TELEGRAPH GROUP LIMITED

Report and Accounts

for the year ended

31 December 2002

Company Registration No. 451593

TELEGRAPH GROUP LIMITED

Board of Directors

The Lord Black of Crossharbour – Chairman
D W Colson – Deputy Chairman and Chief Executive
The Hon J W Deedes – Managing Director
N O'Donnell-Keenan – Finance Director
F D Radler – Non-Executive Director
L M Sanderson – Advertisement Director

Secretary

A J Davies

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 2002.

Principal activities

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

Results for the year

The profit on ordinary activities before tax for the year was £39.7 million (*2001: £30.3 million*). After taking taxation and dividends into account, the retained loss was £25.2 million (*2001: profit £20.5 million*).

During the year, interim dividends totalling 36.95p per ordinary share were paid *(2001:0.21p 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 *(2001: £nil)*. Preference dividends of £350,000 were declared during the year *(2001: £350,000)*.

Directorate

The directors holding office during the year were:
The Lord Black of Crossharbour - Chairman
D W Colson - Deputy Chairman and Chief Executive
The Hon J W Deedes - Managing Director
N O'Donnell-Keenan - Finance Director
F D Radler - Non-Executive Director
L M Sanderson - Advertisement Director

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 £306,894 (*2001: £203,853*). The company made no political donations (*2001: £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.

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

AJ Davies

A J Davies
Secretary

12th June 2003

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 7 to 26.

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 5, 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 2002 and of its profit 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

12 June 2003

Profit and loss account
for the year ended 31 December 2002

	Notes	2002 £'000	*2001* *£'000*
Turnover	2	310,204	*327,646*
Cost of sales	3	(216,061)	*(239,581)*
Gross profit		94,143	*88,065*
Distribution costs		(28,460)	*(30,901)*
Administrative expenses		(29,087)	*(28,113)*
Operating profit		36,596	*29,051*
Income from other fixed asset investments	7	5,640	*5,643*
Other interest receivable and similar income	8	2,721	*2,063*
Amounts written off – investments	13	(1,919)	*(6,049)*
Interest payable and similar charges	9	(3,378)	*(401)*
Profit on ordinary activities before taxation	4	39,660	*30,307*
Tax on profit on ordinary activities	10	(10,000)	*(9,100)*
Profit for the financial year		29,660	*21,207*
Dividends payable on equity and non-equity shares	11	(54,841)	*(660)*
Retained (loss)/profit for the year		(25,181)	*20,547*

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 9 to 26 form part of these accounts.

Balance sheet
at 31 December 2002

	Notes	2002 £'000	*2001 £'000*
Fixed assets			
Tangible assets	12	16,845	*18,822*
Investments	13	216,530	*221,154*
		233,375	*239,976*
Current assets			
Stocks - consumables		170	*1,247*
Debtors	14	99,703	*104,339*
Cash at bank and in hand		25,259	*24,111*
		125,132	*129,697*
Creditors: amounts falling due within one year	15	(98,676)	*(82,991)*
Net current assets		26,456	*46,706*
Total assets less current liabilities		259,831	*286,682*
Creditors: amounts falling due after more than one year	16	(1,089)	*(2,159)*
Provisions for liabilities and charges	17	(6,200)	*(6,800)*
Net Assets		252,542	*277,723*
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	44,500	*44,500*
Profit and loss account	19	28,231	*53,412*
Total equity and non-equity shareholders' funds	20	252,542	*277,723*

Approved by the board on 12th June 2003 and signed on its behalf by

N O'Donnell-Keenan

N O'Donnell-Keenan
Director

The notes on pages 9 to 26 form part of these accounts.

Notes to the accounts
31 December 2002

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 financial statements reflect the adoption of Financial Reporting Standard "FRS" 19 – Deferred Taxation. There is no impact on the profit retained for the year.

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.

Notes to the accounts
31 December 2002 – continued

1. Accounting policies (cont.)

(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.

Notes to the accounts
31 December 2002 – continued

1. Accounting policies (cont.)

(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 paid to West Ferry Printers Limited ("WFP") of £22,416,000 *(2001: £26,651,000)* and Trafford Park Printers Limited ("TPP") of £8,420,000 *(2001: £7,062,000)* for the contract printing of copies of *The Daily Telegraph* and *The Sunday Telegraph*. In addition, an amount of £51,509,000 *(2001: £nil)* was paid to Paper Purchase & Management Limited ("PPM") for the purchase of newsprint and magazine paper for the period from 1 April 2002. During the first part of the year, Telegraph Group Limited purchased paper on its own account. WFP, TPP and PPM are joint ventures between the company and third parties holding 50% each of the aggregate issued ordinary share capital.

