

Registration number: 00679215

# News Group Newspapers Limited

**Report and financial statements**  
**for the year ended 2 July 2017**



## **News Group Newspapers Limited**

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## **News Group Newspapers Limited**

### **Strategic Report for the year ended 2 July 2017**

The directors present their strategic report and the financial statements of the company for the year ended 2 July 2017.

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

News Group Newspapers Limited forms part of News Corporation. News Corporation is a global diversified media and information services company focused on creating and distributing authoritative and engaging content to consumers and businesses throughout the world. News Corporation comprises businesses across a range of media, including: newspapers and information businesses in the US, UK and Australia, leading book publishing brands, integrated marketing service companies, digital real estate and digital education groups as well as cable network planning and pay-TV distribution in Australia. The principal activity of News Group Newspapers Limited is the publishing of The Sun and The Sun on Sunday ("The Sun"). The company uses the printing facilities of fellow subsidiaries of the News Corp Investments UK & Ireland group ("News UK" group).

The Sun remains the number one newspaper in the UK, by circulation volume (Audit Bureau of Circulation, ABC). It has a clear mission to build on its success as Britain's most popular newspaper, engage with its customers and secure a sustainable future for its journalism.

The company generated turnover for the year of £424,033,000 (2016 - £446,435,000). The year ended 2 July 2017 was 52 weeks compared to the year ended 3 July 2016 which was 53 weeks. The main driver of the decrease in turnover was the challenging market conditions, with declines in both newspaper circulation in the popular segment and in print advertising due to continued weakness in the industry as advertisers are shifting spend from print into digital. These declines were partially offset by digital advertising growth, following the relaunch of thesun.co.uk website in June 2016 and the removal of the paywall in October 2015.

Circulation revenue for the business further benefited from the full year impact of prior year cover price increases. Circulation volume was down on prior year performance as the overall industry continues to contract, in particular, across the popular segment. Average circulation volume (ABC) declined 8% for Monday to Saturday (2016 - decline of 8%) with The Sun on Sunday declining 5% (2016 - decline of 5%). These remain competitive results compared to the wider popular market, which declined by 7% (2016 - decline of 6%) according to ABC figures. During the year, The Sun secured capacity at Lidl, meaning the title is now stocked at every major retailer.

Following the re-launch of thesun.co.uk in June 2016, The Sun has seen continued growth in audience and is now the biggest news brand on mobile and second only to Mail Online in total UK reach. The new website transformed the customer experience, making it easier for readers to find stories of interest which has led to a step change in the use of videos and photos. ABC figures show UK monthly average unique visitors increased by over 88% over the year, to 45m in June 2017, with our global unique visitors increasing to 85m, compared to 42m in the prior year. This strong growth has supported digital advertising revenue growth where off platform traffic (Google AMP, Instant Articles, Snapchat & Apple News) continues to perform strongly as we look to increase our reach across multiple platforms.

In August 2016, News UK, alongside Australian leading bookmaker Tabcorp, launched an online gambling proposition, Sun Bets, a new online wagering and gaming business in the UK and Irish markets. This new business brings together Tabcorp's capability in global wagering with News UK's customer base and market-leading media assets, including The Sun newspaper (print and digital properties) and associated sports and racing products (such as Favourite, Goals and Dream Team FC which is the biggest commercial fantasy football game in the UK with 1.2m players).

The agreement with Tabcorp is based on a revenue share arrangement and runs for an initial term of 10 years, with extensions subject to performance. The launch of Sun Bets has been well received, with marketing campaigns such as primary sponsorship of the Cheltenham Festival, one of the premier events on the horse racing calendar for the year, enhancing brand awareness and supporting revenue growth. Further to this The Sun and Fabulous Bingo migrated over to a new platform as of 24 August 2016, as part of a five-year deal with gambling software firm Playtech, which has enhanced user experience and supported revenue growth.

## News Group Newspapers Limited

### Strategic Report for the year ended 2 July 2017 (continued)

In light of continual industry wide challenges in the print advertising market News UK continues to develop innovative ways to serve the evolving needs of our customers. During the financial year, The Bridge, launched in 2016, developed a state of the art Pitch Desk, which offers the business a joined-up collaborative pitch space alongside all parts of the News Corp UK & Ireland business, including Wireless Group, Unruly and Storyful. This space has allowed News UK to better demonstrate how, using our combined talents, scale, and brands, we can connect advertisers to more valuable audiences than ever before.

There was an adjusted operating loss of £7,723,000 (2016 - £47,966,000) and an operating loss of £16,305,000 (2016 - £62,784,000). Excluding the impact of restructuring costs and one-off operating costs, EBITDA is £18,050,000 (2016 - £16,094,000). The company's EBITDA has increased compared to the prior year, despite prior year including an additional week. Cost of sales have fallen as a result of reduced spend on newsprint and other production related expenses, attributable to the fall in circulation volumes. In light of industry wide circulation and advertising declines News UK has continued to focus on cost management, whilst developing our customers experience through selected investment in technology and product development. All other administrative costs have remained reasonably consistent year on year.

	2017 £ 000	2016 £ 000
Turnover	424,033	446,435
EBITDA	13,708	(28,974)
EBITDA excluding restructuring expense and one-off operating charges	18,050	16,093

EBITDA is defined as earnings before interest, taxation, depreciation and amortisation charges.

