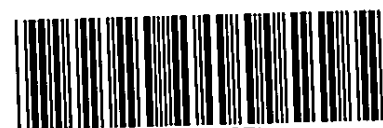


News Group Newspapers Limited

Financial statements

3 July 2011

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News Group Newspapers Limited

Financial statements

Year ended 3 July 2011

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News Group Newspapers Limited

The director's report

Year ended 3 July 2011

The directors have pleasure in presenting their report and the financial statements of the company for the year ended 3 July 2011

Principal activities and business review

The principal activity of the company is the printing and publishing of newspapers, which during the year were The Sun and The News of the World. The company uses the printing facilities of fellow subsidiaries of the NewsCorp Investments group and, in some cases, external printers.

The company generated turnover for the year of £653,601,000 (2010 £654,236,000). The principal cause of the reduction in turnover was marginally lower advertising and circulation revenue for The News of the World. Despite this reduction, The News of the World remained strong in the Sunday tabloid market in a challenging economy. The company's operating profit for the year was £81,662,000 (2010 £18,238,000). Cost of sales was significantly lower during the year as a result of the ending of a royalty agreement for the use of the mastheads of The Sun and The News of the World with News 2026 Limited (the company's subsidiary), leading to a £71,400,000 decrease in royalty payments and an increase in operating profit for the company.

As disclosed in the News Corporation (the company's ultimate parent company) annual report for the year ended 3 July 2011, the company announced in July 2011 that it would close its publication The News of the World following allegations of voicemail interception and payments to police. The last edition of the newspaper was published on Sunday 10 July 2011. As a result of these allegations the company is subject to several on-going investigations by regulators and various governmental authorities. The company is fully co-operating with these investigations. In addition, the company has admitted liability and settled a number of civil cases related to the voicemail interception allegations.

The outlook for the financial year commencing 4 July 2011 will be impacted by the closure of The News of the World, both in terms of operating profit and also costs incurred relating to the closure. The company also has litigation on-going and outstanding in relation to voicemail interception allegations for which there is a high level of uncertainty in respect of potential damages and legal costs which may be payable. In addition, the company's results will be impacted by the launch of the Sunday edition of The Sun. Its first edition was on 26 February 2012, and has become the market leader of the Sunday tabloid market, with a 35% market share at the date of signing.

For the year ended 3 July 2011, The Sun saw marginal increases in advertising revenue and an increase in circulation revenue as investment in regional pricing activity was reduced from the levels in the previous year. The Sun's newspaper circulation share was marginally higher year-on-year based on six-monthly ABC figures for the first half of the year (ABC July to December 2010). In the second half of the year, The Sun's newspaper circulation share was also marginally higher year-on-year, based on six-monthly ABC figures (ABC January to June 2011).

The Sun's average issue readership for the year (National Readership Survey July 2010 to June 2011) showed that, at 7.7 million readers, The Sun had over 60% more readers than its nearest competitor. The audience scale delivered by these readers is the reason why the UK's leading brands invest their marketing budgets in campaigns in The Sun - £1 in every £6 spent on groceries is spent by a Sun reader, and advertisers value access to that audience. The strength of The Sun's readership has allowed the title to increase its advertising revenue in a year that has otherwise seen very challenging economic conditions in the UK.

Our readers continue to engage directly with our brands. The Sun's £9.50 Holiday reader promotion continues to lead the UK domestic travel market. The promotion provides holidays to 2 million people every year, giving the promotion greater scale than any UK domestic tour provider. The Sun's Dream Team fantasy football league and Sun Bingo continue to engage and entertain our readers. Dream Team has now moved to a free model and has become one of the largest fantasy league games in the world. The Sun launched "Column Idol", giving 16-21 year olds the chance to write a column in the newspaper on a regular basis. The engagement of our readers with our brand with such depth protects the brand long term, both in terms of maintaining our newspaper circulation and associated advertising, and by diversifying the sources of our turnover.

News Group Newspapers Limited

The director's report *(continued)*

Year ended 3 July 2011

Principal activities and business review *(continued)*

The company continues to take advantage of innovations in technology. The Sun iPad App was launched in the previous year and the current year saw the publication of The Sun for the first time on Christmas Day, as a digital edition. The Sun has also launched stand-alone iPhone Apps to support its Dream Team fantasy football league and to showcase its celebrity news through a new App for Bizarre. Our digital investments are aimed at supplementing our newspaper products to drive increased engagement with our readers, and to provide a paid-for digital substitute for the newspaper for those of our readers that prefer to engage with our products in a digital format.

The results of The News of the World included in the financial statements, prior to its closure, reflect the strength of the title in its segment. Overall turnover was only marginally lower in a challenging economy and in a segment which has undergone fundamental changes from a consumer perspective.

Principal risks and uncertainties facing the business

The company recognises the challenges to its traditional business model from new technology and considers itself a multi-platform news provider, continually investing in its digital products. As readers use these new channels to access content, the company recognises the importance of maximising revenues from these new channels, both in terms of paid-for content and in new advertising models.

In common with other newspaper publishing groups, the company faces on-going traditional circulation challenges, which it is addressing through continued investment in its newspaper products. The development of technologies such as the iPad provides a new and exciting way for The Sun to showcase its journalism to a new audience of readers. NI Group Limited ("News International", the company's immediate parent company) is addressing new media challenges through the introduction of paywalls around its newspaper website.

The company is subject to the impact of long term movements in advertising spending. This has seen, over time, a move from press towards television and internet spending by advertisers, particularly in relation to classified advertising. The company is continually investing in its products, including investment in digital editions, to minimise the impact of these trends and to ensure that its products continue to attract advertisers. The company now has a relatively low exposure to classified revenues (less than 15%) and is developing new digital products to attract classified advertising. In the short term, the scale of the audience delivered by the company's publications and the very short production timescales associated with press advertising mean that the company continues to see advertisers investing their marketing spend in its publications. Given the trend towards disaggregated audiences, generally, against the very large readership of its publications, the company expects to retain its ability to attract advertising spending at current levels.

Along with other newspaper publishing groups the company continually faces risks associated with the cost of its raw materials. There have been significant increases in newsprint prices throughout the year.