4. Profit on ordinary activities before taxation

	2002 £'000	*2001* *£'000*
Profit on ordinary activities before taxation is stated after charging:		
Operating lease rentals:		
Plant and machinery	626	*659*
Other	5,926	*4,525*
	6,552	*5,184*
Depreciation of tangible fixed assets:		
Owned assets	5,070	*4,557*
Leased assets	657	*496*
Auditors' remuneration - audit services	73	*68*
- non-audit services	138	*900*
Provision against intra group debt	(563)	*1,507*

Notes to the accounts
31 December 2002 – continued

5. Directors

	2002 £'000	*2001 £'000*
Emoluments of the directors:		
Fees	85	*239*
Other emoluments - salaries and benefits	1,161	*1,160*
- discretionary bonuses	153	*-*
Company contributions to money purchase pension scheme	240	*242*
	1,639	*1,641*

The contributions made by the company to the pension scheme were on behalf of four directors.

Emoluments of the highest paid director:

	2002	*2001*
Salary and benefits	335	*272*
Pension contributions	65	*107*
	400	*379*

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.

6. Employee information

	2002	*2001*
(a) *Average number of persons (including executive directors) employed by the company during the year:*		
Editorial	10	*9*
Selling, distribution and administration	28	*28*
	38	*37*

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 £50,763,084 *(2001: £51,753,000).*

Notes to the accounts
31 December 2002 – continued

6. Employee information - continued

(b) Employment costs (including executive directors):

	2002 £'000	*2001 £'000*
Wages and salaries	4,874	*5,808*
Social Security costs	588	*672*
Other Pension costs (see note 23)	912	*921*
Total direct costs of employment	6,374	*7,401*

7. Income from other fixed asset investments

	2002 £'000	*2001 £'000*
Income from fixed asset investments (excluding group undertakings)	5,640	*5,643*

8. Other interest receivable and similar income

		2002 £'000	*2001 £'000*
Interest receivable	- from group undertakings	419	*456*
	- other	1,971	*1,124*
Exchange gain		-	*460*
Other		331	*23*
		2,721	*2,063*

9. Interest payable and similar charges

		2002 £'000	*2001 £'000*
Interest payable	- to parent company	38	*38*
	- to subsidiary companies	88	*118*
	- to joint venture companies	108	-
	- other	42	*112*
Finance lease charges		84	*133*
Exchange loss		3,018	-
		3,378	*401*

Notes to the accounts
31 December 2002 – continued

10. Tax on profit on ordinary activities

	2002		*2001*	
	£'000	£'000	*£'000*	*£'000*
Analysis of charge in period				
UK Corporation Tax				
Current tax on income for the period	10,800		*9,500*	
Adjustments in respect of prior periods	(200)		*600*	
		10,600		*10,100*
		10,600		*10,100*
Total current tax				
Deferred Tax (see note 17)				
Origination/reversal of timing differences	(600)		*(1,000)*	
		(600)		*(1,000)*
		10,000		*9,100*

Factors affecting the tax charge for the current period

The current tax charge for the period is lower *(2001: higher)* than the standard rate of corporation tax in the UK (30%) *(2001: 30%)*. The differences are explained below:

	2002	*2001*
	£'000	*£'000*
Current tax reconciliation		
Profit on ordinary activities before tax	39,660	*30,307*
Current tax at 30% *(2001: 30%)*	11,898	*9,092*
Effects of:		
Expenses not deductible for tax purposes	1,064	*3,843*
Income not chargeable for tax purposes	(1,791)	*(1,700)*
Utilisation of tax losses	(1,283)	*(2,735)*
Capital allowances for period less than depreciation	262	*20*
Other timing differences	650	*980*
Adjustments to tax charge in respect of previous periods	(200)	*600*
Total current tax charge (see above)	10,600	*10,100*

11. Dividends Paid

		2002	*2001*
Equity shares:			
Ordinary - Paid	0.21p per share	-	*310*
	27.12p per share	40,000	-
	9.83p per share	14,491	-
		54,491	*310*
Non-equity shares:			
Preference - Paid		263	*263*
- Payable		87	*87*
		54,841	*660*

