

# **News Group Newspapers Limited**

## **Financial statements**

**1 July 2012**

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# **News Group Newspapers Limited**

## **Financial statements**

**Year ended 1 July 2012**

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# **News Group Newspapers Limited**

## **The directors' report**

### **Year ended 1 July 2012**

The directors have pleasure in presenting their report and the financial statements of the company for the year ended 1 July 2012

#### **Principal activities and business review**

The principal activity of the company is the printing and publishing of The Sun newspaper. 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 £508,658,000 (2011 £653,601,000). The principal cause of the reduction in turnover and operating profit was the closure of The News of the World. Operating margins have decreased reflecting the reduced level of turnover. In addition, cost of sales (excluding the effect of The News of the World closure) have decreased due to a reduction in recharges from other group companies. NewsCorp Investments have carried out a review of its method of making internal recharges to other group companies for services provided, moving from a cost basis recharge to a transaction volume based recharge. Having changed the method of making internal recharges, there has been a reduction of £18,000,000 in group recharges for services provided when compared to the prior year, this has been partly offset by an increase of £6,500,000 in other group recharges which have been recorded in administrative expenses. The Sun, in part aided by the launch of a Sunday edition in the second half of the year, remained strong in the tabloid market in a challenging economy. The company's operating loss for the year was £271,934,000 (2011 profit of £81,662,000).

Following a review of the corporate structure, the company's tangible fixed assets, with the exception of heritage assets, were transferred to NI Group Limited (the company's immediate UK parent company) on 4 July 2011 at net book value.

As disclosed in the News Corporation (the company's ultimate parent company) annual report for the year ended 1 July 2012, the company announced that it would close its publication The News of the World following allegations of voicemail interception and payments to public officials. The last edition of the newspaper was published on Sunday 10 July 2011 and the net proceeds from the sale of this edition were paid to good causes. As a result of these allegations, the company is subject to several on-going investigations by regulators and various governmental authorities. The company is 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.

For the year ended 1 July 2012, the company's operating results reflect the impact of the closure of The News of the World, with decreases in both revenues and costs. This is partly offset by the results of the Sunday edition of The Sun. The company has incurred £288,104,000 of non-operational one-off charges and £34,161,000 of exceptional restructuring costs relating to the closure of The News of the World. In addition to the closure, a number of announcements were made during the year as the company has restructured its workforce to match the requirements of the business. The company has incurred £9,125,000 of redundancy costs relating to this restructure.

The Sun has seen a modest decrease in advertising revenue, almost matched by an increase in circulation revenue, due in part to the launch of the Sunday edition. The Sun's newspaper circulation share (Monday to Saturday) was marginally lower year-on-year based on six-monthly ABC figures for the first half of the year (ABC July to December 2011). In the second half of the year, The Sun's newspaper circulation share was constant year-on-year, based on six-monthly ABC figures (ABC January to June 2012).

The Sun's average issue readership for the year (National Readership Survey July 2011 to June 2012) showed that, at 7.2 million readers, The Sun (Monday to Saturday) had over 60% more readers than its nearest competitor. Weekly readership for the 7 day title now exceeds 15 million, which has allowed the title to protect a greater proportion of its advertising revenue than might otherwise have been possible in a year that has continued to see very challenging economic conditions in the UK.

The Sun's 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, with Dream Team moving to a free-to-play model and becoming one of the largest fantasy league games in the world.

# **News Group Newspapers Limited**

## **The directors' report (continued)**

**Year ended 1 July 2012**

### **Principal activities and business review - continued**

On the 28 June 2012, News Corporation announced its intention to pursue the separation of its publishing and media and entertainment businesses into two distinct publicly traded companies. Upon closing of such a transaction, News Group Newspapers Limited and its key newspaper and publishing related group companies would be part of a publishing company, which would comprise of News Corporation's newspapers and information businesses in the US, UK and Australia, the Group's leading book publishing brands, its integrated marketing services company, its digital education group as well as other assets in Australia.

The new publishing company would create a scaled publishing platform that would be one of the best capitalised in the industry. With a balanced portfolio of stable and growing news publishing brands and other assets, shareholders would benefit from strong and consistent free cash flow generated by these businesses, over multiple platforms. The separation is expected to be completed in approximately 1 year from the date of announcement and requires final approval from the News Corporation Board of Directors and News Corporation shareholders.

