standards and interpretations** (continued)

(v) ***AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement*** (effective from 1 January 2011)
In December 2009, the AASB made an amendment to Interpretation 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The amendment removes an unintended consequence of the interpretation related to voluntary prepayments when there is a minimum funding requirement in regard to the entity's defined benefit scheme. It permits entities to recognise an asset for a prepayment of contributions made to cover minimum funding requirements. The Group does not make any such prepayments. The amendment is therefore not expected to have any impact on the Group's financial statements. The Group intends to apply the amendment from 1 July 2011, should it become party to a defined benefit scheme.

(vi) ***AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*** (effective for annual periods beginning on or after 1 January 2010)
In May 2009, the AASB issued a number of improvements to existing Australian Accounting Standards Standards. The Group will apply the revised standards from 1 July 2010. The Group does not expect that any adjustments will be necessary as the result of applying the revised rules.

(vii) ***AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*** (effective 1 July 2013)
On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. West Australian Newspapers Holdings Limited is listed on the ASX and is therefore not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. As a consequence, the two standards will have no impact on the financial statements of the entity.

(viii) ***AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project and AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*** (effective for annual periods beginning on or after 1 July 2010/1 January 2011)
In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Group will apply the amendments from 1 July 2010. The Group does not expect that any adjustments will be necessary as the result of applying the revised rules.

**(ad) Parent entity financial information**

The financial information for the Parent Entity, West Australian Newspapers Holdings Limited, disclosed in note 40 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) *Investments in subsidiaries and associates*
Investments in subsidiaries and associates are accounted for at cost in the financial statements of West Australian Newspapers Holdings Limited. Dividends received from associates are recognised in the Parent Entity's profit or loss, rather than being deducted from the carrying amount of these investments.

*Change in accounting policy*
The Group has changed its accounting policy for dividends paid out of pre-acquisition profits from 1 July 2009 when the revised AASB 127 *Consolidated and Separate Financial Statements* became operative. Previously, dividends paid out of pre-acquisition profits were deducted from the cost of the investment. In accordance with the transitional provisions, the new accounting policy is applied prospectively. It was therefore not necessary to make any adjustments to any of the amounts previously recognised in the financial statements.

## 1. Summary of significant accounting policies (continued)

### (ad) Parent entity financial information (continued)

(ii) *Tax consolidated legislation*

West Australian Newspapers Holdings Limited and its wholly-owned Australian controlled entities have implemented the tax consolidated legislation.

The head entity, West Australian Newspapers Holdings Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, West Australian Newspapers Holdings Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate West Australian Newspapers Holdings Limited for any current tax payable assumed and are compensated by West Australian Newspapers Holdings Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to West Australian Newspapers Holdings Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(iii) *Financial guarantees*

Where the Parent Entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

## 2. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments (interest rate swaps) to hedge certain interest rate risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and aging analysis for credit risk.

Risk management is carried out by the finance department under policies approved by the board of directors. The policies provide principles for overall risk management, as well as policies covering specific areas such as interest rate risk.

### (a) Market risk

(i) *Foreign exchange risk*

The Group is not exposed to significant foreign exchange risk as all significant financial assets and liabilities are denominated in Australian currency.

(ii) *Price risk*

The Group is not exposed to significant price risk.

(iii) *Cash flow and fair value interest rate risk*

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group has mitigated this interest rate risk by entering into an interest rate swap contract, which expires on 16 August 2013. The value of cover provided by the contract reduces on a quarterly basis, so as to maintain the level of cover at approximately 55% of the forecast debt.

Group policy is to maintain between 50% and 70% of its core net long-term borrowings at fixed rate using interest rate swaps to achieve this.

As at the end of the reporting period, the Group had the following variable rate borrowings and interest rate swap contracts outstanding:

| | 30 June 2010 | | 20 June 2009 | |
|---|---|---|---|---|
| | Weighted average interest rate | Balance | Weighted average interest rate | Balance |
| | % | $'000 | % | $'000 |
| Bills payable | 5.78% | 261,000 | 3.91% | 318,000 |
| Interest rate swaps (notional principal amount) | 6.99% | (150,000) | 6.40% | (200,000) |
| Net exposure to cash flow interest rate risk | | 111,000 | | 118,000 |

An analysis by maturities is provided in (c) below.

*Group sensitivity*

Based on the Group outstanding floating borrowings at 30 June 2010, a change in interest rates at year end of +/- 1% per annum with all other variables remaining constant would impact after tax profit by $777,000 lower/higher (2009 - $826,000 lower/higher).

Based on the Group outstanding interest rate swaps at 30 June 2010, a change in interest rates at year end of +/- 1% per annum with all other variables remaining constant would impact other components of equity by $1,050,000 higher/lower (2009 - $1,231,000 higher/lower).

### (b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks, as well as credit exposures to customers. The Group limits its exposure in relation to cash balances and derivative financial instruments by only dealing with well established financial institutions of high quality credit standing. For other customers, risk control assesses the credit quality, taking into account financial position, past experience and other factors. The utilisation of credit limits is regularly monitored.

For further information on credit risk refer to note 11.

## 2. Financial risk management (continued)

### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group manages liquidity risk by continuously monitoring forecast and actual cash flow and monitoring the Group's liquidity reserve on the basis of these cash flow forecasts.

*Financing arrangements*
Refer note 22(a) for details of the Group's financing arrangements.

*Maturities of financial liabilities*
Bills payable are drawn under various bill facilities totalling $280,000,000 (2009 - $380,000,000) which have an average maturity of 2.4 years from 30 June 2010 (2009 - 1.4 years from 30 June 2009).

The table below analyses the Group's financial liabilities including interest to maturity into relevant groupings based on their contractual maturities.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant. For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.

| | Less than one year $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Total contractual cash flows $'000 | Carrying amount - liabilities $'000 |
|---|---|---|---|---|---|
| **At 30 June 2010** | | | | | |
| Non-derivatives | | | | | |
| Trade and other payables | 23,940 | - | - | 23,940 | 23,940 |
| Borrowings | 15,083 | 143,742 | 138,323 | 297,148 | 261,000 |
| Total non-derivatives | 39,023 | 143,742 | 138,323 | 321,088 | 284,940 |
| Derivative – Net settled interest rate swaps | 1,388 | 1,183 | 793 | 3,364 | 804 |
| **At 30 June 2009** | | | | | |
| Non-derivatives | | | | | |
| Trade and other payables | 25,685 | - | - | 25,685 | 25,685 |
| Borrowings | 12,391 | 324,404 | - | 336,795 | 318,000 |
| Total non-derivatives | 38,076 | 324,404 | - | 362,480 | 343,685 |
| Derivatives – Net settled interest rate swaps | 4,417 | - | - | 4,417 | 4,137 |

### (d) Fair value measurement

The fair value of financial assets and liabilities must be estimated for recognition and measurement or for disclosure purposes.

As of 1 July 2009, the Group has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The only asset or liability measured and recognised at fair value is the liability recognised in relation to interest rate cash flow hedges amounting to $804,000 (2009 - $4,137,000). The fair values of these hedges (classified as level 2 in the fair value measurement hierarchy) are measured with reference to forward interest rates and the present value of the estimated future cash flows.

## 3. Critical accounting estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are discussed below.

The Group tests annually whether mastheads, radio licences and goodwill have suffered any impairment in accordance with the accounting policy stated in note 1(i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 17 for details of these assumptions.

The Group also tests other assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

## 4. Segment information

### (a) Description of segments

Management has determined the operating segments based on the internal reports reviewed by the chief operating decision makers that are used to make strategic decisions. The chief operating decision makers consist of the chief executive officer, the chief financial officer and other relevant members of the executive team.

The chief operating decision makers consider the business from both a product and a geographical perspective and have identified the following reportable segments:

- The West Australian (The West Australian newspaper and insert magazines)
- Regionals (the Countryman and other newspapers published in regional areas of Western Australia)
- Quokka (a weekly classified advertising publication)
- Radio (radio stations broadcasting in regional areas of Western Australia)

Other operating segments are included in the ‘all other segments’ column encompassing Community Newspapers, ColourPress (commercial printing operation), digital publishing, West Australian Publishers and other minor operating segments.

