

Company Registration No. 00112955

The National Magazine Company Limited

Annual Report and Financial Statements

31 December 2018



The National Magazine Company Limited

Annual Report and Financial Statements 2018

Contents	Page
Officers and professional advisers	1
Strategic report	2
Directors' report	5
Statement of Directors' responsibilities	7
Independent auditor's report	8
Group Income Statement	11
Group Statement of Comprehensive Income	12
Group Balance Sheet	13
Company Balance Sheet	14
Group statement of changes in equity	15
Company statement of changes in equity	16
Group cash flow statement	17
Notes to the financial statmenets	18

The National Magazine Company Limited

Annual report and financial statements 2018

Officers and professional advisers

Directors

F A Bennack Jr (USA, Chairman)
J D Wildman
C J Blunt
D F Carey (USA) Resigned 14 August 2018
M Clinton (USA)
D Chirichella (USA)
S P B Horne
G C Maurer (USA)
T W Young (USA) Appointed 16 August 2018

Company Secretary

A L Nisbet

Registered Office

30 Panton Street
London
SW1Y 4AJ

Bankers

HSBC plc
Bank of America, N.A.

Solicitors

Taylor Wessing LLP
Foot Anstey LLP

Auditor

Deloitte LLP
Statutory Auditor
London
United Kingdom

The National Magazine Company Limited

Strategic report

The directors, in preparing this strategic report have complied with s414C of the Companies Act 2006.

Business review

The National Magazine Company Limited (the “Company”) and its subsidiaries (the “Group” or “Hearst UK”) are wholly-owned subsidiaries of the Hearst Communications, Inc group (“Hearst”).

Hearst UK, is a consumer media business, providing content and experiences via a network of quality platforms including websites, magazines and events. The Group reaches large targeted consumer audiences through its range of mediums and sells these target audiences to advertisers. Many of the Group’s brands occupy market leading positions and this provides the strong platform to build digital growth and continue the revenue diversification of each brand.

As announced on 9 January 2018 Hearst Magazines, Inc. acquired the remaining 49.9% of Hearst UK Limited (formerly known as Hearst – Rodale UK Limited) and the results of this acquisition have been consolidated into the Group reporting to appropriately reflect the substance of the transaction. On 13 February, Hearst UK acquired the Be:Fit and QP brands with their associated magazines, digital properties and events.

Hearst UK’s magazines recent ‘ABCs’ (audited circulation by the Audit Bureau of Circulation) were better than the competitive market with many brands gaining share within their individual markets. Hearst UK retained market leadership in each of its monthly magazine competitive sectors, through Good Housekeeping, Cosmopolitan, Country Living, Men’s Health and Women’s Health and has two of the top three luxury magazines with ELLE and Harper’s Bazaar. Management are pleased with this performance and the successful achievement of the strategic imperative to grow market share.

Following the EU wide implementation of the General Data Protection Regulations ‘GDPR’ in May 2018, the Group adopted the strictest application of the regulations resulting in a temporary slowing of some digital revenues. Those revenues have now returned to growth as the regulations become standard across the market. In addition, owing to focus on audiences and dedicated agency and client sales teams, programmatic and creative solutions revenues are also delivering growth. The focus of Management remains on accelerating digital revenues and diversifying revenue streams whilst continuing to align costs with revenue trajectories and adopt more efficient and effective ways of working.

In Spring 2018, the Company moved its registered office and core operations to a nearby location in London thereby consolidating two existing locations under one roof. The investments in the property refurbishments and technology enhancements commenced in 2017 and completed in 2018. The net expenses in the year relating to the move were £3.9m.

The Group produced an operating profit from continuing operations 2018 of £4.6m excluding move costs (2017: £5.8m). The gross margin percentage on continuing operations for 2018 was 43% (2017: 43%). The Group statement of cash flows on page 17 shows that the Group’s cash flow decreased by £4.2m in 2018, mostly due to the move to the new office. In 2017 the £6.5m outflow was largely driven by the closure of Comag in the year.

The National Magazine Company Limited

Strategic report (continued)

The following key performance indicators are used by management to monitor the performance and financial position of the business: revenue, gross margin %, operating profit and cash on hand. The Group also tracks unique visitors (UVs) to measure digital audience and is developing metrics to measure engagement of those audiences e.g. launch of Engaged View Rate 'EVR' for branded content solutions.

<u>KEY PERFORMANCE INDICATORS</u>	2018	2017	Change
Revenues	146.0m	128.6m	+13.5%
Gross Margin %	43%	43%	n/a
Operating Profit (excluding move cost)	£4.6m	£5.8m	(21%)
Cash	£34.9m	£39.1m	(11%)
UVs, thousands (average monthly visitors)	52,582	39,783	+32%

As part of the programme to enhance employee engagement and satisfaction the Group holds quarterly 'All Staff' meetings to update all employees on the performance of the Group and to provide information on matters that may be of concern to them in addition to monthly CEO messages that are distributed to all employees via email. The Group also has the 'Hearst People Forum' made up of employees and members of the senior leadership team who meet monthly to discuss issues affecting the people and culture of the Group and to develop and implement new ideas and improvements.

During 2018, the Company guaranteed a property leasing contract on behalf of Hearst España SL until April 2024. The company's obligation would be to pay the remaining rents until the end of the contract of 841,089 Euro per annum.

Future developments

The Group will continue to develop its magazine and online publishing business and diversify into other areas of complementary revenues organically and by acquisition and partnership. Developing revenue opportunities in video production coupled with a deeper knowledge of the customer will ensure growth for the Group whilst system and process enhancements will improve future performance and profitability.

The directors have considered the business risks relating to Brexit and believe that the main risks relate to the potential economic impacts and consumer expenditure. In the supply chain the Group does rely on paper and ink from international suppliers to its magazine printers and on international printers though the risks are limited and contingency plans have been developed.

Climate Change

The Group is committed to environmental sustainability and reducing its carbon footprint. Planet Hearst is a Hearst wide initiative that has been established to prioritise these challenges and to embed sustainability into the ways of working within the organisation. The Group was awarded an ISO 14001 certification in January 2019 and since the move in 2018 uses 100% renewable energy, contributes zero waste to landfill and employs a three-stream waste

The National Magazine Company Limited

Strategic report (continued)

separation system. The Company is reviewing its environmental business practices and committed to further enhancing its sustainable practices.

Principal risks and uncertainties

Fluctuations in advertising revenue could have a marked impact on profitability. However, the mixed portfolio of magazines and diversification into digital publishing, events and other revenues helps to manage the exposure to this risk.

As costs fluctuate with the current economic conditions and markets consolidate it is important that business planning is supported by cost and supplier stability. The Group works within Hearst's corporate structure on varied procurement initiatives to build long-term and successful supplier relationships which enable us to secure goods and services at the best quality and value over the long term.

Financial Risk

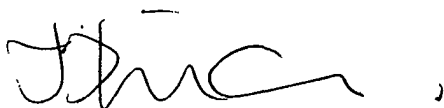
Due to the nature of the Group's business, and the assets and liabilities contained within the balance sheet, the principal financial risks that the directors consider relevant to the Group are credit risk and liquidity risk.

Credit risk is mitigated by the controls surrounding trade debtors, including obtaining credit insurance where appropriate. Whilst the current economic conditions create uncertainty, particularly over recoverability of the outstanding debts, the Group has an excellent record of recoverability.

Liquidity risk is mitigated by regular cash flow reviews to ensure the Group has sufficient cash resources to meet the operational requirements of the business. The Group benefits from financing provided by Hearst subsidiaries.

The Group is exposed to financial risk arising from the funding obligations to the Group's defined benefit pension plans. Details of the Group's pensions are set out in Note 20.

Approved by the Board and signed on its behalf on 18th October 2019.



J Wildman

Director

The National Magazine Company Limited

Directors' report

The directors present their annual report and the audited financial statements of The National Magazine Company Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2018.

Business review and principal activities

A review of the business and its principal activities are set out in the Strategic Report on page 2.

Future developments and subsequent events

Details of future developments can be found in the Strategic Report on page 2. There were no subsequent events.

Going concern

The directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for at least 12 months from the date of approval of the financial statements. Having received confirmation of continued financial support from Hearst, the directors continue to adopt the going concern basis in preparing the financial statements.

Further details regarding the adoption of the going concern basis can be found in Note 1 in the financial statements.

Principal risks and uncertainties

Details of the principal risks and uncertainties and financial instruments are included in the Strategic Report.

Dividends

The directors do not propose a dividend to be paid for the year 31 December 2018.

Employees

Details of the number of employees and related costs can be found in Note 6 to the financial statements on page 29.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

The Group participates in its parent company's policies and practices to keep employees informed on matters relevant to them as employees through regular meetings, intranet and newsletters. Further information is provided in the Strategic Report on page 2.

