

Company Registration No. 112955

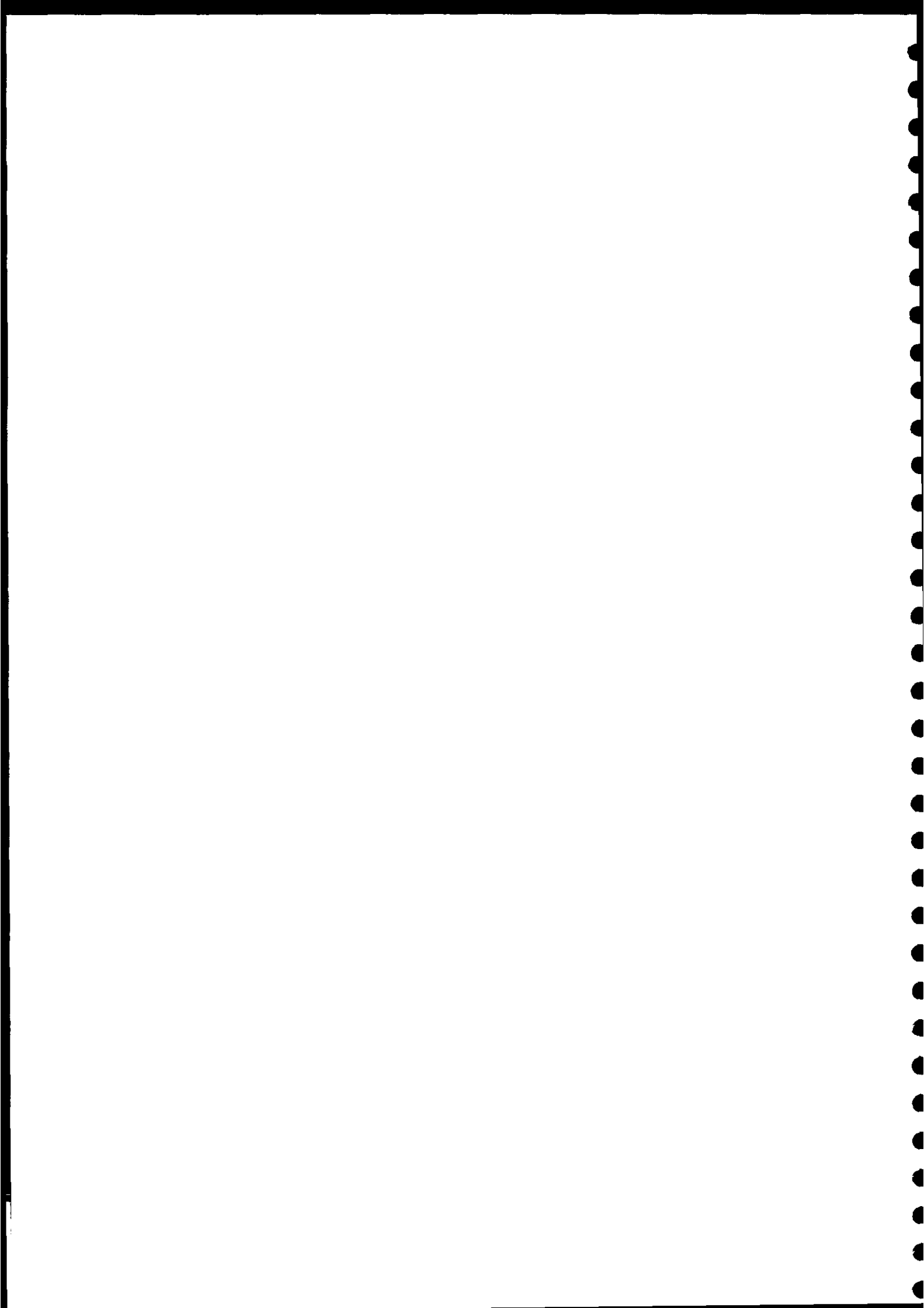
**THE NATIONAL MAGAZINE COMPANY
LIMITED**

Report and Financial Statements

31 December 2002

**Deloitte & Touche
London**





THE NATIONAL MAGAZINE COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS 2002

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THE NATIONAL MAGAZINE COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS 2002

OFFICERS AND PROFESSIONAL ADVISERS

| | | |
|----------------|---|---------------------------|
| F A Bennack Jr | (USA, Chairman) | |
| T G Mansfield | (President and Chief Executive Officer) | |
| C P Black | (USA) | |
| R E Deems | (USA) | |
| J D Edwards | (Managing Director) | |
| V F Ganzi | (USA) | |
| M D Granby | | |
| G J Green | (USA) | |
| S Horne | | |
| F E Herrera | (USA) | (resigned 1 April 2002) |
| R E Joslin | (USA) | |
| E A Kershaw | | |
| G C Maurer | (USA) | |
| M F Miller | (USA) | |
| A L G Symonds | | |
| M Clinton | (USA) | (appointed 7 August 2002) |
| M Sullivan | (USA) | (appointed 7 August 2002) |

SECRETARY

S Horne

REGISTERED OFFICE

National Magazine House
72 Broadwick Street
London W1V 3BP

BANKERS

The Royal Bank of Scotland plc
Barclays Bank PLC
Lloyds TSB Bank Plc
HSBC Bank plc

SOLICITORS

Clifford Chance LLP
Reynolds Porter Chamberlain
Hobson Audley
Peter Carter-Ruck & Partners

AUDITORS

Deloitte & Touche
Chartered Accountants London

THE NATIONAL MAGAZINE COMPANY LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2002

PRINCIPAL ACTIVITIES

The principal activities of the group continue to be the publishing and distribution of magazines and periodicals.