### (b) Segment information provided to the chief operating decision makers

The segment information provided to the chief operating decision makers for the reportable segments for year ended 30 June 2010 is as follows:

| | The West Australian $'000 | Regionals $'000 | Quokka $'000 | Radio $'000 | All other Segments $'000 | Un-Allocated $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | |
| Total segment revenue | 322,912 | 45,795 | 12,016 | 8,578 | 43,915 | - | 433,216 |
| Inter-segment revenue | - | - | - | - | (24,525) | - | (24,525) |
| **Revenue from external customers** | 322,912 | 45,795 | 12,016 | 8,578 | 19,390 | - | 408,691 |
| Interest received | - | - | - | - | - | 483 | 483 |
| **Revenue from continuing operations** | 322,912 | 45,795 | 12,016 | 8,578 | 19,390 | 483 | 409,174 |
| **Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA)** | 150,003 | 12,708 | 4,669 | 3,014 | 6,190 | (4,885) | 171,699 |
| Depreciation and amortisation | (18,241) | (881) | (72) | (303) | (1,435) | - | (20,932) |
| **Adjusted earnings before interest and tax (EBIT)** | 131,762 | 11,827 | 4,597 | 2,711 | 4,755 | (4,885) | 150,767 |
| Share of profit from associate | - | - | - | - | 3,869 | - | 3,869 |
| **Total segment assets** | 351,546 | 29,313 | 18,165 | 23,220 | 18,201 | 845 | 441,290 |
| Total assets includes investment in associate | - | - | - | - | 11,228 | - | 11,228 |
| Additions to non-current assets (other than financial assets and deferred tax) | 12,124 | 599 | 66 | 1,838 | 19 | - | 14,646 |

## 4. Segment information (continued)

### (b) Segment information provided to the chief operating decision makers (continued)

| | The West Australian $'000 | Regionals $'000 | Quokka $'000 | Radio $'000 | All other Segments $'000 | Un-Allocated $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **2009** | | | | | | | |
| Total segment revenue | 333,745 | 45,881 | 11,626 | 8,292 | 41,447 | - | 440,991 |
| Inter-segment revenue | - | - | - | - | (22,961) | - | (22,961) |
| **Revenue from external customers** | 333,745 | 45,881 | 11,626 | 8,292 | 18,486 | - | 418,030 |
| Interest received | - | - | - | - | - | 589 | 589 |
| **Revenue from continuing operations** | 333,745 | 45,881 | 11,626 | 8,292 | 18,486 | 589 | 418,619 |
| **Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA)** | 160,599 | 12,338 | 4,415 | 2,899 | 1,298 | (6,132) | 175,417 |
| Depreciation and amortisation | (18,033) | (1,053) | (102) | (369) | (972) | - | (20,529) |
| **Adjusted earnings before interest and tax (EBIT)** | 142,566 | 11,285 | 4,313 | 2,530 | 326 | (6,132) | 154,888 |
| Share of profit from associate | - | - | - | - | 4,277 | - | 4,277 |
| **Total segment assets** | 358,156 | 29,634 | 18,333 | 21,765 | 18,803 | 865 | 447,556 |
| Total assets includes investment in associate | - | - | - | - | 11,609 | - | 11,609 |
| Additions to non-current assets (other than financial assets and deferred tax) | 8,485 | 386 | 383 | 244 | 1,063 | - | 10,561 |

Revenues from different products and services, all of which are provided in Australia, are disclosed in note 5.

The chief operating decision makers assess the performance of the operating segments based on a measure of adjusted earnings before interest and tax (EBIT). This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs. Interest income and expenditure are also not allocated to segments.

A reconciliation of adjusted EBIT to profit before income tax in provided as follows:

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **Adjusted earnings before interest and tax (EBIT)** | 150,767 | 154,888 |
| Interest revenue | 483 | 589 |
| Interest paid | (17,141) | (19,315) |
| Restructuring costs | - | (14,067) |
| **Profit before income tax** | 134,109 | 122,095 |

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **5. Revenue from operations** | | |
| *Sales revenue* | | |
| Advertising | 303,825 | 311,952 |
| Circulation | 76,544 | 81,310 |
| Commercial printing | 12,634 | 9,502 |
| Rendering of services | 11,466 | 10,070 |
| Other | 3,721 | 4,727 |
| | 408,190 | 417,561 |
| *Other revenue* | | |
| Interest | 483 | 589 |
| Rents | 501 | 469 |
| | 984 | 1,058 |
| Revenue (excluding share of equity accounted net profit of associate) | 409,174 | 418,619 |
| **6. Other income** | | |
| Net gain on disposal of property, plant and equipment and computer software | 468 | 40 |
| **7. Expenses** | | |
| Profit before income tax includes the following specific expenses: | | |
| *Depreciation and amortisation* | | |
| Buildings | 1,781 | 1,798 |
| Plant and equipment | 16,265 | 16,502 |
| Computer software | 2,886 | 2,229 |
| Total depreciation and amortisation | 20,932 | 20,529 |
| *Finance costs* | | |
| Interest and finance charges paid/payable | 19,938 | 21,011 |
| *Rental expense relating to operating leases* | 1,323 | 1,357 |
| *Defined contribution superannuation expense* | 7,668 | 7,891 |
| **8. Noteworthy items** | | |
| Profit before income tax expense includes the following specific expenses whose disclosure is relevant in explaining the financial performance of the Group: | | |
| Restructuring costs | | |
| Personnel costs including employee redundancy provisions and payments | - | (13,672) |
| Other | - | (395) |
| | - | (14,067) |

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **9. Income tax expense** | | |
| **(a) Income tax expense** | | |
| Current tax | (33,302) | (37,411) |
| Deferred tax | (5,936) | 1,724 |
| Adjustments for current tax of prior periods | 1,352 | 836 |
| Aggregate income tax expense | (37,886) | (34,851) |
| *Deferred income tax expense/(revenue) included in income tax expense comprises:* | | |
| Decrease/(increase) in deferred tax assets (note 16) | 4,279 | (3,833) |
| Increase in deferred tax liabilities (note 23) | 1,657 | 2,109 |
| | 5,936 | (1,724) |
| **(b) Numerical reconciliation of income tax expense to prima facie tax payable** | | |
| Profit from before income tax expense | 134,109 | 122,095 |
| Tax at the Australian tax rate of 30% (2009 – 30%) | (40,233) | (36,629) |
| Tax effect of amounts which are not (deductible)/taxable in calculating taxable income: | | |
| Building construction and investment allowances | 736 | 683 |
| Non-deductible depreciation and amortisation | (516) | (521) |
| Non-deductible expenses | (545) | (503) |
| Share of net profit of associate | 1,161 | 1,283 |
| | (39,397) | (35,687) |
| Adjustments for current tax of prior periods | 1,352 | 836 |
| Previously unrecognised tax losses now recouped to reduce current tax expense | 159 | - |
| Income tax expense | (37,886) | (34,851) |
| **(c) Tax expense/(income) relating to items of other comprehensive income** | | |
| Interest rate hedges (note 26(a)) | 1,000 | (4,011) |
| **(d) Tax losses** | | |
| Unused capital tax losses for which no deferred tax asset has been recognised | 77,827 | 73,314 |
| Potential tax benefit @ 30% (2009 – 30%) | 23,348 | 21,994 |

All unused capital tax losses were incurred by Australian entities.

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **10. Current assets – Cash and cash equivalents** | | |
| Cash at bank, on hand and at call | 12,065 | 14,982 |

Cash at bank and deposits at call bear interest at a floating rate which was 4.00% at the reporting date (2009 – 2.50%). The maximum exposure to credit risk at the reporting date is the carrying amount. The exposure to interest rate risk is discussed in note 2.

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **11. Current assets – Trade and other receivables** | | |
| Trade receivables | 54,670 | 52,051 |
| Provision for impairment of receivables (a) | (218) | (196) |
| | 54,452 | 51,855 |
| Prepayments | 3,253 | 1,737 |
| | 57,705 | 53,592 |

Trade receivables are generally settled within 45 days.