Notes to the accounts
31 December 2002 – continued

12. Tangible fixed assets

	Land & Buildings £'000	Plant & Machinery £'000	Total £'000
Cost:			
At 1 January 2002	9,976	58,227	68,203
Additions	168	3,627	3,795
Disposals	(19)	(10,132)	(10,151)
At 31 December 2002	10,125	51,722	61,847
Depreciation:			
At 1 January 2002	3,590	45,791	49,381
Charge for the year	328	5,399	5,727
Disposals	-	(10,106)	(10,106)
At 31 December 2002	3,918	41,084	45,002
Net Book Value:			
Assets held under finance leases	-	1,296	1,296
Owned Assets	6,207	9,342	15,549
At 31 December 2002	6,207	10,638	16,845
At 31 December 2001	6,386	12,436	18,822

	2002 £'000	*2001 £'000*
Land and buildings at net book value as above:		
Freehold land (not depreciated)	1,268	1,268
Long leasehold buildings	2,906	3,084
Short leasehold buildings	2,033	2,034
	6,207	6,386

During the year, depreciation was charged on leased assets with a net book value of £1,952,000 at £656,000 *(2001: £496,000)*. All other assets held under finance leases were fully depreciated by 31 December 2002.

Notes to the accounts
31 December 2002 – continued

13. Investments

	Shares in Group Undertakings £'000	Loans to Group Undertakings £'000	Provisions against Loans to Group Undertakings £'000	Joint Venture Companies £'000	Loans to Joint Venture Companies £'000	Total £'000
At 1 January 2002	180,819	10,599	(6,049)	5	35,780	221,154
Additions	-	1,642	-	-	1,500	3,142
Provision	(277)	-	(1,642)	-	-	(1,919)
Repayments	-	-	-	-	(5,847)	(5,847)
At 31 December 2002	180,542	12,241	(7,691)	5	31,433	216,530

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

Shares in group undertakings

During the year, 6 dormant subsidiaries were liquidated leading to a reduction in the value of investment of £277,000.

Loans to group undertakings

The directors have reviewed the recoverability of loans to group undertakings and believe that a further provision of £1,642,000 is required.

Loans to joint venture companies

These represent balances with joint venture companies as follows:

	2002 £'000	*2001 £'000*
Advances under printing contract (see (i) below)	26,598	*29,930*
Loans to joint venture companies (see (ii) below)	4,835	*5,850*
	31,433	*35,780*

(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 made during the year where interest is charged in line with base rate.

As a result of the terms 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.*

In the opinion of the directors, there is no permanent diminution in the value of other fixed asset investments in the balance sheet at 31 December 2002.

Notes to the accounts
31 December 2002 – continued

14. Debtors

	2002 £'000	*2001 £'000*
Current portion of finance lease debtor	-	*501*
Trade debtors	41,861	*39,248*
Amounts owed by parent companies	30,709	*43,129*
Amounts owed by subsidiary companies	17,791	*14,149*
Pension asset (see note 23)	1,160	*1,326*
Other debtors	121	*123*
Prepayments and accrued income	7,106	*5,363*
Proposed dividend receivable	955	*500*
	99,703	*104,339*

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

15. Creditors: amounts due within one year

	2002 £'000	*2001 £'000*
Current portion of obligations under finance leases (see note 16 below)	1,070	*1,050*
Trade creditors	18,985	*21,526*
Amounts owed to parent companies	86	-
Amounts owed to subsidiary companies	9,638	*10,175*
Amounts owed to joint venture companies	11,291	*3,822*
Corporation tax	24,995	*14,583*
Other taxation and social security	5,622	*4,881*
Other creditors	2,501	*3,771*
Accruals and deferred income	24,401	*23,096*
Dividends proposed	87	*87*
	98,676	*82,991*

Liabilities under finance leases are secured on the assets leased.

Notes to the accounts
31 December 2002 – continued

16. Creditors: amounts due after more than one year

	2002 £'000	*2001* *£'000*
Obligations under finance leases (see below)	1,089	*2,159*
	1,089	*2,159*

Obligations under finance leases:	2002 £'000	*2001* *£'000*
Repayable:		
Within 1 year	1,097	*1,097*
Between 2-5 years	1,097	*2,194*
Total obligations	2,194	*3,291*
Less: future finance charges included in obligations	(35)	*(82)*
Net obligations	2,159	*3,209*
Less: classified as a current creditor	(1,070)	*(1,050)*
Net long term obligations	1,089	*2,159*

Liabilities under finance leases are secured on the assets leased.

