

TELEGRAPH GROUP LIMITED

Report and Accounts

for the year ended

31 December 2003

Company Registration No. 451593



Board of Directors

Executive

The Hon J W Deedes – Deputy Chairman and Chief Executive
H C Drayton – Managing Director
N O'Donnell-Keenan – Finance Director
K T Fletcher – Editorial Director

Non-executive

G A Paris
P B Healy
R Smith
G Savage
The Hon R G H Seitz

Secretary

S J Griffiths

Auditor

KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB

Company Registration: 451593

Registered Office

1 Canada Square
Canary Wharf
London E14 5DT

Directors' report

The directors present their report, together with the accounts, for the year ended 31 December 2003.

Principal activities

The principal activity of the Company is the publication of national newspapers.

Results for the year

The loss on ordinary activities before tax for the year was £109.7 million (2002: *profit of £39.7 million*). After taking taxation and dividends into account, the retained loss was £159.8 million (2002: *loss £25.2 million*).

During the year, interim dividends totalling 27.79p per ordinary share were paid (2002: *36.95p per share*). A schedule of dividends is set out in note 11 to the accounts. The directors do not recommend the payment of a final dividend (2002: *£nil*). Preference dividends of £350,000 were declared during the year (2002: *£350,000*).

Directorate

The following directors acted as directors during the year:

The Lord Black of Crossharbour – Chairman – ceased to be a director 12.2.04

D W Colson - Deputy Chairman and Chief Executive – ceased to be a director 12.2.04, reappointed 25.2.04, left 25.3.04

The Hon J W Deedes - Managing Director – ceased to be a director 30.11.03, rejoined as Deputy Chairman and Chief Executive 25.3.04

H C Drayton – Managing Director – joined 1.12.03

K T Fletcher – Editorial Director - joined 1.12.03

N O'Donnell-Keenan - Finance Director

F D Radler - Non-Executive Director – ceased to be a director 12.2.04

L M Sanderson - Advertisement Director – ceased to be a director 31.10.03

G A Paris, P B Healy and R Smith were appointed as directors on 12th February 2004. The Hon R G H Seitz was appointed on 25th February 2004 and G Savage was appointed on 4th March 2004.

Directors' interests in shares and remuneration

Details of directors' interests and their remuneration for the year are set out in note 5 to the accounts.

Transactions with directors

Apart from the arrangements disclosed in notes 5 and 21 (c) to the accounts and service agreements, at no time during the year was any director interested in any contract with the Company or any of its subsidiaries.

Employees

The staff magazine, *Quaynotes*, explains the Company's activities and is made available to employees.

The Company continues to offer career enhancement to its employees by way of management and personal development courses. Information Technology training continues to offer a wide range of internal IT workshops to employees.

Work experience students are offered placements during the summer. GCSE students are introduced to areas of the Company's operations and undergraduates are employed for varying periods of time in different departments.

The Company offers equal employment opportunities to disabled persons and suitable retraining is provided wherever practicable for employees who become disabled during service.

Directors' report – continued**Political and charitable contributions**

During the year, the Company made charitable donations of £217,117 (2002: £306,894). The Company made political donations of £10,000 (2002: £nil).

Creditor payment policy

The Company does not follow any specific codes or industry standards in respect of payments to its suppliers but ensures that, as far as it is practicable, debts are settled on a timely basis having regard to the credit period agreed with each supplier. In the absence of any specific agreement, the Company normally makes payment 30 days following invoicing. Special arrangements are made in connection with contributors to the newspapers where weekly payment runs take place. Payment is aimed to be within three to four weeks of the relevant date of publication.

Post balance sheet event

On 22 June 2004, the Company's shareholders, DT Holdings Limited, First DT Holdings Limited and Second DT Holdings Limited ("the Vendors"), entered into an agreement with Press Acquisitions Limited ("PAL") to sell all the issued shares of the Company to PAL for the sum of £665 million plus an amount equal to the net cash in the Company and its subsidiaries at completion (estimated at about £69.5 million). The obligations of the Vendors are guaranteed by Hollinger International Inc. Completion is scheduled to take place on 30 July 2004. If a court order restrains any of the Vendors or Hollinger International Inc, either alone or together with PAL, from transferring or acquiring the shares on 30 July 2004 then completion shall take place on the last business day of the month in which any such order is lifted. If, because of such an order, completion does not take place by 29 October 2004 then the sale agreement will terminate without liability for any party.

