RCD1 LIMITED

GROUP REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

RCD1 LIMITED

ANNUAL REPORT

For the year ended 31 December 2008

CONTENTS

RCD1 LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Mr. R.C. Desmond (Chairman)
Mr. R. Sanderson
Mr. S. Myerson
Mr. M.S. Ellice
Dr. P. Ashford

SECRETARY

Mr. R. Sanderson

COMPANY NUMBER

4086466 (England)

AUDITORS

KPMG LLP
20 Farringdon Street
London, EC4A 4PP
United Kingdom

BANKERS

Bank of Scotland
155 Bishopsgate
London, EC2M 3YB
United Kingdom

HSBC
452 Fifth Avenue
New York
NY10018
USA

REGISTERED OFFICE

The Northern & Shell Building
Number 10 Lower Thames Street
London, EC3R 6EN
United Kingdom

RCD1 LIMITED

DIRECTORS' REPORT

For the year ended 31 December 2008

The directors present their report and the audited financial statements of the Group and Company for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

RCD1 Limited is the ultimate holding company of the Northern & Shell group of companies. The Company regards its subsidiary, Northern & Shell Network Limited, to be the operational parent of the Group. It owns a group of companies principally engaged in newspaper publishing and printing, magazine publishing, television broadcasting and exploitation and further development of intellectual property. The Group, through its subsidiary Northern & Shell Insurance Limited, is also engaged in insurance activities.

It is the intention of the Group to continue trading in the printing and publishing areas in the foreseeable future.

RESULTS AND DIVIDENDS

The Group recorded a profit before taxation of £41.6 million (2007: £55.4 million).

The directors do not recommend the payment of a dividend (2007: £nil).

REVIEW OF THE YEAR AND FUTURE PROSPECTS

The calendar year 2008, characterised by a progressively worsening national and global economic climate, has proved to be an extremely tough year for media businesses in general. The Group actively responded to the significant challenges it has faced with a range of initiatives across all of the highly competitive publishing and broadcasting markets in which it operates. Investment has been made in new products and brand extension in the magazine sector, in newspapers a value for money concept has been pursued through pricing and product quality and in television added value offerings have been provided to customers. Accordingly, the directors consider the underlying performance of the Group to be highly satisfactory. Group turnover (including share of joint ventures) reduced by £1.1 million (0.2%) and total operating profit increased by £0.9 million (2.3%). After deducting continuing start-up operating losses of £20.6 million (2007: £24.3 million) in respect of the wholly owned and joint venture non-UK published editions of OK! Magazine, the Group recorded a total operating profit of £43.3 million (2007: £42.4 million).

The Newspaper division's operating profit was adversely impacted by extra printing charges from its joint venture operation, West Ferry Printers Limited, and from increased promotional related costs. Compared to the previous year additional print charges of £17.1 million were incurred, arising from further contributions to the West Ferry Printers Limited's pension scheme and from redundancy costs following a restructuring of that business. In addition, the division raised its investment in West Ferry Printers Limited by £16.0 million in the year. Subsequently, in March 2009, Express Newspapers exercised its option to purchase the other 50% shareholding in West Ferry Printers Limited currently owned by Telegraph Media Group Limited, at a price to be determined by either an agreed settlement or through a formal arbitration process.

Being acutely aware of the effect on its customers of the deteriorating national economy in the latter part of 2008, the Group's newspaper operations determined to ensure that its main products were the most competitively priced in each of its market segments. This was achieved through the reintroduction of national cover price reductions on the Daily Star and through the offer of money off vouchers in the Daily Express and Sunday Express. The vouchers commenced in late October 2008 at a cost of £6.5 million in the financial year. These promotions have contributed to an increase in the market share for the titles, which the directors consider to be of significant benefit for the long term future of the business. Given these conditions, the directors are highly satisfied with the performance of the business and feel that assisted by continued cover price and voucher promotions, the newspaper division is well placed to further enhance its strong presence in the market in 2009.

In the magazine publishing area the major development comprised the continued extension of the OK! Magazine brand, building on a record profit year for the title in the UK. Improvements were made in the trading results of both the American title and the Australian title, with both these businesses consolidating their position in their respective territories. During the year, two further significant new joint ventures were established with publishing groups in Germany and Spain to launch local titles of OK! Magazine in those markets. The directors are pleased to note that the German edition is performing well and in line with expectations. However, the decision was reluctantly taken in March 2009 to close the Spanish title after our joint venture partner informed us in January 2009 that they could no longer continue to invest in the title. Given the severe downturn in the Spanish economy

REVIEW OF THE YEAR AND FUTURE PROSPECTS (Continued)

the Group was unable to secure an alternative local partner, to assist in continuing to build the business, within an acceptable timeframe.