ABC Circulation (source: Audit Bureau of Circulations Limited 12 month certified average net circulation per issue)

	2017	2016
The Sun	1,642,000	1,781,000
The Sun on Sunday	1,399,000	1,476,000

During the year, the company entered into an arrangement whereby it would receive demand notes valued at £240 million from News Corp UK & Ireland Limited in exchange for the rights to a portion of its print advertising revenue from 1 July 2018 to 30 June 2021. Subsequently, News Corp UK & Ireland Limited assigned the rights for £130 million of the financial liability back to the company. The financial liability at 2 July 2017 is £117,693,000. This represents the discounted value of the remaining portion of print advertising revenue for the period 1 July 2018 to 30 June 2021.

#### Future developments

The changes implemented in 2017 will provide the foundations for growth over the next 12 months. A core aim is to sustain a market leading position in print by ensuring the proposition maintains its relevance for readers. The Sun will continue to invest and focus on investigative journalism and focusing on delivering the big stories which showcase its quality.

Sun Savers, a new loyalty scheme, was launched in Scotland on 4 March 2017 and subsequently rolled out nationally in June 2017. Sun Savers rewards our most loyal customers by offering £5 cash back for every 28 barcodes they scan from The Sun newspaper using our Sun Savers app, available on iOS and Android devices. This programme, and content that will be built around it, focuses on our core reputation for family value with data collected supporting our understanding of our print readers ensure that we continue to provide a product that is best serving their needs.

## **News Group Newspapers Limited**

### **Strategic Report for the year ended 2 July 2017 (continued)**

Following News Corporation's acquisition of Wireless Group on 26 September 2016, The Sun will seek to build on its digital success by further growing its reach in the world of sport and leveraging Wireless Group's strong radio presence to build a joined up network of strong editorial and personalised content, to make it the home of the sports fan.

Brand revenue is a key growth driver and The Sun's aim is to deliver a best in class, profitable business that extends the audience's enjoyment of its brand. The next twelve months will see The Sun build deeper relationships with our customers and our partners, enhancing registered users and revenue across our betting and gaming brands.

#### **Principal risks and uncertainties**

The company's advertising volume, circulation and the price of paper are the key variables whose fluctuations can have a material effect on its operating results and cash flows. The company has to anticipate the level of advertising volume, circulation and paper prices in managing its business to maximise operating profit during expanding and contracting economic cycles. The company continues to be exposed to risks associated with paper used for printing. Paper is a basic commodity and its price is sensitive to the balance of supply and demand. The company's expenses are affected by the cyclical increases and decreases in the price of paper. The company's products compete for readership and advertising amongst its competitors and also compete with other media alternatives in their respective markets. Competition for circulation and subscriptions is based on the content of the products provided, pricing and, from time to time, various promotions. The success of these products also depends on advertisers' judgements as to the most effective use of their advertising budgets. Competition for advertising is based upon the reach of products, advertising rates and advertiser results. Such judgements are based on factors such as cost, availability of alternative media, distribution and quality of readership demographics.

Like other newspaper groups, the company faces challenges to its traditional print business model from new media formats and shifting consumer preferences. The company is also exposed to the impact of long term structural movements in advertising spending, in particular, the move in advertising from print to digital. These new media formats could impact the company and its overall performance, positively or negatively.

As a multi platform news provider, the company recognises the importance of maximising revenues from new media, both in terms of paid for content and in new advertising models, and continues to invest in its digital products. The development of technologies such as smartphones, tablets and similar devices and their related application provides continued opportunities for the company to make its journalism available to a new audience of readers, introduce new or different pricing schemes, develop its products to continue to attract advertisers and/or affect the relationship between publisher and consumer. The company continues to develop and implement strategies to exploit its content in new media channels.

The company has no trade debtors, with other companies within the News UK group collecting advertising and circulation revenue on behalf of the company. 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.

Risk to bad debt from circulation customers is limited due to the majority of customers paying by direct debit and any overdue accounts being 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 News UK group, which takes into account the foreign currency transactions of the company.

The company is exposed to libel claims in the ordinary course of business and vigorously defends against claims received. The Group makes provision for the estimated costs to defend such claims when incurred and provides for any settlement costs when such an outcome is judged probable.

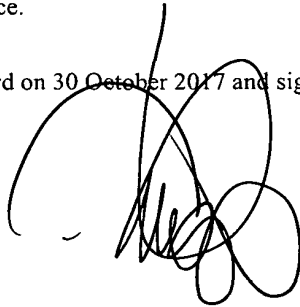
## News Group Newspapers Limited

### Strategic Report for the year ended 2 July 2017 (continued)

Following the allegations of voicemail interception and inappropriate payments to public officials there have been a number of civil cases brought against the company, most 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 financial statements. In 2011 the company established a compensation scheme which was closed to new entrants in April 2013. 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. 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 and additional information becomes available in the civil cases, the company will update the liability provision for such matters. A charge of £18,781,000 (2016 - £5,160,000) 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.

Approved by the Board on 30 October 2017 and signed on its behalf by:

C.C.S. Longcroft  
Director

A large, stylized handwritten signature in black ink, consisting of several loops and a long vertical stroke, positioned to the right of the name C.C.S. Longcroft.