On 1st July 2004, Hollinger Inc. and its wholly-owned subsidiary 504468 N.B. Inc., which together control a majority of the voting power of the common stock of Hollinger International Inc., filed a complaint in Delaware Chancery Court against Hollinger International Inc. seeking to enjoin completion of the sale of the shares in the Company unless that sale is approved by the holders of a majority of the voting power of the common stock of Hollinger International Inc.

Elective Resolutions

At the extraordinary general meeting held on 5 August 1996 the members invoked section 379A of the Companies Act 1985 ("the Act") by passing elective resolutions:

- (i) as permitted by section 252 of the Act, to dispense with the laying of accounts and reports before the Company in general meeting;
- (ii) as permitted by section 366A of the Act, to dispense with the holding of annual general meetings; and
- (iii) as permitted by section 386 of the Act, to dispense with the obligation to appoint auditors annually.

By order of the board



S J Griffiths
Secretary

16 July 2004

Directors' responsibilities in respect of the financial statements

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 of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable 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 maintaining proper accounting records which 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 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

KPMG Audit Plc
8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Report of the independent auditors to the members of Telegraph Group Limited

We have audited the financial statements on pages 6 to 22.

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 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.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 to you 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 is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with 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 the Company's affairs as at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
KPMG Audit Plc
Chartered Accountants
Registered Auditor

26 July 2004

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2003

	Notes	2003 £000	2002 £000
Turnover	2	305,388	310,204
Cost of sales	3	<u>(212,632)</u>	<u>(216,061)</u>
Gross profit		92,756	94,143
Distribution costs		(26,744)	(28,460)
Administrative expenses		<u>(30,429)</u>	<u>(29,087)</u>
Operating profit		35,583	36,596
Income from other fixed asset investments	7	674	5,640
Write down of fixed asset investments - shares in group undertakings	13	(144,684)	-
- other investments	13	(1,181)	(1,919)
Interest receivable and similar income	8	1,902	2,721
Interest payable and similar charges	9	<u>(1,971)</u>	<u>(3,378)</u>
(Loss)/profit on ordinary activities before taxation	4	(109,677)	39,660
Tax charge on (loss)/profit on ordinary activities	10	<u>(8,759)</u>	<u>(10,000)</u>
(Loss)/profit for the year		(118,436)	29,660
Dividends payable -equity shares	11	(40,981)	(54,491)
-non-equity shares	11	<u>(350)</u>	<u>(350)</u>
Retained loss for the year	19	<u>(159,767)</u>	<u>(25,181)</u>

All the above results are derived from continuing operations.

There were no gains or losses recognised during the year other than those shown above.

The historical cost profit and loss is the same as that shown above.

The notes on pages 8 to 22 form part of these accounts.

BALANCE SHEET
at 31 December 2003

	Notes	2003 £000	2002 £000
Fixed assets			
Tangible assets	12	13,406	16,845
Investments	13	<u>66,976</u>	<u>216,530</u>
		<u>80,382</u>	<u>233,375</u>
Current assets			
Stocks - raw materials		164	170
Debtors	14	97,569	99,703
Cash at bank and in hand		<u>23,138</u>	<u>25,259</u>
		120,871	125,132
Creditors: amounts falling due within one year	15	<u>(105,278)</u>	<u>(98,676)</u>
Net current assets		<u>15,593</u>	<u>26,456</u>
Total assets less current liabilities		95,975	259,831
Creditors: amounts falling due after more than one year	16	-	(1,089)
Provisions for liabilities and charges	17	<u>(3,200)</u>	<u>(6,200)</u>
Net assets		<u>92,775</u>	<u>252,542</u>
Capital and reserves			
Called up share capital	18	19,747	19,747
Share premium account	19	160,064	160,064
Capital redemption and other reserves	19	536	44,500
Profit and loss account	19	<u>(87,572)</u>	<u>28,231</u>
Total equity and non-equity shareholders' funds	20	<u>92,775</u>	<u>252,542</u>

Approved by the board on 19 June 2004 and signed on its behalf by



N O'Donnell-Keenan
Director

The notes on pages 8 to 22 form part of these accounts.

1. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements:

(a) *Basis of accounting*

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

The Company is exempt under section 228 of the Act from the requirement to prepare group accounts because it is a wholly owned subsidiary of a Company established under the law of a member state of the European Community. These financial statements present information about the Company as an individual undertaking and not about its group.

The Company is exempt from the requirement of FRS 1 (Revised) to prepare a cash flow statement as it is a subsidiary undertaking of Hollinger Inc, whose consolidated accounts include such a statement.