Directors

The directors of the Company during the year and to the date of this report are listed on page 1.

Directors' indemnities

The Company has made qualifying third-party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report. The provision in force covers all directors of the Company and all companies within the group owned by the ultimate parent The Hearst Corporation, a company incorporated in the United States of America.

The National Magazine Company Limited

Directors' report (continued)

Auditor


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

- so far as the director is aware there is no relevant audit information of which the Group's auditor is unaware; and
- the director has taken all reasonable steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

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

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board and signed on its behalf on 18th October 2019.



J Wildman
Director

The National Magazine Company Limited

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

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

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

Independent auditor's report to the members of The National Magazine Company Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of The National Magazine Company (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2018 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Group Income Statement;
- the Group Statement of Comprehensive Income;
- the Group and parent Company balance sheets;
- the Group and parent Company Statements of Changes in Equity;
- the Group Cash Flow Statement; and
- the related notes 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Independent auditor's report to the members of The National Magazine Company Limited (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Independent auditor's report to the members of The National Magazine Company Limited (continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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



William Touche (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

18 October 2019

The National Magazine Company Limited

Group Income Statement For the year ended 31 December 2018

	Notes	Continuing Operations 2018 £'000	Discontinued operations 2018 £'000	Total 2018 £'000	Restated* Continuing Operations 2017 £'000	Restated* Discontinued operations 2017 £'000	Restated* Total 2017 £'000
Turnover							
Existing operations	3,4	146,037	-	146,037	128,611	83,824	212,435
Cost of sales		(82,581)	-	(82,581)	(73,734)	(64,702)	(138,436)
Gross profit		63,456	-	63,456	54,877	19,123	74,000
Other Operating Expenses	9	(62,782)	(2,443)	(65,225)	(49,688)	(18,787)	(68,475)
Operating Profit/(Loss)		674	(2,443)	(1,769)	5,189	335	5,525
Share of joint venture operating profit				-	592	-	592
Profit/(Loss) before interest		674	(2,443)	(1,769)	5,781	335	6,116
Interest receivable and similar income	7	4,491	-	4,491	2,626	1,508	4,134
Interest payable and similar expenses	8	(8,512)	(189)	(8,701)	(7,509)	(1,983)	(9,493)
Profit/(Loss) before taxation		(3,347)	(2,632)	(5,979)	897	(140)	757
Tax on profit/loss	10	(1,238)	-	(1,238)	(870)	-	(870)
Profit/(Loss) after taxation		(4,585)	(2,632)	(7,217)	27	(140)	(113)
Equity minority interests	24	(523)	909	386	49	-	49
Profit/(Loss) for the financial year		(5,108)	(1,723)	(6,831)	76	(140)	(64)

*see Note 3 for details of prior period restatement.

The National Magazine Company Limited

Group Statement of Comprehensive Income For the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Loss for the financial year		(6,831)	(64)
Actuarial (loss)/gain relating to the pension scheme	20	<u>(2,743)</u>	<u>26,809</u>
		(9,574)	26,745
UK deferred tax attributable to actuarial (loss)/gain		(90)	(5,519)
Total comprehensive (loss)/income		<u><u>(9,664)</u></u>	<u><u>21,226</u></u>
Total comprehensive (loss)/income for the period attributable to:			
Minority interest		295	2,642
Equity shareholders of the Company		<u>(9,959)</u>	<u>18,584</u>
		<u><u>(9,664)</u></u>	<u><u>21,226</u></u>

The National Magazine Company Limited

Group Balance Sheet As at 31 December 2018

	Notes	2018 £'000	Restated* 2017 £'000
Fixed assets			
Intangible assets	11	42,525	42,056
Tangible assets	12	10,495	935
Investments in joint ventures:			
- goodwill		-	3,700
- share of gross assets		-	3,336
- share of gross liabilities		-	(3,273)
		<u>-</u>	<u>3,763</u>
		<u>53,020</u>	<u>46,754</u>
Current assets			
Stocks	14	1,280	1,937
Debtors: due within one year	15	37,166	47,019
Cash at bank and in hand		34,934	39,126
		<u>73,380</u>	<u>88,082</u>
Current liabilities			
Creditors: due within one year	16	(44,707)	(53,000)
Net current assets		<u>28,673</u>	<u>35,082</u>
Total assets less current liabilities		<u>81,693</u>	<u>81,836</u>
Creditors: amounts falling due after more than one year	17	(90,039)	(85,867)
Provisions for liabilities	18	(1,790)	(68)
Net liabilities excluding pension liability		<u>(10,136)</u>	<u>(4,099)</u>
Pension liability, net of deferred tax	20	(1,000)	(1,085)
Net liabilities		<u>(11,136)</u>	<u>(5,184)</u>
Capital and reserves			
Called up share capital	21	283	283
Profit and loss account	22	(13,065)	(3,401)
Unrealised reserve	22	-	-
Shareholders' deficit	23	<u>(12,782)</u>	<u>(3,118)</u>
Equity minority interests	24	1,646	(2,066)
		<u>(11,136)</u>	<u>(5,184)</u>

*see Note 3 for details of the prior period restatement.

The financial statements of The National Magazine Company Limited registered number 00112955 were approved by the Board of Directors and authorised for issue on 18th October 2019.

They were signed on its behalf by:



J Wildman
Director

The National Magazine Company Limited

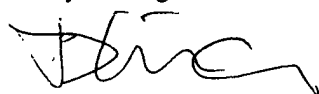
Company Balance Sheet As at 31 December 2018

	Notes	2018 £'000	Restated* 2017 £'000
Fixed assets			
Intangible assets	11	39,469	43,095
Tangible assets	12	10,495	935
Investments in subsidiaries	13	5,658	7,220
Investments in joint ventures		-	5,658
		<u>55,622</u>	<u>56,910</u>
Current assets			
Stocks	14	1,196	1,937
Debtors: due within one year	15	39,579	37,566
Cash at bank and in hand		30,954	37,003
		<u>71,729</u>	<u>76,506</u>
Current liabilities			
Creditors: due within one year	16	(43,955)	(50,629)
Net current assets		<u>27,774</u>	<u>25,877</u>
Total assets less current liabilities		<u>83,396</u>	<u>82,787</u>
Creditors: amounts falling due after more than one year	17	(90,040)	(85,867)
Provisions for liabilities	18	(1,790)	(68)
Net liabilities excluding pension liability		<u>(8,434)</u>	<u>(3,148)</u>
Pension liability, net of deferred tax	20	(695)	(754)
Net liabilities		<u>(9,129)</u>	<u>(3,902)</u>
Capital and reserves			
Called up share capital	21	283	283
Profit and loss account	22	(18,815)	(13,588)
Unrealised reserve	22	9,403	9,403
Shareholders' deficit		<u>(9,129)</u>	<u>(3,902)</u>
		<u>(9,129)</u>	<u>(3,902)</u>

*see Note 3 for details of prior period restatement.

As permitted by section 408 of the Companies Act 2006, the parent company's profit and loss account has not been included in these financial statements. The parent company's loss for the financial year was £4,996,664 (2017: £2,285,568 loss). The financial statements of The National Magazine Company Limited registered number 00112955 were approved by the Board of Directors and authorised for issue on 18th October 2019.

They were signed on its behalf by:



J Wildman
Director

The National Magazine Company Limited

Group statement of changes in equity For the year ended 31 December 2018

	Note	Equity attributable to equity shareholders of the Company			Non- controlling interest £'000	Total £'000
		Called-up share capital £'000	Profit and loss account £'000	Total £'000		
At 1 January 2017		283	(24,627)	(24,344)	(2,017)	(26,361)
Loss for the financial year		-	(64)	(64)	(49)	(113)
Remeasurement of net defined benefit liability	20	-	26,809	26,809	-	26,809
Tax relating to items of other comprehensive loss		-	(5,519)	(5,519)	-	(5,519)
Total comprehensive income		-	21,226	21,226	(49)	21,177
At 31 December 2017		283	(3,401)	(3,118)	(2,066)	(5,184)
Loss for the financial year			(6,831)	(6,831)	(386)	(7,217)
Remeasurement of net defined benefit liability	20		(2,743)	(2,743)		(2,743)
Tax relating to items of other comprehensive loss			(90)	(90)		(90)
Total comprehensive loss			(9,664)	(9,664)	(386)	(10,050)
Capital contribution from minority					4,160	4,160
Recognition of minority interest on acquiring control of Hearst UK Limited					(62)	(62)
At 31 December 2018		283	(13,065)	(12,782)	1,646	(11,136)