## **News Group Newspapers Limited**

### **Directors' Report For the year ended 2 July 2017**

The directors present their report and the financial statements for the year ended 2 July 2017.

#### **Going concern**

News Corporation has committed to provide financial support until at least 31 December 2018 to News Corp Investments UK & Ireland which in turn supports News Corp UK & Ireland Limited and its subsidiary undertakings.

News Corp UK & Ireland Limited operates two collective facilities, in which News Corp UK & Ireland Limited 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.

The News UK 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 News Corp UK & Ireland Limited.

The above 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, after taxation, amounted to £58,837,000 (2016 - £62,321,000).

The directors do not recommend a dividend (2016 - £Nil).

#### **Directors**

The directors who held office during the year were as follows:

R.M. Brooks

D.W. Dinsmore

C.C.S. Longcroft

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.

## **News Group Newspapers Limited**

### **Directors' Report (continued) For the year ended 2 July 2017**

#### **Directors' indemnity provision**

News Corporation has indemnified 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 judgement is given against the director; and 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.

#### **Directors' responsibilities statement**

The directors acknowledge their responsibilities for preparing the Strategic Report, 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping 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.

#### **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 the 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.

## **News Group Newspapers Limited**

### **Directors' Report (continued) For the year ended 2 July 2017**

#### **Employees 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 News UK 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.

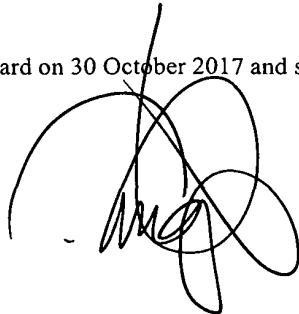
#### **Disclosure of information to the auditor**

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

#### **Auditor**

The directors have passed a resolution to dispense with the requirement to reappoint auditors annually. Ernst & Young LLP are deemed to be reappointed as auditor in the absence of a notice that the appointment is to be terminated.

Approved by the Board on 30 October 2017 and signed on its behalf by:

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke, positioned above the printed name of the director.

C.C.S. Longcroft  
Director  
1 London Bridge Street  
London  
SE1 9GF

## **Independent Auditor's Report to the Members of News Group Newspapers Limited**

### **Opinion**

We have audited the financial statements of News Group Newspapers Limited for the year ended 2 July 2017, which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 26, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the company's affairs as at 2 July 2017 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.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### **Emphasis of matter**

We draw attention to the disclosures made in note 21 of the financial statements, concerning future expenditures for which reliable estimates cannot be made and other contingencies related to voicemail interception cases after allegations of voicemail interception and inappropriate payments to public officials and other related matters. The ultimate exposure of News Group Newspapers Limited 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 and any findings as to the extent of their loss, as well as the potential size of any civil or administrative 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 21. Our opinion is not modified in this respect.

## **Independent Auditor's Report to the Members of News Group Newspapers Limited**

### **Opinion**

We have audited the financial statements of News Group Newspapers Limited for the year ended 2 July 2017, which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 26, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the company's affairs as at 2 July 2017 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.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### **Emphasis of matter**

We draw attention to the disclosures made in note 21 of the financial statements, concerning future expenditures for which reliable estimates cannot be made and other contingencies related to voicemail interception cases after allegations of voicemail interception and inappropriate payments to public officials and other related matters. The ultimate exposure of News Group Newspapers Limited 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 and any findings as to the extent of their loss, as well as the potential size of any civil or administrative 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 21. Our opinion is not modified in this respect.


## **Independent Auditor's Report to the Members of News Group Newspapers Limited (continued)**

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.



Richard Addison (Senior statutory auditor)  
For and on behalf of Ernst & Young LLP, Statutory Auditor  
London

Date:

8 November 2017

## News Group Newspapers Limited

### Profit and Loss Account For the year ended 2 July 2017

	Note	2017 £ 000	2016 £ 000
Turnover	3	424,033	446,435
Cost of sales		<u>(253,992)</u>	<u>(279,579)</u>
<b>Gross profit</b>		170,041	166,856
Sales and marketing costs		(75,331)	(75,981)
Administrative expenses		(106,673)	(108,592)
Operating one-off charges	4	<u>4,240</u>	<u>(30,249)</u>
<b>Adjusted operating loss</b>	6	(7,723)	(47,966)
Restructuring expense	5	<u>(8,582)</u>	<u>(14,818)</u>
<b>Operating loss</b>	6	(16,305)	(62,784)
Interest payable and similar expenses	7	<u>(7,693)</u>	<u>-</u>
<b>Loss before tax</b>		(23,998)	(62,784)
Taxation	12	<u>(34,839)</u>	<u>463</u>
<b>Loss for the financial year</b>		<u><u>(58,837)</u></u>	<u><u>(62,321)</u></u>

All amounts relate to continuing operations.

Adjusted operating loss is defined as total operating profit before restructuring costs.

### Statement of Comprehensive Income For the year ended 2 July 2017

	2017 £ 000	2016 £ 000
Financial loss for the year	<u>(58,837)</u>	<u>(62,321)</u>
Total comprehensive income for the year	<u><u>(58,837)</u></u>	<u><u>(62,321)</u></u>

The notes on pages 14 to 30 form part of these financial statements.