(a) *Impaired trade receivables*

As at 30 June 2010 current trade receivables of the Group with a nominal value of $220,000 (2009 - $265,000) were impaired. The amount of the provision was $218,000 (2009 - $196,000). It was assessed that a portion of the receivables is expected to be recovered.

| The ageing of these Group receivables is as follows: | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Less than six months | 111 | 124 |
| Over six months | 109 | 141 |
| | 220 | 265 |
| Movements in the provision for impairment of receivables are as follows: | | |
| Balance at the beginning of the financial year | 196 | 267 |
| Provision for impairment recognised during the year | 1,044 | 471 |
| Receivables written off | (1,022) | (542) |
| Balance at the end of the financial year | 218 | 196 |

The other classes within trade and other receivables for the Group do not contain impaired assets and are not past due and are expected to be fully recovered.

(b) *Past due but not impaired*

As at 30 June 2010, the Group had trade receivables of $5,682,000 (2009 - $6,149,000) past due but not impaired. These relate to customers for whom there is no recent history of default.

| The ageing analysis of these trade receivables is as follows: | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Up to 3 months | 5,599 | 6,047 |
| 3 to 6 months | 83 | 102 |
| | 5,682 | 6,149 |

The value of trade receivables as at 30 June 2010 that are neither past due nor impaired is $48,768,000 (2009 - $45,637,000).

(c) *Interest rate risk*

The Group's current receivables do not bear interest.

| | | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|---|

**11. Current assets – Trade and other receivables** (continued)

(d) *Fair value and credit risk*

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

There is limited concentration of credit risk with respect to current receivables. The maximum exposure to credit risk at reporting date is the carrying amount of the assets. The fair value of security collateral held is insignificant. Refer to note 2 for further information on the risk management policy of the Group.

**12. Current assets – Inventories**

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Newsprint – at cost | 8,805 | 9,127 |
| Other raw materials and stores – at net realisable value | 4,229 | 2,982 |
| Finished goods – at cost | 89 | 161 |
| | 13,123 | 12,270 |

*Inventory expense*

Inventories recognised as expense during the year ended 30 June 2010 amounted to $65,741,000 (2009 - $64,766,000).

**13. Non-current assets – Investments accounted for using the equity method**

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Shares in associated company | 11,228 | 11,609 |

Refer note 35 for details of investments accounted for using the equity method.

**14. Non-current assets – Available-for-sale financial assets**

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Unlisted equity securities | 777 | 777 |

The investment in unlisted securities is stated at cost because its fair value cannot be reliably measured.

**15. Non-current assets – Property, plant and equipment**

| **Consolidated** | Freehold land $'000 | Freehold buildings $'000 | Residential properties $'000 | Plant and equipment $'000 | Total $'000 |
|---|---|---|---|---|---|
| **At 1 July 2008** | | | | | |
| Cost | 13,382 | 72,691 | 1,857 | 259,123 | 347,053 |
| Accumulated depreciation | - | (18,121) | - | (91,846) | (109,967) |
| Net book amount | 13,382 | 54,570 | 1,857 | 167,277 | 237,086 |
| **Year ended 30 June 2009** | | | | | |
| Opening net book amount | 13,382 | 54,570 | 1,857 | 167,277 | 237,086 |
| Additions | - | 14 | - | 5,821 | 5,835 |
| Disposals | - | - | - | (318) | (318) |
| Depreciation charge | - | (1,798) | - | (16,502) | (18,300) |
| Closing net book amount | 13,382 | 52,786 | 1,857 | 156,278 | 224,303 |

## 15. Non-current assets – Property, plant and equipment (continued)

| | Freehold land $'000 | Freehold buildings $'000 | Residential properties $'000 | Plant and equipment $'000 | Total $'000 |
|---|---|---|---|---|---|
| **At 1 July 2009** | | | | | |
| Cost | 13,382 | 72,705 | 1,857 | 253,999 | 341,943 |
| Accumulated depreciation | - | (19,919) | - | (97,721) | (117,640) |
| Net book amount | 13,382 | 52,786 | 1,857 | 156,278 | 224,303 |
| **Year ended 30 June 2010** | | | | | |
| Opening net book amount | 13,382 | 52,786 | 1,857 | 156,278 | 224,303 |
| Additions | - | 170 | 1,254 | 7,484 | 8,908 |
| Disposals | - | - | (171) | (450) | (621) |
| Transfer to inventory | - | - | - | (1,021) | (1,021) |
| Depreciation charge | - | (1,781) | - | (16,265) | (18,046) |
| Closing net book amount | 13,382 | 51,175 | 2,940 | 146,026 | 213,523 |
| **At 1 July 2010** | | | | | |
| Cost | 13,382 | 72,875 | 2,940 | 248,718 | 337,915 |
| Accumulated depreciation | - | (21,700) | - | (102,692) | (124,392) |
| Net book amount | 13,382 | 51,175 | 2,940 | 146,026 | 213,523 |

## 16. Non-current assets – Deferred tax assets

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| The balance comprises temporary differences attributable to: | | |
| Deferred revenue | 470 | 190 |
| Employee benefits | 3,283 | 3,443 |
| Provisions | 1,308 | 5,714 |
| Cash flow hedges | 241 | 1,241 |
| Other | 88 | 81 |
| | 5,390 | 10,669 |
| Set-off against deferred tax liabilities pursuant to set-off provisions (note 23) | (5,390) | (10,669) |
| Net deferred tax assets | - | - |
| Deferred tax assets to be recovered after more than 12 months | 522 | 356 |
| Deferred tax assets to be recovered within 12 months | 4,868 | 10,313 |
| | 5,390 | 10,669 |

| | Deferred revenue $'000 | Employee benefits $'000 | Provisions $'000 | Cash flow hedges $'000 | Other $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| Movements – Consolidated | | | | | | |
| At 1 July 2008 | 111 | 3,386 | 2,031 | - | 67 | 5,595 |
| Credited/(charged) | | | | | | |
| - to profit or loss (note 9(a)) | 79 | 57 | 3,683 | - | 14 | 3,833 |
| - other comprehensive income | - | - | - | 1,241 | - | 1,241 |
| At 30 June 2009 | 190 | 3,443 | 5,714 | 1,241 | 81 | 10,669 |
| Credited/(charged) | | | | | | |
| - to profit or loss (note 9(a)) | 280 | (160) | (4,406) | - | 7 | (4,279) |
| - other comprehensive income | - | - | - | (1,000) | - | (1,000) |
| At 30 June 2010 | 470 | 3,283 | 1,308 | 241 | 88 | 5,390 |

## 17. Non-current assets – Intangible assets

| **Consolidated** | Mastheads $'000 | Radio licences $'000 | Goodwill $'000 | Computer software $'000 | Total $'000 |
|---|---|---|---|---|---|
| **At 1 July 2008** | | | | | |
| Cost | 100,558 | 17,316 | 2,484 | 13,172 | 133,530 |
| Accumulated amortisation | - | - | - | (5,998) | (5,998) |
| Net book amount | 100,558 | 17,316 | 2,484 | 7,174 | 127,532 |
| **Year ended 30 June 2009** | | | | | |
| Opening net book amount | 100,558 | 17,316 | 2,484 | 7,174 | 127,532 |
| Additions | - | - | - | 4,726 | 4,726 |
| Disposals | - | - | - | (6) | (6) |
| Amortisation charge * | - | - | - | (2,229) | (2,229) |
| Closing net book amount | 100,558 | 17,316 | 2,484 | 9,665 | 130,023 |
| **At 30 June 2009** | | | | | |
| Cost | 100,558 | 17,316 | 2,484 | 17,794 | 138,152 |
| Accumulated amortisation | - | - | - | (8,129) | (8,129) |
| Net book amount | 100,558 | 17,316 | 2,484 | 9,665 | 130,023 |
| **Year ended 30 June 2010** | | | | | |
| Opening net book amount | 100,558 | 17,316 | 2,484 | 9,665 | 130,023 |
| Additions | - | - | - | 5,738 | 5,738 |
| Disposals | - | - | - | (6) | (6) |
| Amortisation charge * | - | - | - | (2,886) | (2,886) |
| Closing net book amount | 100,558 | 17,316 | 2,484 | 12,511 | 132,869 |
| **At 30 June 2010** | | | | | |
| Cost | 100,558 | 17,316 | 2,484 | 23,482 | 143,840 |
| Accumulated amortisation | - | - | - | (10,971) | (10,971) |
| Net book amount | 100,558 | 17,316 | 2,484 | 12,511 | 132,869 |

* Amortisation of $2,886,000 (2009 - $2,229,000) is included in depreciation and amortisation expense in the income statement.