The National Magazine Company Limited

Company statement of changes in equity For the year ended 31 December 2018

	Note	Called-up share capital £'000	Profit and loss account £'000	Unrealised reserve £'000	Total £'000
At 1 January 2017		283	(25,718)	9,403	(16,033)
Loss for the financial year		-	(1,786)	-	(1,786)
Other comprehensive income		-	13,912	-	13,912
Total comprehensive income		-	12,126	-	12,126
At 31 December 2017		283	(13,588)	9,403	(3,902)
Loss for the financial year	22		(4,997)		(4,997)
Other comprehensive loss	22		(230)		(230)
Total comprehensive loss			(5,227)		(5,227)
At 31 December 2018		283	(18,815)	9,403	(9,129)

The National Magazine Company Limited

Group cash flow statement For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Net cash flows from operating activities	25	<u>5,562</u>	<u>(7,819)</u>
Cash flows from investing activities			
Proceeds from sale of equipment		-	998
Purchase of Intangible Assets		(813)	-
Cash acquired on taking control of Hearst UK Limited		1,470	-
Purchase of equipment		(10,541)	(468)
Interest paid		(15)	(57)
Interest received		145	348
Dividends received from associates		-	500
Net cash flows from investing activities		<u>(9,754)</u>	<u>1,321</u>
Decrease in cash and cash equivalents		<u>(4,192)</u>	<u>(6,498)</u>
Cash and cash equivalents at beginning of year		<u>39,126</u>	<u>45,624</u>
Cash and cash equivalents at end of year		<u><u>34,934</u></u>	<u><u>39,126</u></u>

The National Magazine Company Limited

Notes to the financial statements For the year ended 31 December 2018

1. Going concern basis

The Group's business activities, together with the factors likely to affect its future development, principal risks and uncertainties, performance and position are set out in the Strategic Report and Directors' Report.

The Group has a strong cash position and current asset position. The Group has met its day-to-day working capital requirements from its own resources and has longer term financing from an intercompany loan from the Hearst Communications, Inc group ("Hearst"). Hearst has agreed to provide continued financial support to the Company. The Group's forecasts show that the Group should be able to operate within the level of its current funding for at least 12 months from the date of approval of the financial statements.

After making enquiries, the Directors believe that the Company and the Group have sufficient financial resources to adopt the going concern basis in preparing the financial statements.

2. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the current and the preceding year.

General information and basis of accounting

The National Magazine Company Limited (the Company) is a Company incorporated in the United Kingdom under the Companies Act 2006.

The Company is a private Company limited by shares and is registered in England and Wales. The address of the Company's registered office is shown on page 1 of these financial statements.

The principal activities of the Company and its subsidiaries (the Group) and the nature of the Group's operations are set out in the Strategic Report on pages 2 to 3.

The financial statements have been prepared under the historical cost convention in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council and the requirements of the Companies Act 2006.

The functional currency of the Group is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. The consolidated financial statements are also presented in pounds sterling. Foreign operations are included in accordance with the policies set out below.

The National Magazine Company Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to the presentation of a separate company only income statement, company only financial instruments, presentation of a company only statement of cash flows and company only remuneration of key management personnel. The Group financial statements can be obtained from 30 Panton Street, London, SW1Y 4AJ.

Critical judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The National Magazine Company Limited

Notes to the financial statements (continued) 31 December 2018

2. Accounting policies (continued)

Critical judgements and key sources of estimation uncertainty (continued)

The provision for returns for magazines sold on a “sale or return” basis is deemed to be an area of uncertainty given the nature of the balance and the levels of estimation required and the carrying amount at year-end for the Company is £8.8m, (2017: £7.1m).

The carrying amount at year-end for the Group is £10.0m, (2017: £7.1m).

Key source of estimation uncertainty – impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated.

The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate a present value. The carrying amount of goodwill at the balance sheet date was £27,226k (2017: £25,357k) and no impairment loss was recognised in 2018 (2017: £nil).

Due to fluctuations associated with discount rates, there is a possibility that the valuation of goodwill and intangible assets at a future date may differ from the valuation determined for the purposes of these financial statements. For example an increase in the discount rate by 1% decreases headroom by £5.6m from £16.8m to £11.1m for all goodwill and intangible assets with a net book value, and there remains no impairment.

Key source of estimation uncertainty – pension liability and pension asset

Estimates and assumptions related to the pension liability and pension asset are measured on an actuarial basis. The actuarial valuations are obtained triennially and updated at each balance sheet date. Due to the uncertainty of valuations associated with the pension scheme, there is a possibility that the final outcome of pension assets and liabilities may differ significantly. The valuation is affected by the discount rate, inflation rate and change in mortality rate. The largest variances would occur with;

- A decrease in discount rate by 0.25% equates to an increase of £8.4m in net defined benefit liability.
- An increase in inflation rate of 0.25% equates to an increase of £4.5m in net defined benefit liability.

No other critical judgements were made by management in application of the accounting policies of the Group.

Basis of consolidation

The Group financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On 24 January 2018, as a result of the resignation of the Rodale director from the board of Hearst Rodale Limited, the Company acquired control of Hearst Rodale Limited, which was previously a joint venture. Following the acquisition of Rodale Inc by Hearst Corporation on 2 January 2018, Hearst Rodale Limited became a wholly owned subsidiary within the group headed by Hearst Corporation. Accordingly, the acquisition of control by the Company qualifies as a group reconstruction, and the Company has accounted for the transaction by applying merger accounting prospectively from the date on which it obtained control.

The amounts included in the Group income statement in respect of Hearst-Rodale UK Limited which was renamed Hearst UK Limited on 15th January 2018 are: Turnover £12,696,094 and Operating profit £1,170,264.

The National Magazine Company Limited

Notes to the financial statements (continued) **31 December 2018**

2. Accounting policies (continued)

Basis of consolidation (continued)

Minority interests in the net assets of Group subsidiaries are identified separately from the Group's equity therein.

Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group.

The result of subsidiaries acquired or disposed of during the year are included in the Group income statement from effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Accounting for joint ventures

The gross equity basis of accounting has been applied. Therefore, the Group's share of joint venture operating profit or loss is included within Group results. In addition, the Group's share of gross assets and liabilities together with goodwill are included within Group net assets/liabilities.

Intangible assets: Goodwill

Goodwill arising on businesses purchased is capitalised in the year in which it arises and amortised on a straight-line basis over its estimated useful life. Where a reliable estimate of the useful economic life cannot be made, the useful life has been determined to be 10 years in line with FRS102.

Where reliable estimates can be made, the life ranges from 10 to 20 years. The goodwill is reviewed for impairment at the end of each reporting period and provision is made for any impairment.

Intangible fixed assets

Intangible assets arising on acquisition are assigned amortisation rates dependent on their useful economic lives and are amortised using the straight-line method. These assets include domain names and trademarks, customer relationships and databases and other intangible assets.

Where a reliable estimate of the useful economic life cannot be made, the useful life has been deemed as 10 years in line with FRS102.

Goodwill	- 20 years
Domain Names	- 10 – 20 years
Customer Relationships	- 10 years
Other Intangibles	- 2 – 20 years

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

The National Magazine Company Limited

Notes to the financial statements (continued) 31 December 2018

2. Accounting policies (continued)

Financial instruments (continued)

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(ii) Equity instruments

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

Tangible fixed assets

Tangible fixed assets are recorded at purchase cost, together with any incidental costs of acquisition. Provision is made for any impairment.

The principal annual rates used for this purpose are below and depreciated using the straight-line method:

Leasehold improvements	- Over the lease term
Motor vehicles	- 20 to 33 per cent per annum
Furniture, fixtures and fittings	- 10 to 20 per cent per annum
Equipment	- 25 to 50 per cent per annum

Short-term leasehold properties and improvements thereto are amortised over 15 years or, if shorter, the period of the lease.

Investments

Investments are stated at cost less any provision for impairment in value.

Stocks and work-in-progress

Stocks and work-in-progress are valued at the lower of cost and net realisable value. Cost is determined on a "first-in, first-out" basis. Where necessary, provision is made for obsolete and slow moving stocks.

The National Magazine Company Limited

Notes to the financial statements (continued) **31 December 2018**

2. Accounting policies (continued)

Finance and operating leases

Leasing agreements which transfer to the Group substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitment is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is recorded as an outstanding obligation and the interest element is charged against profit. Assets held under finance leases are depreciated over the shorter of the lease term and the estimated useful economic lives of the assets.

Operating lease rentals are charged to the income statement on a straight-line basis over the lease term. Benefits received as an incentive to sign an operating lease are similarly spread on a straight-line basis.

Foreign currencies

Transactions denominated in foreign currencies are translated into the functional currency of the Group which is sterling at the rates ruling at the dates of the transactions or, if hedged, at the forward contract rate.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates ruling at that date or, if appropriate, at the forward contract rate. These translation differences are dealt with in the income statement.

Turnover

Turnover, which excludes value added tax, sales between Group companies and trade discounts, represents the invoiced value of goods and services supplied and accrued sales not yet invoiced and is stated net of the provision for returns.