The company has no trade debtors, with other companies within the NewsCorp Investments group collecting advertising and circulation revenue on its behalf. Bad debts associated with advertising and circulation revenue are recharged to the company.

Credit checks are performed for all new advertising customers requesting credit in excess of £1,500. Advance payment is requested when credit ratings are not sufficient. Formal processes are in place to ensure overdue accounts are followed up on a timely basis, with accounts being blocked for further advertisements when overdue. These checks have been particularly effective in the current economic environment.

Risk to bad debt from circulation customers is limited due to the majority of customers paying by direct debit and any overdue accounts blocked for further supply until full settlement is received.

The majority of the company's transactions are in sterling, exposure to fluctuations in foreign currency exchange rates is therefore limited. Foreign currency is managed centrally by the NewsCorp Investments group, which takes into account the foreign currency transactions of the company.

News Group Newspapers Limited

The director's report *(continued)*

Year ended 3 July 2011

Principal risks and uncertainties facing the business *(continued)*

Following the allegations of voicemail interception there have been a number of civil cases brought against the company, some of which have been settled, or are in the process of being settled. A provision has been made at the balance sheet date in respect of all claims that have been filed up until the date of finalisation of the statutory accounts. The company has also established a Compensation Scheme, and a provision has been made at the balance sheet date including applications received to participate in this Scheme. No provision has been made for letters of claim which have been received but where no formal court proceedings have been issued, or for individuals who have not contacted the company, either in respect of civil cases or the Compensation Scheme. It is not possible to estimate the liability for such additional claims given the information that is currently available to the company. If more claims are filed to participate in the Compensation Scheme and additional information becomes available in the civil cases, the company will update the liability provision for such matters. A charge of £23,672,000 in respect of claimants legal fees and damages has been made in respect of this litigation, based on available information at the date of signing the financial statements. The final cost may or may not be significantly higher than the amounts recognised. This has been reported as an exceptional item due to its size and incidence.

The company is subject to several on-going investigations initiated in 2011 by regulators and various governmental authorities after allegations of voicemail interception, inappropriate payments to public officials and other related matters.

The company is fully cooperating with these investigations, but is not able to estimate the ultimate outcome or cost associated with these investigations. Consequently no provision has been made in relation to them. Violations of law may result in civil, administrative or criminal fines or penalties, which may or may not be significant.

Further information in connection with these matters is disclosed in notes 23 and 30.

News Corporation (the company's ultimate parent company) has created an independently-chaired Management and Standards Committee (MSC), which operates independently from News International. The MSC is ensuring full co-operation with all relevant investigations and inquiries into The News of the World matters and all other related issues across News International. The MSC is responsible for the review of the materials identified by the MSC and its advisors in their investigations and not the directors of the company. The company has updated its policies and procedures where appropriate. Enhanced policies have been issued to staff with particular focus on Anti-Bribery, Whistleblowing and Payments policies. The costs of the MSC are borne by another group company.

Going concern

"The Sun" brand has a strong presence in its market with 60% more readers than its nearest competitors, £9.50 holiday reader promotions leading the UK domestic travel market and Dream Team being one of the largest fantasy league games in the world. The Sun brand is significantly cash generative. In addition the Sunday edition of The Sun has already become the market leader in the Sunday tabloid market with a 35% market share. Despite the closure of the News of the World and the subsequent impact on the business, as well as the on-going uncertainty surrounding issues arising from that, the directors consider that the company remains in a healthy position financially.

In addition to the conditions mentioned above, the decision to continue in the Sunday tabloid market with the launch of the Sunday edition of The Sun indicates that the directors consider the going concern basis of accounting is appropriate in preparing the annual financial statements.

In the year commencing 4 July 2011, the company has written off the publishing rights relating to The News of the World closure and incurred related costs of £55,511,000 at the date of signing the accounts. The company will also incur further costs relating to the closure of The News of the World.

Newscorp Investments (the company's ultimate UK parent company) has committed to provide financial support, and, as highlighted in note 19 to the financial statements, the company meets its day-to-day working capital requirements through a collective overdraft facility which is guaranteed by News Corporation.

News Group Newspapers Limited

The director's report *(continued)*

Year ended 3 July 2011

Results and dividends

The profit for the year, after taxation, amounted to £91,217,000 (2010 £86,087,000)

An ordinary dividend of £100,000,000 (2010 £Nil) has been paid leaving a profit and loss reserve of £183,202,000. The directors do not recommend payment of a final dividend (2010 £Nil)

Directors

The directors who served the company during the year were as follows

J R Murdoch	(Resigned 19 September 2011)
R Brooks	(Resigned 8 August 2011)
S L Panuccio	
C A Milner	(Resigned 31 December 2010)
T Mockridge	(Appointed 5 September 2011)
C C S Longcroft	(Appointed 19 September 2011)

Except as noted above, all directors served throughout the year and are still directors at the date of this report

The Articles of Association do not require directors to retire either by rotation or in the year of appointment

Directors indemnity provision

News Corporation has agreed to indemnify all directors of the company against liability in respect of proceedings brought by third parties, except that, in accordance with the Companies Act 2006, no indemnity is provided against any liability incurred by the director in defending civil proceedings brought by the company, or an associated company, in which the final judgment is given against the director, any liability of the director to pay a fine imposed by criminal proceedings, any liability incurred by the director in defending criminal proceedings in which the director is convicted, any liability of the director to pay a penalty sum to a regulatory authority in respect of non-compliance with any requirement of a regulatory nature, howsoever arising, or any liability of the director in connection with an application for relief in which the court refuses to grant him relief. Such qualifying third party indemnity provision was in force during the year and is in force as at the date of approving the directors report.

Policy on the payment of creditors

The company has no direct suppliers as a fellow subsidiary purchases on behalf of the group. All details relating to supplier payment policy have been disclosed in the accounts of News International Trading Limited.

Director's responsibilities

The director is responsible for preparing the Director's Report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the director must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the director is required to

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

News Group Newspapers Limited

The director's report *(continued)*

Year ended 3 July 2011

Director's responsibilities *(continued)*

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

Disclosure of information to auditors

In so far as each of the persons who were directors at the date of approving these financial statements is aware

- there is no relevant audit information of which the company's auditor is unaware, and
- each director has taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that

Charitable and political contributions

Charitable contributions made by the company in the financial year amounted to £70,634 (2010 £105,083). There were no political contributions in the year (2010 £Nil).