**Impairment of cash generating units (CGU) including goodwill and indefinite life assets**
The recoverable amount of each CGU which includes goodwill or indefinite life intangibles has been reviewed. Where goodwill or other intangible assets represent a significant component of the Group total, value in use calculations have been performed. The CGU is determined at a masthead title or individual radio business level and the assumptions used are consistent for each CGU.

Where value in use calculations have been used, these calculations have been based on management budgets and forecasts for a five year period extrapolated at estimated growth rates between 3.0% and 6.0%, being rates no higher than the long term average growth rates for the CGU. A discount rate of 9.55% (weighted average cost of capital) (2009 – 9.81%) has been used. Reasonably possible changes in key assumptions would not result in a material shortfall of recoverable amounts of any cash generating units.

No impairment losses for intangibles have been incurred or reversed during the period.

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $'000 | $'000 |
| **18. Current liabilities – Trade and other payables** | | |
| Trade payables and other accrued expenses | 23,940 | 25,685 |

Trade and other payable are generally settled within 45 days from the end of the month in which they are incurred and are non-interest bearing.

The balance of trade payables and other accrued expenses above includes an annual leave accrual of $7,283,000 (2009 - $7,364,000), all of which is expected to be settled within 12 months of the reporting date.

## 19. Derivative financial instruments

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Current liabilities** | | |
| Interest rate swap contracts – cash flow hedges | 257 | 4,137 |
| **Non-current liabilities** | | |
| Interest rate swap contracts – cash flow hedges | 547 | - |
| | 804 | 4,137 |

(a) *Interest rate swap contracts - cash flow hedges*
The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates (refer note 2).

Of the Group's total debt at 30 June 2010 of $261,000,000 (2009 - $318,000,000), $150,000,000 (2009 - $200,000,000) is covered by interest rate swaps, which fix the rate at 6.99% (including bank margins) (2009 - 6.40%).

The Group has entered into an interest rate swap contract, which expires on 16 August 2013. The value of cover provided by the contract reduces on a quarterly basis, so as to maintain the level of cover at approximately 55% of the forecast debt.

The contracts require settlement on net interest receivable or payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

The gain or loss from remeasuring the hedging instruments at fair value is recognised in other comprehensive income and accumulated in equity, to the extent that the hedge is effective, and reclassified to profit or loss when the hedged interest expense is recognised. The ineffective portion, if any, is recognised in profit or loss immediately. The fair value of interest rate swaps is calculated at the present value of the estimated future cash flows. All hedges were effective during the current and previous financial years.

At the reporting date, liabilities relating to these contracts amounted to $804,000 (2009 - $4,137,000). In the year ended 30 June 2010 there was a loss from the decrease in fair value of interest rate swap contracts of $3,333,000 (2009 - $13,371,000).

(b) *Interest rate risk exposure*
Refer to note 2 for the Group's exposure to interest rate risk on interest rate swaps.

(c) *Credit risk exposure*
Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. This arises with amounts receivable from unrealised gains on derivative financial instruments. The maximum exposure to credit risk at the reporting date is the carrying amount of the asset. There are no receivables on derivatives at balance date.

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **20. Current liabilities – Provisions** | | |
| Employee benefits – long service leave (b) | 4,500 | 5,140 |
| Libel expenses (a)(i) | 225 | 290 |
| Restructuring (a)(ii) | - | 14,030 |
| | 4,725 | 19,460 |

**(a) Movements in provisions**

(i) *Provision for libel expenses*

| | 2010 | 2009 |
|---|---|---|
| Carrying amount at start of year | 290 | 350 |
| Provision no longer required | (65) | (60) |
| Carrying amount at end of year | 225 | 290 |

The amount at the end of the reporting period represents a provision for libel claims against the Group in relation to published material.

(ii) *Provision for restructuring*

| | 2010 | 2009 |
|---|---|---|
| Carrying amount at start of year | 14,030 | - |
| Amounts provided | - | 14,030 |
| Amounts utilised | (14,030) | - |
| Carrying amount at end of year | - | 14,030 |

The restructuring provision included provision for employee redundancies and other personnel costs and provision for contract exit payments on the restructuring of the Group's online services. The provision was fully utilised during the financial year.

**(b) Amounts not expected to be settled within the next 12 months**

The current provision for long service leave covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision is presented as current, since the Group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

| | 2010 | 2009 |
|---|---|---|
| Long service leave obligations expected to be settled after 12 months of the reporting date | 3,475 | 3,336 |

| | 2010 | 2009 |
|---|---|---|
| **21. Current liabilities – Other** | | |
| Deferred revenue | 1,962 | 825 |

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **22. Non-current liabilities – Borrowings** | | |
| Bills payable – secured (a) | 261,000 | 318,000 |

(a) *Financial arrangements*
Bills payable are drawn under various bill facilities for the Group totalling $280,000,000 (2009 - $380,000,000) which have an average maturity of 2.4 years from 30 June 2010 (2009 – 1.4 years from 30 June 2009). The facilities are secured by interlocking guarantees and indemnities given by the Parent Entity and subsidiaries. The facilities are subject to a negative pledge that imposes certain covenants upon the Parent Entity and certain subsidiaries, being:

(i) **Gearing Ratio:** the ratio of Total External Net Debt (excluding Contingent Liabilities) to Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) will not exceed 3.5 times;

(ii) **Financial Charges Cover:** EBITDA will not at any time fall below a figure of 5 times the total amount of net interest; and

(iii) **Guarantee Group:** the Guarantee Group comprises not less than 85% of the Consolidated Group's Total Assets and Earnings Before Interest and Tax (EBIT).

(b) *Fair value*
The carrying value and fair value of Group borrowings at the end of the financial year was $261,000,000 (2009 - $318,000,000).

(c) *Risk Exposures*
Information about the Group's exposure to interest rate changes is provided in note 2.

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **23. Non-current liabilities – Deferred tax liabilities** | | |
| The balance comprises temporary differences attributable to : | | |
| Property, plant and equipment (including computer software) | 14,444 | 13,000 |
| Intangible assets | 1,145 | 1,145 |
| Other | 725 | 512 |
| | 16,314 | 14,657 |
| Set-off of deferred tax assets (note 16) | (5,390) | (10,669) |
| Net deferred tax liabilities | 10,924 | 3,988 |
| Deferred tax liabilities to be settled after more than 12 months | 15,514 | 14,055 |
| Deferred tax liabilities to be settled within 12 months | 800 | 602 |
| | 16,314 | 14,657 |

Movements - Consolidated

| | Cash flow hedges $'000 | Property, plant and equipment * $'000 | Intangible assets $'000 | Other $'000 | Total $'000 |
|---|---|---|---|---|---|
| At 1 July 2008 | 2,770 | 11,165 | 1,145 | 238 | 15,318 |
| Charged/(credited) | | | | | |
| - to profit or loss (note 9(a)) | - | 1,835 | - | 274 | 2,109 |
| - other comprehensive income | (2,770) | - | - | - | (2,770) |
| At 30 June 2009 | - | 13,000 | 1,145 | 512 | 14,657 |
| Charged/(credited) | | | | | |
| - to profit or loss (note 9(a)) | - | 1,444 | - | 213 | 1,657 |
| At 30 June 2010 | - | 14,444 | 1,145 | 725 | 16,314 |

* Includes computer software

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|

## 24. Non-current liabilities - Provisions

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Employee benefits – long service leave | 950 | 966 |

## 25. Contributed equity

### (a) Share capital

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| 214,167,596 (2009 – 210,044,210) Ordinary shares fully paid (notes 25(b) and 25(c)) | 126,520 | 100,949 |

### (b) Movements in ordinary share capital

| Date | Details | Number of shares | Issue price | $'000 |
|---|---|---|---|---|
| 1/7/08 | Opening balance | 206,276,937 | | 88,037 |
| 31/3/09 | Dividend reinvestment plan share issues (note 25(d)) | 3,204,023 | $3.9171 | 12,550 |
| | Proceeds received relating to the executive and employee share purchase plans (note 38) | 563,250 | | 362 |
| 30/6/09 | Balance | 210,044,210 | | 100,949 |
| 30/9/09 | Dividend reinvestment plan share issues (note 25(d)) | 1,215,837 | $6.3200 | 7,684 |
| 31/3/10 | Dividend reinvestment plan share issues (note 25(d)) | 2,338,049 | $7.1680 | 16,759 |
| | Proceeds received relating to the executive and employee share purchase plans (note 38) | 569,500 | | 1,128 |
| 30/6/10 | Balance | 214,167,596 | | 126,520 |

### (c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

The total number of shares issued by the Company is 216,011,546 (2009 – 212,457,660) and differs from the amount disclosed in note 25(a) as shares relating to outstanding loans pursuant to the executive and employee share plans and numbering 1,843,950 shares (2009 – 2,413,450) are treated as options.