(b) *Tangible fixed assets*

Tangible fixed assets are stated at cost less accumulated depreciation. Cost represents the cost of acquisition or construction, including the direct costs of financing the acquisition or construction until the asset comes into use.

Depreciation is calculated so as to write off the cost, less residual value, of tangible fixed assets on a straight line basis over their expected useful economic lives which are as follows:

Buildings:

Freehold	50 years
Leasehold	50 years or the lease term if under 50 years

Plant and machinery:

Computer equipment	3-5 years
Photocomposition equipment	5 years
Furniture and fittings	10 years
Other	3-10 years

No depreciation is charged on freehold land.

(c) *Investments*

Investments acquired with the intention that they will be held for the long term are stated at cost less provision, if appropriate, for any permanent diminution in value.

1. ACCOUNTING POLICIES - CONTINUED

(d) *Finance leases*

The Company has granted to West Ferry Printers Limited, a joint venture company, rights approximating to ownership over certain tangible fixed assets. Those assets are treated in the accounts as if they had been sold outright with the long term element of the corresponding debtor being included as part of loans to joint venture companies within investments. The amount due within one year is included as part of debtors in current assets. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding balance and the interest element is credited to profit in proportion to the balance outstanding.

Where asset purchases are financed by leasing agreements that give rights approximating to ownership, the assets are treated as if they had been purchased outright, and the corresponding liabilities are shown as obligations under finance leases.

(e) *Operating Leases*

Rental costs arising under operating leases are charged to the profit and loss account over the life of the lease.

(f) *Stocks*

Stocks are stated at the lower of cost and net realisable value.

(g) *Taxation*

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

(h) *Pension costs*

The company's pension arrangements are explained in note 23. The Company is not required to adopt the full provisions of FRS 17 – Retirement Benefits – and has therefore continued to follow Statement of Standard Accounting Practice 24 – Accounting for Pension Costs – for the purposes of these financial statements. The costs of defined contribution schemes are charged to the profit and loss account as the obligation to pay arises. The costs of defined benefit schemes are charged to the profit and loss account over the period during which the Company benefits from employees' services. Surpluses or deficiencies are spread over the expected average remaining working lifetime of employees in proportion to their expected payroll costs. The discounted value of ex gratia pensions and discretionary increases to pensions in payment is charged to the profit and loss account in the period in which they are granted.

(i) *Turnover*

Turnover represents the invoiced amount of goods sold and advertising space provided net of commission, allowances and value added tax. It is recognised when the goods are delivered or as the advertising is shown in the newspaper. Contracts which span the year end are recognised on a pro rata basis in line with contractual milestones.

1. ACCOUNTING POLICIES - CONTINUED

(j) Foreign currency translation

Transactions denominated in foreign currencies are translated at the rate of exchange ruling on the day the transaction occurs. Assets and liabilities denominated in a foreign currency are translated at the rate ruling on the balance sheet date ("the closing rate") or, if appropriate, at the forward contract rate. All exchange differences are taken to the profit and loss account.

2. TURNOVER

Substantially all turnover and operating profit arises from the publication of newspapers within the United Kingdom which are all continuing operations.

3. COST OF SALES

Included in cost of sales are amounts charged from West Ferry Printers Limited ("WFP") of £18,700,000 (2002: £22,416,000) and Trafford Park Printers Limited ("TPP") of £11,396,000 (2002: £8,420,000) for the contract printing of copies of *The Daily Telegraph* and *The Sunday Telegraph*. In addition, an amount of £61,186,000 (2002: £51,509,000) was paid to Paper Purchase & Management Limited ("PPM") for the purchase of newsprint and magazine paper during the year. WFP, TPP and PPM are joint ventures between the Company and third parties holding 50% each of the aggregate issued ordinary share capital.

4. (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2003 £000	2002 £000
Operating lease rentals		
Plant and machinery	584	626
Other	5,674	6,149
	<u>6,258</u>	<u>6,775</u>
Depreciation		
Owned tangible fixed assets	5,301	5,070
Tangible fixed assets held under finance leases	810	657
	<u>6,111</u>	<u>5,727</u>
Auditor's remuneration		
– audit services	81	73
– non-audit services	196	138
	<u>-</u>	<u>(536)</u>
Provision against intra group debt		

5. DIRECTORS' EMOLUMENTS

(a) Emoluments of the Directors:

	2003 £000	2002 £000
Fees	84	85
Other emoluments - salaries and benefits	1,403	1,314
Company contributions to money purchase pension schemes	239	240
Compensation for loss of office	652	-
	<u>2,378</u>	<u>1,639</u>

The contributions made by the Company to the pension scheme were on behalf of six directors.