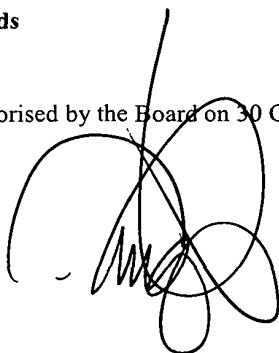
**News Group Newspapers Limited**  
**Registered number: 00679215**

**Balance Sheet**  
**As at 2 July 2017**

	Note	2017 £ 000	2016 £ 000
<b>Fixed assets</b>			
Intangible assets	13	170,585	198,788
Heritage assets	14	107	107
		<u>170,692</u>	<u>198,895</u>
<b>Current assets</b>			
Stocks	16	8,038	8,093
Debtors	17	796,316	82,670
Cash at bank and in hand	19	1,358	525,990
		<u>805,712</u>	<u>616,753</u>
<b>Creditors: Amounts falling due within one year</b>	20	<u>(297,250)</u>	<u>(172,203)</u>
<b>Net current assets</b>		<u>508,462</u>	<u>444,550</u>
<b>Total assets less current liabilities</b>		679,154	643,445
<b>Provisions for liabilities</b>	21	<u>(39,032)</u>	<u>(74,486)</u>
<b>Net assets</b>		<u>640,122</u>	<u>568,959</u>
<b>Capital and reserves</b>			
Called up share capital	22	2,625	2,625
Share premium reserve		653,308	523,308
Other reserves	23	167,074	195,074
Profit and loss account		<u>(182,885)</u>	<u>(152,048)</u>
<b>Shareholder's funds</b>		<u>640,122</u>	<u>568,959</u>

Approved and authorised by the Board on 30 October 2017 and signed on its behalf by:

C.C.S. Longcroft  
Director



The notes on pages 14 to 30 form part of these financial statements.

## News Group Newspapers Limited

### Statement of Changes in Equity For the year ended 2 July 2017

	Note	Share capital £ 000	Share premium £ 000	Other reserves £ 000	Profit and loss account £ 000	Total £ 000
At 4 July 2016		2,625	523,308	195,074	(152,048)	568,959
Loss for the financial year		-	-	-	(58,837)	(58,837)
Total comprehensive income		-	-	-	(58,837)	(58,837)
New share capital issued	22	-	130,000	-	-	130,000
Transfer in relation to intangible assets	23	-	-	(28,000)	28,000	-
At 2 July 2017		<u>2,625</u>	<u>653,308</u>	<u>167,074</u>	<u>(182,885)</u>	<u>640,122</u>

### Statement of Changes in Equity For the year ended 3 July 2016

	Note	Share capital £ 000	Share premium £ 000	Other reserves £ 000	Profit and loss account £ 000	Total £ 000
At 29 June 2015		2,625	523,308	223,074	(117,727)	631,280
Loss for the financial year		-	-	-	(62,321)	(62,321)
Total comprehensive income		-	-	-	(62,321)	(62,321)
Transfer in relation to intangible assets	23	-	-	(28,000)	28,000	-
At 3 July 2016		<u>2,625</u>	<u>523,308</u>	<u>195,074</u>	<u>(152,048)</u>	<u>568,959</u>

The notes on pages 14 to 30 form part of these financial statements.

## **News Group Newspapers Limited**

### **Notes to the Financial Statements For the year ended 2 July 2017**

#### **1 General information**

News Group Newspapers Limited is a limited liability company incorporated in the United Kingdom under the Companies Act. The address of the registered office is 1 London Bridge Street, London, SE1 9GF.

The nature of the company's operations and its principal activities are set out in the Strategic Report on pages 1-4.

#### **2 Accounting policies**

##### **Summary of significant accounting policies and key accounting estimates**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

##### **Statement of compliance**

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Companies Act 2006.

##### **Basis of preparation**

The financial statements of News Group Newspapers Limited have been prepared on a going concern basis, under the historical cost convention.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

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 2 July 2017 (53 weeks ended 3 July 2016). The financial statements are presented in pounds sterling which is the functional currency of the company, and rounded to the nearest £'000.

## **News Group Newspapers Limited**

### **Notes to the Financial Statements For the year ended 2 July 2017 (continued)**

#### **2 Accounting policies (continued)**

##### **Summary of disclosure exemptions**

FRS 102 paragraph 1.12 allows a qualifying entity certain disclosure exemptions, subject to certain conditions which have been complied with, including notification of and no objection to the use of exemptions by the company's shareholders. The equivalent disclosures are included in the consolidated financial statements of News Corporation, the ultimate parent undertaking.

The company has taken advantage of the following exemptions:

- (a) From preparing a statement of cash flows and related notes as required by Section 7 Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17(d);
- (b) From the financial instruments disclosures as required by FRS 102 paragraphs 11.39 to 11.48A and paragraphs 12.26 to 12.29, including:
  - Categories of financial instruments,
  - Items of income, expenses, gains or losses relating to financial instruments, and
  - Exposure to and management of financial risks.
- (c) From disclosing the company key management personnel compensation, as required by FRS 102 paragraph 33.7.

##### **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. The consolidated financial statements are available to the public and may be obtained from 1 London Bridge Street, London, SE1 9GF. Accordingly, these financial statements present information about the company as an individual undertaking and not about its group.