### (d) Dividend reinvestment plan

The Company has established a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather then by being paid in cash. Shares are issued under the plan at a price determined by the board.

### (e) Share buy-backs

There is no current on-market buy-back.

### (f) Capital risk management

The Group's and the Parent Entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

| | | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|---|
| **26.** | **Reserves and retained profits/(accumulated deficit)** | | |
| **(a)** | **Hedging reserve – cash flow hedges** | | |
| | Balance at the beginning of the financial year | (2,896) | 6,464 |
| | Revaluation – gross (note 19) | 3,334 | (13,371) |
| | Deferred tax (notes 16 and 23) | (1,000) | 4,011 |
| | Balance at the end of the financial year | (562) | (2,896) |
| **(b)** | **Equity compensation reserve** | | |
| | Balance at the beginning of the financial year | 149 | 1,621 |
| | Decrease during the financial year (note 38(a)(i)) | - | (1,472) |
| | Balance at the end of the financial year | 149 | 149 |
| | | (413) | (2,747) |

*Nature and purpose of reserves*

(i) *Hedging reserve – cash flow hedges*

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in other comprehensive income, as described in note 1(o). Amounts are recognised in profit or loss when the associated hedged transaction affects profit or loss.

(ii) *Equity compensation reserve*

The equity compensation reserve is used to recognise the fair value of share rights granted as compensation.

| | | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|---|
| **(c)** | **Retained profits/(accumulated deficit)** | | |
| | Accumulated deficit at the beginning of the financial year | (30,399) | (3,742) |
| | Net profit for the year | 96,223 | 87,244 |
| | Dividends (note 27) | (61,380) | (113,901) |
| | Retained profits/(accumulated deficit) at the end of the financial year | 4,444 | (30,399) |

## 27. Dividends

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Final ordinary dividend for the year ended 30 June 2009 of 10 cents per share (2008 - 32 cents), fully franked based on tax paid at 30%, paid on 30 September 2009 (2008 – 30 September 2008) | 21,071 | 66,244 |
| Interim ordinary dividend for the year ended 30 June 2010 of 19 cents per share (2009 – 23 cents), fully franked based on tax paid at 30%, paid on 31 March 2010 (2009 – 31 March 2009) | 40,309 | 47,657 |
| | 61,380 | 113,901 |

*Dividends not recognised at year end*

| | | |
|---|---|---|
| In addition to the above dividends, since year end the directors have declared a final dividend of 26 cents per ordinary share (2009 - 10 cents), fully franked based on tax paid at the rate of 30%. The aggregate amount of the dividend payable on 30 September 2010, but not recognised as a liability at year end, is | 55,797 | 21,061 |

*Franked dividends*

The franked dividend declared after 30 June 2010 will be franked out of existing franking credits or out of franking credits arising from the receipt of franked dividends and the payment of income tax in the year ending 30 June 2011.

| | | |
|---|---|---|
| Franking credits available for subsequent financial years based on a tax rate of 30% (2009 – 30%) | 20,718 | 13,453 |

## 27. Dividends (continued)

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

(a) franking credits that will arise from the payment of the current tax liability;
(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The impact on the franking account of the dividend declared by the directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account by $24,070,000 (2009 - $9,105,000).

## 28. Key management personnel disclosures

### (a) Key management personnel compensation

| | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|
| Short-term employee benefits | 4,128,952 | 3,526,584 |
| Post-employment benefits | | |
| - Superannuation | 344,400 | 461,953 |
| - Termination benefits | 211,951 | 3,870,671 |
| Share-based payments | 235,364 | (655,978) |
| | 4,920,667 | 7,203,230 |

Detailed remuneration disclosures in respect of directors and each key management person are provided in the remuneration report on pages 9 to 16.

### (b) Equity instrument disclosures relating to key management personnel

(i) *Share rights provided as remuneration and shares issued on exercise of such rights*

Share rights provided as remuneration and shares issued on the exercise of such rights, together with the terms and conditions of the rights, can be found in Section D of the remuneration report on pages 15 and 16.

(ii) *Share right holdings*

The numbers of share rights over ordinary shares in the Company held during the previous financial year by each director of West Australian Newspapers Holdings Limited and other key management personnel of the Group, including their personally related parties, are set out below. No share rights were granted as compensation during the current financial year.

| **2009** Name | Balance at the start of the year | Share rights forfeited | Exercised | Balance at the end of the year | Vested | Unvested |
|---|---|---|---|---|---|---|
| Directors of West Australian Newspapers Holdings Limited | | | | | | |
| KN Steinke *(resigned 11/12/08)* | 202,000 | (184,000) | (18,000) | 0 | 0 | 0 |
| Other key management personnel of the Group | | | | | | |
| PA Armstrong | 12,482 | 0 | (12,482) | 0 | 0 | 0 |
| RA Billington | 8,943 | 0 | (8,943) | 0 | 0 | 0 |
| AR Bradshaw | 9,101 | 0 | (9,101) | 0 | 0 | 0 |
| PJ Bryant | 1,720 | 0 | (1,720) | 0 | 0 | 0 |
| TL Garven | 14,859 | 0 | (14,859) | 0 | 0 | 0 |
| LM Roche | 12,482 | 0 | (12,482) | 0 | 0 | 0 |
| PF Stevens | 12,482 | 0 | (12,482) | 0 | 0 | 0 |

## 28. Key management personnel disclosures (continued)

### (b) Equity instrument disclosures relating to key management personnel (continued)

(iii) *Shareholdings*

The numbers of ordinary shares in the Company held during the financial year by each director of West Australian Newspapers Holdings Limited and each of the other key management personnel of the Group, including their personally-related entities, are set out below.

| **2010** Name | Balance at the start of the year | Received during the period on the exercise of share rights | Other shares received during the period as compens-ation | Other changes during the period | Balance at the end of the year |
|---|---|---|---|---|---|
| Directors of West Australian Newspapers Holdings Limited | | | | | |
| KM Stokes AC | 49,301,667 | - | 10,015 | 2,322,723 | 51,634,405 |
| DR Flynn | 4,386 | - | 3,820 | - | 8,206 |
| PJT Gammell | 4,322 | - | 3,821 | 277 | 8,420 |
| GT John AO | 3,233 | - | 3,820 | 231 | 7,284 |
| DR Voelte | 3,233 | - | 3,821 | - | 7,054 |
| SMC Walsh AO | 6,466 | - | 7,641 | 7,962 | 22,069 |
| Other key management personnel of the Group | | | | | |
| DM Bignold *(appointed 1/8/09)* | - | - | - | 2,000 | 2,000 |
| RA Billington | 8,943 | - | - | 141 | 9,084 |
| PJ Bryant | 1,720 | - | - | - | 1,720 |
| TL Garven *(retired 6/11/09)* | 197,559 | - | - | - | 197,559 * |
| BA McCarthy | - | - | - | - | - |
| LM Roche | 30,200 | - | - | 4,300 | 34,500 |
| PF Stevens *(retired 30/11/09)* | 27,449 | - | - | - | 27,449 * |
| CS Wharton | 10,211 | - | - | 6,007 | 16,218 |