Post balance sheet event

As disclosed in the News Corporation annual report for the year ended 3 July 2011, the company announced in July 2011 that it would close its publication The News of the World following allegations of voicemail interception and payments to police. The last edition of the newspaper was published on Sunday 10 July 2011. As a result of these allegations the company is subject to several on-going investigations by regulators and various governmental authorities. The company is fully co-operating with these investigations. In addition, the company has admitted liability and settled a number of civil cases related to the voicemail interception allegations.

The specific allegations of voicemail interception that led to the closure of The News of the World occurred after the year end. Consequently the costs associated with the closure are treated as a non-adjusting balance sheet event.

Following The News of the World closure announcement, the full value of £160,000,000 of publishing rights for The News of the World newspaper were fully written off in the financial period commencing on 4 July 2011. The directors consider there to be no impairment on the company's other publishing rights.

An announcement was made on 20 February 2012 that the company was to commence publishing a Sunday edition of The Sun, the first edition was published on 26 February 2012.

At the date of signing the financial statements the company has incurred a further £55,511,000 of costs including redundancy payments and legal fees relating to the closure of The News of the World. No provision has been made for these costs in the financial statements as the closure is a non-adjusting post balance sheet event.

A number of announcements were made subsequent to the year-end that the company was to restructure the workforce to match the requirements of the business. In addition to the £55,511,000 above, the company has incurred £5,105,000 of costs relating to this restructure at the date of signing the financial statements. No provision has been made in the financial statements for these costs as there was no legal or constructive obligation to incur these costs as at the balance sheet date.

News Corporation has created an independently-chaired Management and Standards Committee (MSC), which operates independently from News International. The MSC is ensuring full co-operation with all relevant investigations and inquiries into The News of the World matters and all other related issues across News International. The MSC is responsible for the review of the materials identified by the MSC and its advisors in their investigations and not the directors of the company. The company has updated its policies and procedures where appropriate. Enhanced policies have been issued to staff with particular focus on Anti-Bribery, Whistleblowing and Payments policies. The costs of the MSC are borne by another group company.

News Group Newspapers Limited

The director's report *(continued)*

Year ended 3 July 2011

Employment of disabled persons

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

Employee consultation

It is the policy of the company to develop employee involvement throughout the organisation and to ensure that they are aware of the financial and economic factors affecting the company and the Newscorp Investments group of which it is a member.

Communication meetings between management and employees are held both formally and informally, where matters of specific interest are discussed. Consultation with all employees occurs on a regular basis covering pensions and health and safety and their views are taken into consideration when making decisions. A range of training programmes, are held for employees.

Auditor

The directors will place a resolution before the Annual General meeting to reappoint Ernst & Young LLP as auditors for the ensuing year.

Registered office
3 Thomas More Square
London
E98 1XY

Signed by



S. L. Panuccio

Director

Approved by the director on 30 March 2012

Company Registration Number 00679215

News Group Newspapers Limited

Independent auditor's report to the members of News Group Newspapers Limited

We have audited the financial statements of News Group Newspapers Limited for the year ended 3 July 2011 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of director and auditor

As explained more fully in the Director's Responsibilities Statement set out on pages 4 to 5, the director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 3 July 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – significant uncertainty over provisions and contingencies related to voicemail interception cases and on-going investigations after allegations of voicemail interception and inappropriate payments to public officials and other related matters.

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in notes 23 and 30 to the financial statements concerning future expenditures for which reliable estimates cannot be made and other contingencies related to voicemail interception cases and on-going investigations after allegations of voicemail interception and inappropriate payments to public officials and other related matters. The ultimate exposure of News Group Newspapers in relation to these matters is subject to significant uncertainty, and the total amounts that will ultimately be determined to be payable by News Group Newspapers will be dependent on many factors, including the number of individuals making a claim against the company, any findings as to the extent of their loss, as well as the potential size of any civil, administrative or criminal fines or penalties. Consequently the actual cost may or may not be significantly higher than the amounts recognised in the financial statements and disclosed in note 23.

News Group Newspapers Limited

Independent auditor's report to the members of News Group Newspapers Limited *(continued)*

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Ernst & Young LLP

TONY McCARTNEY (Senior Statutory Auditor)

For and on behalf of

ERNST & YOUNG LLP

Chartered Accountants & Statutory Auditor

Cambridge

30/3/2012

News Group Newspapers Limited

Profit and loss account

Year ended 3 July 2011

	Note	2011 £000	2010 £000
Turnover	2	653,601	654,236
Cost of sales		(408,689)	(491,485)
Gross profit		244,912	162,751
Sales and marketing costs		(37,472)	(36,825)
Administrative expenses		(127,461)	(108,369)
Other operating income	3	1,683	681
Operating profit	4	81,662	18,238
Attributable to			
Operating profit before exceptional items		105,334	18,238
Exceptional items	4	(23,672)	—
		81,662	18,238
Income from shares in group undertakings	8	21,814	70,894
Interest receivable and similar income	9	962	399
Interest payable and similar charges	10	(813)	(975)
Profit on ordinary activities before taxation		103,625	88,556
Tax on profit on ordinary activities	11	(12,408)	(2,469)
Profit for the financial year		<u>91,217</u>	<u>86,087</u>

All of the activities of the company are classed as continuing

The company has no recognised gains or losses other than the results for the year as set out above