The separation is also subject to the receipt of other regulatory approvals, opinions from tax advisors and favourable rulings from certain tax jurisdictions regarding the tax free nature of the transaction to News Corporation and to its shareholders, further due diligence as appropriate, and the filing and effectiveness of appropriate filings with the US Securities and Exchange Commission. There can be no assurances that the separation will occur.

The outlook for the financial year commencing 2 July 2012 will continue to be impacted by the closure of The News of the World, specifically the litigation in relation to voicemail interception allegations for which there remains a high level of uncertainty in respect of potential damages and legal costs which may be payable. In addition, the company's results will benefit from a full year of revenue and profit contribution from the Sunday edition of The Sun, which was launched on 26 February 2012, with an average 34% market share since launch.

### **Principal risks and uncertainties facing the business**

In common with other newspaper publishing groups, the company continues to face on-going challenges to its traditional business model from new technology, manifested through a decline in physical newspaper sales, only partially stemmed by continued investment in its newspaper products. In response to these challenges, the company has repositioned itself in recent years as a multi-platform news provider. In particular, the development of technologies such as the iPad and other handheld devices provide a more flexible, and potentially more engaging, way for The Sun to showcase its journalism to a new audience of readers, with the expectation of increased advertising revenue from these channels.

It is intended that this increase in advertising on digital devices will mitigate the impact of long term movements in advertising spending, which have seen, over time, a migration of advertising spend from press towards television, internet and mobile devices, 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's reliance on classified revenues continues to reduce (now less than 10% of total advertising revenue). While total advertising revenue has declined during the year, 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 significant proportions of their marketing budgets in its publications.

Along with other newspaper publishing groups the company continually faces risks associated with the cost of its paper. Paper is a basic commodity and its price is sensitive to the balance of supply and demand. The company's costs and expenses are affected by the cyclical increases and decreases in the price of paper.

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.

# News Group Newspapers Limited

## The directors' report *(continued)*

Year ended 1 July 2012

### Principal risks and uncertainties facing the business - continued

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.

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 for all applicants accepted 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 £17,553,000 (2011: £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 a one off charge due to its size and non-operational nature.

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 co-operating 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 24.

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 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 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. As the costs of the MSC relate exclusively to investigations within the UK, these costs have been borne by either News Group Newspapers Limited or NI Group Limited (the company's immediate parent company) depending on the nature of the costs.

# News Group Newspapers Limited

## The directors' report *(continued)*

Year ended 1 July 2012

### 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 in excess of 30% market share in each month since launch. 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.

At the date of signing the financial statements, the company has incurred further costs of £11,291,000 relating to The News of the World closure and additional legal and professional costs of £22,967,000 relating to the MSC in the year commencing 2 July 2012.

News Corporation has committed to provide financial support until 28 June 2013, the date of the expected separation of the publishing and media and entertainment business. As highlighted in note 20 to the financial statements NI Group operates two collective overdraft facilities, in which NI Group Limited (the company's immediate UK parent company) has provided multilateral guarantees of up to £20 million in respect of each of these bank overdrafts of subsidiary undertakings. These facilities are ultimately guaranteed by News Corporation. NI Group has prepared a rolling three year forecast in which the cashflows of the Group are assessed. These show the Group to be cash generative and a letter of support has also been received from NI Group Limited. These factors lead the directors to conclude that they have a reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future.

### Results and dividends

The loss for the year amounted to £285,874,000. The directors have not recommended a dividend.

### Directors

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

C. C. S. Longcroft	(Appointed 19 September 2011)
T. Mockridge	(Appointed 5 September 2011)
R. Brooks	(Resigned 8 August 2011)
J. R. Murdoch	(Resigned 19 September 2011)
S. L. Panuccio	(Resigned 26 September 2012)

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.

# News Group Newspapers Limited

## The directors' report *(continued)*

Year ended 1 July 2012

### Directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable 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.

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. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Directors' statement of disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 4. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware, and
- each director has taken all steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

### Charitable and political contributions

Charitable contributions made by the company in the financial year amounted to £3,062,861 (2011: £70,634). This includes a charitable donation of £2,933,000 relating to the net proceeds from the sale of the last edition of The News of the World. There were no political contributions in the year (2011: £Nil).

### Post balance sheet event

News Corporation created an independently-chaired Management and Standards Committee (MSC), which operates independently from News International. The MSC is ensuring 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 in their investigations and not the directors of the company. The MSC also conducted an internal investigation into The Sun and engaged independent outside counsel to advise it on these investigations and all other matters it handles.