Of the £652,000 compensation for loss of office incurred in 2003, £608,000 was paid as a special pension contribution. The remainder was settled in cash.

(b) Emoluments of the highest paid director:

Salary and benefits	307	335
Pension contributions	664	65
	<u>971</u>	<u>400</u>

(c) Directors' interests in shares and debentures

Under the Companies (Disclosure of Directors' Interests) (Exceptions) Regulations 1985 directors of the Company are exempt from the obligation otherwise imposed by s324 Companies Act 1985 to notify the Company of an interest in shares in, or debentures of, the Company, or any other body corporate, being the Company's subsidiary or holding Company or a subsidiary of the Company's holding company, which is based overseas.

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the Company or any other UK based group company.

During the year, one director exercised options, received in connection with his employment with Telegraph Group Limited, in Hollinger International Inc.

6. EMPLOYEE INFORMATION

(a) Average number of persons (including directors) employed by the Company during the year:

	2003	2002
Editorial	14	10
Selling, distribution and administration	32	28
	<u>46</u>	<u>38</u>

The majority of the staff engaged in the publication of the Company's titles are employed by a subsidiary company, Telegraph Publishing Limited, which charges for their services. The charge for the year was £52,680,805 (2002: £51,757,600).

6. EMPLOYEE INFORMATION - CONTINUED

(b) Employment costs (including directors):

	2003 £000	2002 £000
Wages and salaries	5,912	4,992
Social security costs	710	588
Pension contributions (see note 23)	1,544	1,017
Total direct costs of employment	<u>8,166</u>	<u>6,597</u>

7. INCOME FROM OTHER FIXED ASSET INVESTMENTS

Income from fixed asset investments (excluding group undertakings)	<u>674</u>	<u>5,640</u>
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8. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

Interest receivable – from group undertakings	471	419
– other	<u>1,401</u>	<u>1,971</u>
	1,872	2,390
Other	<u>30</u>	<u>331</u>
	<u>1,902</u>	<u>2,721</u>

9. INTEREST PAYABLE AND SIMILAR CHARGES

Interest payable - to parent company	38	38
- to subsidiary companies	81	88
- to joint venture companies	180	108
- other	-	42
	<u>299</u>	<u>276</u>
Finance lease charges	45	84
Exchange loss	<u>1,627</u>	<u>3,018</u>
	<u>1,971</u>	<u>3,378</u>

10. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	2003 £000	2002 £000
Analysis of charge in period		
<i>Current tax:</i>		
UK corporation tax on (loss)/profits for the period	12,686	10,800
Adjustments in respect of previous periods	(927)	(200)
Total current tax	<u>11,759</u>	<u>10,600</u>
<i>Deferred tax (see note 17):</i>		
Origination and reversal of timing differences	(1,984)	(600)
Adjustments in respect of previous periods	(1,016)	-
Total deferred tax	<u>(3,000)</u>	<u>(600)</u>
Tax on (loss)/profit on ordinary activities	<u>8,759</u>	<u>10,000</u>

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2002: lower) than the standard rate of corporation tax in the UK (30%) (2002: 30%). The differences are explained below:

(Loss)/profit on ordinary activities before tax	<u>(109,677)</u>	<u>39,660</u>
Current tax at 30% (2002: 30%)	(32,903)	11,898
Effects of:		
Expenses not deductible for tax purposes	915	1,064
Income not chargeable for tax purposes	(211)	(1,791)
Investment write downs not allowable for tax purposes	43,405	-
Utilisation of tax losses – not reimbursed	(389)	(1,283)
Capital allowances for period less than depreciation	287	262
Other timing differences	1,582	650
Adjustments to tax charge in respect of previous periods	(927)	(200)
Total current tax charge (as above)	<u>11,759</u>	<u>10,600</u>

11. DIVIDENDS PAID

		2003 £000	2002 £000
Equity shares:			
Ordinary - Paid	1.45p per share	2,137	-
	3.32p per share	4,895	-
	2.54p per share	3,747	-
	0.58p per share	857	-
	19.64p per share	28,957	-
	0.26p per share	388	-
	27.12p per share	-	40,000
	9.83p per share	-	14,491
	Total 27.79p per share (2002: 36.95p per share)	<u>40,981</u>	<u>54,491</u>
Non-equity shares:			
Preference - Paid		263	263
- Payable		87	87
		<u>350</u>	<u>350</u>
		<u>41,331</u>	<u>54,841</u>