##### **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 102 Section 33 '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 For the year ended 2 July 2017 (continued)**

#### **2 Accounting policies (continued)**

##### **Turnover**

Revenue is measured at the fair value of the consideration received or receivable, and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed by the company, and value added taxes.

The company recognises turnover when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the company retains no continuing involvement or control over the goods; (c) the amount of revenue can be measured reliably and (d) the costs incurred or to be incurred in respect of the transaction can be measured reliably and (e) it is probable that future economic benefits will flow to the entity. Specific revenue recognition criteria also apply depending on the revenue stream, as described below:

Print advertising revenue is recognised on issue of publication net of any agency rebate.

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

Circulation revenue is recognised at the point of sale. A deduction is made from circulation revenue for expected returns and is updated for actual returns as known.

Subscriptions revenue is recognised over the period of the subscription.

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

##### **Operating leases**

Rentals payable under operating leases are charged on a straight line basis to the profit and loss account over the lease term. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight line basis over the lease term.

##### **One off operating charges and restructuring**

One-off operating charges and restructuring expenses are transactions that fall within the ordinary activities of the Company but are presented separately due to their size or incidence. See notes 4 and 5 for more detail.

##### **Pension**

The employees of the company participate in a defined contribution pension scheme; the amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

## **News Group Newspapers Limited**

### **Notes to the Financial Statements For the year ended 2 July 2017 (continued)**

#### **2 Accounting policies (continued)**

##### **Taxation**

Taxation expense for the reporting period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current tax, including UK corporation tax and foreign tax, is the amount payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of 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 that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Deferred tax assets are considered as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

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

##### **Foreign currency translation**

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

##### **Intangible assets**

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life.

The estimated useful lives range as follows:

Internal use software - 3 years

##### **Publishing rights and titles**

Publishing rights and titles are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight line method over their estimated useful life of 20 years. Provision is made for any impairment.

## **News Group Newspapers Limited**

### **Notes to the Financial Statements For the year ended 2 July 2017 (continued)**

#### **2 Accounting policies (continued)**

##### **Heritage Assets**

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 had previously been 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.

##### **Investments in subsidiaries**

Investments in subsidiaries are recorded at cost and adjusted for any impairment provisions.

##### **Stocks**

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. 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.

Provision is made for obsolete, slow moving or defective items where appropriate.

##### **Debtors**

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

##### **Creditors**

Short term trade creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

##### **Financial assets and liabilities**

Financial assets and liabilities are held at fair value. Changes in fair value are included in the income statement. Financial assets and liabilities are derecognised on expiry or when all contractual rights and obligations are transferred.

##### **Provisions**

Provisions are recognised when the company has a present obligation, legal or constructive, as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

## **News Group Newspapers Limited**

### **Notes to the Financial Statements For the year ended 2 July 2017 (continued)**

#### **2 Accounting policies (continued)**

##### **Critical judgements in applying the company's accounting policies**

Management are required to make judgements in the process of applying the company's accounting policies. The judgements that have the most significant effect on the amounts are recognised in the financial statements are discussed below.

##### **a. Operating one-off costs and restructuring expense**

The company has made a judgement to present some operating items separately on the face of the profit and loss account as operating one-off costs or restructuring expenses. These operating items include significant transactions such as legal fees relating to on-going legal issues, costs in relation to early termination of contract agreements and costs relating to the restructuring of the business. In making this judgement the company considers whether such items are material to the profit and loss account and if their separate disclosure is necessary for an appropriate understanding of the company's financial performance. These items have been presented on a separate line in the company's profit and loss account, above operating profit/(loss), and are further explained in notes 4 and 5.

##### **b. Amortisation of publishing rights and titles**

Publishing rights and titles in previous periods were considered to have indefinite economic lives, so were reported at cost less impairment, and no amortisation was charged to the profit and loss account. As part of the transition to FRS 102, the useful economic life was re assessed as a period of 20 years, commencing on the acquisition date in 2003. The 20 year life is based on the directors' best estimate of the period over which significant economic benefit is likely to flow to the entity from these newspaper publishing rights and titles. The carrying value of publishing rights and titles at 2017 was £168,000,000 which is referred to in note 13.

##### **Key sources of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

##### **a. Contract discount and rebate provisions**

The company enters into agreements with advertising agencies and certain clients, which are subject to a minimum spend and typically include a commitment to deliver rebates to the agency or client based on the level of their spend over the contract period. These rebates can take the form of free advertising space, cash payments or both. The rebate provision is calculated using the forecast spend over the contract period and rebate entitlement set out in the trading agreement. Calculating the required provision therefore requires an estimate of future period spend in determining what tier of spend the agencies may reach over the agreement. At the year end the company has contract discount and rebate provisions amounting to £8,207,000 (2016 - £8,083,000).

##### **b. Provisions for on-going legal issues**

There is uncertainty as to liabilities arising from the outcome or resolution of on going legal claims. Following the allegations of voicemail interception and inappropriate payments to public officials there have been a number of civil cases brought against the company, most 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 financial statements. In 2011 the company established a compensation scheme which was closed to new entrants in April 2013. 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. It is not possible to estimate the liability for such additional claims given the information that is currently available to the company. Further details are given in note 21.