PUBLISHING POLICY

The group continues to concentrate its publishing activities into larger circulation, consumer orientated publications.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

Both the level of business and the year end financial position remain satisfactory, and the directors expect that the present level of activity will be sustained for the foreseeable future.

RESULTS AND DIVIDENDS

The consolidated profit and loss account is set out on page 6. The profit for the financial year before dividends amounted to £9,649,000 (2001: £4,674,000).

A dividend of £10,000,000 was declared and paid in the year (2001: £8,000,000).

DIRECTORS

The directors of the company at 31 December 2002, all of whom have been directors for the whole of the year then ended, except where stated, are listed on page 1.

DIRECTORS' INTERESTS IN SHARES

The directors had no interests in the shares of the company (other than as nominees) at either the beginning or end of the year nor were there any disclosable interests in the shares of other group companies.

CHARITABLE CONTRIBUTIONS

The contributions made by the group during the year for charitable purposes amounted to £28,773 (2001: £21,495).

DISABLED PERSONS

It is the policy of the group to make every effort to continue the employment and training of any employee who becomes disabled, and to give sympathetic consideration to applications for employment made by disabled persons. All necessary assistance with initial training courses is given and once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, where possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

EMPLOYEE CONSULTATION

The group considers the involvement of its employees as an important practice and continues to keep them informed on matters affecting them as employees and on various factors affecting the performance of the group. This is achieved through formal departmental channels and via the in-house company magazine.


THE NATIONAL MAGAZINE COMPANY LIMITED

DIRECTORS' REPORT (continued)

AUDITORS

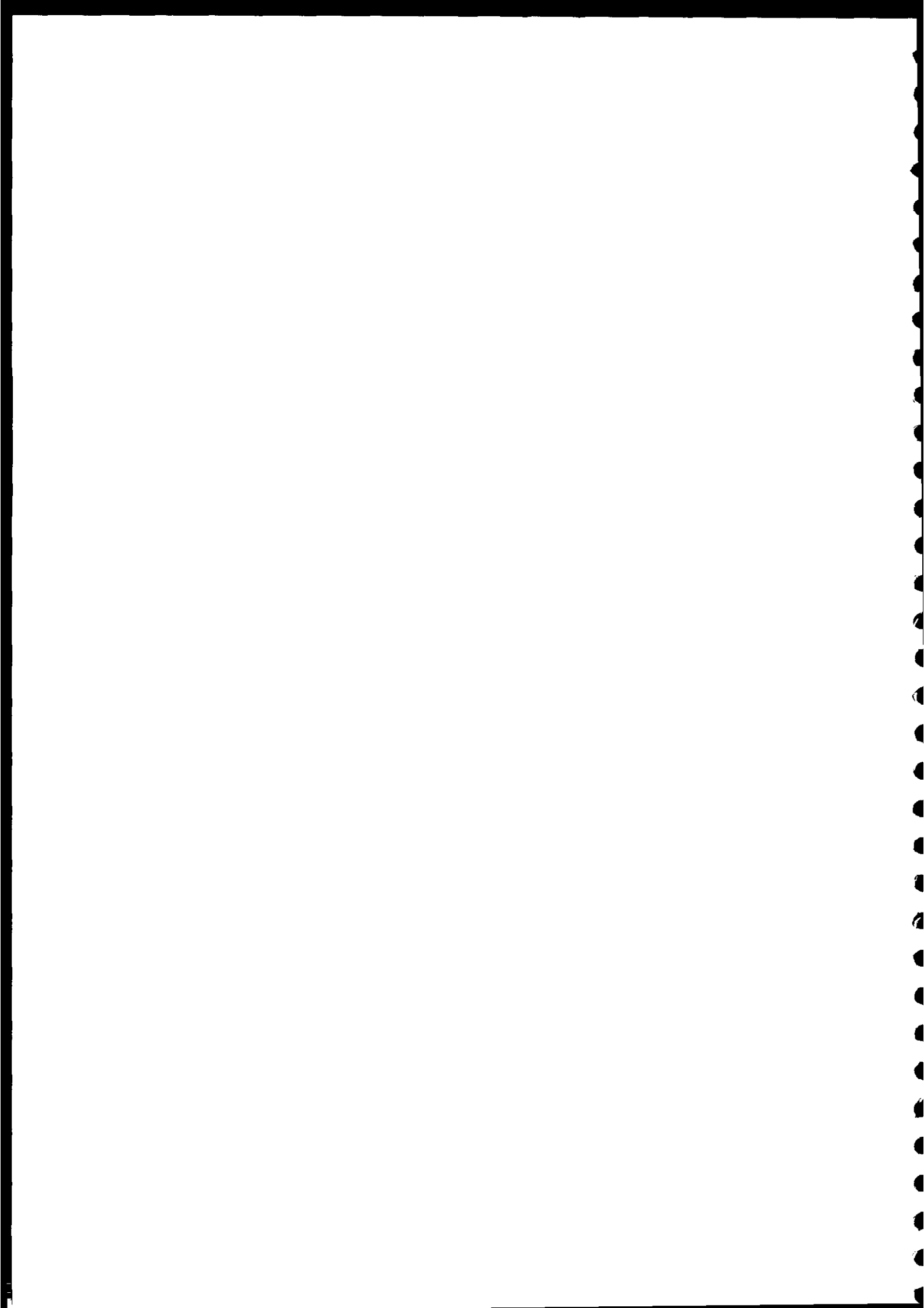
Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



Simon Horne
Secretary

11 April 2003



THE NATIONAL MAGAZINE COMPANY LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the group's system of internal control, for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE NATIONAL MAGAZINE COMPANY LIMITED