The notes on pages 11 to 26 form part of these financial statements

News Group Newspapers Limited

Balance sheet

3 July 2011

	Note	2011 £000	2010 £000
Fixed assets			
Intangible assets	13	720,000	65,000
Tangible assets	14	46,429	35,315
Investments	15	720,500	720,500
		<u>1,486,929</u>	<u>820,815</u>
Current assets			
Stocks	16	14,382	10,746
Debtors	17	2,884,322	2,895,776
Cash at bank and in hand		252	243
		<u>2,898,956</u>	<u>2,906,765</u>
Creditors: Amounts falling due within one year	20	<u>(1,706,648)</u>	<u>(1,062,830)</u>
Net current assets		1,192,308	1,843,935
Total assets less current liabilities		<u>2,679,237</u>	<u>2,664,750</u>
Creditors: Amounts falling due after more than one year	21	(145)	(307)
Provisions for liabilities			
Provisions for liabilities and charges	23	<u>(23,172)</u>	<u>—</u>
		<u>2,655,920</u>	<u>2,664,443</u>
Capital and reserves			
Called-up share capital	26	2,625	2,625
Share premium account	27	1,750,525	1,750,525
Equity share-based payments	27	494	234
Other reserves	27	719,074	719,074
Profit and loss account	27	183,202	191,985
Shareholders' funds	28	<u>2,655,920</u>	<u>2,664,443</u>

These financial statements were approved and signed by the director and authorised for issue on 30 March 2012



S. L. Panuccio
Director

The notes on pages 11 to 26 form part of these financial statements

News Group Newspapers Limited

Notes to the financial statements

Year ended 3 July 2011

1. Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with United Kingdom Generally Accepted Accounting Principles. True and fair override provisions of the Companies Act 2006 have been invoked, as described in "Publishing rights & titles" below and note 13.

Newscorp Investments (the company's ultimate UK parent company) has committed to provide financial support and accordingly the directors continue to adopt the going concern basis in preparing the annual financial statements.

The financial statements are made up to the Sunday closest to the 30 June each year. Consequently, the financial statements for the current period cover 53 weeks ended 3 July 2011.

On 7 July 2011, the company announced that it was to cease publishing The News of the World. On 20 February 2012, the company announced that it was to commence publishing a Sunday edition of The Sun. Because the company has not exited the Sunday tabloid market permanently, the closure of The News of the World does not satisfy all the conditions in FRS3 for classification as discontinued operations. Accordingly, all operations are classified in the profit and loss account as continuing.

The company is exempt from the requirement of SSAP 25 'Segmental reporting' to include segmental analysis as part of its financial statements because it is a wholly owned subsidiary undertaking of a body corporate, and segmental reporting is included in the financial statements of News Corporation, the ultimate parent company, which prepares consolidated financial statements that are publicly available.

The principal accounting policies have been applied consistently throughout the year and the preceding year.

Consolidated financial statements

Under Section 401 of the Companies Act 2006 the company is exempt from the requirement to prepare and deliver group financial statements since it is a wholly owned subsidiary of News Corporation which is incorporated in the United States of America and prepares consolidated financial statements that are publicly available.

Cash flow statement

The company is exempt from the requirement of FRS 1 'Cash Flow Statements' to include a cash flow statement as part of its financial statements because it is a wholly owned subsidiary undertaking of a body corporate, and a consolidated cash flow statement is included in the financial statements of News Corporation.

Related party transactions

As a wholly owned subsidiary undertaking of News Corporation whose financial statements are publicly available, the company has taken advantage of the exemption in FRS 8 'Related Party Disclosures' not to disclose transactions with other wholly owned members of the group headed by News Corporation.

News Group Newspapers Limited

Notes to the financial statements

Year ended 3 July 2011

1. Accounting policies *(continued)*

Turnover

Turnover is the net amount receivable by the company in the ordinary course of its business, excluding value added tax, trade discounts and other sales related taxes

Advertising revenue is recognised upon publication

Circulation revenue is recognised at the point of sale. A provision is deducted from circulation revenue for expected returns and adjusted for actual returns as known

Digital revenue is recognised on a straight line basis over the period of the online campaign

Other revenue is recognised at the time of sale or over the duration of provision of service as appropriate

Publishing rights and titles

Publishing rights and titles are stated at cost less any provisions made for impairment. No amortisation is provided on publishing rights and titles since, in the opinion of the directors, these assets have indefinite useful economic lives

No amortisation is provided where the board is of the opinion that to do so would not show a true and fair view of the profit for the year or the financial position of the company at the end of the year. This overrides the requirement of the Companies Act 2006 to amortise intangible fixed assets and it is in compliance with FRS 10

Had the publishing rights and titles been amortised in accordance with the Companies Act 2006 over the FRS 10 rebuttable assumption period of 20 years, £36,000,000 would have been charged to the profit and loss account in the year to 3 July 2011 (2010 - £36,000,000)

The directors believe that the publishing rights and titles have a sufficiently well-established position in the market place to be defended against threats arising from current competitors, potential new entrants and potential technological changes in the industry. Any impairment results from specific events or circumstances and do not indicate that the inherent lives of assets are anything other than indefinite

Fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment

Where borrowings are used to finance capital projects, interest incurred prior to the completion of those projects is capitalised

Assets in the course of construction are not depreciated. When such assets come into use they are transferred to the appropriate fixed asset category and depreciated accordingly

Residual value is calculated on prices prevailing at the date of acquisition

News Group Newspapers Limited

Notes to the financial statements

Year ended 3 July 2011

1. Accounting policies *(continued)*

Heritage assets

The company has two collections of heritage assets which are held to increase historical knowledge of future generations and to assist in the production of the Companies newspapers

The collections are accounted for as follows

1) Manuscripts, newspapers and other artefacts

The company holds a collection of manuscripts, newspapers and other artefacts within its archives. The collection is one of the most significant within the British newspaper industry and is available for both internal and external research purposes. This collection has been initially reported on the balance sheet at valuation following an independent valuation of the collection by Sotheby's in November 2003. Subsequent acquisitions, which have been purchased after this valuation, have been recorded at cost. No depreciation has been charged on these assets.

2) Art collection

The company holds a collection of paintings, which has been initially reported on the balance sheet at valuation following an independent valuation of the collection by Robert Holden Limited in May 2001. Subsequent acquisitions, which have been purchased after the valuation, have been recorded at cost. No depreciation has been charged on these assets.

In addition to the two collections above, the company also holds a complete back catalogue of their newspaper publications with The Sun dating back to 1964 and The News of the World dating back to 1843. These collections have not been recognised on the balance sheet due to the one off nature of these collections. A valuation could not be reasonably established without a considerable and costly valuation exercise being completed.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Plant & Machinery	- 5% - 100% per annum
Fixtures, Fittings and Motor Vehicles	- 10% - 100% per annum

Investments

Investments are stated at cost less provision for impairment.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition. Raw materials, consumables and goods for resale are held at purchase cost on a first-in first-out basis. Work in progress and finished goods are held at cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price, less further costs of disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

Leases

Rentals payable under operating leases are charged on a straight-line basis over the lease term.