* Balance at date of retirement

**28. Key management personnel disclosure** (continued)

**(b) Equity instrument disclosures relating to key management personnel** (continued)

(iii) *Shareholdings (continued)*

| **2009** Name | Balance at the start of the year | Received during the period on the exercise of share rights | Other shares received during the period as compens-ation | Other changes during the period | Balance at the end of the year |
|---|---|---|---|---|---|
| Directors of West Australian Newspapers Holdings Limited | | | | | |
| KM Stokes AC *(appointed 25/9/08)* | 46,558,342* | - | 9,564 | 2,733,761 | 49,301,667 |
| DR Flynn *(appointed 6/8/08)* | -* | - | 4,386 | - | 4,386 |
| E Fraunschiel *(retired 5/11/08)* | 44,706 | - | 814 | - | 45,520** |
| PJT Gammell *(appointed 25/9/08)* | -* | - | 4,322 | - | 4,322 |
| GT John AO *(appointed 3/12/08)* | -* | - | 3,233 | - | 3,233 |
| PJ Mansell *(resigned 3/12/08)* | 46,518 | - | 11,403 | - | 57,921** |
| JA Seabrook *(resigned 3/12/08)* | 28,560 | - | 2,279 | - | 30,839** |
| KN Steinke *(resigned 11/12/08)* | 18,000 | 18,000 | - | - | 36,000** |
| DR Voelte *(appointed 11/12/08)* | -* | - | 3,233 | - | 3,233 |
| SMC Walsh AO *(appointed 11/12/08)* | -* | - | 6,466 | - | 6,466 |
| MK Ward AO *(resigned 3/12/08)* | 17,366 | - | 2,280 | - | 19,646** |
| Other key management personnel of the Group | | | | | |
| PA Armstrong *(resigned 16/1/09)* | 12,100 | 12,482 | - | - | 24,582** |
| RA Billington | - | 8,943 | - | - | 8,943 |
| AR Bradshaw *(resigned 31/12/08)* | 1,900 | 9,101 | - | - | 11,001** |
| PJ Bryant | - | 1,720 | - | - | 1,720 |
| TL Garven | 182,700 | 14,859 | - | - | 197,559 |
| BA McCarthy *(appointed 23/3/09)* | -* | - | - | - | - |
| LM Roche | 17,718 | 12,482 | - | - | 30,200 |
| PF Stevens | 14,967 | 12,482 | - | - | 27,449 |
| CS Wharton *(appointed 15/12/08)* | 10,211* | - | - | - | 10,211 |
| BO Yates *(retired 31/7/08)* | 12,400 | - | - | - | 12,400** |

* Balance at date of appointment
** Balance at date of resignation/retirement

(iv) *Shares held under suspended share plans*

The numbers of shares in the Company held under suspended employee and executive share plans during the financial year and treated as options by each of the key management personnel of the Group, are set out below. All shares held under the plans are vested.

| **2010** Name | Balance at the start of the year | Changes during the year | Balance at the end of the year |
|---|---|---|---|
| *Key management personnel of the Group* | | | |
| LM Roche | 74,100 | - | 74,100 |
| PF Stevens *(retired 30/11/09)* | 113,700 | - | 113,700 * |

| **2009** Name | Balance at the start of the year | Changes during the year | Balance at the end of the year |
|---|---|---|---|
| *Key management personnel of the Group* | | | |
| LM Roche | 74,100 | - | 74,100 |
| PF Stevens | 113,700 | - | 113,700 |

For further details of shares held under share plans, refer notes 1(w)(iii) and 38

* Balance at date of retirement

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $ | $ |
| **29. Remuneration of auditors** | | |
| Remuneration of the auditors of the Group for : | | |
| *Audit or review of the financial reports* | 264,640 | 227,700 |
| *Other services* | | |
| Taxation consultancy services | 129,775 | 66,064 |
| Taxation compliance services | 49,150 | 52,950 |
| Advisory services | 7,350 | 7,150 |
| Other audit-related services | 107,236 | 46,880 |
| Total other services | 293,511 | 173,044 |
| | 558,151 | 400,744 |

## 30. Contingent liabilities

The Group had contingent liabilities at 30 June 2010 in respect of:

| | 2010 | 2009 |
|---|---|---|
| Termination benefits in respect of service agreements entered into by the Parent Entity and subsidiaries which may, in appropriate circumstances, become payable to the chief executive officer and other executives. | 1,389 | 1,454 |

For contingent liabilities relating to associates refer note 35(f).

No material losses are anticipated in respect of any of the above contingent liabilities.

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $'000 | $'000 |
| **31. Commitments** | | |
| **(a) Capital commitments** | | |
| Commitments for the acquisition of property, plant and equipment contracted for at the reporting date but not recognised as liabilities, payable within one year. | 2,105 | 3,372 |

**(b) Operating lease commitments**

The Group leases various offices, radio transmission equipment and sites and residential premises under non-cancellable operating leases expiring within 9 years (2009 - 4 years). The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Commitments for minimum lease payments in relation to non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities, payable:

| | 2010 | 2009 |
|---|---|---|
| Within one year | 1,095 | 807 |
| Later than one year but not later than five years | 2,148 | 777 |
| Later than five years | 234 | - |
| | 3,477 | 1,584 |

## 32. Related party transactions

### (a) Parent entity

West Australian Newspapers Holdings Limited is the ultimate Australian parent entity within the Group.

### (b) Subsidiaries

Interests in subsidiaries are set out in note 33.

### (c) Key management personnel

Disclosures relating to key management personnel are set out in note 28.

### (d) Transactions with related parties

The following transactions occurred with related parties:

| | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|
| *Sale of goods, advertising and other services* | | |
| Printing services to associate | 4,472,376 | 1,611,045 |
| Advertising and other services to entities controlled or jointly controlled by an entity of which the Group is an associate | 626,712 | 20,015 |
| Communications services to an entity controlled by an entity of which the Group is an associate | 79,664 | 74,106 |
| *Purchase of goods, advertising and other services* | | |
| Advertising and other services from entities jointly controlled by an entity of which the Group is an associate | 719,311 | 204,103 |
| Engineering services from an entity jointly controlled by an entity of which the Group is an associate | 49,180 | - |
| Transport, facility hire and function management from an entity of which the Group is an associate. | 163,330 | - |

*Website arrangement*
A company in the Group has entered into an arrangement with an entity controlled by an entity of which the Group is an associate. The arrangement provides for the sharing of costs and revenue in relation to the Group's website. The terms of the arrangement were commercially negotiated on an arms length basis.

### (e) Outstanding balances arising from sales/purchases of goods, advertising and other services

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

| | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|
| *Current receivables (sales of goods, advertising and other services)* | | |
| Associate | 341,588 | 357,172 |
| Entities controlled or jointly controlled by an entity of which the Group is an associate | 80,259 | 30,209 |
| *Current payables (purchase of goods, advertising and other services)* | | |
| Entities controlled or jointly controlled by an entity of which the Group is an associate | 209,633 | 71,120 |

There is no allowance account for impaired receivables in relation to any outstanding balances, and no expense has been recognised in respect of impaired receivables due from related parties.

### (f) Terms and conditions

Transactions were made on normal commercial terms and conditions.

## 33. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b).

West Australian Newspapers Holdings Limited (ultimate parent entity)
*Its subsidiary being:*
- Harlesden Investments Pty Ltd
  *Its subsidiary being:*
  - Western Mail Operations Pty Ltd
    *Its subsidiary being:*
    - West Australian Newspapers Limited
      *Its subsidiaries being:*
      - Albany Advertiser Pty Ltd
      - ComsNet Pty Ltd
      - Colorpress Australia Pty Ltd
      - ColourPress Pty Ltd
      - Geraldton Newspapers Pty Ltd
        *Its subsidiaries being:*
        - Geraldton FM Pty Ltd
        - Great Northern Broadcasters Pty Ltd
      - Herdsman Print Centre Pty Ltd
      - Herdspress Leasing Pty Ltd
      - Hocking & Co. Pty Ltd
      - Quokka West Pty Ltd
      - Redwave Media Pty Ltd
        *Its subsidiaries being:*
        - North West Radio Pty Ltd
          *Its subsidiary being:*
          - Australian Regional Broadcasters Pty Ltd
        - Spirit Radio Network Pty Ltd
      - South West Printing and Publishing Company Limited
      - W.A. Broadcasters Pty Ltd
        *Its subsidiary being:*
        - Quokka Press Pty Ltd
          *Its subsidiaries being:*
          - Dansted and McCabe Holdings Pty Ltd
          - Riverlaw Holdings Pty Limited
      - West Australian Entertainment Pty Ltd
        *Its subsidiary being:*
        - WAN Cinemas Pty Limited
      - Western Mail Pty Ltd
      - Westroyal Pty Ltd

(i) All subsidiaries are wholly-owned and, except for 100,000 preference shares held in West Australian Newspapers Limited (2009 - 100,000), the class of shares is ordinary. All subsidiaries were also subsidiaries at 30 June 2009.