## News Group Newspapers Limited

### Notes to the Financial Statements For the year ended 2 July 2017 (continued)

#### 2 Accounting policies (continued)

##### c. Provision for libel claims

The company is exposed to libel claims in the ordinary course of business and vigorously defends against claims received. The company makes provision for the estimated costs to defend such claims when incurred and provides for any settlement costs when such an outcome is judged probable. The libel provision at 2 July 2017 was £2,680,000 (3 July 2016 - £3,144,000) and is included in creditors: amount falling due within one year.

##### d. Recoverability of deferred tax assets

The company makes estimates regarding the recoverability of deferred tax assets relating to losses based on forecasts of future taxable profits which are, by their nature, uncertain. The deferred tax asset recognised at 2 July 2017 was £Nil (2016 - £34,835,000).

#### 3 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.

During the current year £8,734,000 (2016 - £14,280,000) of turnover related to advertising barter transactions.

#### 4 Operating one-off charges

	2017 £ 000	2016 £000
Claimants' legal fees and damages (see note 21)	19,861	5,160
Costs in relation to UK newspaper matters	27,482	19,083
Costs in relation to the Management and Standards Committee	3,594	6,006
Release of other provision (see note 21)	(55,177)	-
	<u>(4,240)</u>	<u>30,249</u>

There are a number of on-going legal claims against the company as a result of voicemail interception allegations. A charge of £19,861,000 (2016 - £5,160,000) in respect of claimants' legal fees and damages has been made based on available information at the date of signing the financial statements.

The company has incurred £27,482,000 (2016 - £19,083,000) of one off costs in regards to UK Newspaper matters. These include £26,710,000 (2016 - £13,149,000) of legal fees, £134,000 (2016 - £4,540,000) for compensation of loss of office payments, and £906,000 (2016 - £1,394,000) of other UK newspaper matter costs.

The News UK group has incurred costs of £3,594,000 (2016 - £6,006,000) which are primarily legal and professional fees relating to the Management and Standards Committee (MSC). 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. As the costs relate exclusively to investigations in The News of the World, these costs have been borne by News Group Newspapers Limited.

During the year £55,177,000 (2016 - £Nil) was released from Other provisions following agreement with HMRC.

## News Group Newspapers Limited

### Notes to the Financial Statements For the year ended 2 July 2017 (continued)

#### 5 Restructuring expense

	2017	2016
	£ 000	£ 000
Cost of restructuring the company	8,582	14,818

During the year the company restructured its workforce to match the requirements of the business and had incurred £ 8,582,000 (2016 - £14,818,000) of redundancy costs relating to this restructure as at the balance sheet date.

#### 6 Operating loss

The operating loss is stated after charging:

	2017	2016
	£ 000	£ 000
Loss on disposal of intangible assets	-	2,439
Amortisation of intangible assets	30,012	31,371
Operating lease rentals - plant and machinery	370	332
Foreign exchange losses	209	76

The operating lease costs relate to commitments held by News UK & Ireland Limited, another subsidiary company within the News UK group.

#### 7 Interest payable and similar expenses

	2017	2016
	£ 000	£ 000
Unwind of discount on demand notes (see note 25)	7,693	-

#### 8 Auditor's remuneration

	2017	2016
	£ 000	£ 000
Audit of financial statements	262	252

Auditor's remuneration is borne by another group undertaking.

## News Group Newspapers Limited

### Notes to the Financial Statements For the year ended 2 July 2017 (continued)

#### 9 Staff costs

	2017 £ 000	2016 £ 000
Wages and salaries	38,728	43,445
Social security costs	4,252	4,268
Other pension costs	3,155	3,957
	<u>46,135</u>	<u>51,670</u>

Included in wages and salaries is £3,358,000 (2016 - £11,779,000) of compensation for loss of office costs which are reported within restructuring costs.

The average monthly number of employees during the year was as follows:

	2017 No.	2016 No.
Editorial	<u>572</u>	<u>528</u>

#### 10 Directors' remuneration

The directors' remuneration for the year was as follows:

	2017 £ 000	2016 £ 000
Remuneration	4,966	8,488
Sums paid to third parties for directors' services	5	40
	<u>4,971</u>	<u>8,528</u>

No directors accrued benefits under company pension schemes (2016 - none).

The highest paid director received remuneration (excluding pension contributions) of £2,669,000 (2016 - £3,581,000).

The number of directors who through participating in News Corporation's long term incentive plan were remunerated in News Corporation Common A stock were as follows:

	2017 No.	2016 No.
Received or were entitled to receive shares under long term incentive plans	<u>2</u>	<u>2</u>

## **News Group Newspapers Limited**

### **Notes to the Financial Statements For the year ended 2 July 2017 (continued)**

#### **10 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 holding company or subsidiary companies.

During the year no amounts were payable to former directors as compensation for loss of office (2016 - £2,682,000).

#### **11 Pension and other schemes**

The company participates in pension schemes operated by News Corp UK & Ireland 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, News Corp UK & Ireland Limited closed the main UK defined benefit pension plan to future accrual. The latest full actuarial valuation of the defined benefit schemes range from 31 March 2014 to 31 March 2017.