Pension costs and post retirement medical benefits

During the year, the employees of the company were members of pension schemes operated by NI Group Limited (the company's immediate UK parent company), which require contributions to be made to separately administered funds. Contributions to these funds were charged to the profit and loss account as they became payable in accordance with the rules of the schemes.

Further details on the pension schemes are provided in the notes to the financial statements.

News Group Newspapers Limited

Notes to the financial statements

Year ended 3 July 2011

1. Accounting policies *(continued)*

Taxation

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Foreign currency

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account

Share-based payments

The cost of cash-settled transactions is measured at fair value using an appropriate option-pricing model. Fair value is established initially at the grant date and at each balance sheet date thereafter until the awards are settled. During the vesting period, a liability is recognised representing the product of the fair value of the award and the portion of the vesting period expired as at the balance sheet date. From the end of the vesting period until settlement, the liability represents the full fair value of the award as at the balance sheet date. Changes in carrying amount for the liability are recognised in profit and loss for the period.

The company issues equity-settled share-based payments to certain employees, which must be measured at fair value and recognised as an expense in the income statement with a corresponding increase in equity. The fair values of these payments are measured at the dates of grant using option pricing models, taking into account the terms and conditions upon which the awards are granted. The fair value is recognised over the period during which employees become unconditionally entitled to the awards, subject to the company's estimate of the number of awards which will lapse due to employees leaving the company prior to vesting.

The company has taken advantage of the transitional provisions of FRS 20 in respect of equity-settled awards so as to apply FRS 20 only to those equity-settled awards granted after 7 November 2002 that had not vested before 1 January 2006.

2. Turnover

Substantially all the company's turnover and profit, in both the current and prior year, are derived, both by origin and destination, from printing and publishing activities in the United Kingdom.

News Group Newspapers Limited

Notes to the financial statements

Year ended 3 July 2011

3. Other operating income

	2011	2010
	£000	£000
(Loss)/profit on disposal of fixed assets	(233)	8
Other operating income	1,916	673
	<u>1,683</u>	<u>681</u>

4. Operating profit

Operating profit is stated after charging

	2011	2010
	£000	£000
Depreciation of owned fixed assets	16,252	13,696
Operating lease costs		
- Plant and equipment	869	774
Provision for legal claims	<u>23,672</u>	<u>-</u>

Included within operating profit are £42,700,000 (2010 £110,700,000) of costs recharged from other group companies at an appropriate mark up

The operating lease costs relate to commitments held by News International Trading Limited (a fellow subsidiary)

There are a number of on-going legal claims against the company as a result of voicemail interception allegations. A charge of £23,672,000 in respect of claimants legal fees and damages has been made based on available information at the date of signing the financial statements. This has been reported as an exceptional item due to its size and incidence.

The closing legal claims provision can be seen in note 23

5. Auditors' remuneration

	2011	2010
	£000	£000
Audit of the financial statements	<u>311</u>	<u>137</u>

Auditors' remuneration, including amounts in respect of non-audit services, is borne by another group undertaking

Fees paid to the company's auditors, Ernst & Young LLP, for services other than statutory audit of the company are disclosed in the financial statements of NI Group Limited

News Group Newspapers Limited

Notes to the financial statements

Year ended 3 July 2011

6 Staff costs

The average number of staff employed by the company during the financial year amounted to

	2011	2010
	No	No
Editorial	<u>570</u>	<u>575</u>

The aggregate payroll costs of the above were

	2011	2010
	£000	£000
Wages and salaries	38,825	38,515
Social security costs	3,891	3,767
Other pension costs	5,729	6,943
Equity-settled share-based payments	260	12
Cash-settled share-based payments	163	217
	<u>48,868</u>	<u>49,454</u>

The administrative personnel resources of the company are provided by other members of the Newscorp Investments group. Therefore all administrative staff costs are shown in the financial statements of a fellow group undertaking and a recharge is made to the company for the services of these personnel.

7. Director's remuneration

The directors of the company are also directors of the holding company or fellow UK subsidiaries. The directors received total remuneration for the year of £4,800,391 (2010: £3,016,816), all of which was paid by a fellow group company. The directors do not believe that it is practicable to apportion this amount between their services as directors of the company and their services as directors of the subsidiary companies.

3 of the directors were members of the defined benefit scheme (2010: 3).

Total payments in respect of compensation for loss of office of £1,242,050 (2010: £Nil) were made in the year.

8. Income from shares in group undertakings

	2011	2010
	£000	£000
Dividend income from fixed asset investment	<u>21,814</u>	<u>70,894</u>

9. Interest receivable and similar income

	2011	2010
	£000	£000
Interest from group undertakings	405	399
Other similar income receivable	<u>557</u>	<u>—</u>
	<u>962</u>	<u>399</u>

News Group Newspapers Limited

Notes to the financial statements

Year ended 3 July 2011

10. Interest payable and similar charges

	2011	2010
	£000	£000
Interest payable to group undertakings	<u>813</u>	<u>975</u>

11. Taxation on ordinary activities

(a) Analysis of charge in the year

	2011	2010
	£000	£000
Current tax		
UK Taxation		
In respect of the year		
UK Corporation tax based on the results for the year at 27.50% (2010 28%)	12,841	10,691
Under/(over) provision in prior year	<u>789</u>	<u>(10,246)</u>
	13,630	445
Double taxation relief	<u>(1)</u>	<u>-</u>
	13,629	445
Foreign tax		
Current tax on income for the year	<u>1</u>	<u>-</u>
Total current tax	13,630	445
Deferred tax		
Origination and reversal of timing differences (note 18)		
Capital allowances	(1,102)	3,515
Other	(300)	(1,311)
Share based payments	<u>180</u>	<u>(180)</u>
Total deferred tax (note 18)	(1,222)	2,024
Tax on profit on ordinary activities	<u>12,408</u>	<u>2,469</u>