We have audited the financial statements of The National Magazine Company Limited for the year ended 31 December 2002 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, and the related notes 1 to 33. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

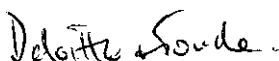
Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2002 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche
Chartered Accountants and Registered Auditors
London

11 April 2003

THE NATIONAL MAGAZINE COMPANY LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2002

| | Note | 2002 £'000 | 2001 £'000 |
|--|------|---------------|---------------|
| TURNOVER | 2,3 | 312,397 | 301,982 |
| Cost of sales | | (242,844) | (235,293) |
| GROSS PROFIT | | 69,553 | 66,689 |
| Other operating expenses | 4 | (53,983) | (54,454) |
| OPERATING PROFIT | | 15,570 | 12,235 |
| Amounts written of fixed assets | | - | (2,105) |
| Interest receivable | 7 | 424 | 481 |
| Interest payable | 8 | (19) | (3) |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | 9 | 15,975 | 10,608 |
| Tax on profit on ordinary activities | 10 | (5,659) | (4,906) |
| PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION | | 10,316 | 5,702 |
| Equity minority interests | 25 | (667) | (1,028) |
| PROFIT FOR THE FINANCIAL YEAR | | 9,649 | 4,674 |
| Dividends | 12 | (10,000) | (8,000) |
| Transferred to reserves | 24 | (351) | (3,326) |

All operations of the group continued throughout both periods and no operations were acquired or discontinued.

There are no recognised gains or losses in either year other than the profit for that year.

THE NATIONAL MAGAZINE COMPANY LIMITED

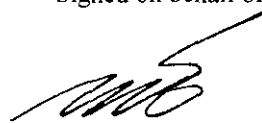
BALANCE SHEETS

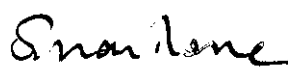
31 December 2002

| | Note | Group | | Company | |
|--|------|---------------|---------------|---------------|---------------|
| | | 2002 £'000 | 2001 £'000 | 2002 £'000 | 2001 £'000 |
| FIXED ASSETS | | | | | |
| Intangible assets | 13 | 47,858 | 49,127 | 38,143 | 39,156 |
| Tangible assets | 14 | 5,398 | 6,238 | 2,890 | 3,306 |
| Investments | 15 | - | - | 10,230 | 10,230 |
| | | <u>53,256</u> | <u>55,365</u> | <u>51,263</u> | <u>52,692</u> |
| CURRENT ASSETS | | | | | |
| Stocks | 16 | 3,340 | 4,337 | 2,980 | 4,005 |
| Debtors | 17 | 43,924 | 43,269 | 16,949 | 14,148 |
| Secured cash | 18 | - | 9,100 | - | 9,100 |
| Cash at bank and in hand | | 20,011 | 24,504 | 6,190 | 19,893 |
| | | <u>67,275</u> | <u>81,210</u> | <u>26,119</u> | <u>47,146</u> |
| CURRENT LIABILITIES | | | | | |
| Amounts falling due within one year | 19 | (62,732) | (78,026) | (20,992) | (42,943) |
| Provisions for liabilities and charges | 20 | (1,772) | (1,647) | (1,772) | (1,647) |
| | | <u>2,771</u> | <u>1,537</u> | <u>3,355</u> | <u>2,556</u> |
| NET CURRENT ASSETS | | | | | |
| | | <u>2,771</u> | <u>1,537</u> | <u>3,355</u> | <u>2,556</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | | | |
| | | <u>56,027</u> | <u>56,902</u> | <u>54,618</u> | <u>55,248</u> |
| CREDITORS: amounts falling due after more than one year | 21 | (721) | (1,212) | (721) | (1,212) |
| NET ASSETS | | <u>55,306</u> | <u>55,690</u> | <u>53,897</u> | <u>54,036</u> |
| CAPITAL AND RESERVES | | | | | |
| Called up share capital | 23 | 283 | 283 | 283 | 283 |
| Profit and loss account | 24 | 54,528 | 54,879 | 53,614 | 53,753 |
| Equity shareholders' funds | 25 | 54,811 | 55,162 | 53,897 | 54,036 |
| Equity minority interests | 26 | 495 | 528 | - | - |
| | | <u>55,306</u> | <u>55,690</u> | <u>53,897</u> | <u>54,036</u> |

These financial statements were approved by the Board of Directors on 11 April 2003.

Signed on behalf of the Board of Directors


J D Edwards
Director


S Horne
Director

THE NATIONAL MAGAZINE COMPANY LIMITED

CONSOLIDATED CASH FLOW STATEMENT Year ended 31 December 2002

| | Notes | 2002 £'000 | 2001 £'000 |
|---|-------|------------------------|----------------------|
| Net cash inflow from operating activities | 27 | 13,072 | 28,619 |
| Returns on investment and servicing of finance | | | |
| Interest received | | 424 | 481 |
| Interest paid | | (12) | (1) |
| Interest element on finance lease rentals payment | | (7) | (2) |
| Dividends paid to minority interests | | (700) | (875) |
| | | <u>(295)</u> | <u>(397)</u> |
| Taxation | | | |
| UK corporation tax paid | | <u>(5,751)</u> | <u>(5,240)</u> |
| Capital expenditure and financial investment | | | |
| Payments to acquire tangible fixed assets | | (1,540) | (2,471) |
| Receipts from sales of fixed assets | | 50 | 47 |
| | | <u>(1,490)</u> | <u>(2,424)</u> |
| Acquisitions | | | |
| Purchase of subsidiary undertaking | | - | (6) |
| | | <u>-</u> | <u>(6)</u> |
| Equity dividends paid | | <u>(10,000)</u> | <u>(8,000)</u> |
| Cash inflow/(outflow) before use of liquid resources and financing | | <u>(4,464)</u> | <u>12,552</u> |
| Financing | | | |
| Capital element of finance lease rental payments | | (29) | (11) |
| Repayment of unsecured loan note | | <u>(9,100)</u> | <u>-</u> |
| | | <u>(9,129)</u> | <u>(11)</u> |
| (Decrease)/increase cash in the year | 27 | <u><u>(13,593)</u></u> | <u><u>12,541</u></u> |