17. Provisions for liabilities and charges

Deferred taxation:	2002 £'000	2001 *£'000*
Amount provided, representing the full potential liability:		
Accelerated capital allowances	(634)	*(294)*
Other timing differences	6,834	*7,094*
Full potential liability	6,200	*6,800*

	£'000
Movements on the provision:	
Balance at 1 January 2002	6,800
Credited to tax on profit on ordinary activities	(600)
Balance at 31 December 2002	6,200

Notes to the accounts
31 December 2002 – continued

18. Called up share capital

	2002 £'000	*2001 £'000*
Authorised:		
180,000,000 ordinary shares of 10p each	18,000	*18,000*
5,000,000 7% cumulative redeemable preference shares of £1 each	5,000	*5,000*
100,000,000 2.5% cumulative voting redeemable preference shares of £16.80 each	1,680,000	*1,680,000*
	1,703,000	*1,703,000*
Issued and fully paid:		
103,782,513 "A" ordinary shares of 10p each	10,378	*10,378*
43,692,141 "B" ordinary shares of 10p each	4,369	*4,369*
5,000,000 7% cumulative redeemable preference shares of £1 each	5,000	*5,000*
	19,747	*19,747*

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.

Notes to the accounts
31 December 2002 – continued

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	53,412
Retained loss for the year	-	-	-	(25,181)
At end of year	160,064	536	43,964	28,231

The balance at year end on the profit and loss account would be reduced by £812,000 to £27,419,000 were it not for the inclusion of the pension asset of £1,160,000 (within debtors – note 14) and its related deferred tax.

20. Reconciliation of movements in shareholders' funds

	2002 £'000	*2001 £'000*
Profit for the financial year	29,660	*21,207*
Dividends paid and payable	(54,841)	*(660)*
Net (reduction)/addition to shareholders' funds	(25,181)	*20,547*
Opening shareholders' funds	277,723	*257,176*
Closing shareholders' funds	252,542	*277,723*
Attributable to equity shareholders	247,542	*272,723*
Attributable to non-equity shareholders	5,000	*5,000*
	252,542	*277,723*

Notes to the accounts
31 December 2002 – continued

21. Commitments

		2002 £'000	*2001* *£'000*
(a)	*Capital expenditure contracted for but not provided in the accounts*	1,175	*1,496*

(b) *Operating leases*

Annual commitments under non-cancellable operating leases which expire:

	2002		*2001*	
	Land & Buildings £'000	Other £'000	*Land & Buildings* *£'000*	*Other* *£'000*
Within 1 year	255	47	112	34
Between 2 – 5 years	98	470	93	451
After 5 years	6,496	-	5,687	-
	6,849	517	5,892	485

(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 £1,364,787 in 2002 *(2001: £1,508,772).*

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 £372,339 at 31 December 2002 *(2001: £824,851).*

The company has given a guarantee in respect of a borrowing made under a US$ 200,000 (2001: US$ 5,000,000) credit facility made available to certain of the company's parent companies. This guarantee was secured by a fixed charge over the company's shareholdings in subsidiary and associated companies. In addition, Hollinger International Publishing Inc, an intermediary parent company, provided cash as collateral against the credit facility. At the year end this indebtedness was £nil (2001: £nil).

During December 2002, the company gave a further guarantee in respect of borrowings made under a US$ 310,000,000 credit facility made available to 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. At year end, the level of indebtedness was US$ 265,000,000.

Notes to the accounts
31 December 2002 – continued

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 both the Plan and TEPS arise directly as a result of contributions paid by members and the company, and from the investment performance of assets into which contributions are invested. Triennially a qualified actuary performs a valuation of the arrangements. For the purpose of the valuation the liabilities of the defined contribution benefits are exactly balanced by the assets representing accumulated contribution balances.

The defined benefit portion of the Plan provides certain members with a deferred benefit based on final pensionable salary, contributions being charged to the profit and loss account so as to spread the cost of pensions over beneficiaries' working lives. The contributions are determined by the actuary on the basis of the actuarial valuation using the projected unit method.