12. TANGIBLE FIXED ASSETS

	Land & Buildings £000	Plant & Machinery £000	Total £000
Cost:			
At 1 January 2003	10,125	51,722	61,847
Additions	20	2,653	2,673
Disposals	-	(1)	(1)
At 31 December 2003	<u>10,145</u>	<u>54,374</u>	<u>64,519</u>
Depreciation:			
At 1 January 2003	3,918	41,084	45,002
Charge for the year	300	5,811	6,111
Disposals	-	-	-
At 31 December 2003	<u>4,218</u>	<u>46,895</u>	<u>51,113</u>
Net Book Value:			
Owned assets	5,927	6,994	12,921
Assets held under finance leases	-	485	485
At 31 December 2003	<u>5,927</u>	<u>7,479</u>	<u>13,406</u>
At 31 December 2002	<u>6,207</u>	<u>10,638</u>	<u>16,845</u>

Land and buildings at net book value as above:

	2003 £000	2002 £000
Freehold land	1,268	1,268
Long leasehold buildings	2,729	2,906
Short leasehold buildings	1,930	2,033
	<u>5,927</u>	<u>6,207</u>

13. INVESTMENTS

	Shares in Group Undertakings - see (a) below £000	Loans to Group Undertakings - see (b) below £000	Provisions Against Loans to Group Undertakings- see (b) below £000	Joint Venture Companies £000	Loans to Joint Venture Companies - see (c) below £000	Total £000
At 1 January 2003	180,542	12,241	(7,691)	5	31,433	216,530
Additions	-	1,181	-	-	-	1,181
Write down of investment value (see (c) below)	(144,684)	-	(1,181)	-	-	(145,865)
Repayments	-	-	-	-	(4,870)	(4,870)
At 31 December 2003	<u>35,858</u>	<u>13,422</u>	<u>(8,872)</u>	<u>5</u>	<u>26,563</u>	<u>66,976</u>

Details of the principal subsidiary and joint venture companies are given in note 26.

(a) Shares in group undertakings

Deedtask Limited £33,315,000 (2002: £177,999,000)

Included in the value shown above for shares in group undertakings of £35,858,000 (2002: £180,542,000) is an investment in a wholly owned subsidiary, Deedtask Limited, at £33,315,000 (2002: £177,999,000). Deedtask's principal asset, a portion of which is held through Deedtask's wholly owned subsidiary, Creditscheme Limited, is an investment in the preference shares of LHAT Corporation ("LHAT"), a corporation incorporated in Delaware, USA which is a subsidiary of Hollinger International Inc. The investment in LHAT has been independently revalued at the year end and the value at which the Deedtask investment is included in the accounts as been reduced accordingly by £144,684,000. There are no tax consequences of this write down.

(b) Loans to group undertakings

The directors have reviewed the recoverability of loans to group undertakings and believe that a further provision of £1,181,000 is required.

(c) Loans to joint venture companies

These represent balances with joint venture companies as follows:

	2003 £000	2002 £000
Advances under printing contract (see (i) below)	22,478	26,598
Loans to associated companies (see (ii) below)	4,085	4,835
	<u>26,563</u>	<u>31,433</u>

(i) This represents amounts paid in advance to West Ferry Printers Limited under the printing contract with that company.

(ii) The loans to joint venture companies have no fixed terms of repayment and do not bear interest except the loan to Paper Purchase & Management Limited where interest is charged. As embodied in the West Ferry Printers Limited joint venture agreement, balances arising under the printing contract with that Company are considered to represent long term funding.

14. DEBTORS

	2003	2002
	£000	£000
Trade debtors	43,648	41,861
Amounts owed by parent companies	29,146	30,709
Amounts owed by subsidiary companies	14,710	17,791
Other debtors	981	121
Pension asset (see below)	994	1,160
Prepayments and accrued income	7,416	7,106
Proposed dividend receivable	674	955
	<u>97,569</u>	<u>99,703</u>

The pension asset arises from the Protected Fund of the Telegraph Staff Pension Plan – see note 23.

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Current portion of obligations under finance leases (see note 16)	1,089	1,070
Trade creditors	20,080	18,985
Amounts owed to parent companies and fellow subsidiaries	27,458	86
Amounts owed to subsidiary companies	4,190	9,638
Amounts owed to associated companies	12,678	11,291
Corporation tax	1,470	24,995
Other taxation and social security	3,891	5,622
Other creditors	3,329	2,501
Accruals and deferred income	31,006	24,401
Dividends proposed	87	87
	<u>105,278</u>	<u>98,676</u>

Liabilities under finance leases are secured on the assets leased.