THE NATIONAL MAGAZINE COMPANY LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted and applied throughout the year and the preceding year (with the exception of that for Deferred Taxation). In the year the directors adopted Financial Reporting Standard No.19 "Deferred Tax" ("FRS 19"), however no adjustment was required for the current or preceding year..

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2002. Intra-group sales and profits are eliminated fully on consolidation.

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.

Goodwill arising on the above acquisitions is being amortised over a period of 40 years, which the directors estimate to be the length of the useful economic life.

The useful economic life of 40 years is based on the directors' assessment that the magazine brands acquired as part of the acquisitions are established brands with a consistent record of earnings. They therefore believe that these brands have a longevity which justify a 40 year useful economic life.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is provided to write off the cost less residual value of tangible fixed assets over their estimated residual values on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

| | |
|-------------------------------------|-------------------------------|
| Freehold buildings and improvements | - 2 to 10 per cent per annum |
| Motor vehicles | - 20 to 33 per cent per annum |
| Furniture 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. Freehold land is not depreciated.

Investments

Investments are stated at cost less any provision for permanent 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 generally 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 ACCOUNTS

Year ended 31 December 2002

1. 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 applied to reduce the outstanding obligations 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 profit and loss on a straight line basis over the lease term.

Foreign currencies

Transactions denominated in foreign currencies are translated into the functional currency at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

Turnover

Turnover, which excludes value added tax, sales between group companies and trade discounts, represents the invoiced value of goods and services supplied.

Deferred taxation

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.

Pension costs

The group operates a defined benefit pension scheme. The funds are valued at least every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rates. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme.

The group provides no other post retirement benefits to its employees.

2. TURNOVER

The turnover of the group by geographical area of destination in respect of its principal activities is set out below:

| | 2002 £'000 | 2001 (as restated) £'000 |
|-------------------|----------------|--------------------------------|
| United Kingdom | 277,136 | 273,672 |
| Rest of Europe | 20,921 | 18,215 |
| USA/Canada | 7,597 | 4,968 |
| Australia | 3,769 | 2,980 |
| Rest of the world | 2,974 | 2,147 |
| | <u>312,397</u> | <u>301,982</u> |

THE NATIONAL MAGAZINE COMPANY LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

3. SEGMENTAL ANALYSIS BY CLASS OF BUSINESS

The analysis by class of business of the group's turnover and profit before taxation all of which originated in the United Kingdom is set out below:

| | 2002 | | | 2001 | | |
|-------------------|-------------------------|--------------------------------|----------------------|-------------------------|--------------------------------|----------------------|
| | External sales £'000 | Inter-segmental sales £'000 | Total sales £'000 | External sales £'000 | Inter-segmental sales £'000 | Total sales £'000 |
| (i) Turnover | | | | | | |
| Class of business | | | | | | |
| Publishing | 133,983 | - | 133,983 | 129,243 | - | 129,243 |
| Distribution | 178,414 | 48,404 | 226,818 | 172,739 | 47,031 | 219,770 |
| | <u>312,397</u> | <u>48,404</u> | <u>360,801</u> | <u>301,982</u> | <u>47,031</u> | <u>349,013</u> |

Inter-segmental sales relate to sales generated by a subsidiary of the company in respect of distributing magazines of the company and its subsidiary.

| | Total 2002 £'000 | Total 2001 £'000 |
|----------------------------------|------------------------|------------------------|
| (ii) Profit before taxation | | |
| Class of business | | |
| Publishing | 12,365 | 8,421 |
| Distribution | 3,206 | 3,814 |
| | <u>15,571</u> | <u>12,235</u> |
| Profit before interest | 15,571 | 12,235 |
| Amounts written off fixed assets | - | (2,105) |
| Net interest receivable | 404 | 478 |
| | <u>15,975</u> | <u>10,608</u> |
| (iii) Net assets | | |
| Publishing | 53,663 | 54,456 |
| Distribution | 1,394 | 1,234 |
| | <u>55,057</u> | <u>55,690</u> |

4. OTHER OPERATING EXPENSES

| | 2002 £'000 | 2001 £'000 |
|-------------------------|---------------|---------------|
| Administrative expenses | 34,618 | 33,907 |
| Distribution costs | 19,365 | 20,547 |
| | <u>53,983</u> | <u>54,454</u> |

THE NATIONAL MAGAZINE COMPANY LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

5. DIRECTORS' EMOLUMENTS

| | 2002 £'000 | 2001 £'000 |
|--|---------------|---------------|
| Aggregate emoluments | 1,248 | 1,363 |
| Company pension contributions to money purchase scheme | - | 16 |

Retirement benefits are accruing to 5 directors (2001: 7 directors) under the group's defined benefits' schemes. No directors (2001: 1 director) were members of a money purchase scheme.

| | 2002 £'000 | 2001 £'000 |
|--|---------------|---------------|
| Emoluments payable to the highest paid director are as follows: | | |
| Aggregate emoluments | 332 | 331 |
| Accrued pension at end of year | 43 | 271 |