Newstrade circulation and advertising revenue relating to a magazine are recognised as at the on-sale date of the magazine.

Subscription revenues are shown as deferred income and released to the income statement over the life of the subscription, in accordance with the on-sale date of the magazine. Distribution revenue is recognised in accordance with the on-sale date of the magazine.

Digital advertising revenue is recognised rateably over the term of the advertising campaign.

Interest income is recognised when it is probable that the economic benefits will flow to the Group and can be measured reliably.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computation in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date.

The National Magazine Company Limited

Notes to the financial statements (continued) 31 December 2018

2. Accounting policies (continued)

Pension costs

For defined benefit schemes the amounts charged to operating profit are the costs arising from employee services rendered during the period and the cost of plan introductions, benefit changes, settlements and curtailments. They are included as part of staff costs. The net interest cost on the net defined benefit liability is charged to profit or loss and included within finance costs. Re-measurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability) are recognised immediately in other comprehensive income.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date.

For defined contribution schemes the amount charged to the income statement in respect of pension costs and other retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

3. Prior year restatement

The Company has restated the prior year comparatives as further explained in this note to the financial statements. These adjustments are categorised into two overall areas being adjustments related to discontinued operations and other adjustments identified following the implementation of a new financial reporting system. The Company has adjusted for all of these given the aggregate and interrelated impact of the adjustments on the financial statements as a whole. This note does not discuss in detail all adjustments identified but rather explains the nature and impact of the most significant items which have resulted in adjustments to the prior year comparatives.

Presentation of discontinued operations

In the prior year, discontinued operations included amounts related to business that will continue subsequent to closure of Conde Nast & National Magazine Distributors Limited. The presentation of the split between discontinued and continuing operations in the 2017 income statement has therefore been updated to appropriately reflect this. This has resulted in a reduction in revenues and other operating expenses of £36,469,000 and £9,965,000 and an increase in cost of sales of £46,434,000 attributed to discontinued operations. There is no impact on the operating loss from discontinued operations.

Systems implementation

During 2018 the Company implemented a new accounting system. In preparing the financial statements for statutory reporting purposes the Company undertook a thorough review of the chart of accounts to identify how best to map the new chart of accounts to financial statement line items. This review revealed that a number of adjustments were required and the company elected to make reclassifications of prior period expense items to conform with the current year presentation.

A summary of the nature and extent of the balances impacted is set out below. There is no net impact on net profit or net assets as a result of these adjustments, many of which are reclassifications between assets and liabilities or between various line items in the income statement.

The Company has reclassified various expenses, previously included in distribution or administration expenses, to cost of sales. The aggregate impact of this reclassification has been to increase cost of sales by £5,655,000 and to decrease net operating expenses by the same amount.

The National Magazine Company Limited

Notes to the financial statements (continued) 31 December 2018

3. Prior year restatement (continued)

The amounts reclassified to cost of sales are considered to relate directly to revenue generated by the Company and therefore are now being presented as a cost of the revenue to which the costs may be attributed. While a number of different expenses are included in the overall adjustment, a significant proportion of the adjustment relates to costs incurred that are attributable to advertising revenues (including digital advertising) and costs incurred in the printing and publishing of magazines.

	Reported previously £'000	Restated £'000	Difference £'000
Cost of sales	132,781	138,436	5,655
Net Operating expenses	74,134	68,475	(5,655)
Distribution	32,756	38,860	6,104
Administration	41,378	29,615	(11,763)

A summary of the impact of the reclassifications in the consolidated balance sheet is set out below – there is no net impact on net assets:

	Reported previously £'000	Restated £'000	Difference £'000
Consolidated balance sheet			
Debtors	56,770	47,019	(9,751)
Trade Debtors	48,363	37,828	(10,535)
Amounts owed by group undertakings	4,163	4,773	610
Prepayments and accrued income	2,383	3,451	1,068
Other Debtors	1,157	264	(893)
Stock	3,056	1,937	(1,119)
Raw material and consumables	1,773	974	(799)
Work-in-progress	1,283	963	(320)
Creditors: amounts falling due within one year	(63,870)	(53,000)	10,870
Trade creditors	(26,104)	(14,063)	12,041
Amounts owed to associates	-	(2,098)	(2,098)
Other creditors	(165)	(1,899)	(2,064)
Accruals and deferred income	(38,023)	(35,032)	2,991

Debtors

Various adjustments and reclassifications have been made within the overall debtors account balance. Most of this is located in trade debtors which decreased by £10,535,000 as a result of the following adjustments:

- a decrease of £12,041,000, due to the reclassification of the sales or return provision from trade creditors to trade debtors;
- a decrease of £498,000 due to an intercompany receivable being reclassified from trade debtors to amounts owed by group undertakings; and

The National Magazine Company Limited

Notes to the financial statements (continued) 31 December 2018

3. Prior year restatement (continued)

- a decrease of £881,000 following a reclassification from trade debtors to prepayments and accrued income.

The above adjustments are partially offset by an increase in the sale or return provision of £894,000 due to a reclassification from other debtors to trade receivables and the reclassification of an intercompany payable of £1,990,000, previously offset against trade debtors, to amounts owed to associates.

The primary component of the adjustment arises from the reclassification of the sale or return provision. That provision relates to amounts owed to the Company for magazines sold to third parties but which may be returned to the Company if not sold onwards to an individual magazine purchaser. The provision was previously classified as a creditor but has been adjusted by appropriately including the amount as a reduction in trade receivables. The adjustment is also the most significant component of the overall adjustment in the 2017 financial statements to the reported amounts for creditors.

The increase in prepayments and accrued income of £1,069,000 arises primarily from an adjustment of £881,000 due to accrued revenue being reclassified from trade debtors. This balance relates to commissions receivable which is management's best estimate of their entitlement to commissions earned but not invoiced at the end of the reporting period.

Inventory

Management identified that amounts of £1,119,000 had been inappropriately recorded in inventory. Accrued expenses of £799,000 settled and paid by the Company in prior years had been incorrectly posted as an adjustment to inventories, upon payment, and not against the accrual to which the expense related.

Creditors

The aggregate impact of the adjustments to creditors falling due within one year is a decrease of £10,871,000. The majority of this impact is attributable to a reduction in trade creditors following the reclassification of the sale or return provision of £12,041,000 from trade creditors to trade debtors. This is explained in more detail above.

The increase in amounts owed to associates relates to a reclassification of £2,099,000 from trade debtors and from amounts owed by group undertakings. This amount is now correctly presented as part of creditors in the adjusted amounts for the prior year and not offset against balances that form part of debtors.

Accruals and deferred income and other creditors were misstated in the prior year for a number of reasons in the amounts of £2,991,000 (overstatement of accruals and deferred income) and £2,063,000 (understatement of other creditors). The majority of the misstatement arose, in both instances, from a posting error in the amount of £3,215,000 identified following the systems implementation. The impact of the correcting entry is to decrease accruals and deferred income and increase other creditors by the amount noted. The overall adjustment made to accruals and deferred income is lower due to the net impact of a number of adjustments including a reclassification (increase) of £1,153,000 from other creditors and the correction of an entry that had been recorded within inventory but which reflected the settlement of accrued expenses.

The National Magazine Company Limited

Notes to the financial statements (continued) 31 December 2018

3. Prior year restatement (continued)

A summary of the impact of the reclassifications in the company only balances is set out below – there is no net impact on net assets:

Balance sheet	Reported previously £'000	Restated £'000	Difference £'000
Debtors	53,140	37,566	(15,574)
Trade Debtors	30,855	20,320	(10,535)
Amounts owed by group undertakings	18,164	12,950	(5,214)
Prepayments and accrued income	2,261	3,330	1,069
Other Debtors	1,157	263	(894)
Stock	3,057	1,937	(1,120)
Raw material and consumables	1,773	974	(799)
Work-in-progress	1,284	963	(321)
Creditors: amounts falling due within one year	(67,326)	(50,629)	16,697
Trade creditors	(12,610)	(569)	12,041
Amounts owed to Group undertakings	(17,932)	(12,220)	5,712
Amounts owed to associates	-	(1,990)	(1,990)
Other creditors	262	(1,798)	(2,060)
Accruals and deferred income	(36,464)	(33,470)	2,994
Debtors			

Various adjustments and reclassifications have been made within the overall debtors account balance. Most of this is located in trade debtors which decreased by £10,535,000 as a result of the following adjustments:

- a decrease of £12,041,000, due to the reclassification of the sales or return provision from trade creditors to trade debtors;
- a decrease of £498,000 due to an intercompany receivable being reclassified from trade debtors to amounts owed by group undertakings; and
- a decrease of £881,000 following a reclassification from trade debtors to prepayments and accrued income.