The assumptions which have the most significant effect on the results of the valuation are those relating to the Protected Fund, which represents assets for the defined benefits, and the Insurance Fund, which provides inter alia for death-in-service and ill-health early retirement benefits for all active members of the Plan, and a defined benefit guarantee for a minority of members. The liability within the Protected Fund, a section of the Plan created to meet the benefits of certain former members of the Daily Telegraph Group Pension Fund, is calculated using criteria supplied by an insurance company for setting premiums for the purchase of deferred annuities. For the Insurance Fund, members with the defined benefit guarantee are assumed to retire immediately and then the amount, if any, payable from the Insurance Fund is calculated on a basis as supplied by an insurance company for setting premiums for the purchase of an immediate annuity. For other calculations assumptions are based upon market conditions at the appropriate date. To place a value on the liabilities the actuary assumes assets will be invested in equities before retirement and in gilts after retirement. The investment return of equities is assumed as being 1% p.a. above that from gilts. Salaries are assumed to increase at 2% p.a. above inflation.

The most recent actuarial valuation showed that the market value of the Plan's assets was £90.4 million at 31 March 2000 and that the actuarial value of those assets represented 107% of the benefits that had accrued to members, after allowing for expected future increases in earnings. On the recommendation of the actuary, company contributions to the Insurance Fund were reduced with effect from 1 April 2001 from 2.5% to 2% of basic salaries. No contributions are required to be made to the Protected Fund.

The pension charge for the period of £912,000 *(2001: £901,000)* included £165,996 *(2001: £163,239)* 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 former Daily Telegraph Group Pension Fund. Included within prepayments is £1,160,000 *(2001: £1,326,000)* being the balance of that sum to be amortised over the next 7 years.

Notes to the accounts
31 December 2002 – continued

23. Pensions – continued

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' the following transitional disclosures are required:

The full actuarial valuation carried out as at 31 March 2000 has been updated to 31 December 2002 by a qualified actuary on the basis required by FRS17. The major assumptions used by the actuary were:

	2002	**2001**
Inflation	2.3%	2.5%
Discount rate	5.6%	6.0%
Rate of increase in pensions in payment	2.3%	2.5%
Rate of increase in salaries	3.3%	3.5%

If FRS 17 had been adopted in full then:

(i) The amount charged to operating profit would have been:

	2002 £'000
Employer's part of current service cost	770
Contributions to defined contribution section	3,680
Total operating charge	4,450

(ii) The amount credited/(charged) to other finance income would have been:

	2002 £'000
Expected return on pension scheme assets	920
Interest on pension scheme liabilities	(770)
Net return	150

(iii) The gain/(loss) recognised in Statement of Total Recognised Gains & Losses (STRGL) would have been:

	2002 £'000
Actual return less expected return on pension scheme assets	(670)
Experience gains arising on the scheme liabilities	470
Changes in assumptions underlying the present value of scheme liabilities	(2,860)
Actuarial loss recognised in STRGL	(3,060)

Notes to the accounts
31 December 2002 – continued

23. Pensions – continued

(iv) The pension asset included in the balance sheet would have been:

	2002		2001	
	Actuary's Expected Return	**Value**	**Actuary's Expected Return**	**Value**
		£'000		**£'000**
Equities	7.4%	3,190	8.0%	4,000
Bonds	5.6%	420	6.0%	400
Gilts	4.5%	11,430	4.9%	12,400
Other	4.0%	540	5.0%	600
Total market value of assets		15,580		17,400
Present value of liabilities		(15,090)		(14,000)
Surplus in the Plan		490		3,400
Related deferred tax at 30%		(150)		(1,020)
Net pension asset		340		2,380

The surplus above differs from the £1,160,000 *(2001: £1,326,000)* actually included as a pension asset in note 14 as the company is yet to adopt FRS 17 in full, and the FRS 17 net pension asset is calculated using different assumptions to SSAP 24.

(v) The movement in the surplus during the year would have been:

	£'000
Surplus at beginning of the year	3,400
Current service cost	(770)
Contributions	770
Other financial income	150
Estimated actuarial loss	(3,060)
Surplus at end of the year	490

Notes to the accounts
31 December 2002 – continued

23. Pensions – continued

(vi) The history of experience gains and losses would have been:

	2002 £'000
Gain/(loss) between expected and actual return on scheme assets	(670)
Percentage of scheme assets	(4%)
Experience gains/(losses) on scheme liabilities	470
Percentage of the present value of the scheme liabilities	3%
Gains/(losses) recognised in the Statement of Total Recognised Gains & Losses	(3,060)
Percentage of the present value of the scheme liabilities	(20%)

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.

Notes to the accounts
31 December 2002 – continued

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 2002 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