6. EMPLOYEE INFORMATION

The average weekly number of persons (including executive directors) employed by the group during the year was:

| | 2002 No. | As restated 2001 No. |
|--------------|-------------|----------------------------|
| Publishing | 736 | 764 |
| Distribution | 302 | 291 |
| | 1,038 | 1,060 |
| | £'000 | £'000 |

Staff costs incurred during the year in respect of the employees were:

| | | |
|-----------------------|--------|--------|
| Wages and salaries | 34,823 | 33,520 |
| Social security costs | 3,295 | 3,218 |
| Other pension costs | 2,360 | 2,423 |
| | 40,478 | 39,161 |

7. INTEREST RECEIVABLE

| | 2002 £'000 | 2001 £'000 |
|----------------------------------|---------------|---------------|
| Interest from group undertakings | 57 | 95 |
| Other interest receivable | 366 | 386 |
| | 423 | 481 |

8. INTEREST PAYABLE

| | 2002 £'000 | 2001 £'000 |
|----------------|---------------|---------------|
| Finance leases | 7 | 2 |
| Other interest | 12 | 1 |
| | 19 | 3 |

THE NATIONAL MAGAZINE COMPANY LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

9. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

| | 2002 £'000 | 2001 £'000 |
|---|---------------|---------------|
| Profit on ordinary activities before taxation is stated after (crediting) or charging: | | |
| Loss/(Profit) on disposal of fixed assets | 140 | (14) |
| Depreciation on tangible fixed assets: | | |
| Owned fixed assets | 2,183 | 2,461 |
| Leased assets | - | 17 |
| Goodwill amortisation | 1,269 | 1,269 |
| Auditors' remuneration: | | |
| Group audit fees (of which Company: £69,800 2001: £58,600) | 121 | 103 |
| Other fees | 73 | 94 |
| Hire of plant and machinery – operating leases | 902 | 1,166 |
| Hire of other assets – operating leases | 4,711 | 4,538 |

10. TAX ON PROFIT ON ORDINARY ACTIVITIES

| | 2002 £'000 | 2001 £'000 |
|--|---------------|---------------|
| Analysis of tax charge on ordinary activities | | |
| United Kingdom corporation tax at 30% (2001: 30%) | | |
| Current | 5,770 | 4,906 |
| Adjustment in respect of prior years | (111) | - |
| | 5,659 | 4,906 |

Factors affecting tax charge for the current period

The tax assessed for the year is higher than that resulting from applying the standard rate of corporation tax in the UK 30% (2001: 30%)

The differences are explained below:

| | 2002 £000's | 2001 £000's |
|--|----------------|----------------|
| Effect of: | | |
| Expenses not deductible for tax purposes | (895) | (1,865) |
| Capital allowances in excess of depreciation | (72) | 3 |
| Movement in short term timing differences | (10) | - |
| Other deferred tax movement | - | (16) |
| Overseas tax rates | - | 154 |
| Prior period adjustments | 111 | - |
| | (866) | (1,724) |

THE NATIONAL MAGAZINE COMPANY LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

11. PROFIT FOR THE FINANCIAL YEAR

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's profit for the financial year was £8,560,540 (2001: £4,233,000).

12. DIVIDENDS

| | 2002 £'000 | 2001 £'000 |
|--|---------------|---------------|
| Dividends on equity shares | | |
| Ordinary – final interim paid of £35.33 per share (2001: £28.23 per share) | 10,000 | 8,000 |

13. INTANGIBLE FIXED ASSETS

| | Group £'000 | Company £'000 |
|--|----------------|------------------|
| Goodwill | | |
| Cost | | |
| At 1 January 2002 and 31 December 2002 | 50,755 | 40,506 |
| Amortisation | | |
| At 1 January 2002 | 1,628 | 1,350 |
| Charge in the year | 1,269 | 1,013 |
| At 31 December 2002 | 2,897 | 2,363 |
| Net book value | | |
| At 31 December 2002 | 47,858 | 38,143 |
| At 31 December 2001 | 49,127 | 39,156 |

THE NATIONAL MAGAZINE COMPANY LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2002

14. TANGIBLE FIXED ASSETS

| Group | Short-term Leasehold £'000 | Freehold land and buildings £'000 | Motor vehicles £'000 | Furniture, fixtures, fittings and equipment £'000 | Total £'000 |
|-----------------------|----------------------------------|--|----------------------------|---|----------------|
| Cost | | | | | |
| At 1 January 2002 | 5,624 | 2,572 | 291 | 13,599 | 22,086 |
| Additions | 20 | - | - | 1,520 | 1,540 |
| Disposals | (101) | - | (4) | (1,078) | (1,183) |
| At 31 December 2002 | 5,543 | 2,572 | 287 | 14,041 | 22,443 |
| Depreciation | | | | | |
| At 1 January 2002 | 4,827 | 779 | 205 | 10,037 | 15,848 |
| Charge for year | 372 | 113 | 30 | 1,668 | 2,183 |
| Disposals | (94) | - | (4) | (888) | (986) |
| Reclassification | - | - | (22) | 22 | - |
| At 31 December 2002 | 5,105 | 892 | 209 | 10,839 | 17,045 |
| Net book value | | | | | |
| At 31 December 2002 | 438 | 1,680 | 78 | 3,202 | 5,398 |
| At 31 December 2001 | 797 | 1,793 | 86 | 3,562 | 6,238 |
| Company | | | | | |
| Cost | | | | | |
| At 1 January 2001 | 5,524 | - | 286 | 10,570 | 16,380 |
| Additions | 18 | - | - | 1,038 | 1,056 |
| Disposals | - | - | - | (21) | (21) |
| At 31 December 2002 | 5,542 | - | 286 | 11,587 | 17,415 |
| Depreciation | | | | | |
| At 1 January 2001 | 4,752 | - | 202 | 8,120 | 13,074 |
| Charge for year | 352 | - | 29 | 1,125 | 1,506 |
| Reclassification | - | - | (22) | 22 | - |
| Disposals | - | - | - | (55) | (55) |
| At 31 December 2002 | 5,104 | - | 209 | 9,212 | 14,525 |
| Net book value | | | | | |
| At 31 December 2002 | 438 | - | 77 | 2,375 | 2,890 |
| At 31 December 2001 | 772 | - | 84 | 2,450 | 3,306 |