At the date of signing the financial statements, the company has incurred additional costs of £22,967,000 in the 2013 financial year, primarily related to legal and professional fees and £11,291,000 of costs related to the closure of The News of the World. No provision has been made for these costs in the financial statements as there was no legal or constructive obligation to incur these costs at the balance sheet date. The MSC is not a statutory entity, therefore whilst it has independence from the group, costs must be included in the financial statements of a statutory entity. All costs relating exclusively to The News of the World have been borne by News Group Newspapers Limited.

# News Group Newspapers Limited

## The directors' report *(continued)*

Year ended 1 July 2012

### 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

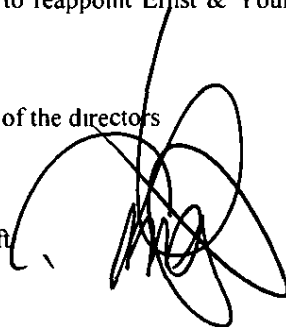
The directors will place a resolution before the Annual General meeting to reappoint Ernst & Young LLP as auditors for the ensuing year.

Registered office  
3 Thomas More Square  
London  
E98 1XY

Signed on behalf of the directors

C C S Longcroft

Director

A large, stylized handwritten signature in black ink, appearing to be 'C C S Longcroft', written over the printed name and title.

Approved by the directors on 26 November 2012

Company Registration Number 00679215



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

### **Year ended 1 July 2012**

We have audited the financial statements of News Group Newspapers Limited for the year ended 1 July 2012 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 32. 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 directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are 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 1 July 2012 and of its loss 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 24 and 31 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 the company in relation to these matters is subject to significant uncertainty, and the total amounts that will ultimately be determined to be payable by the company 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 24.

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

**Year ended 1 July 2012**

**Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' 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 directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



TONY McCARTNEY (Senior Statutory Auditor)  
For and on behalf of  
ERNST & YOUNG LLP  
Statutory Auditor  
Cambridge

26 November 2012

# News Group Newspapers Limited

## Profit and loss account

Year ended 1 July 2012

	Note	2012 £000	2011 £000
<b>Turnover</b>	<b>2</b>	508,658	653,601
Cost of sales		(355,906)	(408,689)
<b>Gross profit</b>		152,752	244,912
Sales and marketing costs		(40,453)	(37,472)
Administrative expenses		(384,820)	(127,461)
Other operating income	<b>3</b>	587	1,683
<b>Operating (loss)/profit</b>	<b>4</b>	(271,934)	81,662
Attributable to			
Operating profit before exceptional items		16,170	105,334
Operating one-off charges	<b>4</b>	(288,104)	(23,672)
		(271,934)	81,662
<b>Exceptional items</b>			
Restructuring expense	<b>8</b>	(43,286)	—
		(315,220)	81,662
Income from shares in group undertakings	<b>9</b>	—	21,814
Interest receivable and similar income	<b>10</b>	411	962
Interest payable and similar charges	<b>11</b>	(3,215)	(813)
<b>(Loss)/profit on ordinary activities before taxation</b>		(318,024)	103,625
Tax on (loss)/profit on ordinary activities	<b>12</b>	32,150	(12,408)
<b>(Loss)/profit for the financial year</b>		(285,874)	91,217

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 29 form part of these financial statements

# News Group Newspapers Limited

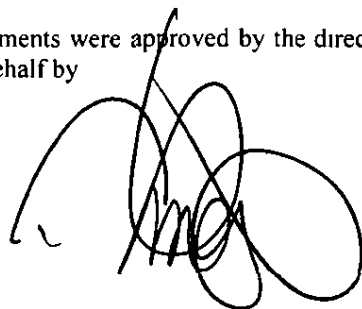
## Balance sheet

1 July 2012

	Note	2012 £000	2011 £000
<b>Fixed assets</b>			
Intangible assets	14	560,000	720,000
Tangible assets	15	111	46,429
Investments	16	720,500	720,500
		<u>1,280,611</u>	<u>1,486,929</u>
<b>Current assets</b>			
Stocks	17	9,842	14,382
Debtors	18	2,661,774	2,884,322
Cash at bank and in hand		1,848	252
		<u>2,673,464</u>	<u>2,898,956</u>
<b>Creditors. Amounts falling due within one year</b>	21	<u>(1,554,327)</u>	<u>(1,706,648)</u>
<b>Net current assets</b>		1,119,137	1,192,308
<b>Total assets less current liabilities</b>		<u>2,399,748</u>	<u>2,679,237</u>
<b>Creditors: Amounts falling due after more than one year</b>	22	–	(145)
<b>Provisions for liabilities</b>			
Provisions for liabilities	24	<u>(30,196)</u>	<u>(23,172)</u>
		<u>2,369,552</u>	<u>2,655,920</u>
<b>Capital and reserves</b>			
Called-up share capital	27	2,625	2,625
Share premium account	28	1,750,525	1,750,525
Equity share-based payments	28	–	494
Other reserves	28	559,074	719,074
Profit and loss account	28	57,328	183,202
<b>Shareholders' funds</b>	29	<u>2,369,552</u>	<u>2,655,920</u>