The above adjustments are partially offset by an increase in the sale or return provision of £894,000 due to a reclassification from other debtors to trade receivables and the reclassification of an intercompany payable of £1,990,000, previously offset against trade debtors, to amounts owed to group undertakings.

The primary component of the adjustment arises from the reclassification of the sale or return provision. That provision relates to amounts owed to the Company for magazines sold to third parties but which may be returned to the Company if not sold onwards to an individual magazine purchaser. The provision was previously classified as a creditor but has been adjusted by appropriately including the amount as a reduction in trade receivables. The adjustment is also the most significant component of the overall adjustment in the 2017 financial statements to the reported amounts for creditors.

The increase in prepayments and accrued income of £1,069,000 arises primarily from an adjustment of £881,000 due to accrued revenue being reclassified from trade debtors. This balance relates to commissions receivable which is management's best estimate of their entitlement to commissions earned but not invoiced at the end of the reporting period.

The National Magazine Company Limited

Notes to the financial statements (continued) 31 December 2018

3. Prior year restatement (continued)

The decrease in amounts owed by group undertakings of £5,214,000 reflects the reclassification of a £5,712,000 provision against an intercompany receivable from amounts owed to group undertakings net of a £498,000 reclassifications of an intercompany debtor from trade debtors.

Inventory

Management identified that amounts of £1,119,000 had been inappropriately recorded in inventory. Accrued expenses of £799,000 settled and paid by the Company in prior years had been incorrectly posted as an adjustment to inventories, upon payment, and not against the accrual to which the expense related.

Creditors

The aggregate impact of the adjustments to creditors falling due within one year is a decrease of £16,695,000. The majority of this impact is attributable to a reduction in trade creditors following the reclassification of the sale or return provision of £12,041,000 from trade creditors to trade debtors. This is explained in more detail above.

The decrease in amounts owed to group undertakings of £5,712,000 is due to the reclassification of the provision. The increase in amounts owed to associates relates to a reclassification of £2,099,000 from trade debtors and from amounts owed by group undertakings. This amount is now correctly presented as part of creditors in the adjusted amounts for the prior year and not offset against balances that form part of debtors.

Accruals and deferred income and other creditors were misstated in the prior year for a number of reasons in the amounts of £2,991,000 (overstatement of accruals and deferred income) and £2,063,000 (understatement of other creditors). The majority of the misstatement arose, in both instances, from a posting error in the amount of £3,215,000 identified following the systems implementation. The impact of the correcting entry is to decrease accruals and deferred income and increase other creditors by the amount noted. The overall adjustment made to accruals and deferred income is lower due to the net impact of a number of adjustments including a reclassification (increase) of £1,153,000 from other creditors and the correction of an entry that had been recorded within inventory but which reflected the settlement of accrued expenses.

4. Turnover

All turnover of the Group originates in the United Kingdom. The turnover of the Group by geographical area of destination in respect of its principal activities is set out below:

	Total 2018 £'000	Total 2017 £'000
United Kingdom	122,986	185,099
Rest of Europe	13,063	21,710
USA/Canada	9,662	4,922
Australia/ New Zealand	14	92
Rest of the world	312	612
	146,037	212,435

The discontinued operations in 2017 relate to turnover generated by Conde Nast & National Magazine Distributors Limited and was in respect of distributing magazines for the Company and third parties. There was no turnover generated through discontinued operations in 2018.

The National Magazine Company Limited

Notes to the financial statements (continued) 31 December 2018

5. Directors' emoluments

	2018 £'000	2017 £'000
Emoluments	1,393	917
Amounts receivable (other than shares and share options under long-term incentive schemes)	27	27
Company contributions to money purchase scheme	6	-
	<u>1,426</u>	<u>944</u>

The number of directors who:

	2018 No.	2017 No.
Are members of a money purchase pension scheme	<u>1</u>	<u>-</u>

Remuneration of the highest paid director:

	2018 £'000	2017 £'000
Emoluments	932	562
Company contributions to money purchase scheme	-	-
	<u>932</u>	<u>562</u>

The National Magazine Company Limited

Notes to the financial statements (continued) 31 December 2018

6. Employee information

Group

The average monthly number of staff (including executive directors) employed by the Group during the year was:

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Publishing	796	744	745	744
Distribution	11	224	-	-
	<u>807</u>	<u>968</u>	<u>745</u>	<u>744</u>

Staff costs (including executive directors) incurred during the year in respect of employees were:

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Wages and salaries	50,470	51,737	48,317	44,600
Social security costs	4,106	4,750	3,805	4,018
Other Pension Costs (see note 20)	4,257	4,153	2,950	2,883
	<u>58,833</u>	<u>60,640</u>	<u>55,072</u>	<u>51,501</u>

'Other pension costs' includes only those defined benefit scheme costs included within operating costs and the defined contribution scheme charge.

The National Magazine Company Limited

Notes to the financial statements (continued) 31 December 2018

7. Interest receivable and similar income

	2018 £'000	2017 £'000
Interest receivable from bank	145	348
Interest on defined benefit plan assets	4,346	3,786
	<u>4,491</u>	<u>4,134</u>

8. Interest payable and similar expenses

	2018 £'000	Total 2017 £'000
Interest payable to bank	15	57
Interest payable on loan	4,350	4,289
Interest on defined benefit obligations	4,336	5,147
	<u>8,701</u>	<u>9,493</u>

9. Operating (Loss)/Profit

The operating loss of £1,769,067 (2017: £5,524,367) is stated after charging/(crediting) the following:

	2018 £'000	2017 £'000
Distribution Costs	26,219	38,860
Depreciation of tangible fixed assets	982	1,154
Amortisation of goodwill	2,004	2,414
Amortisation of other intangible assets	2,040	2,556
Operating lease rentals	7,554	4,934
Foreign exchange costs	45	158
Other administrative expenses	28,722	20,835
Total administrative expenses	41,346	32,051
Other operating income	(2,340)	(2,436)
Net Operating Expenses	<u>65,225</u>	<u>68,475</u>

The analysis of auditor's remuneration is as follows:

	2018 £'000	2017 £'000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	214	109
Fees payable to the Company's auditor for other services to the Group: - The audit of the Company's subsidiaries pursuant to legislation	81	83
Total audit fees	<u>295</u>	<u>192</u>

The National Magazine Company Limited

Notes to the financial statements (continued) 31 December 2018

10. Tax on profit

The tax charge comprises:

	2018 £'000	2017 £'000
Analysis of tax charge		
United Kingdom corporation tax at 19.00% (2017: 19.25%)		
Current year	763	626
Share of joint ventures		119
Adjustment in respect of prior years	(4)	(227)
	<u>759</u>	<u>518</u>
Deferred tax at 19.00% (2017: 18.00%)		
Current year	516	245
Adjustment in respect of prior year	(37)	107
	<u>516</u>	<u>107</u>
Total tax on profit	<u><u>1,238</u></u>	<u><u>870</u></u>

Factors affecting tax charge for the current year

The tax assessed for the year is higher than that resulting from applying the standard rate of corporation tax in the UK of 19%. The differences are explained below:

	2018 £'000	2017 £'000
(Loss)/profit on ordinary activities before tax	(5,979)	757
Tax at 19.00% (2017: 19.25%)	(1,042)	146
Effects of:		
Expenses not deductible for tax purposes	1,994	1,706
Group Relief	2	(124)
Utilisation of tax losses	-	(96)
Prior year adjustments	(42)	(106)
Impact of rate change	(61)	792
Income not taxable	(8)	(1,468)
Deferred tax not recognised	-	20
Losses	514	-
Other	(119)	-
	<u>1,238</u>	<u>870</u>
Total tax charge for the year	<u><u>1,238</u></u>	<u><u>870</u></u>

As per current UK corporate tax law, the UK corporation tax rate was reduced to 19% from 1 April 2017. The Finance (No. 2) Act 2016, which received Royal Assent on 15 September 2016, states that UK corporation tax rate will be further reduced to 17% effective from 1 April 2020. The reduction in tax rate included in the Finance (No. 2) Act 2016 was enacted at the balance sheet date and the effect thereof is reflected in these financial statements.

There is no expiry date on timing differences, unused losses or tax credits.