THE NATIONAL MAGAZINE COMPANY LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

15. FIXED ASSET INVESTMENTS

| Company | Interest in group undertaking £'000 | Loans to group undertaking £'000 | Total £'000 |
|---|--|---|----------------|
| Cost | | | |
| At 1 January 2002 and at 31 December 2002 | 9,630 | 600 | 10,230 |

Interests in principal group undertakings

| Name of undertaking | Country of Incorporation | Description of Shares held | Proportion of nominal value of issued shares held by | |
|--|-----------------------------|-------------------------------|--|--------------|
| | | | Group % | Company % |
| NatMag Specialist Media (AIM) Limited | Great Britain | Ordinary Shares of £1 each | 80 | 80 |
| Conde Nast & National Magazine Distributors Limited | Great Britain | Ordinary Shares of £1 each | 65 | 65 |

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

The principal business activity of NatMag Specialist Media (AIM) Limited is that of magazine publishing and contract advertising selling. The company has an option to acquire the remaining 20% shareholding in NarMag Specialist Media (AIM) Limited which is exercisable from 1 January 2004 onwards.

The proportion of voting rights of subsidiaries held is the same as the proportion of shares held.

16. STOCKS

| | Group | | Company | |
|------------------------------|---------------|---------------|---------------|---------------|
| | 2002 £'000 | 2001 £'000 | 2002 £'000 | 2001 £'000 |
| Raw material and consumables | 1,435 | 2,226 | 1,382 | 2,180 |
| Work in progress | 1,905 | 2,111 | 1,598 | 1,825 |
| | 3,340 | 4,337 | 2,980 | 4,005 |

17. DEBTORS

| | Group | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2002 £'000 | 2001 £'000 | 2002 £'000 | 2001 £'000 |
| Trade debtors | 41,064 | 39,420 | 13,504 | 10,996 |
| Amounts owed by parent or fellow subsidiary undertakings | - | - | 2,006 | - |
| Other debtors | 1,044 | 1,560 | 10 | 1,404 |
| Prepayments and accrued income | 1,816 | 2,255 | 1,429 | 1,738 |
| Corporation tax recoverable | - | 34 | - | 10 |
| | 43,924 | 43,269 | 16,949 | 14,148 |

THE NATIONAL MAGAZINE COMPANY LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

18. SECURED CASH

At 31 December 2002 £nil (2001: £9,100,000) of secured cash was held in respect of the Floating Rate Redeemable Unsecured Loan Notes 2005 (see note 19).

19. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | Group | | Company | |
|---|---------------|---------------|---------------|---------------|
| | 2002 | 2001 | 2002 | 2001 |
| | £'000 | £'000 | £'000 | £'000 |
| Obligations under finance leases | - | 36 | - | 36 |
| Floating Rate Redeemable Unsecured Loan Notes 2005 | - | 9,100 | - | 9,100 |
| Trade creditors | 44,812 | 49,017 | 9,038 | 10,131 |
| Amounts owed to parent or subsidiary undertakings | 81 | 2,091 | 81 | 12,550 |
| Corporation tax payable | 2,620 | 2,712 | 2,569 | 1,873 |
| Other taxation and social security payable | 2,026 | 1,620 | 1,585 | 1,254 |
| Other creditors | 635 | 504 | 554 | 422 |
| Accruals and deferred income | 12,558 | 12,946 | 7,165 | 7,577 |
| | <u>62,732</u> | <u>78,026</u> | <u>20,992</u> | <u>42,943</u> |

The Floating Rate Redeemable Unsecured Loan Notes 2005 were issued on 8 December 2000 and were redeemed at par during the year. Funds to cover redemption of the Notes were held in an Escrow fund, classified as secured cash on the balance sheet in the prior year (see note 18).

20. PROVISIONS FOR LIABILITIES AND CHARGES

| | Group and Company | | |
|------------------------------------|-------------------|--------------------|--------------|
| | Dilapidations | Vacant Property | Total |
| | £'000 | £'000 | £'000 |
| At 1 January 2002 | 1,647 | - | 1,647 |
| Charged to profit and loss account | - | 1,772 | 1,772 |
| Utilised in year | (1,050) | - | (1,050) |
| Released unused | (597) | - | (597) |
| At 31 December 2002 | <u>-</u> | <u>1,772</u> | <u>1,772</u> |

THE NATIONAL MAGAZINE COMPANY LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

21. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | Group | | Company | |
|--------------------------|-------|-------|---------|-------|
| | 2002 | 2001 | 2002 | 2001 |
| | £'000 | £'000 | £'000 | £'000 |
| Deferred lease incentive | 721 | 1,212 | 721 | 1,212 |

The deferred lease incentive is being amortised (on a straight line basis) over the lease term.