These financial statements were approved by the directors and authorised for issue on 26 November 2012, and are signed on their behalf by

C C S Longcroft  
Director



The notes on pages 11 to 29 form part of these financial statements

# News Group Newspapers Limited

## Notes to the financial statements

Year ended 1 July 2012

### 1. Accounting policies

#### Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. True and fair override provisions of the Companies Act 2006 have been invoked, as described in "Publishing rights and titles" below and note 14.

News Corporation has committed to provide financial support until 28 June 2013, the date of the expected separation of the publishing and media and entertainment business. As highlighted in note 20 to the financial statements, NI Group operates two collective overdraft facilities, in which NI Group Limited (the company's immediate UK parent company) has provided multilateral guarantees of up to £20 million in respect of each of these bank overdrafts of subsidiary undertakings. These facilities are ultimately guaranteed by News Corporation. NI Group has prepared a rolling three year forecast in which the cash flows of the Group are assessed. These show the Group to be cash generative and a letter of support has also been received from NI Group Limited. These factors lead the directors to conclude that they have a reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future.

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 52 weeks ended 1 July 2012.

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 include the company. Accordingly, these financial statements present information about the company as an individual undertaking and not about its group.

#### 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 1 July 2012

### 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, £28,000,000 would have been charged to the profit and loss account in the year to 1 July 2012 (2011: £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 1 July 2012

### 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 1 July 2012

### 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 the 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 Group's estimate of the number of awards, which will lapse due to employees leaving the Group prior to vesting. The total amount recognised in the profit and loss account as an expense is adjusted to reflect the actual number of awards that will vest.

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 1 July 2012

### 3. Other operating income

	2012	2011
	£000	£000
Loss on disposal of fixed assets	–	(233)
Other operating income	587	1,916
	<u>587</u>	<u>1,683</u>

### 4. Operating (loss)/profit

Operating (loss)/profit is stated after charging

	2012	2011
	£000	£000
Depreciation of owned fixed assets	–	16,252
Operating lease costs		
- Plant and equipment	759	869
Operating one-off charges	<u>288,104</u>	<u>23,672</u>

Included within operating profit are £31,200,000 (2011 £42,700,000) of costs recharged from other group companies at an appropriate mark up

Following a corporate restructure, all tangible fixed assets excluding heritage assets were transferred to NI Group Limited (the company's immediate parent company) on 4 July 2011 at net book value

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

Following the closure of The News of the World, the company has incurred £288,104,000 of operating one-off costs in relation to the title -

There are a number of on-going legal claims against the company as a result of voicemail interception allegations. A charge of £17,553,000 (2011 £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. The closing legal claims provision can be seen in note 24

The company has incurred £46,653,000 (2011 £Nil) of one-off costs in relation to The News of the World. These include £28,226,000 of legal fees, £10,853,000 for compensation as loss of office payments, £2,933,000 of charitable donations from the sale of the last edition of the paper, £2,028,000 of contract printing costs and £2,613,000 of other title specific related closure costs

The Newscorp Investments group have incurred £63,898,000 of primarily legal and professional fees relating to the Management and Standards Committee (MSC) investigations. The MSC is not a statutory entity, therefore whilst it has independence from the company, costs relating to the MSC must be recognised in the financial statements of a statutory entity. All costs relating exclusively to investigations into The News of the World have been borne by News Group Newspapers Limited

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

These have been reported as one-off item due to their size and incidence and one-off nature

# News Group Newspapers Limited

## Notes to the financial statements

Year ended 1 July 2012

### 5. Auditors' remuneration

	2012	2011
	£000	£000
Audit of the financial statements	<u>217</u>	<u>311</u>

Auditors' remuneration, including amounts in respect of non-audit services, is borne by another group undertaking which makes the disclosures required by regulation 5(1)(b) of the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008