Following a group restructure on 4 July 2011, all pension expenses were transferred to News Corp UK & Ireland Limited, where the group's 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 £3,155,000 (2016 - £3,957,000) all of which relates to the defined contribution scheme.

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.

Retirement benefit obligation disclosures for the defined benefit schemes can be found in the financial statements of News Corp UK & Ireland Limited. The News Corp UK & Ireland Limited deficit as at 2 July 2017 is £65,610,000 (2016 - £65,117,000). The fair value of the plans assets amounts to £423,139,000 (2016 - £407,226,000) whilst the benefit obligations amounts to £488,749,000 (2016 - £472,343,000).

## News Group Newspapers Limited

### Notes to the Financial Statements For the year ended 2 July 2017 (continued)

#### 12 Taxation

Tax charged/(credited) in the profit and loss account

	2017 £ 000	2016 £ 000
Foreign tax	4	5
<b>Deferred taxation</b>		
Arising from origination and reversal of timing differences	35,274	(1,343)
Arising from changes in tax rates and laws	514	669
Arising from write-down or reversal of write-down of deferred tax asset	(953)	206
Total deferred taxation	34,835	(468)
Tax charge/(credit) in the profit and loss account	34,839	(463)

The tax on loss before tax for the year is higher than the standard rate of corporation tax in the UK (2016 - higher than the standard rate of corporation tax in the UK) of 19.75% (2016 - 20%).

The differences are reconciled below:

	2017 £ 000	2016 £ 000
Loss before tax	(23,998)	(62,784)
Corporation tax at standard rate of 19.75% (2016: 20.00%)	(4,740)	(12,557)
Adjustment to trading income	25,675	-
Expenses not deductible for tax purposes	2,946	1,119
Unrelieved foreign tax rates	4	5
Effect of rate change	514	669
Movement in deferred tax asset not recognised	4,610	-
Effects of prior year adjustments	-	(455)
Amortisation of publishing rights not deductible for tax purposes	5,530	5,600
Group relief and transfer pricing adjustments	1,253	4,950
Adjustments in respect of prior years	(953)	206
Total tax charge/(credit)	34,839	(463)

#### Factors that may affect future tax charges

Following the 2015 summer budget and the 2016 budget, the UK corporation tax rate reduced from 20% to 19% from 1 April 2017 and will reduce to 17% from 1 April 2020.

The summer budget 2015 had originally announced that the rate would reduce to 18% from 1 April 2020, which was substantively enacted on 26 October 2015. This rate was on which the prior year deferred tax assets were provided.

## News Group Newspapers Limited

### Notes to the Financial Statements For the year ended 2 July 2017 (continued)

#### 12 Taxation (continued)

Subsequently, the 2016 budget announced that the rate would reduce further to 17% from 1 April 2020, which was enacted on 16 September 2016. As the revised rate was enacted prior to the year end, this is the rate at which deferred tax has been provided in this period.

#### 13 Intangible assets

	Internally generated software development costs £ 000	Publishing rights and titles £ 000	Total £ 000
<b>Cost</b>			
At 4 July 2016	10,674	560,000	570,674
Additions	1,810	-	1,810
Disposals	(1,390)	-	(1,390)
At 2 July 2017	11,094	560,000	571,094
<b>Amortisation</b>			
At 4 July 2016	7,886	364,000	371,886
Amortisation charge	2,013	28,000	30,013
Disposals	(1,390)	-	(1,390)
At 2 July 2017	8,509	392,000	400,509
<b>Net book value</b>			
At 2 July 2017	2,585	168,000	170,585
At 3 July 2016	2,788	196,000	198,788

Publishing rights and titles are amortised over their estimated useful life of 20 years.

The company also tests intangible assets annually for impairment or more frequently if there are indicators that they may be impaired. The recoverable amounts for the company's intangible assets are measured through review of a value in use calculation. Value in use is determined by discounting future expected cash flows based on management approved budgets and 3 year projections. These reflect management's current experience and future expectations of the markets in which the company operates.

The pre-tax discount rate used by the company in its impairment test is 11.9% (2016 - 11.9%). The growth rate used in the projections that are extrapolated beyond the formally approved budgets and forecasts prepared by management is -1% (2016 - 2% growth). This has resulted in an impairment charge of £Nil (2016 - £Nil) in the company.

## News Group Newspapers Limited

### Notes to the Financial Statements For the year ended 2 July 2017 (continued)

#### 14 Heritage Assets

	£ 000
<b>Cost</b>	
At 4 July 2016	<u>107</u>
At 2 July 2017	<u>107</u>
<b>Net book value</b>	
At 2 July 2017	<u>107</u>
At 3 July 2016	<u>107</u>

The collection of manuscripts, newspapers and other artefacts were independently valued at £107,000 in November 2003 by Sotheby's. The directors feel that this valuation is still appropriate. The company has applied the cost model, and has taken the deemed cost exemption under FRS 102 paragraph 35.10(d), as a result all heritage assets are carried at cost, from the date of transition.

#### Additions and disposals during the year

During the period there have been no additions or disposals to the collections of heritage assets.

#### Five year history

There have been no additions or disposals of heritage assets within the past 5 financial years.

#### 15 Fixed asset investments

The company holds a 100% investment in the ordinary shares of News 2026 Limited, a dormant company registered in England and Wales. The carrying value of this investment is £Nil (2016 - £Nil).