Finance leases

The future minimum lease payments to which the group and the company are committed under finance leases are as follows:

| | Group | | Company | |
|---------------------|-------|-------|---------|-------|
| | 2002 | 2001 | 2002 | 2001 |
| | £'000 | £'000 | £'000 | £'000 |
| In one year or less | - | 36 | - | 36 |

22. PENSIONS

The group operates a defined benefit pension scheme for its employees. 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 calculated in accordance with the requirements of statement of standard accounting practice "Accounting for Pension Costs" ("SSAP 24") was £2,359,615 (2001: £2,423,025) of which £1,674,495 (2001: £1,758,419) related to National Magazine employees and £685,120 (2001: £664,606) related to employees, within its subsidiary undertakings. The pension cost is assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The latest actuarial valuation of the scheme was at 1 February 2000.

The assumptions that have the most significant effect on the results of the 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 investment returns would be 8½% per annum, that salary increases would average 6½% per annum and that present and future pensions would increase at the rate of 4% per annum.

At the date of the latest actuarial valuation, the market value of the scheme's assets was £45,484,000. 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 81% at the valuation date.

The latest actuarial valuation disclosed a past service surplus of £438,000.

Defined contribution scheme

In addition, the Group operates some defined contribution schemes, the asset of which are held in separately administered trusts. The cost of these in the year was £275,716 (2001: £117,000).

The outstanding liability remaining at the balance sheet date amounted to £39,101 (2001: £15,600).

Transitional FRS 17 disclosures

Financial Reporting Standard No. 17 – Retirement Benefits ("FRS 17") requires certain transitional disclosures to be made prior to its full implementation. They are based on the most recent actuarial valuations, which have been updated by independent professionally qualified actuaries to take account of the requirements of FRS 17.

The defined benefit pension scheme is closed to new entrants. Under the projected unit method the current service cost will increase as the age profile of the active members in the scheme increases significantly as members approach retirement. The company is to fund the pension scheme using the attained age method which will result in a level contribution rate throughout the life of the scheme.

THE NATIONAL MAGAZINE COMPANY LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

The main financial assumptions (per annum) used in this update to 31 December 2002 and additionally as at 31 December 2001 were as follows:

| | 31 December 2002 | 31 December 2001 |
|---------------------------------|---------------------|---------------------|
| Inflation assumption | 2.0% | 3.0% |
| Rate of increase in salaries | 3.0% | 3.5% |
| Rate of discretionary increases | 0% | 0% |
| Rate of LPI pension increases | 2.0% | 2.5% |
| Discount rate | 5.5% | 6.0% |

The value of the Scheme's assets and the expected rates of return as at 31 December 2002 were:

| | Expected rate of return 31 December 2002 | Value at 31 December 2002 £m | Expected rate of return 31 December 2001 | Value at 31 December 2001 £m |
|-------------------------------------|---|---------------------------------------|---|---------------------------------------|
| Equities | 7.5% | 35.0 | 7.5% | 41.0 |
| Bonds | 4.5% | 7.8 | 6% | 8.9 |
| Other | 2.5% | 1.8 | 4% | 3.2 |
| Total market value of assets | | 44.6 | | 53.1 |
| Present value of scheme liabilities | | (55.2) | | (51.3) |
| (Deficit)/Surplus in the scheme | | (10.6) | | 1.8 |

Analysis of the amount that would be charged to operating profit under FRS 17

| | 31 December 2002 £m |
|------------------------|---------------------------|
| Current service cost | 1.7 |
| Past service cost | - |
| Total operating charge | 1.7 |

Analysis of the amount that would be credited to other finance income under FRS 17

| | 31 December 2002 £m |
|--|---------------------------|
| Expected return on pension scheme assets | 3.7 |
| Interest on pension scheme liabilities | (3.0) |
| Net return | 0.7 |

THE NATIONAL MAGAZINE COMPANY LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

22. PENSIONS (continued)

Analysis of the amount that would be recognised in statement of total recognised gains and losses (STRGL) under FRS 17

| | 31 December 2002 £m |
|--|---------------------------|
| Actual return less expected return on pension scheme assets | (12.9) |
| Experience gains and losses arising on the scheme liabilities | 0.6 |
| Changes in assumptions underlying the present value of the schemes liabilities | (0.9) |
| Actuarial gain recognised in STRGL | (13.2) |

Movements in surplus during the year

| | 31 December 2002 £m |
|---------------------------------------|---------------------------|
| Surplus in scheme at 1 January 2002 | 1.7 |
| Movement in year: | |
| Current service cost | (1.7) |
| Contribution | 1.9 |
| Past service costs | - |
| Other finance income | 0.7 |
| Actuarial gain/(LOSS) | (13.2) |
| Deficit in scheme at 31 December 2002 | (10.6) |

History of experience gains and losses

| | 31 December 2002 £m | % |
|---|------------------------|-------|
| Difference between the expected and actual return on scheme assets | (12.9) | (29)% |
| Experience gains and losses on scheme liabilities | 6.2 | 1% |
| Total amount recognised in statement of total recognised gains and losses | (13.2) | (24)% |

23. CALLED UP SHARE CAPITAL

| | 2002 £'000 | 2001 £'000 |
|--|---------------|---------------|
| Authorised: | | |
| 300,000 ordinary shares of £1 each | 300 | 300 |
| Allotted, called up and fully paid: | | |
| 283,392 ordinary shares of £1 each (2001: 283,392) | 283 | 283 |

THE NATIONAL MAGAZINE COMPANY LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

24. RESERVES

| | Profit and loss account £'000 |
|----------------------------|--|
| Group | |
| At 1 January 2002 | 54,879 |
| Retained loss for the year | (351) |
| At 31 December 2002 | <u>54,528</u> |
| Company | |
| At 1 January 2002 | 53,753 |
| Retained loss for the year | (139) |
| At 31 December 2002 | <u>53,614</u> |

25. RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS

| | 2002 £'000 | 2001 £'000 |
|-------------------------------|---------------|---------------|
| Profit for the financial year | 9,649 | 4,674 |
| Dividends | (10,000) | (8,000) |
| Retained loss for the year | (351) | (3,326) |
| Opening shareholders' funds | <u>55,162</u> | <u>58,488</u> |
| Closing shareholders' funds | <u>54,811</u> | <u>55,162</u> |

26. EQUITY MINORITY INTERESTS

| | 2002 £'000 | 2001 £'000 |
|--------------------------------|---------------|---------------|
| At 1 January 2002 | 528 | 375 |
| Profit and loss account | 667 | 1,028 |
| Dividend paid on equity shares | (700) | (875) |
| At 31 December 2002 | <u>495</u> | <u>528</u> |

Equity minority interests comprise 35% ordinary shares of £1 each in Condé Nast & National Magazine Distributors Limited, and 20% ordinary shares of £1 each in Natmags Specialist Media (AIM) Limited. The shares do not entitle the holders to any rights against other group companies.

THE NATIONAL MAGAZINE COMPANY LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

27. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | 2002 £'000 | 2001 £'000 |
|---|---------------|---------------|
| Operating profit | 15,570 | 12,235 |
| Depreciation charges | 2,183 | 2,478 |
| Goodwill amortisation | 1,269 | 1,269 |
| Profit on sale of tangible fixed assets | 140 | (14) |
| Decrease/(increase) in stocks | 997 | (814) |
| (Increase)/decrease in debtors | (655) | 5,645 |
| (Decrease)/increase in creditors | (6,557) | 7,820 |
| Increase/ (decrease) in provisions | 125 | - |
| Net cash inflow from operating activities | <u>13,072</u> | <u>28,619</u> |

28. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

| | 2002 £'000 | 2001 £'000 |
|--|---------------|---------------|
| (Decrease)/increase in cash in the year | (13,593) | 12,541 |
| Cash outflow from decrease in finance leases | 36 | 13 |
| Repayment of Floating Rate Redeemable Unsecured Loan Notes – 2005 | <u>9,100</u> | <u>-</u> |
| Movement in net funds | (4,457) | 12,554 |
| Net funds at 1 January 2002 | <u>24,468</u> | <u>11,914</u> |
| Net funds at 31 December 2002 | <u>20,011</u> | <u>24,468</u> |

29. ANALYSIS OF NET FUNDS

| | At 1 January 2002 £'000 | Cash flow £'000 | At 31 December 2002 £'000 |
|--|----------------------------------|--------------------|------------------------------------|
| Cash | | | |
| Secured cash | 9,100 | (9,100) | - |
| Cash at bank and in hand | <u>24,504</u> | <u>(4,493)</u> | <u>20,011</u> |
| | 33,604 | (13,593) | 20,011 |
| Debt due within one year | | | |
| Floating Rate Redeemable Unsecured Loan Notes 2005 | (9,100) | 9,100 | - |
| Finance leases | <u>(36)</u> | <u>36</u> | <u>-</u> |
| | <u>24,468</u> | <u>(4,457)</u> | <u>20,011</u> |

THE NATIONAL MAGAZINE COMPANY LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2002

30. FINANCIAL COMMITMENTS

At 31 December 2002 the group had annual commitments under non-cancellable operating leases as follows:

| | 2002 | | 2001 | |
|---|--------------------------------|----------------|--------------------------------|----------------|
| | Land and buildings £'000 | Other £'000 | Land and buildings £'000 | Other £'000 |
| Expiring within one year | 4 | 248 | - | 339 |
| Expiring between two and five years inclusive | 633 | 424 | 3,057 | 452 |
| Expiring in over five years | 3,971 | - | 1,298 | - |
| | <u>4,608</u> | <u>672</u> | <u>4,355</u> | <u>791</u> |

There were no capital expenditure commitments contracted but not provided for (2001: £nil).

31. DEFERRED TAX

There is a deferred tax asset of £467,513 (2001: £391,374) in respect of short-term timing differences and depreciation in excess of capital allowances which has not been recognised.

32. RELATED PARTY TRANSACTIONS

The National Magazine Company Limited group's related parties, as defined by Financial Reporting Standard 8, the nature of the relationship and the extent of transactions with them, are summarised below:

| | 2002 £'000 | 2001 £'000 |
|--|----------------|----------------|
| Royalties, management fees and other charges to Hearst Magazines | <u>3,867</u> | <u>1,199</u> |
| Royalties, management fees and other charges from Hearst Magazines | <u>(3,986)</u> | <u>(3,198)</u> |
| Amount due from/(to) Hearst Magazines at balance sheet date | <u>(81)</u> | <u>(2,113)</u> |
| Subscription fulfilment charge for the year from Tower Publishing Services Limited | <u>1,514</u> | <u>1,480</u> |
| Amount due at balance sheet date in Trade Creditors | <u>-</u> | <u>15</u> |

"Hearst Magazines" refers to the Hearst Magazines and other fully owned US registered subsidiary undertakings of the Hearst Corporation.

Tower Publishing Services Limited is a UK unlisted company in which The Hearst Corporation has a controlling interest, and is therefore a fellow subsidiary undertaking of the Hearst Corporation.

All transactions are entered into in the ordinary course of business.

The company has taken advantage of the exemption in FRS 8, not to disclose transactions or balances between the company and its own subsidiary entities.

33. ULTIMATE PARENT COMPANY

The Hearst Corporation, which is incorporated in the United States of America, is the company's ultimate parent company and controlling party. The Hearst Corporation is the largest group for which group accounts are prepared and of which the company is a member. The National Magazine Company Limited is the immediate parent company of the smallest group of which the company is a member for which group accounts are prepared.