The National Magazine Company Limited

Notes to the financial statements (continued) 31 December 2018

11. Intangible fixed assets

Group	Goodwill £'000	Domain names and trademarks £'000	Customer relationships and databases £'000	Other intangibles £'000	Total £'000
Cost					
At 1 January 2018	93,611	17,157	14,538	13,584	138,890
Additions	173	-	30	610	813
On acquiring control of Hearst UK Limited (see note 2)	3,700	-	-	-	3,700
At 31 December 2018	97,484	17,157	14,568	14,194	143,403
Amortisation					
At 1 January 2018	(68,254)	(7,553)	(11,509)	(9,519)	(96,835)
Charge for year	(2,004)	(739)	(941)	(360)	(4,043)
Disposals	-	-	-	-	-
At 31 December 2018	(70,258)	(8,292)	(12,450)	(9,879)	(100,878)
Net book value					
At 31 December 2018	27,226	8,865	2,118	4,315	42,525
At 31 December 2017	25,357	9,604	3,029	4,065	42,056

Company	Goodwill £'000	Domain names and trademarks £'000	Customer relationships and databases £'000	Other intangibles £'000	Total £'000
Cost					
At 1 January 2018	49,123	40,787	10,400	6,985	107,295
Additions	173	-	-	-	173
At 31 December 2018	49,296	40,787	10,400	6,985	107,468
Amortisation					
At 1 January 2018	(23,535)	(30,210)	(7,533)	(2,920)	(64,198)
Charge for year	(1,658)	(1,043)	(800)	(300)	(3,801)
Disposals	-	-	-	-	-
At 31 December 2018	(25,193)	(31,253)	(8,333)	(3,220)	(67,999)
Net book value					
At 31 December 2018	24,103	9,534	2,067	3,765	39,469
At 31 December 2017	25,588	10,577	2,867	4,065	43,095

The National Magazine Company Limited

Notes to the financial statements (continued) 31 December 2018

11. Intangible fixed assets (continued)

The Lagadere acquired brands (Elle, Elle Deco and Red) which were purchased in 2011, are considered material to the Group. The carrying amount as at 31 December 2018 was £38.1m (31 December 2017: £41.8m) and the brand has an estimated remaining useful life of 12 years.

The Best brand, which was purchased in 2008, is considered material to the Company. The carrying amount as at 31 December 2018 was £4.8m (31 December 2017: £5.3m) and the brand has an estimated remaining useful life of 10 years.

12. Tangible fixed assets

Group	Short-term leasehold and improvements £'000	Motor vehicles £'000	Furniture, fixtures, fittings and equipment £'000	Total £'000
Cost				
At 1 January 2018	2,935	15	6,560	9,510
On acquiring control of Hearst UK Limited (see note 2)	58	-	76	134
Additions	8,820	-	1,720	10,540
Disposals	-	-	(1,959)	(1,959)
At 31 December 2018	11,813	15	6,397	18,225
Depreciation				
At 1 January 2018	(2,991)	(14)	(5,702)	(8,707)
Charge for year	(282)	(1)	(699)	(982)
Disposals	-	-	1,959	1,959
At 31 December 2018	(3,273)	(15)	(4,442)	(7,730)
Net book value				
At 31 December 2018	8,540	-	1,955	10,495
At 31 December 2017	-	2	933	935

The National Magazine Company Limited

Notes to the financial statements (continued) 31 December 2018

12. Tangible fixed assets (continued)

Company	Short-term leasehold and improvements £'000	Motor vehicles £'000	Furniture, fixtures, fittings and equipment £'000	Total £'000
Cost				
At 1 January 2018	2,933	15	6,561	9,509
Additions	8,820	-	1,721	10,541
Disposals	-	-	(1,959)	(1,959)
At 31 December 2018	11,753	15	6,323	18,091
Depreciation				
At 1 January 2018	(2,933)	(14)	(5,626)	(8,573)
Charge for year	(282)	(1)	(699)	(982)
Disposals	-	-	1,959	1,959
At 31 December 2018	(3,215)	(15)	(4,366)	(7,596)
Net book value				
At 31 December 2018	8,538	-	1,957	10,495
At 31 December 2017	-	2	933	935

13. Investments in subsidiaries

Company	Interest in subsidiary undertaking £'000
Cost	
At 1 January 2018	7,220
Disposal of investment in F.E.P (UK) Limited	(7,220)
Acquiring control of Hearst UK Limited	5,658
Contribution to capital of loan receivable from Conde Nast and National Magazine Distributors Limited	8,052
At 31 December 2018	13,710
Charge for the year	
Impairment of investment in Conde Nast and National Magazine Distributors Limited	(8,052)
At 31 December 2018	5,658
Closing Balance	
At 31 December 2018	5,658
At 31 December 2017	7,220

The National Magazine Company Limited

Notes to the financial statements (continued) 31 December 2018

13. Investments in subsidiaries (continued)

Interests in subsidiary undertakings

Name of undertaking	Country of incorporation	Description of share held	Proportion of nominal value of issued shares held by Company
			%
Condé Nast & National Magazine Distributors Limited	United Kingdom	Ordinary Shares of £1 each	65
Handbag.com Limited	United Kingdom	Ordinary Shares of £1 each	100
Hearst UK Limited	United Kingdom	Ordinary Shares of £1 each	50.1
Hearst UK Events Limited	United Kingdom	Ordinary Shares of £1 each	100
Edited Financial Services Limited	United Kingdom	Ordinary Shares of £1 each	100

The registered address of all the undertakings above is 30 Panton Street, London SW1Y 4AJ.

All subsidiary undertakings have been included in the consolidation.

The principal business activity of Condé Nast & National Magazine Distributors Limited is the distribution of magazines and periodicals.

The principal activity of Handbag.com Limited is the operation of websites targeted at women. This subsidiary (Company Number 03819979) has taken advantage of the s479A exemption from audit.

Edited Financial Services Limited acts as a marketing agent for an insurance broker.

Hearst UK Limited is a consumer media business, providing content and experiences via a network of quality platforms including magazines, events and websites.

Hearst Events Limited owns the intangible assets relating to Befit and Salon QP.

14. Stocks

	Group		Company	
	2018	Restated* 2017	2018	Restated* 2017
	£'000	£'000	£'000	£'000
Raw material and consumables	365	974	282	974
Work-in-progress	915	963	914	963
	<u>1,280</u>	<u>1,937</u>	<u>1,196</u>	<u>1,937</u>

*see Note 3 for details of prior period restatement.

The National Magazine Company Limited

Notes to the financial statements (continued) 31 December 2018

15. Debtors: amounts falling due within one year

	Group		Company	
	2018	Restated* 2017	2018	Restated* 2017
	£'000	£'000	£'000	£'000
Trade debtors	26,568	37,828	24,850	20,320
Amounts owed by Group undertakings	8,105	4,773	12,401	12,950
Prepayments and accrued income	1,373	3,451	1,343	3,330
Deferred tax (see note 19)	525	666	490	666
Other debtors	595	264	495	263
Corporate tax	-	37	-	37
	<u>37,166</u>	<u>47,019</u>	<u>39,579</u>	<u>37,566</u>

The net deferred tax asset of £525k (2017: £666k) is expected to be recovered against the reversal of deferred tax losses in future periods being over one year.

Trade debtors for the Company is stated net of the sale or return provision £8,899,429 (2017: £7,181,269) and includes an amount of £25,390,518 (2017: £13,699,834) being accrued sales for goods delivered but not billed.

Trade debtors for the Group is stated net of the sale or return provision £10,104,916 (2017: £8,380,839) and includes an amount of £27,878,587 (2017: £13,699,834) being accrued sales for goods delivered but not billed.

There is no interest charged on the amount owed by Group undertakings. There are no formal repayment terms and therefore the directors are required under FRS 102 to disclose this balance as receivable within one year.

*see Note 3 for details of prior period restatement.

16. Creditors: amounts falling due within one year

	Group		Company	
	2018	Restated* 2017	2018	Restated* 2017
	£'000	£'000	£'000	£'000
Trade creditors	5,423	7,340	4,732	569
Amounts owed to Group undertakings	1,369	-	4,833	12,220
Amounts owed to associates	-	2,098	-	1,990
Loan from minority interest	-	6,723	-	-
Corporate tax	656	-	171	-
Other taxation and social security payable	-	-	-	582
Other creditors	-	1,899	-	1,798
Accruals and deferred income	<u>37,259</u>	<u>34,940</u>	<u>34,219</u>	<u>33,470</u>
	<u>44,707</u>	<u>53,000</u>	<u>43,955</u>	<u>50,629</u>

The amounts owed to Group undertakings is interest free and there are no formal repayment terms and therefore the directors are required under FRS 102 to disclose this balance as payable within one year.

*see Note 3 for details of prior period restatement.

The National Magazine Company Limited

Notes to the financial statements (continued) 31 December 2018

17. Creditors: amounts falling due after more than one year

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Deferred income	-	115	-	115
Loan to Hearst group companies	90,039	85,752	90,039	85,752
	<u>90,039</u>	<u>85,867</u>	<u>90,039</u>	<u>85,867</u>

The unsecured loan due to Hearst Investments LP as at 31 December 2018 was £90,039,284 which is the principal amount of £67,188,700 and accrued interest of £22,850,584. The loan is repayable by 2022. Interest at 5% is payable on repayment of the capital.