News Group Newspapers Limited

Notes to the financial statements

Year ended 3 July 2011

11. Taxation on ordinary activities *(continued)*

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 27.50% (2010: 28%)

The differences are reconciled below

	2011 £000	2010 £000
Profit on ordinary activities before taxation	<u>103,625</u>	<u>88,556</u>
Profit on ordinary activities by rate of tax	28,497	24,796
Permanent differences	(5,101)	(19,346)
Decelerated capital allowances	852	1,274
Other timing differences	(377)	(413)
UK Transfer pricing adjustments	8,925	9,058
Group relief claimed	(19,955)	(4,678)
Corporation tax under/(over) provided in previous years	<u>789</u>	<u>(10,246)</u>
Total current tax (note 11(a))	<u>13,630</u>	<u>445</u>

(c) Factors that may affect future tax charges

The standard rate of UK Corporation Tax reduced from 28% to 26% from 1 April 2011. Deferred tax has been restated accordingly in these financial statements. The Finance Act 2011 received Royal Assent on 19 July 2011, with the 26% rate being substantively enacted from 29 March 2011.

The UK government announced on 21 March 2012 further reductions in the standard rate of corporation tax to 24% from 1 April 2012 and by a further 1% per annum to 22% from 1 April 2014. These further reductions had not been substantively enacted at the balance sheet date and consequently their effects are not included in these financial statements.

12. Dividends

Equity dividends

	2011 £000	2010 £000
Paid during the year		
£38.0952 per ordinary share (2010: £Nil per ordinary share)	<u>100,000</u>	<u>—</u>

News Group Newspapers Limited

Notes to the financial statements

Year ended 3 July 2011

13. Intangible fixed assets

	Publishing rights and titles £000
Cost	
At 28 June 2010	65,000
Additions	720,000
Refunded	(65,000)
At 3 July 2011	720,000
Net book value	
At 3 July 2011	720,000
At 27 June 2010	65,000

The publishing rights and titles held as at 28 June 2010 related to a licensing agreement with News 2026 Limited (the company's subsidiary). During the year, it was agreed that this license granting exclusive use of the publishing rights and titles to the company for the period 1 July 2010 to 30 June 2022 should be rescinded and fully refunded.

On 10 June 2011, publishing rights and titles in relation to The Sun and The News of the World newspapers were purchased through the intercompany accounts from News 2026 Limited at a cost of £720,000,000. As at the balance sheet date there is no indication of impairment and the directors feel that the valuation is appropriate.

Subsequent to the year end, the full value of The News of the World publishing rights of £160,000,000 have been written off due to the closure of the title. The directors deem there to be no impairment on the company's other publishing rights (see note 30).

14. Tangible fixed assets

	Plant and Machinery £000	Fixtures, Fittings and Motor Vehicles £000	Assets in course of construction £000	Heritage assets £000	Total £000
Cost					
At 28 June 2010	132,150	30,361	5,940	108	168,559
Additions	26,348	62	1,305	3	27,718
Disposals	(62,473)	(17,634)	—	—	(80,107)
At 3 July 2011	96,025	12,789	7,245	111	116,170
Depreciation					
At 28 June 2010	106,894	26,350	—	—	133,244
Charge for the year	14,324	1,928	—	—	16,252
On disposals	(62,201)	(17,554)	—	—	(79,755)
At 3 July 2011	59,017	10,724	—	—	69,741
Net book value					
At 3 July 2011	37,008	2,065	7,245	111	46,429
At 27 June 2010	25,256	4,011	5,940	108	35,315

News Group Newspapers Limited

Notes to the financial statements

Year ended 3 July 2011

14. Tangible fixed assets *(continued)*

Heritage assets

Heritage assets include assets held at a valuation of £93,000 (2010 £93,000) and assets held at an historic cost of £18,000 (2010 £15,000)

The heritage assets recorded at valuation consist of a collection of manuscripts, newspapers and other artefacts which were independently valued at £89,000 in November 2003 by Sotheby's and an Art collection which was valued at £4,000 by Robert Holden Limited in May 2001

The heritage assets recorded at the historic cost of £18,000 (2010 £15,000) consist of a number of small items in relation to The Sun and The News of the World newspapers

The directors feel that these valuations are still appropriate

Additions and disposals in the year

During the period, there have been no significant additions to the collections. There have also been no heritage asset disposals during the current or prior period

Five-year financial summary of heritage asset transactions

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Purchases					
Manuscripts, newspapers & other artefacts	<u>3</u>	<u>2</u>	<u>2</u>	<u>5</u>	<u>3</u>

There have been no disposals of any heritage assets over the five year period

Future capital expenditure

	2011 £000	2010 £000
Contracted but not provided for in the financial statements	<u>6,100</u>	<u>10,534</u>

15. Investments

	Total £000
Cost	
At 28 June 2010 and 3 July 2011	<u>720,500</u>
Net book value	
At 3 July 2011 and 27 June 2010	<u>720,500</u>

The company's sole investment is a principal subsidiary undertaking as follows -

	Country of incorporation	% of shares held	Class of share
News 2026 Limited	England & Wales	100	Ordinary

On 10 June 2011, News 2026 Limited ceased to trade following the sale of publishing rights to News Group Newspapers Limited for £720,000,000 (see note 13) and NI Group Limited for £500,000

As at the balance sheet date there is no indication of impairment due to the net assets of News 2026 Limited

News Group Newspapers Limited

Notes to the financial statements

Year ended 3 July 2011

16. Stocks

	2011 £000	2010 £000
Raw materials and consumables	<u>14,382</u>	<u>10,746</u>

17. Debtors

	2011 £000	2010 £000
Amounts owed by group undertakings	2,856,516	2,877,174
Corporation tax repayable	–	1,009
VAT recoverable	3	–
Other debtors	7,971	6,278
Prepayments and accrued income	14,942	7,647
Deferred taxation (note 18)	<u>4,890</u>	<u>3,668</u>
	<u>2,884,322</u>	<u>2,895,776</u>