Amounts owed to joint venture companies include a balance due to West Ferry Printers Limited of £3,500,000 with interest charged at base rate plus 2%. There are no fixed terms of repayment. All other balances are current accounts and are interest free.

16. CREDITORS: AMOUNTS DUE AFTER MORE THAN ONE YEAR

Obligations under finance leases repayable:

Within 1 year	1,097	1,097
Between 1 and 2 years	-	1,097
Total obligations	<u>1,097</u>	<u>2,194</u>
Less: future finance charges included in obligations	<u>(8)</u>	<u>(35)</u>
Net obligations	<u>1,089</u>	<u>2,159</u>
Less: classified as a current creditor	<u>(1,089)</u>	<u>(1,070)</u>
Net long term obligations	<u>-</u>	<u>1,089</u>

These obligations are secured on the assets leased.

17. PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation

	2003 £000	2002 £000
Amount provided, representing the full potential liability:		
Accelerated capital allowances	(1,545)	(634)
Other timing differences	4,745	6,834
	<u>3,200</u>	<u>6,200</u>
Movements on the provision:		
Balance at 1 January 2003	6,200	
Credited to loss on ordinary activities (see note 10)	(3,000)	
Balance at 31 December 2003	<u>3,200</u>	

18. CALLED UP SHARE CAPITAL

	2003 & 2002 £000
Authorised:	
180,000,000 ordinary shares of 10p each	18,000
5,000,000 7% cumulative redeemable preference shares of £1 each	5,000
100,000,000 2.5% cumulative voting redeemable preference shares of £16.80 each	<u>1,680,000</u>
	<u>1,703,000</u>
Issued, called up and fully paid:	
103,782,513 "A" ordinary shares of 10p each	10,378
43,692,141 "B" ordinary shares of 10p each	4,369
5,000,000 7% cumulative redeemable preference shares of £1 each	<u>5,000</u>
	<u>19,747</u>

The 7% cumulative redeemable preference shares and the 2.5% cumulative voting redeemable preference shares are non-equity shares.

The 7% cumulative redeemable preference shares are generally non-voting and are redeemable at par at any time subject to the provisions of the articles of association and the agreement of both the Company and the holders of the shares.

The 2.5% cumulative voting redeemable preference shares confer on the holders the right to receive notice of and to attend and vote at a general meeting and, subject to the provisions of the articles of association, may be redeemed by the Company at any time after the second anniversary of the date of allotment at a price which does not exceed 110% of the nominal amount of the share. On 31 July 2021 the Company shall redeem any of the shares remaining in issue.

On liquidation, holders of 7% cumulative redeemable preference shares and 2.5% cumulative voting redeemable preference shares rank *pari passu* and take priority over ordinary shareholders for repayment of capital but do not participate further in the assets of the Company.

19. SHARE PREMIUM AND RESERVES

	Share Premium Account £000	Capital Redemption Reserve £000	Other Reserves £000	Profit and Loss Account £000
At beginning of year	160,064	536	43,964	28,231
Retained loss for the year	-	-	-	(159,767)
Transfer on sale of investment (see below)	-	-	(43,964)	43,964
Other reserves	<u>160,064</u>	<u>536</u>	<u>-</u>	<u>(87,572)</u>

(a) Other Reserves

The Other Reserves represented the profits booked by the Company on exchanging its shares in Creditscheme Limited for shares in Deedtask Limited. As both are subsidiaries of the Company and as the shares in Deedtask are not readily convertible to cash, the directors did not regard these profits as available for distribution. During the year, the Deedtask investment has been written down (see note 13), and accordingly, the reserve has been transferred to the profit and loss account.

(b) Profit and Loss Account

The balance at year end on the profit and loss account would be reduced by £696,000 to £88,268,000 were it not for the inclusion of the pension asset of £994,000 (within debtors – note 14) and its related deferred tax.