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

### 6. Staff costs

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

	2012	2011
	No	No
Editorial	<u>467</u>	<u>570</u>

The aggregate payroll costs of the above were

	2012	2011
	£000	£000
Wages and salaries	37,507	38,825
Social security costs	3,651	3,891
Other pension costs	2,689	5,729
Equity-settled share-based payments	–	260
Cash-settled share-based payments	–	163
	<u>43,847</u>	<u>48,868</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. Directors' remuneration

The directors' aggregate remuneration in respect of qualifying services were

	2012	2011
	£000	£000
Remuneration receivable	<u>6,356</u>	<u>4,800</u>

The number of directors who accrued benefits under company pension schemes was as follows

	2012	2011
	No	No
Defined benefit schemes	<u>2</u>	<u>3</u>

# News Group Newspapers Limited

## Notes to the financial statements

Year ended 1 July 2012

### 7. Directors' remuneration (continued)

The directors of the company are also directors of the holding company or fellow UK subsidiaries. The directors received total remuneration for the year as shown above, 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.

During the year £10,853,000 was payable to one director as compensation for loss of office (2011 £1,242,050).

The compensation for loss of office includes various on-going benefits of which the costs were borne by the company. These benefits largely comprised the services of employees of the company and office space for a period of 2 years, as well as reimbursement for all legal and other professional costs incurred with on-going investigations until those investigations are completed. The company also agreed to pay the tax associated with the legal and other professional costs. Legal and professional costs have been recognised as incurred. Further costs are likely to be incurred in future accounting periods but these have not been recognised due to the uncertainty surrounding the timing and value of these costs. Future costs comprising the services of employees of the company and office space have been provided for as disclosed in note 24.

### 8. Restructuring expense

	2012 £000	2011 £000
Restructuring expense	<u>43,286</u>	<u>—</u>

The company has incurred £34,161,000 (2011 £Nil) of exceptional restructuring costs in relation to The News of the World, including £22,201,000 of redundancy costs, £6,190,000 of editorial and production costs committed to prior to the closure and £1,389,000 of human resource support costs. NI Group Limited (the company's immediate UK parent company) incurred a loss on disposal of The News of the World website which has been fully written off following the closure of the title. NI Group Limited have charged the company £4,381,000 for compensation of this loss.

In addition to 'The News of the World' closure, a number of further announcements were made during the year that the workforce would be restructured to match the requirements of the business. During the year the company has incurred £9,125,000 (2011 £Nil) of redundancy costs relating to this restructuring programme within editorial, production and support services as at the balance sheet date.

### 9. Income from shares in group undertakings

	2012 £000	2011 £000
Dividend income from fixed asset investment	<u>—</u>	<u>21,814</u>

# News Group Newspapers Limited

## Notes to the financial statements

Year ended 1 July 2012

### 10. Interest receivable and similar income

	2012	2011
	£000	£000
Interest from group undertakings	411	405
Other similar income receivable	—	557
	<u>411</u>	<u>962</u>

### 11. Interest payable and similar charges

	2012	2011
	£000	£000
Interest payable to group undertakings	—	813
Interest on corporation tax liability	3,215	—
	<u>3,215</u>	<u>813</u>

### 12. Taxation on ordinary activities

#### (a) Analysis of (credit)/charge in the year

	2012	2011
	£000	£000
Current tax		
<b>UK Taxation</b>		
In respect of the year		
UK Corporation tax based on the results for the year at 25.50% (2011 - 27.50%)	(15,926)	12,841
(Over)/under provision in prior year	<u>(377)</u>	<u>789</u>
	(16,303)	13,630
Double taxation relief	<u>—</u>	<u>(1)</u>
	(16,303)	13,629
<b>Foreign tax</b>		
Current tax on income for the year	<u>1</u>	<u>1</u>
Total current tax	(16,302)	13,630
Deferred tax		
Origination of timing differences	(15,988)	(407)
Effect of changes in tax rate on opening balance	396	254
Prior year adjustment	<u>(256)</u>	<u>(1,069)</u>
Total deferred tax (note 19)	(15,848)	(1,222)
Tax on (loss)/profit on ordinary activities	<u>(32,150)</u>	<u>12,408</u>

# News Group Newspapers Limited

## Notes to the financial statements

Year ended 1 July 2012

### 12. Taxation on ordinary activities *(continued)*

#### (b) Factors affecting current tax (credit)/charge

The tax assessed on the (loss)/profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 25.50% (2011 - 27.50%)