All debtors are repayable within one year of the balance sheet date

18. Deferred taxation

The deferred tax included in the Balance sheet is as follows

	2011 £000	2010 £000
Included in debtors (note 17)	<u>4,890</u>	<u>3,668</u>

The movement in the deferred taxation account during the year was

	2011 £000	2010 £000
Balance brought forward	3,668	5,692
Profit and loss account movement arising during the year	<u>1,222</u>	<u>(2,024)</u>
Balance carried forward	<u>4,890</u>	<u>3,668</u>

The balance of the deferred taxation account consists of the tax effect of timing differences in respect of

	2011 £000	2010 £000
Excess of depreciation over taxation allowances	3,279	2,177
Share based payments	–	180
Other timing differences	<u>1,611</u>	<u>1,311</u>
	<u>4,890</u>	<u>3,668</u>

A deferred tax asset has been recognised as the directors are of the opinion that the level of future taxable profits and deferred tax liabilities within the Newscorp Investments group will be sufficient to utilise the deferred tax asset being recognised

19. Cash at bank and in hand

The Newscorp Investments group operates a collective overdraft facility with its bankers, which allows individual companies in the Newscorp Investments group to overdraw subject to an agreed limit not being exceeded in aggregate. This facility is guaranteed by News Corporation.

News Group Newspapers Limited

Notes to the financial statements

Year ended 3 July 2011

20. Creditors: Amounts falling due within one year

	2011	2010
	£000	£000
Overdrafts	822,631	755,748
Amounts owed to group undertakings	823,450	234,202
Corporation tax	5,551	—
VAT payable	—	13
Liability for cash-settled share-based payments < 1 year	260	104
Other creditors	18,976	15,450
Accruals and deferred income	35,780	57,313
	<u>1,706,648</u>	<u>1,062,830</u>

21. Creditors: Amounts falling due after more than one year

	2011	2010
	£000	£000
Liability for cash-settled share-based payments > 1 year	<u>145</u>	<u>307</u>

22. Pensions

The company participates in pension schemes operated by NI Group Limited. The defined contribution scheme covers the majority of the executive, staff and works personnel. The remaining employees, mainly senior executives, are covered by defined benefit multi-employer schemes and their share of the underlying assets and liabilities are not readily identifiable. The assets of the pension schemes are held in separate externally administered funds. The pension costs of the defined benefit schemes are in accordance with the advice of a qualified actuary using the projected unit method. The schemes are valued by an independent actuary on a triennial basis. The latest full actuarial valuation of the defined benefit schemes range from 28 June 2010 to 3 July 2011. During the year, NI Group Limited closed the main UK defined benefit pension plan to future accrual.

The total pension cost for the company was £5,729,000 (2010 £6,943,000) of which £2,879,000 (2010 £2,677,000) relates to the defined contribution scheme and £2,850,000 (2010 £4,266,000) relates to defined benefit schemes.

Employer's contributions are set in relation to the current service period only. There are no other obligations other than to pay a contribution that reflects the benefits earned in the current period. Under such circumstances, FRS 17 'Retirement benefits' allows the scheme to be accounted for as a defined contribution scheme. Therefore, defined contribution accounting has been adopted in these financial statements.

FRS 17 disclosures for the defined benefit schemes can be found in the financial statements of Newscorp Investments. The NI Group Limited deficit as at 3 July 2011 is £50,914,000 (2010 £56,635,000). The fair value of the plans assets amounts to £239,209,000 (2010 £205,730,000) whilst the benefit obligations amounts to £290,123,000 (2010 £262,365,000).

News Group Newspapers Limited

Notes to the financial statements

Year ended 3 July 2011

23. Provisions for liabilities

	2011 £000
Provision for legal claims:	
Beginning of the year	-
Charged to the profit and loss account	23,672
Paid during the year	(500)
	<u>23,172</u>

Following the allegations of voicemail interception there have been a number of civil cases brought against the company, some of which have been settled, or are in the process of being settled. A provision has been made at the balance sheet date in respect of all claims that have been filed up until the date of finalisation of the statutory accounts. The company has also established a Compensation Scheme, and a provision has been made at the balance sheet date including applications received to participate in this Scheme. No provision has been made for letters of claim which have been received but where no formal court proceedings have been issued, or for individuals who have not contacted the company, either in respect of civil cases or the Compensation Scheme. It is not possible to estimate the liability for such additional claims given the information that is currently available to the company. If more claims are filed to participate in the Scheme and additional information becomes available in the civil cases, the company will update the liability provision for such matters. A charge of £23,672,000 in respect of claimants' legal fees and damages has been made in respect of this litigation, based on available information at the date of signing the financial statements. The final cost may or may not be significantly higher than the amounts recognised. This has been reported as an exceptional item due to its size and incidence.

The company is subject to several on-going investigations initiated in 2011 by regulators and various governmental authorities after allegations of voicemail interception and inappropriate payments to public officials and other related matters.

The company is fully cooperating with these investigations, but is not able to estimate the ultimate outcome or cost associated with these investigations. Consequently no provision has been made in relation to them. Violations of law may result in civil, administrative or criminal fines or penalties, which may or may not be significant.

Further information in connection with these matters is disclosed in note 30.

News Group Newspapers Limited

Notes to the financial statements

Year ended 3 July 2011

24. Share-based payments

Employee share ownership scheme

The Group operates an employee share ownership scheme which enables employees to enter into fixed-term savings contracts with independent financial institutions linked to an option for Class A Common Stock in its ultimate parent undertaking News Corporation. The savings contracts can range from three to seven years with an average expected life of four years.

Executive share plan

The share options were granted in November 2004 and were issued under the News Corporation 2004 Stock Option Plan. Eligible employees received a number of options over News Corporation Class A Common Stock. 25% vest annually on the anniversary of the grant date and will lapse after 10 years or if the employee leaves employment of the News Corporation Group.

Restricted stock units

The restricted stock units were granted on 3 October 2006, 8 August 2007, 5 August 2008 and 4 August 2010. These were issued under the News Corporation 2005 Long term Incentive Plan. Eligible employees received a number of restricted stock units which vest 25% each year on 15 August. Upon vesting the restricted stock units will be awarded as News Corporation Class A Common Stock. The restricted stock units lapse after 10 years or on leaving the employment of the News Corporation Group.