#### 16 Stocks

	2017	2016
	£ 000	£ 000
Raw materials and consumables	<u>8,038</u>	<u>8,093</u>

## News Group Newspapers Limited

### Notes to the Financial Statements For the year ended 2 July 2017 (continued)

#### 17 Debtors

	Note	2017 £ 000	2016 £ 000
Amounts owed by group undertakings		770,927	29,102
Corporation tax repayable		4,780	4,780
Other debtors		7,599	2,581
Prepayments and accrued income		13,010	11,372
Deferred tax assets	18	-	34,835
		<u>796,316</u>	<u>82,670</u>

Included in amounts owed by group undertakings is £240 million of demand notes (see note 25).

#### 18 Deferred taxation

The deferred tax asset is made up as follows:

	2017 £ 000	2016 £ 000
At beginning of year	34,835	34,367
Profit and loss movement arising during the year	(35,268)	1,343
Effect of rate change	(520)	(669)
Adjustments in respect of prior years	953	(206)
	<u>-</u>	<u>34,835</u>

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

	2017 £ 000	2016 £ 000
Fixed asset timing differences	-	2,315
Tax losses	-	19,054
Other timing differences	-	13,466
	<u>-</u>	<u>34,835</u>

#### 19 Cash and cash equivalents

	2017 £ 000	2016 £ 000
Cash at bank	<u>1,358</u>	<u>525,990</u>

## News Group Newspapers Limited

### Notes to the Financial Statements For the year ended 2 July 2017 (continued)

#### 19 Cash and cash equivalents (continued)

News Corp UK & Ireland Limited operates two collective overdraft facilities with its bankers, which allows individual companies in the News UK 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.

#### 20 Creditors

	2017 £ 000	2016 £ 000
<b>Due within one year</b>		
Amounts owed to group undertakings	104,873	105,108
Other creditors	22,751	18,832
Financial liabilities (see note 25)	117,693	-
Accruals and deferred income	51,933	48,263
	<u>297,250</u>	<u>172,203</u>

#### 21 Provisions for liabilities and charges

	Legal proceedings £ 000	Other provisions £ 000	Total £ 000
At 4 July 2016	8,266	66,220	74,486
Charge in year (see note 4)	19,861	1,024	20,885
Utilised	(1,161)	-	(1,161)
Reversal of provision to profit and loss (see note 4)	-	(55,177)	(55,177)
At 2 July 2017	<u>26,966</u>	<u>12,067</u>	<u>39,033</u>

#### Provisions for legal claims

Following the allegations of voicemail interception and inappropriate payments to public officials there have been a number of civil cases brought against the company, most 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 financial statements. In 2011 the company established a compensation scheme which was closed to new entrants in April 2013. 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. 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 and additional becomes available in the civil cases, the company will update the liability provision for such matters. A charge of £19,861,000 (2016 - £5,160,000) 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.

## News Group Newspapers Limited

### Notes to the Financial Statements For the year ended 2 July 2017 (continued)

#### 21 Provisions for liabilities and charges (continued)

##### Other provisions

Other provisions relate to potential employment tax liabilities. There was a reversal of £55,177,000 to profit and loss in the year following a decision from HMRC. The remaining amount is currently under discussion with HMRC.

#### 22 Share capital

##### Shares classified as equity

##### Authorised, allotted, called up and fully paid

	2017		2016	
	No.	£000	No.	£000
Ordinary shares of £1 each	2,625,001	2,625	2,625,000	2,625

On 30 March 2017, the company issued 1 ordinary share of £1 for total consideration of £130,000,000 giving rise to a share premium of £130,000,000.

#### 23 Other reserves

The other reserves brought forward relate to the profit on disposal of publishing rights of The Sun on 20 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 for which the directors could not assess the ultimate cash realisation with reasonable clarity.

Annual amortisation of the publishing rights of £28,000,000 is transferred to other reserves from the profit and loss account each year.

#### 24 Operating lease commitments

Commitments under operating lease agreements are held by News UK & Ireland Limited, another company within the News UK group.

## **News Group Newspapers Limited**

### **Notes to the Financial Statements For the year ended 2 July 2017 (continued)**

#### **25 Funding**

In November 2016, News Group Newspapers Limited entered into an arrangement whereby it would receive £240 million from News Corp UK & Ireland Limited in exchange for the rights to a portion of its print advertising revenue from 1 July 2018 to 30 June 2021. At November 2016, £240 million represented the forecast discounted cash flow across the payment period, at a rate of 10.5%.

During March 2017, News Corp UK & Ireland Limited decided to assign the right for £130 million of the original £240 million financial asset it acquired to News Group Newspapers Limited in exchange for the issue of new share capital.

The carried forward financial liability in Note 20 represents the fair value of the remaining portion of print advertising revenue over the period 1 July 2018 to 30 June 2021. Movements in the value of the financial liability are reflected in Interest payable and similar expenses (note 7).

#### **26 Parent and ultimate parent undertaking**

The company's immediate parent company is News Corp UK & Ireland Limited, a company incorporated in England.

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

The smallest and 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, NY 10036. The consolidated financial statements are available to the public and may be obtained from 1 London Bridge Street, London, SE1 9GF.