The differences are reconciled below

	2012 £000	2011 £000
(Loss)/profit on ordinary activities before taxation	<u>(318,024)</u>	<u>103,625</u>
(Loss)/profit on ordinary activities by rate of tax	(81,096)	28,497
Non-taxable income	-	(5,999)
Expenditure not deductible for tax	3,201	898
Write off of intangible assets	40,800	-
Decelerated capital allowances	111	852
Difference in tax rates on loss carried back	(1,158)	-
Other timing differences	(1,528)	(377)
Loss carried forward	18,221	-
Unrelieved foreign tax	1	-
UK Transfer pricing adjustments	5,523	8,925
Group relief claimed	-	(19,955)
Corporation tax (over)/under provided in previous years	<u>(377)</u>	<u>789</u>
Total current tax (note 12(a))	<u>(16,302)</u>	<u>13,630</u>

#### (c) Factors that may affect future tax charges

The standard rate of UK Corporation Tax reduced from 26% to 24% on 1 April 2012. The Finance Act 2012 received Royal Assent on 17 July 2012, with the 24% rate being substantively enacted from 26 March 2012.

The standard rate of corporation tax is set to reduce to 23% from 1 April 2013 and by a further 1% to a rate of 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.

### 13. Dividends

#### Equity dividends

	2012 £000	2011 £000
Paid during the year	-	100,000
£Nil per ordinary share (2011 - £38.0952 per ordinary share)	<u>-</u>	<u>100,000</u>

# News Group Newspapers Limited

## Notes to the financial statements

Year ended 1 July 2012

### 14. Intangible fixed assets

	Publishing rights and titles £000
<b>Cost</b>	
At 4 July 2011	720,000
Fully written off	(160,000)
<b>At 1 July 2012</b>	<u>560,000</u>
<b>Net book value</b>	
At 1 July 2012	<u>560,000</u>
At 3 July 2011	<u>720,000</u>

Following the decision to cease publishing 'The News of the World' publishing rights of £160,000,000 have been fully written off. The directors deem there to be no impairment on the company's remaining publishing rights in relation to the 'The Sun'.

### 15. Tangible fixed assets

	Plant and Machinery £000	Fixtures, Fittings and Motor Vehicles £000	Assets in course of construction £000	Heritage assets £000	Total £000
<b>Cost</b>					
At 4 July 2011	96,025	12,789	7,245	111	116,170
Transfers	(96,025)	(12,789)	(7,245)	—	(116,059)
<b>At 1 July 2012</b>	<u>—</u>	<u>—</u>	<u>—</u>	<u>111</u>	<u>111</u>
<b>Depreciation</b>					
At 4 July 2011	59,017	10,724	—	—	69,741
Transfers	(59,017)	(10,724)	—	—	(69,741)
<b>At 1 July 2012</b>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Net book value</b>					
At 1 July 2012	<u>—</u>	<u>—</u>	<u>—</u>	<u>111</u>	<u>111</u>
At 3 July 2011	<u>37,008</u>	<u>2,065</u>	<u>7,245</u>	<u>111</u>	<u>46,429</u>

# News Group Newspapers Limited

## Notes to the financial statements

Year ended 1 July 2012

### 15. Tangible fixed assets *(continued)*

#### Transfers of tangible fixed assets

Following a corporate restructure, all tangible fixed assets excluding heritage assets were transferred to NI Group Limited (the company's immediate parent company) on 4 July 2011 at net book value

#### Heritage assets

Heritage assets include assets held at a valuation of £93,000 (2011 £93,000) and assets held at an historic cost of £18,000 (2011 £18,000)

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 (2011 £18,000) 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

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Purchases					
Manuscripts, newspapers & other artefacts	<u>—</u>	<u>3</u>	<u>2</u>	<u>2</u>	<u>5</u>

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

#### Future capital expenditure

	2012 £000	2011 £000
Contracted but not provided for in the financial statements	<u>-</u>	<u>6,100</u>

### 16. Investments

	Total £000
Cost	
At 4 July 2011 and 1 July 2012	<u>720,500</u>
Net book value	
At 1 July 2012 and 3 July 2011	<u>720,500</u>