20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2003 £000	2002 £000
(Loss)/profit for the year	(118,436)	29,660
Less: Dividends paid	<u>(41,331)</u>	<u>(54,841)</u>
Retained loss for the year	(159,767)	(25,181)
Opening shareholders' funds	<u>252,542</u>	<u>277,723</u>
Closing shareholders' funds	<u>92,775</u>	<u>252,542</u>
Attributable to equity shareholders	87,775	247,542
Attributable to non-equity shareholders	<u>5,000</u>	<u>5,000</u>
	<u>92,775</u>	<u>252,542</u>

21. COMMITMENTS

	2003 £000	2002 £000
a) Capital expenditure contracted for but not provided in the accounts	<u>1,848</u>	<u>1,175</u>

b) Operating leases

Annual commitments under non-cancellable operating leases which expire:

	2003		2002	
	Land & Buildings £000	Other £000	Land & Buildings £000	Other £000
Within 1 year	-	59	255	47
Between 1-5 years	873	439	98	470
After 5 years	5,265	-	6,496	-
	<u>6,138</u>	<u>498</u>	<u>6,849</u>	<u>517</u>

c) Services agreement

The Company has a services agreement with Hollinger Inc. under which various management services are provided. Charges to the Company in respect of these services amounted to £698,776 in 2003 (2002: £1,364,787).

22. GUARANTEES

The Company has given joint and several guarantees and indemnities and sole guarantees in respect of certain leasing obligations of West Ferry Printers Limited and Trafford Park Printers Limited amounting to £Nil at 31 December 2003 (2002: £372,339).

During December 2002, the Company gave a further guarantee in respect of borrowings made under a US\$ 310,000,000/£173,174,683 credit facility made available to the Company and certain of its parent companies. This guarantee is secured by a debenture granting fixed and floating charges over the whole of the Company's assets and by a pledge of the Company's shareholdings in associated companies and security interests granted over account balances and other property with or in the possession or control of certain persons. At year end, the level of indebtedness was US\$217,129,964/£121,294,880 (2002: US\$265,000,000/£148,036,423).

23. PENSIONS

The Company operates two pension schemes. The first, the Telegraph Staff Pension Plan ("the Plan") is a hybrid pension scheme, being part defined contribution and part defined benefit, and covers the majority of the Company's employees. The second, The Telegraph Executive Pension Scheme ("TEPS"), is a defined contribution scheme, which provides benefits for senior executives.

Benefits from the Defined Contribution Section of the Plan and from TEPS arise directly as a result of contributions paid by members and the Group, and from the investment performance of assets into which contributions were invested.

The Defined Benefit Section of the Plan is made up of the Insurance Fund and the Protected Fund as follows:

- The Insurance Fund is used to pay benefits in respect of active members who die in-service or take ill-health early retirement. In addition it also meets the final salary promise which was given to a closed group of former members of The Daily Telegraph Group Pension Fund ("the Group Fund") who transferred to the Plan. Expenses of the Plan are also met from this section.
- The Protected Fund is used to pay the benefits in respect of a closed group of deferred pensioners from the Group Fund who transferred to the Plan in 1998 following the wind-up of the Group Fund.

Triennially a qualified actuary performs a valuation of the arrangements. The most recent valuation of the Plan was carried out at 31 March 2003 using the Projected Unit Method and involved calculation of a funding target which was then compared to the actual assets held. Contributions are then calculated in order to meet and maintain this target in the future.

The benefits arising from the Defined Contributions Section of the Plan and from TEPS are exactly balanced by the assets held and thus do not contribute towards any surplus or deficit within the Plan; the funding target is equal to the assets held.

The funding target for the Protected Fund and that of the promise provided under the Insurance Fund was set as the estimated cost of purchasing annuities from an insurance company using an approximate basis provided by an insurer. The funding target for the ill-health pensioners was calculated assuming an investment return of 1% pa above gilts.

An appropriate allowance in the future contribution rate is made for future benefits in respect of the defined benefit promise, ill-health retirement, death in service and expenses.

The most recent actuarial valuation showed that the market value of the Plan's assets was £72.7 million at 31 March 2003 and that the value of those assets represented 96% of the funding target. The Group's contributions in excess of those paid to the Defined Contribution Section were increased from 2.0% to 2.5% of basic salaries with effect from 1 January 2004.

The pension charge for the period of £1,544,000 (2002: £912,000) includes £166,000 (2002: £166,000) in respect of the amortisation of the sum paid to the Plan on its assumption in 1998 of the deferred benefit liabilities accrued under the Group Fund. Included within prepayments is £994,000 (2002: £1,160,000) being the balance of that sum to be amortised over the next 6 years.

23. PENSIONS - CONTINUED

FRS17

Whilst the Company continues to account for pension costs in accordance with Statements of Standard Accounting Practice 24, 'Accounting for Pension Costs', under FRS 17 'Retirement Benefits' certain disclosures are required relating to the Protected Fund and the Insurance Fund of the Plan. However, the Company is only one of a number of employers that participate in the Plan and is unable to identify its share of the underlying assets and liabilities in the Plan on any reasonable basis. It would therefore under FRS 17 account for the contributions to the Plan as if it were purely a defined contribution scheme rather than a hybrid scheme. The disclosures that are required are therefore limited to those relating to the surplus or deficit on the Plan. Full FRS 17 transitional disclosures for all the pension schemes in which the Company participates are provided in the accounts of Hollinger UK Holdings Limited, the company at the head of the UK group that owns Telegraph Group Limited.