(ii) All subsidiaries are incorporated in Australia.

(iii) West Australian Newspapers Holdings Limited and its subsidiaries have entered into a Deed of Cross Guarantee under which each company guarantees the debts of the others. For further information see note 34.

## 34. Deed of cross guarantee

West Australian Newspapers Holdings Limited and its subsidiaries (note 33) are party to a Deed of Cross Guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities required to prepare a financial report and directors' report have been relieved from the requirement to do so under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission. The Deed of Cross Guarantee was entered into on 8 April 2004.

West Australian Newspapers Holdings Limited and its subsidiaries represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by West Australian Newspapers Holdings Limited, they also represent the 'Extended Closed Group'.

As the Group and the Closed Group both comprise West Australian Newspapers Holdings Limited and its subsidiaries, the consolidated statement of comprehensive income and consolidated balance sheet for the Closed Group are the same as those for the Group presented on pages 22 and 23 of the financial statements.

## 35. Investments in associates

### (a) Carrying amounts

Information relating to associates is set out below.

| Name of entity | Principal activities | Ownership interest | | Consolidated carrying amount | |
|---|---|---|---|---|---|
| | | 2010 | 2009 | 2010 | 2009 |
| | | % | % | $'000 | $'000 |
| Community Newspaper Group Ltd | Newspaper publishing | 49.9 | 49.9 | 11,228 | 11,609 |

(i) The above entity is incorporated in Australia.

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **(b) Movements in carrying amounts** | | |
| Carrying amount at the beginning of the financial year | 11,609 | 11,882 |
| Share of profit of associate after income tax | 3,869 | 4,277 |
| Dividends received | (4,250) | (4,550) |
| Carrying amount at the end of the financial year (note 13) | 11,228 | 11,609 |
| **(c) Share of associate's profit** | | |
| Profit before income tax | 5,687 | 6,208 |
| Income tax expense | (1,818) | (1,931) |
| Share of net profit of associate disclosed in the statement of comprehensive income | 3,869 | 4,277 |
| **(d) Summarised financial information of associates** | | |
| The Group's share of assets, liabilities, revenues and profits are: | | |
| Assets | 15,255 | 14,704 |
| Liabilities | 4,425 | 3,493 |
| Revenues | 30,997 | 32,169 |
| Profits after income tax | 3,869 | 4,277 |
| **(e) Share of associate's expenditure commitments, other than for the supply of inventories** | | |
| Lease commitments | 4,158 | 4,317 |
| **(f) Contingent liabilities** | | |
| Termination benefits in respect of service agreements entered into by an associated company which may, in appropriate circumstances, become payable to executives | 136 | 135 |

No material loss is anticipated in respect of the above contingent liability

## 36. Events occurring after the reporting date

There are no matters or circumstances which have arisen since 30 June 2010 that have significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in financial years subsequent to 30 June 2010.

## 37. Earnings per share

| | Consolidated 2010 | Consolidated 2009 |
|---|---|---|
| **(a) Basic earnings per share** | | |
| Profit attributable to the ordinary equity holders of the Company. | 45.4 cents | 42.1 cents |
| **(b) Diluted earnings per share** | | |
| Profit attributable to the ordinary equity holders of the Company. | 45.0 cents | 41.5 cents |

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| **(c) Earnings used in calculating earnings per share** | | |
| Profit attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share. | 96,223 | 87,244 |

| | Consolidated 2010 | Consolidated 2009 |
|---|---|---|
| **(d) Weighted average number of shares used as the denominator** | | |
| Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share. | 211,825,350 | 207,359,568 |
| Adjustment for calculation of diluted earnings per share being shares issued pursuant to the suspended executive and employee share plans treated as options deemed to have been converted into ordinary shares at the beginning of the financial year. | 2,128,700 | 2,695,075 |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share | 213,954,050 | 210,054,643 |

## 38. Share-based payments

The total expense recognised for share-based payments for all plans during the financial year for the Group was $235,364 (2009 - $245,222).

Details of share-based plans in operation are as follows:

### (a) Share rights granted as compensation

(i) *Long term incentive (LTI) program – chief executive officer (CEO)*

The theme of linking remuneration policy directly to company performance for 2010/11 is extended to LTIs granted to the CEO, who is entitled to receive share rights on the basis outlined below.

The CEO's LTI program, under which equity in the Company can be earned, has two hurdles, or assessment points, which ultimately determine his LTI entitlement.

The first hurdle provides access to the program, and establishes an unvested number of share rights. The second hurdle determines the number of shares that vest and thus will be received by the CEO.

Under the first hurdle, which is applied annually on 30 June, the CEO may be granted unvested share rights, in accordance with the following :

- Where reported EPS growth for the year is equal to CPI + 6%, the CEO is granted an allocation equal in value to 25% of his fixed annual remuneration (FAR).
- Where reported EPS growth for the year is equal to CPI + 8%, the CEO is granted an allocation equal in value to 50% of his FAR.
- Where reported EPS growth is between the two thresholds above, the allocation is determined on a pro-rata basis.

## 38. Share-based payments (continued)

### (a) Share rights granted as compensation (continued)

(i) *Long term incentive (LTI) program – chief executive officer (CEO) (continued)*

Once share rights have been granted, a second hurdle is applied to determine the number of shares that will ultimately vest.

The second hurdle is assessed three years after the shares were granted. The second hurdle is based on the Company's Total Shareholder Return (TSR).

The TSR performance hurdles are :

- If TSR is within the 50-75 percentile of a comparative group, then the percentage ranking, multiplied by the available LTI share rights, will vest.
- If TSR is within the 75-100 percentile of a comparative group, then the percentage of available LTI share rights that vest will be from 75% to 150% of the available share rights, calculated on a pro-rata basis.

In the event that minimum TSR performance hurdle for year three is not achieved, the share rights granted can be carried forward for two years, with a re-test performed in each of these years, based on the TSR over four or five years respectively.

The maximum value of shares issued under the LTI program, assuming all hurdles are passed at the highest level, equates to 75% of the CEO's FAR.

For the year ended 30 June 2010 no share rights were granted under the terms of the CEO's LTI program.

The Board believes it is in the best interest of the Company to ensure that the CEO's annual remuneration package is reasonable and represents an appropriate reward for both the financial and operational results achieved during the period. The Board therefore reserves the right to, in exceptional circumstances, make a discretionary allocation of share rights to the CEO.

Share rights previously granted to the former chief executive officer and managing director, Mr Ken Steinke, as part of his remuneration package, were forfeited on the termination of his employment on 11 December 2008 and an amount of $901,200 was reversed out of the equity compensation reserve during the previous financial year (note 26(b)).

(ii) *Deferred bonus plan – other executives*

The operation of this plan was terminated on 1 July 2009. The value of incentives previously associated with the plan was consolidated into a cash incentive program for 2009/10.

Particulars of the plan and share rights issued/exercised during the previous financial year are set out below.

For the year ended 30 June 2009, an amount equivalent to a proportion of the executive's salary package became available to be earned if the Company achieves a target earnings per share growth rate at the end of that financial year. No deferred bonus is earned unless the annual growth in normalised earnings per share is equivalent to the rate of inflation plus 4%. At 4% above the rate of inflation, half the deferred bonus is earned and at 8% or more above the rate of inflation, the full bonus is earned. Pro-rata amounts are earned at growth rates between 4% and 8% above the rate of inflation. The bonus is paid to executives in the form of fully paid shares in the Company, either purchased on-market or issued, as decided by the board. These shares are held in trust and can only be traded by the executive after expiry of the restriction period. This period is three years for 30% of the shares, four years for the next 20% and fives years for the final 50%. The restriction period is not affected by an executive leaving the Company but dividends are paid to executives during this period.