# News Group Newspapers Limited

## Notes to the financial statements

Year ended 1 July 2012

### 16 Investments (continued)

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 fellow group companies

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

### 17. Stocks

	2012 £000	2011 £000
Raw materials and consumables	<u>9,842</u>	<u>14,382</u>

### 18 Debtors

	2012 £000	2011 £000
Amounts owed by group undertakings	2,602,999	2,856,516
Corporation tax repayable	15,545	–
VAT recoverable	192	3
Other debtors	6,671	7,971
Prepayments and accrued income	18,552	14,942
Deferred taxation (note 19)	17,815	4,890
	<u>2,661,774</u>	<u>2,884,322</u>

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



# News Group Newspapers Limited

## Notes to the financial statements

Year ended 1 July 2012

### 19. Deferred taxation

The deferred tax included in the Balance sheet is as follows

	2012	2011
	£000	£000
Included in debtors (note 18)	<u>17,815</u>	<u>4,890</u>

The movement in the deferred taxation account during the year was

	2012	2011
	£000	£000
Balance brought forward	4,890	3,668
Profit and loss account movement arising during the year	15,848	1,222
Transfer of assets to another group company	(2,923)	–
Balance carried forward	<u>17,815</u>	<u>4,890</u>

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

	2012	2011
	£000	£000
Excess of depreciation over taxation allowances	105	3,279
Tax losses available	17,149	–
Other timing differences	561	1,611
	<u>17,815</u>	<u>4,890</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. This includes £71,000,000 of trading losses.

### 20. Cash at bank and in hand

NI Group Limited (the company's immediate UK parent company) operates two collective overdraft facilities with its bankers, which allows individual companies in the Group to overdraw subject to an agreed limit of £20 million, for each facility, not being exceeded in aggregate. The overdraft facilities are also guaranteed by News Corporation.

### 21. Creditors: Amounts falling due within one year

	2012	2011
	£000	£000
Overdrafts	713,837	822,631
Amounts owed to group undertakings	768,081	823,450
Corporation tax	–	5,551
Liability for cash-settled share-based payments < 1 year	–	260
Other creditors	19,870	18,976
Accruals and deferred income	52,539	35,780
	<u>1,554,327</u>	<u>1,706,648</u>

# News Group Newspapers Limited

## Notes to the financial statements

Year ended 1 July 2012

### 22. Creditors: Amounts falling due after more than one year

	2012	2011
	£000	£000
Liability for cash-settled share-based payments > 1 year	—	145

### 23. 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. During 2011, NI Group Limited closed the main UK defined benefit pension plan to future accrual. The latest full actuarial valuation of the defined benefit schemes range from 4 July 2011 to 1 July 2012.

Following a group restructure on 4 July 2011, all pension expenses were transferred to NI Group Limited, where the groups pension provision is held. A recharge is made to the company for the services of the personnel working for the company.

The total pension cost for the company was £2,689,000 (2011 £5,729,000) of which £2,689,000 (2011 £2,879,000) relates to the defined contribution scheme and £Nil (2011 £2,850,000) 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 1 July 2012 is £83,143,000 (2011 £50,914,000). The fair value of the plans assets amounts to £240,025,000 (2011 £239,209,000) whilst the benefit obligations amounts to £323,168,000 (2011 £290,123,000).

# News Group Newspapers Limited

## Notes to the financial statements

Year ended 1 July 2012

### 24. Provisions for liabilities

	2012 Legal Claims £000	2012 Other £000	2012 Total £000
<b>Provision for legal claims:</b>			
Balance brought forward	23,172	–	23,172
Charged to the profit and loss account	17,553	1,209	18,762
Paid during the year	(11,132)	(606)	(11,738)
	<u>29,593</u>	<u>603</u>	<u>30,196</u>

#### Legal Claims

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 for all applicants accepted 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 £17,553,000 (2011: £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 a one off charge due to its size and incidence. This provision has not been discounted due to the uncertainty over the timing of the settlement of these cases.

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 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.

The other provision is expected to be utilised within one year.

# News Group Newspapers Limited

## Notes to the financial statements

Year ended 1 July 2012

### 25. 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 (RSUs)

The restricted stock units were granted in August 2009, March 2009, April 2009, August 2010, December 2010, March 2011 and August 2011. These were issued under the News Corporation 2005 Long Term Incentive Plan. Eligible employees received a number of RSUs which vest 25% each year on 15 August each year. Upon vesting the RSUs will be awarded based on scheme rules as News Corporation Class A Common Stock or as cash.