No disclosures are required other than for the Protected Fund and the Insurance Fund as the liabilities of the Defined Contribution Section and TEPS are exactly balanced by the assets representing accumulated contribution balances. In addition, the disclosures exclude annuities purchased to secure the benefits of the Plan's pensioners and the related liability to those pensioners.

The full actuarial valuation carried out for the Protected Fund and the Insurance Fund as at 31 March 2003 has been updated to 31 December 2003 by a qualified actuary on a basis consistent with FRS 17 using the following major assumptions:

	2003	2002	2001
Inflation	2.7%	2.3%	2.5%
Discount rate	5.4%	5.6%	6.0%
Rate of increase in pensions in payment	2.6%	2.3%	2.5%
Rate of increase in salaries	3.7%	3.3%	3.5%

The pension surplus/(deficit) using these assumptions was assessed to be:

	2003		2002		2001	
	Actuary's Expected Return	Value £000	Actuary's Expected Return	Value £000	Actuary's Expected Return	Value £000
Equities	7.7%	3,730	7.4%	3,190	8.0%	4,000
Bonds	5.4%	310	5.6%	420	6.0%	400
Gilts	4.7%	9,900	4.5%	11,430	4.9%	12,400
Other	4.6%	260	4.0%	540	5.0%	600
Total market value of assets		14,200		15,580		17,400
Present value of liabilities		(14,230)		(15,090)		(14,000)
(Deficit)/surplus in the Plan		(30)		490		3,400
Related deferred tax at 30%		10		(150)		(1,020)
Net pension (liability)/asset		(20)		340		2,380

The deficit above differs from the £994,000 (2002: £1,160,000) actually included as a pension asset in note 17 as the Group is yet to adopt FRS17 in full, and the FRS17 net pension asset is calculated using different assumptions to SSAP24.

24. RELATED PARTIES

As over 90% of the Company's voting rights are controlled within the group headed by Hollinger Inc, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group.

25. ULTIMATE PARENT COMPANY

Hollinger Inc., incorporated in Canada and listed on the Toronto, Montreal and Vancouver stock exchanges, is regarded by the directors of the Company as the Company's ultimate parent company.

The largest group in which the results of the Company are consolidated is that of which Hollinger Inc. is the parent company. The consolidated accounts of Hollinger Inc. may be obtained from Montreal Trust Company of Canada, 151 Front Street West, 8th Floor, Toronto, Ontario, Canada M5J 2N1.

The smallest such group is that of which Hollinger UK Holdings Limited is the parent company, whose consolidated accounts may be obtained from its registered office, One Canada Square, Canary Wharf, London, E14 5DT. Hollinger UK Holdings Limited is registered in England and Wales.

26. SUBSIDIARY AND JOINT VENTURE COMPANIES

The directors consider that to give particulars of all subsidiary and joint venture companies would lead to a statement of excessive length. A full list of all such companies will be included in the Company's annual return. As at 31 December 2003 the principal subsidiaries and joint venture companies were:

Name	Nature of Business	Class and proportion of nominal value of issued class of shares held
SUBSIDIARIES		
Incorporated and principally operating in Great Britain and registered in England and Wales		
The Spectator (1828) Limited	Publisher	Ordinary shares - 100%
Telegraph Publishing Limited	Management Services	Ordinary shares - 100%
Deedtask Limited	Holding Company	Ordinary shares - 100%
Creditscheme Limited*	Holding Company	Ordinary shares - 100%
Hollinger Telegraph New Media Holdings Limited	Holding Company	Ordinary shares - 100%
Hollinger Telegraph New Media Limited*	Internet Services	Ordinary shares - 100%

JOINT VENTURES

Incorporated and principally operating in Great Britain and registered in England and Wales

Trafford Park Printers Limited	Printer	A Ordinary shares - 100%
West Ferry Printers Limited	Printer	A Ordinary shares - 100%
Paper Purchase & Management Limited	Newsprint supplier	A Ordinary shares - 100%

Each of these joint venture companies is a joint venture between the Company and a third party holding 50% each of the aggregate issued ordinary share capital.

* held by a subsidiary