18. Provisions for liabilities

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Dilapidations provision	1,790	68	1,790	68
	<u>1,790</u>	<u>68</u>	<u>1,790</u>	<u>68</u>

The dilapidations provision relates to a 15 year office building lease which started in 2018 when the Company moved to new offices in 30 Panton Street, London. It is expected to be utilised at the end of the lease currently, January 2033.

19. Deferred tax

There is a deferred tax asset of £525,000 (2017: £666,000) in respect of short and long-term timing differences. The directors believe it is more likely than not that this asset is recoverable against future taxable profits.

	Group	
	2018	2017
	£'000	£'000
Movement on deferred taxation balance in the year		
Opening balance: asset	666	4,249
Charge to income statement	(516)	(108)
Prior year adjustments	53	(230)
Movement due to change in pensions	322	(3,245)
Closing balance	<u>525</u>	<u>666</u>
Analysis of deferred tax balance		
Depreciation in excess of capital allowances	338	416
Deferred tax on fair value adjustment	-	-
Short-term timing differences	510	4,661
	<u>848</u>	<u>5,077</u>
Deferred tax on pension liability	(323)	(4,411)
Total deferred tax asset	<u>525</u>	<u>666</u>

The National Magazine Company Limited

Notes to the financial statements (continued) 31 December 2018

19. Deferred tax (continued)

There are unrecognised deferred tax assets in Comag of £668,000 (2017: £2,255,000), which management do not believe to be recoverable against future taxable profits.

	Company	
	2018	2017
	£'000	£'000
Movement on deferred taxation balance in the year		
Opening balance: asset	666	4,249
Charge to income statement	(533)	(108)
Prior year adjustments	33	(230)
Movement due to change in pensions	323	(3,245)
	<u>489</u>	<u>666</u>
Closing balance	<u>489</u>	<u>666</u>
Analysis of deferred tax balance		
Depreciation in excess of capital allowances	335	416
Deferred tax on fair value adjustment		-
Short-term timing differences	477	4,661
	<u>812</u>	<u>5,077</u>
Deferred tax on pension liability	(323)	(4,411)
	<u>489</u>	<u>666</u>
Total deferred tax asset	<u>489</u>	<u>666</u>

20. Pensions

The Group operates a funded and unfunded defined benefit pension scheme and defined contribution pension schemes for its employees.

Defined benefit scheme

The assets of the scheme are held separately from those of the Group, being invested with unit trust managers. The pensions cost for the Group's defined benefit pension schemes is calculated in accordance with the requirements of Financial Reporting Standard 102 ("FRS 102").

The Group disclosures below relate to the National Magazine Company Limited and Condé Nast and National Magazine Distributors Limited where the company disclosures relate solely to the National Magazine Company Limited. The assets and liabilities, benefit payments, expenses, life assurance premiums and the interest income and expense for the main scheme have been split in proportion to each employer's share of the liabilities. This has been determined by the scheme actuary as at 1 April 2017 using the estimate of the technical provisions in the main scheme's actuarial valuation and individual member data from the scheme administrator. Actual contributions are allocated in line with the split provided by the scheme administrator and the schedule of contributions.

Following the High Court ruling on 26 October 2018, the cost relating to defined benefit plans includes a charge of £753,000 (or 0.5% of the benefit obligation as at 31 Dec 2018), which is in relation to the additional cost incurred as a result of the Scheme having to equalise its benefits to address inequalities in the calculation of Guaranteed Minimum Pensions (GMP equalisation). This has been recognised as a past service cost.

The National Magazine Company Limited

Notes to the financial statements (continued) 31 December 2018

20. Pensions (continued)

The employer's contribution to the Group's defined benefit pension scheme was £4,257,000 (2017: £4,153,000) of which £2,950,000 (2017: £2,883,000) related to National Magazine employees and £1,307,000 (2017: £1,270,000) related to employees within its subsidiary undertakings and to other related scheme members. The pension cost is assessed in accordance with the advice of an independent qualified actuary using the projected unit credit method. The employer contributions from 1 July 2018 have been split in proportion to each participating employer's notional share of the technical provisions funding liability from 1 April 2017 actuarial valuation as confirmed at the trustee meeting in June 2018.

The scheme was reviewed on 31 December 2018. The assumptions that have the most significant effect on the results of the 31 December 2018 accounting valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the discount rate would be 2.95% per annum, that salary increases would average 3.25% per annum and that present and future pensions earned in respect of service between 6 April 1997 and 5 April 2005 would increase at the rate of 3.05% per annum.

At the date of the latest actuarial valuation on 15 February 2019, the past service deficit of the Group was £1,000,000 (February 2018: £1,085,000). The market value of the scheme's assets attributable to the Group was £155,806,000 as at 15 February 2019 (February 2018: £167,401,000). The total past service liability was £156,080,000 (February 2018: £168,486,000). Based on the actuarial value of the scheme's assets, the level of funding, i.e. the ratio of the assets to the accrued liabilities based on expected salaries at retirement, was 99% (February 2018: 99%) at the valuation date.

Key Assumptions:

	2018	2017
Inflation assumption	3.25%	3.20%
Rate of increase in salaries	3.25%	3.20%
Rate of 5% LPI pension increases	3.05%	3.00%
Discount rate	2.95%	2.60%

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

Weighted average assumptions used to determine benefit obligations:

	2018	2017
Discount rate	2.95%	2.60%
Rate of increase in salaries	3.25%	3.20%

Weighted average assumptions used to determine pension expense for year ended:

	2018	2017
Discount rate	2.60%	2.70%

The National Magazine Company Limited

Notes to the financial statements (continued) 31 December 2018

20. Pensions (continued)

Weighted average life expectancy for mortality tables used to determine benefit obligations at:

	2018	2017
Male		
Member age 65 (current life expectancy)	23.4	23.3
Member age 45 (life expectancy at 65)	24	23.9
Female		
Member age 65 (current life expectancy)	24.7	24.6
Member age 45 (life expectancy at 65)	26.2	26.1

Defined benefit pension plans

Amounts recognised in the income statement in respect of these defined benefit schemes are as follows:

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Current service cost	(712)	(683)	(494)	(474)
Interest on pension scheme liabilities	10	(868)	7	(647)
Total pension (credit) recognised in The National Magazine Company's Group income statement	(702)	(1,551)	(487)	(1,121)

Amounts recognised in the statement of comprehensive income (SOCl) in respect of these defined benefit schemes are as follows:

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Actuarial (loss)/gain relating to the pension scheme	(11,938)	9,241	(8,283)	3,311
Effect of changes in assumptions	9,939	7,435	6,901	5,200
Effect of experience adjustments	(744)	10,133	(517)	10,751
Actuarial (loss)/gain recognised in the SOCl	(2,743)	26,809	(1,899)	19,262

The amounts recognised in the income statement in respect of these defined benefit schemes are as follows:

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Current service cost	(712)	(683)	(494)	(474)
Net Interest cost	10	(868)	7	(647)
Recognised in statement of comprehensive income	(702)	(1,551)	(487)	(1,121)
	2,743	(26,809)	1,899	(19,262)
Total gain/(loss) relating to defined benefit scheme	2,041	(28,360)	1,412	(20,383)

The National Magazine Company Limited

Notes to the financial statements (continued) 31 December 2018

20. Pensions (continued)

The amounts recognised in the balance sheet from the Group's obligations in respect of its defined benefit schemes are as follows:

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Present value of funded obligations	156,806	168,486	108,871	116,980
Present value of unfunded obligations	-	-	-	-
Present value of defined benefit obligation	156,806	168,486	108,871	116,980
Fair value of plan assets	(155,806)	(167,401)	(108,176)	(116,226)
Net liability	1,000	1,085	695	754

Changes in the present value of the benefit obligation are as follows:

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Opening defined benefit obligation	168,486	192,202	116,980	138,137
Interest cost	4,335	5,146	3,010	3,699
Benefits paid	(7,547)	(11,121)	(5,240)	(8,732)
Plan member contributions	-	-	-	-
Effect of changes in assumptions	(9,939)	(7,435)	(6,901)	(5,200)
Effect of experience adjustments	744	(10,133)	517	(10,751)
Gain/Loss on settlement	727	(173)	505	(173)
Closing defined benefit obligation	156,806	168,486	108,871	116,980

Changes in the fair value of plan assets are as follows:

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Opening fair value of defined benefit plan assets	167,401	158,226	116,226	112,879
Interest income	4,345	4,278	3,017	3,052
Contributions by employer	4,257	4,153	2,950	2,883
Contributions by members	-	-	-	-
Benefits paid from plan assets	(7,547)	(7,814)	(5,240)	(5,425)
Expenses paid	(712)	(683)	(494)	(474)
Return on plan assets (excluding interest income)	(11,938)	9,241	(8,283)	3,311
Closing fair value of defined benefit plan assets	155,806	167,401	108,176	116,226