For the year to 30 June 2009, 35% of the executive fixed annual remuneration was available for the deferred bonus share plan, however, as targets were not achieved no shares were issued under the plan relating to that year.

## 38. Share-based payments (continued)

### (a) Share rights granted as compensation (continued)

(ii) *Deferred bonus plan – other executives (continued)*

Set out below is a summary of the number of share rights exercised under the plan during the previous financial year relating to performance during the year ended 30 June 2008.

| Grant date | Balance at the start of the year | Granted as compensation | Exercised during the year | Balance at the end of the year | Unvested at end of the year |
|---|---|---|---|---|---|
| **Group – 2009** | | | | | |
| 5/8/08 | 95,022 | - | (95,022) | - | - |

The observed average share price used to determine the value at grant date of the share rights granted relation to the year ended 30 June 2008 was $8.48 per right.

### (b) Non-executive directors share plan

In order to more closely align the interests of the non-executive directors with shareholder interests in the creation of value for shareholders as a whole, non-executive directors are obliged to receive at least 25% of their annual fees as shares in the Company. These shares are purchased on-market at prevailing prices and must be held for ten years unless the director retires or a specified event occurs, such as if a takeover bid is made for the Company.

The total number of shares received by directors of the Company during the financial year in accordance with the plan was 32,938 (2009 - 47,980). The total value of shares received by directors during the financial year in accordance with the plan was $235,364 (2009 - $245,222), as determined by the observed market price.

### (c) Executive and employee share plans

Plans for the purchase of shares in the Company by executives and employees have been suspended and have not been used since 2002. Details of the plans are as follows:

The issue price of shares allotted under the plans was the average sale price of all shares sold on the ASX during the 5 days preceding allotment. Under the plans West Australian Newspapers Limited (a subsidiary), lent the full issue price to employees/executives on an interest-free basis. Loans were secured by share mortgages/liens over shares issued in accordance with the plans and during employment are repaid from net dividends (after taxation). While shares are subject to these restrictions, they are not permitted to be hedged or in any other way dealt with.

In the event of cessation of employment of employees/executives, loans are repayable but West Australian Newspapers Limited cannot claim or demand outstanding moneys other than to the extent of proceeds realised from the disposal of shares secured under the plans.

The total number of shares issued under the plans in the previous five years must not exceed 5% of the total number of shares on issue. No shares have been issued in the previous five years under the plans.

(i) *West Australian Newspapers Holdings Limited Executive Share Purchase and Loan Plan*

This plan was approved at the annual general meeting of the Company on 9 October 1992. The operation of this plan has been suspended and no executives have been invited to apply for shares since 2002.

Senior executives of the Group were from time to time invited to apply for shares as determined by the board of directors.

Shares issued under the plan were not able to be sold until the expiry of three years from date of issue. Up to half the shares could have been sold during the fourth and fifth year and there were no restrictions on sale after five years from the date of issue. The loans are repayable immediately upon termination of employment except in cases of termination due to death, total and permanent disablement, retirement or other circumstances approved by the directors, where two years are allowed for repayment of the loan.

In all other respects the shares previously issued in accordance with the plan rank equally with other fully-paid ordinary shares on issue.

## 38. Share-based payments (continued)

### (c) Executive and employee share plans (continued)

(ii) *West Australian Newspapers Holdings Limited Employee Share Plan*

This plan was approved at the annual general meeting of the Company on 22 October, 1993. The operation of the plan has been suspended and no employees have been invited to apply for shares since 2002.

Where an allocation of shares was made under the plan, eligible employees were invited to participate. Eligible employees were those who:

- were permanent employees of the Group on either a full-time or part-time (minimum 20 hours per week) basis;
- were 18 years of age or over;
- had completed 12 months continuous employment.

The total number of shares for which employees were invited to apply was determined by the board of directors with allocations to individual employees being based on salary levels.

Shares under the plan were not able to be sold until the earlier of two years after issue or cessation of employment with the Group. In all other respects the shares rank equally with other fully-paid ordinary shares on issue.

Under AASB 2 *Share-based Payment*, the plans are deemed as equity settled, share-based remuneration and treated as an in-substance grant of options. The Group has taken advantage of the exemption in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* not to apply AASB 2 to shares issued under these plans.

Refer note 1(w)(iii) for accounting policy relating to share-based payments.

## 39. Reconciliation of profit after income tax to net cash inflow from operating activities

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $'000 | $'000 |
| Profit for the year | 96,223 | 87,244 |
| Non-cash items | | |
| Depreciation and amortisation | 20,932 | 20,529 |
| Net gain on sale of non-current assets | (468) | (40) |
| Non-cash employee benefits expense – share-based payments | - | (1,472) |
| Dividend received from associate in excess of share of equity accounted net profit | 381 | 273 |
| Transfers from plant and equipment to inventories | 1,021 | - |
| Changes in operating assets and liabilities | | |
| (Increase)/decrease in receivables | (2,597) | 12,389 |
| (Increase)/decrease in inventories | (853) | 441 |
| Increase in other operating assets | (1,516) | (186) |
| Decrease in payables | (1,753) | (1,476) |
| Increase in other operating liabilities | 1,137 | 344 |
| (Decrease)/increase in tax liabilities | (258) | 2,904 |
| Increase/(decrease) in net deferred tax liabilities | 5,937 | (1,724) |
| (Decrease)/increase in other provisions | (14,751) | 14,163 |
| Net cash inflow from operating activities | 103,435 | 133,389 |

## 40. Parent Entity financial information

### (a) Summary of financial information

The individual financial statements for the Parent Entity show the following aggregate amounts:

| | Parent Entity 2010 $'000 | Parent Entity 2009 $'000 |
|---|---|---|
| **Balance sheet** | | |
| Current assets | 39,515 | 40,266 |
| Total assets | 187,186 | 187,925 |
| Current liabilities | 6,627 | 6,935 |
| Total liabilities | 39,664 | 65,583 |
| *Shareholders' equity* | | |
| Issued capital | 126,520 | 100,949 |
| Reserves | | |
| Asset revaluation reserve | 8,352 | 8,352 |
| Equity compensation reserve | (86) | (86) |
| Retained earnings | 12,736 | 13,127 |
| | 147,522 | 122,342 |
| Profit for the year | 60,989 | 122,769 |
| Total comprehensive income | 60,989 | 122,769 |

### (b) Guarantees entered into by the Parent Entity

The Parent Entity has provided financial guarantees in respect of borrowings of a subsidiary amounting to $261,000,000 (2009 - $318,000,000). No liability was recognised by the Parent Entity in relation to these guarantees, as the fair value of the guarantees is immaterial.

In addition, there are cross guarantees given by West Australian Newspapers Holdings Limited and its subsidiaries described in note 34.

### (c) Contingent liabilities of the Parent Entity

The Parent Entity did not have any contingent liabilities as at 30 June 2010 or 30 June 2009. For information about guarantees given by the Parent Entity refer above.

## Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 22 to 64 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2010 and of its performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 33 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 34.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.

KM Stokes AC
*Chairman*

Perth, Western Australia
7 September 2010

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# Independent auditor's report to the members of West Australian Newspapers Holdings Limited

## Report on the financial report

We have audited the accompanying financial report of West Australian Newspapers Holdings Limited (the company), which comprises the balance sheet as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the West Australian Newspapers Holdings Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

*Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

PRICEWATERHOUSECOOPERS

## Independent auditor's report to the members of West Australian Newspapers Holdings Limited (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001.*

*Auditor's opinion*

In our opinion:

(a) the financial report of West Australian Newspapers Holdings Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

**Report on the Remuneration Report**

We have audited the remuneration report included in pages 9 to 16 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's opinion*

In our opinion, the remuneration report of West Australian Newspapers Holdings Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Justin Carroll

Justin Carroll
Partner

Perth
7 September 2010