Share options and average share price

Details on the number of share options and the weighted average exercise price (WAEP) for both equity and cash settled share based payments outstanding during the year are as follows:

	2011		2010	
	No	WAEP £	No	WAEP £
Outstanding at the beginning of the year	466,294 00	6 990	681,915 00	7 220
Granted during the year	76,700 00	10 130	–	–
Transfer to/from other group companies	4,577 00	6 990	(47,858 00)	8 430
Exercised during the year	(49,923 00)	7 500	(38,592 00)	7 400
Expired during the year	(34,048 00)	6 970	(129,171 00)	7 530
Outstanding at the end of the year	<u>463,600 00</u>	<u>7 460</u>	<u>466,294 00</u>	<u>6 990</u>
Exercisable at the end of the year	<u>173,590 00</u>	<u>9 550</u>	<u>170,752 00</u>	<u>8 480</u>

The weighted average fair value of restricted stock units granted during the year was £10.13 (2010: £Nil). There have been no share options granted during the year (2010: None). The weighted average share price at the date of exercise for the options exercised was £10.40 (2010: £9.21). The range of exercise prices for options outstanding at the end of the year was £5.03 - £9.02 (2010: £5.03 - £9.02).

Financial impact

The expense recognised for share-based payments in respect of employee services received during the year to 3 July 2011 is £423,000 (2010: £229,000).

The portion of that expense arising from equity-settled share-based payment transactions is £260,000 (2010: £12,000).

The carrying amount of the liability relating to cash-settled share-based payment transactions as at 3 July 2011 is £405,000 (2010: £411,000).

25. Leasing and other financial commitments

Commitments under operating lease agreements are held by News International Trading Limited, a fellow subsidiary company within the News Corp Investments group.

News Group Newspapers Limited

Notes to the financial statements

Year ended 3 July 2011

26. Share capital

Authorised share capital

	2011 £000	2010 £000
1,400,000 Ordinary shares of £1 each	1,400	1,400
1,225,000 Non-voting ordinary shares of £1 each	1,225	1,225
	<u>2,625</u>	<u>2,625</u>

Allotted, called up and fully paid:

	2011		2010	
	No	£000	No	£000
1,400,000 Ordinary shares of £1 each	1,400,000	1,400	1,400,000	1,400
1,225,000 Non-voting ordinary shares of £1 each	1,225,000	1,225	1,225,000	1,225
	<u>2,625,000</u>	<u>2,625</u>	<u>2,625,000</u>	<u>2,625</u>

27. Reserves

	Share premium account £000	Share-based Payment £000	Other reserves £000	Profit and loss account £000
Balance brought forward	1,750,525	234	719,074	191,985
Profit for the year	—	—	—	91,217
Equity settled share based payments	—	260	—	—
Equity dividends	—	—	—	(100,000)
Balance carried forward	<u>1,750,525</u>	<u>494</u>	<u>719,074</u>	<u>183,202</u>

The other reserve brought forward relates to the profit on disposal of publishing rights on 30 June 2003 to News 2026 Limited, the company's subsidiary. The profits were regarded as unrealised since the consideration received was in the form of assets that the directors could not assess the ultimate cash realisation with reasonable certainty.

28. Reconciliation of movements in shareholders' funds

	2011 £000	2010 £000
Profit for the financial year	91,217	86,087
Equity dividends	(100,000)	—
Equity settled share-based payments	260	12
Net (reduction)/addition to shareholders' funds	(8,523)	86,099
Opening shareholders' funds	<u>2,664,443</u>	<u>2,578,344</u>
Closing shareholders' funds	<u>2,655,920</u>	<u>2,664,443</u>

News Group Newspapers Limited

Notes to the financial statements

Year ended 3 July 2011

29. Guarantees

The company is part of a collective group banking facility, in which NI Group Limited has provided multilateral guarantees of up to £20 million in respect of bank overdrafts of companies within the Newscorp Investments group

30. Post balance sheet events

As disclosed in the News Corporation annual report for the year ended 3 July 2011, the company announced in July 2011 that it would close its publication The News of the World following allegations of voicemail interception and payments to police. The last edition of the newspaper was published on Sunday 10 July 2011. As a result of these allegations the company is subject to several on-going investigations by regulators and various governmental authorities. The company is fully co-operating with these investigations. In addition, the company has admitted liability and settled a number of civil cases related to the voicemail interception allegations.

The specific allegations of voicemail interception that led to the closure of The News of the World occurred after the year end. Consequently the costs associated with the closure are treated as a non-adjusting balance sheet event.

Following The News of the World closure announcement, the full value of £160,000,000 of publishing rights for The News of the World newspaper were fully written off in the following financial period. The directors consider there to be no impairment on the company's other publishing rights.

An announcement was made on 20 February 2012 that the company was to commence publishing a Sunday edition of The Sun, the first edition was published on 26 February 2012.

At the date of signing the financial statements the company has incurred a further £55,511,000 of costs including redundancy payments and legal fees relating to the closure of The News of the World. No provision has been made for these costs in the financial statements as the closure is a non-adjusting post balance sheet event.

A number of announcements were made subsequent to the year-end that the company was to restructure the workforce to match the requirements of the business. In addition to the £55,511,000 above, the company has incurred £5,105,000 of costs relating to this restructure at the date of signing the financial statements. No provision has been made in the financial statements for these costs as there was no legal or constructive obligation to incur these costs as at the balance sheet date.

News Corporation has created an independently-chaired Management and Standards Committee (MSC), which operates independently from News International. The MSC is ensuring full co-operation with all relevant investigations and inquiries into The News of the World matters and all other related issues across News International. The MSC is responsible for the review of the materials identified by the MSC and its advisors in their investigations and not the directors of the company. The company has updated its policies and procedures where appropriate. Enhanced policies have been issued to staff with particular focus on Anti-Bribery, Whistleblowing and Payments policies. The costs of the MSC are borne by another group company.

31. Ultimate parent company

The company's immediate parent company is NI Group Limited, a company incorporated in England.

The ultimate parent company is News Corporation, a company incorporated in Delaware.

The smallest and largest group in which the results of the company are consolidated is that of headed by News Corporation, whose principal place of business is at 1211 Avenue of the Americas, New York, NY 10036. The consolidated financial statements of this group are available to the public and may be obtained from 3 Thomas More Square, London E98 1XY.