The National Magazine Company Limited

Notes to the financial statements (continued) 31 December 2018

20. Pensions (continued)

Amounts recognised in the balance sheet

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Defined benefit obligation	156,806	168,486	108,871	116,980
Fair value of plan assets	(155,806)	(167,401)	(108,176)	(116,226)
Defined benefit liability	<u>1,000</u>	<u>1,085</u>	<u>695</u>	<u>754</u>

The major categories of plan assets as a percentage of total plan assets are as follows:

	2018	2017
The asset allocations at the year-end were as follows:		
Equities	59.01%	59.0%
Bonds	14.84%	14.0%
Other	26.15%	27.0%
	<u>100%</u>	<u>100.0%</u>

21. Called-up share capital

	2018	2017
	£'000	£'000
Authorised:		
300,000 ordinary shares of £1 each	<u>300</u>	<u>300</u>
Allotted, called up and fully paid:		
283,392 ordinary shares of £1 each (2017: 283,392)	<u>283</u>	<u>283</u>

22. Reserves

Group	Profit and loss account £'000
At 1 January 2018	(3,401)
Loss for the year	(6,831)
Other comprehensive loss for the year	(2,833)
At 31 December 2018	<u>(13,065)</u>
Company:	
At 1 January 2018	(13,588)
Loss for the year	(4,997)
Other comprehensive loss for the year	(230)
At 31 December 2018	<u>(18,815)</u>

The National Magazine Company Limited

Notes to the financial statements (continued) 31 December 2018

22. Reserves (continued)

	Unrealised reserve £'000
At 1 January 2018 and 31 December 2018	9,403

The unrealised reserve relates to unrealised gain on disposal of Best to ACP-NatMag Partnership on 1 January 2005.

23. Reconciliation of movements in Group shareholders' funds

	2018 £'000	2017 £'000
Loss for the financial year	(6,831)	(64)
Other comprehensive (loss)/income relating to the year	(2,833)	21,290
Net (decrease)/increase in shareholders' funds	(9,664)	21,226
Opening shareholders' deficit	(3,118)	(24,344)
Closing shareholders' deficit	(12,782)	(3,118)

24. Equity minority interests

	2018 £'000	2017 £'000
At 1 January	(2,066)	(2,017)
Recognition of minority interest on acquiring control of Hearst UK Limited	(62)	-
Income Statement – Conde Nast & National Magazine Distributors Limited & Hearst UK Limited	(386)	(49)
Minority interest on Conde Nast loan capital contribution	4,160	-
At 31 December	1,646	(2,066)

Equity minority interests comprise 35% of the ordinary shares of £1 each in Condé Nast & National Magazine Distributors Limited and 49.9% of ordinary shares of £1 each in Hearst UK Limited. The shares do not entitle the holders to any rights against other Group companies.

The National Magazine Company Limited

Notes to the financial statements (continued) 31 December 2018

25. Reconciliation of operating profit to net cash inflow from operating activities

	2018 £'000	Restated* 2017 £'000
Operating profit/(loss)	(1,769)	5,525
Adjustment for:		
Depreciation and amortisation charge	5,027	6,362
Profit on disposal of tangible fixed assets	-	692
Other provisions	(362)	(512)
Operating cash flow before movement in working capital	2,896	12,067
Increase/(decrease) in stocks	759	728
Decrease in debtors	14,620	20,101
(Decrease)/increase in creditors	(12,363)	(38,697)
Cash generated by operations	3,016	(17,868)
Income taxes paid	(350)	(2,018)
Net cash outflow from operating activities	5,562	(7,819)

*see Note 3 for details of prior period restatement.

26. Reconciliation of net cash flow to movement in net funds

	2018 £'000	2017 £'000
Decrease in cash in the year	(4,192)	(6,498)
Movement in net funds	(4,192)	(6,498)
Net funds at 1 January	39,126	45,624
Net funds at 31 December	34,934	39,126

27. Analysis of net debt

	At January 2018 £'000	Cash flow £'000	Other non- cash changes £'000	At December 2018 £'000
Cash at bank and in hand	39,126	(4,192)	-	34,934
Loan due to group companies	(85,752)	-	(4,287)	(90,039)
Net debt	(46,626)	(4,192)	(4,287)	(55,105)

The National Magazine Company Limited

Notes to the financial statements (continued) 31 December 2018

28. Financial commitments

As at 31 December 2018, the Group's total future minimum lease payments under non-cancellable operating leases as follows:

	2018		2017	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Group and Company				
Within one year	6,364	-	9,606	-
Between two and five years	25,360	-	25,430	-
After five years	55,239	-	61,466	-
	<u>86,963</u>	<u>-</u>	<u>96,502</u>	<u>-</u>

29. Related party transactions

The National Magazine Company Limited's related parties, as defined by Financial Reporting Standard 102 section 33, the nature of the relationship and the extent of transactions with them, are summarised below:

	2018 £'000	2017 £'000
Hearst Corporation		
Royalties, management fees and other charges to Hearst Magazines	<u>5,748</u>	<u>5,539</u>
Royalties, management fees and other charges from Hearst Magazines	<u>(7,161)</u>	<u>(5,417)</u>
Amount due to Hearst Magazines at balance sheet date	<u>(1,205)</u>	
Amount due from Hearst Magazines at balance sheet date	<u>1,208</u>	<u>1,131</u>
Hearst Investments LP		
Interest payable on loan note to Hearst Investments LP	<u>4,288</u>	<u>4,083</u>
Amount due to Hearst Investments LP at balance sheet date	<u>(90,039)</u>	<u>(85,752)</u>
Hearst UK Limited		
Management fees and other charges to Hearst UK Limited	<u>1,519</u>	<u>1,873</u>
Amount due from/(to) Hearst UK Limited at balance sheet date	<u>683</u>	<u>(1,989)</u>
Hearst Magazine Netherlands BV		
Royalties to Hearst Magazine Netherlands BV	<u>610</u>	<u>644</u>
Amount due to Hearst Magazines Netherlands BV at balance sheet date	<u>(170)</u>	<u>(127)</u>
CDS Global Limited ("CDS")		
Subscription fulfilment charge for the year from CDS	<u>1,701</u>	<u>2,079</u>

The National Magazine Company Limited

Notes to the financial statements (continued) 31 December 2018

29. Related party transactions (continued)

Condé Nast & National Magazine Distributors Limited

Services and other charges from Condé Nast & National Magazine Distributors Limited	-	26,576
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Amount due at balance sheet date from Condé Nast & National Magazine Distributors Limited	-	13,347
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iCrossing Limited

Services and other charges from iCrossing Limited	428	364
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Hearst Advertising Worldwide

Amount due from Hearst Advertising Worldwide at balance sheet date	6,896	3,194
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The Company has taken advantage of the exemption in FRS 102, not to disclose transactions or balances between the Company and its own subsidiary entities with the exception of Condé Nast & National Magazine Distributors Limited and Hearst UK Limited, as these are not wholly-owned.

Transactions and balances disclosed with Condé Nast & National Magazines Distribution Limited and Hearst UK Limited are with The National Magazine Company Limited. All other transactions and balances are disclosed on a group basis. The amounts due from related parties are included within trade debtors and creditors in the Group balance sheet. All transactions are entered into in the ordinary course of business.

"Hearst Magazines" refers to the US subsidiary undertakings of The Hearst Corporation, the ultimate parent.

Hearst Magazines Netherlands BV is a company incorporated in The Netherlands in which The Hearst Corporation has a controlling interest, and is therefore a fellow subsidiary undertaking of The Hearst Corporation.

CDS Global Limited is a UK registered company in which The Hearst Corporation has a controlling interest, and is therefore a fellow subsidiary undertaking of The Hearst Corporation.

Hearst UK Limited is a UK registered company in which The National Magazine Company Limited has a 50.1% interest in its share capital, but acquired control of on 24 January 2018.

iCrossing Limited is a UK registered company in which The Hearst Corporation has a controlling interest, and is therefore a fellow subsidiary undertaking of The Hearst Corporation.

Other related party transactions

The total remuneration for key management personnel who are not directors for the year totalled £489,000 (2017: £944,000).

During 2018, the Company guaranteed a property leasing contract on behalf of Hearst España SL until April 2024. The Company's obligation would be to pay the remaining rents until the end of the contract of 841,089 Euro per annum.

The National Magazine Company Limited

Notes to the financial statements (continued) **31 December 2018**

30. Ultimate parent company and subsidiaries

The Hearst Corporation, which is incorporated in the United States of America and registered office is 959 Eighth Avenue, New York, NY 10019, United States, is the Company's ultimate parent company and controlling party. The Group's immediate parent company is Hearst Communications, Inc. The Hearst Corporation is the largest group for which Group financial statements are prepared and of which the Company is a member. The immediate and ultimate parent undertaking are both privately owned and are not required to publish its financial statements.

31. Subsequent events

There have been no subsequent events.