#### 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:

	2012		2011	
	No	WAEP £	No	WAEP £
Outstanding at the beginning of the year	463,600 00	7 460	466,294 00	6 990
Granted during the year	–	–	76,700 00	10 130
Transfer (to)/from other group companies	(463,600 00)	7 460	4,577 00	6 990
Exercised during the year	–	–	(49,923 00)	7 500
Expired during the year	–	–	(34,048 00)	6 970
Outstanding at the end of the year	–	–	463,600 00	7 460
Exercisable at the end of the year	–	–	173,590 00	9 550

The weighted average fair value of restricted stock units granted during the year was £Nil (2011: £10.13). There have been no share options granted during the year (2011: None). The weighted average share price at the date of exercise for the options exercised was £Nil (2011: £10.40). The range of exercise prices for options outstanding at the end of the year was £Nil (2011: £5.03 - £9.02).

# News Group Newspapers Limited

## Notes to the financial statements

Year ended 1 July 2012

### 25. Share-based payments *(continued)*

#### Financial impact

The expense recognised for share-based payments in respect of employee services received during the year to 1 July 2012 is £Nil (2011 £423,000)

The portion of that expense arising from equity-settled share-based payment transactions is £Nil (2011 £260,000)

The carrying amount of the liability relating to cash-settled share-based payment transactions as at 1 July 2012 is £Nil (2011 £405,000)

#### Transfer of share options

Following a group restructure on 4 July 2011, all share options and their related liabilities were transferred to News International Trading Limited (a fellow group company)

### 26. Leasing and other financial commitments

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

### 27. Share capital

#### Authorised share capital:

	2012	2011
	£000	£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:

	2012		2011	
	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>

# News Group Newspapers Limited

## Notes to the financial statements

Year ended 1 July 2012

### 28. Reserves

	Share premium account £000	Shared based payment £000	Other reserves £000	Profit and loss account £000
Balance brought forward	1,750,525	494	719,074	183,202
Loss for the year	–	–	–	(285,874)
Other movements				
- transfer from other reserves	–	–	(160,000)	160,000
Transfer to other group companies	–	(494)	–	–
Balance carried forward	<u>1,750,525</u>	<u>–</u>	<u>559,074</u>	<u>57,328</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.

In July 2011, the company announced that it was to cease publishing The News of the World newspaper. Publishing rights to the value of £160,000,000 were fully written off following this announcement. The portion of the unrealised gain recognised on the disposal of publishing rights to News 2026 Limited on 30 June 2003 that is now deemed realised and has been transferred to the profit and loss reserve.

### 29. Reconciliation of movements in shareholders' funds

	2012 £000	2011 £000
(Loss)/Profit for the financial year	(285,874)	91,217
Equity dividends	–	(100,000)
Equity settled share-based payments	–	260
Transfer of equity settled share-based payments to fellow group companies	(494)	–
Net reduction to shareholders' funds	(286,368)	(8,523)
Opening shareholders' funds	<u>2,655,920</u>	<u>2,664,443</u>
Closing shareholders' funds	<u>2,369,552</u>	<u>2,655,920</u>

### 30. Guarantees

NI Group Limited (the company's immediate UK parent company) operates two collective overdraft facilities with its bankers, which allows individual companies in the Group to overdraw subject to an agreed limit of £20 million, for each facility, not being exceeded in aggregate. The overdraft facilities are also guaranteed by News Corporation.

# **News Group Newspapers Limited**

## **Notes to the financial statements**

**Year ended 1 July 2012**

### **31. Post balance sheet events**

News Corporation created an independently-chaired Management and Standards Committee (MSC), which operates independently from News International. The MSC is ensuring 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 in their investigations and not the directors of the company. The MSC also conducted an internal investigation into The Sun and engaged independent outside counsel to advise it on these investigations and all other matters it handles.

At the date of signing the financial statements, the company has incurred additional costs of £22,967,000 in the 2013 financial year, primarily related to legal and professional fees and £11,291,000 of costs related to the closure of The News of the World. No provision has been made for these costs in the financial statements as there was no legal or constructive obligation to incur these costs at the balance sheet date. The MSC is not a statutory entity, therefore whilst it has independence from the group, costs must be included in the financial statements of a statutory entity. All costs relating exclusively to the News of the World have been borne by News Group Newspapers Limited.

### **32. 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 largest group in which the results of the company are consolidated is that headed by News Corporation, whose principal place of business is at 1211 Avenue of the Americas, New York, NY10036. The smallest group in which they are consolidated is that headed by NI Group Limited, a company incorporated in England. The consolidated financial statements of these groups are available to the public and may be obtained from 3 Thomas More Square, London E98 1XY.