Additionally, the worldwide presence of the brand has been further extended so that currently the Group also has 17 international editions of OK! Magazine under license agreements with other publishers, making 21 editions in total, with potentially more to launch during 2009. Also, in the UK magazine market both new! and Star magazines produced improved contributions for 2009. Overall, the Group operates in highly competitive markets both in the UK and overseas, particularly around price and product quality, and given the nature of the environment, the directors are highly satisfied with the performance of the magazine division.

In the television production and broadcasting area, the Group operates in a highly competitive pay TV market, and its turnover and strong operating profits fell below those achieved in 2007. Primarily the directors attribute this to a combination of factors including, the prevailing general economic climate, the increased competition from free to air telephony based channels, and the growth of unregulated material available on the internet. Responding to these challenges the Group has, in its television broadcasting activities, continued to focus its core product offering, establishing its own telephony based operations and stepping up its added value services on broadband. The division also continued its policy of diversifying into the provision of television production services by taking on more third party (non Group) business. With these developments, the directors view the future with confidence.

A range of key performance indicators (KPI's) are used to monitor the performance of the operating entities and the Group and their progress towards strategic objectives. The principal KPI's vary according to division and include: circulation volumes, advertising yields, cost per copies, subscriber and pay per night numbers, contribution by title, profitability by business segment, year on year variance analysis and cash flows.

Under FRS17, 'Retirement benefits', the Group's financial statements recognise a net pension liability of £31.0 million at 31 December 2008 (excluding joint venture companies) (2007: £48.4 million). The directors continue to monitor the pension liability position and are committed to taking steps to reduce this deficit. The Group's net assets before a net pension liability of £31.0 million (2007: £48.4 million) were £92.6 million at 31 December 2008 (2007: £86.0 million). The Group's net funds, including liquid resources in the form of government bonds, were £51.7 million at 31 December 2008 (2007: £42.1 million).

The directors feel that the Group is well placed to build on its established activities and take advantage of new opportunities as they arise.

DIRECTORS AND THEIR INTERESTS

The membership of the board during the year is set out on page 2. These directors, and no others, held office throughout the entire year.

POLICY ON PAYMENT OF CREDITORS

The Company and its subsidiaries agree terms and conditions for their business transactions with their suppliers. Payment is made on these terms, subject to the terms and conditions being met by the supplier.

The Company does not have any trade creditors.

EMPLOYEE INVOLVEMENT

During the year, the Group and Company maintained their practice of keeping employees informed about current activities and progress of the business using various methods including formal briefings, e-mails, a corporate brochure and a corporate website. Consultation with employees or their representatives has continued at all levels, with the aim of ensuring their views are taken into account where decisions are likely to affect their interests. This practice is reviewed regularly.

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 Group and Company continues and the appropriate training is arranged. It is the policy of the Group and Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

FINANCIAL RISK MANAGEMENT

The Group's operations expose it to a variety of financial risks that include credit, liquidity, interest rate and foreign exchange risks. The Group has mechanisms in place that seek to limit the impact of the adverse effects of these risks on the financial performance of the Group.

Credit risk
The Group has implemented policies that require appropriate credit checks to be performed on potential customers before sales are made.

Liquidity risk
The Group actively manages its finances to ensure that the Group has sufficient funds available for its operations.

Interest rate cash flow risks
The Group has both interest bearing assets and liabilities. The interest bearing assets are cash balances and Government bonds subject to floating and fixed interest rates respectively. The Group utilises interest rate swaps with a fixed rate to manage some of its liabilities. Other liabilities are managed using floating rate arrangements. The directors keep these measures under constant review.

Foreign exchange risk
The Group has foreign currency assets and liabilities. The Group does not currently use financial instruments to manage the risk of fluctuating exchange rates and as such no hedge accounting is applied. The directors keep these measures under constant review.

POLITICAL AND CHARITABLE DONATIONS

Charitable donations were made during the year amounting to £554,000 (2007: £547,000) including contributions to a charitable trust (see note 30).

There were no political contributions made during the year (2007: £nil).

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company Law requires the directors to prepare the Directors' Report and the financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgments and estimates have been made in preparing the financial statements for the year ended 31 December 2008 and that applicable UK accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for the maintenance and integrity of the Group's website. Uncertainty regarding legal requirements is compounded as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

RCD1 LIMITED

DIRECTORS' REPORT

For the year ended 31 December 2008

DISCLOSURE OF INFORMATION TO AUDITORS

In accordance with Section 234ZA of the Companies Act, in the case of each of the persons who are directors at the time when this report is approved, the following applies:

- so far as the director is aware, there is no relevant audit information (that is, information needed by the Group's auditors in connection with preparing their report) of which the Group's auditors are unaware; and
- the director has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

AUDITORS

KPMG LLP have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the next annual general meeting.

Approved by the Board of Directors and signed on its behalf by:

Mr. R. Sanderson
Secretary
Date: 12 May 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

RCD1 LIMITED

For the year ended 31 December 2008

We have audited the Group and Parent Company financial statements (the "financial statements") of RCD1 Limited for the year ended 31 December 2008 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 5.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group's and the Parent Company's affairs as at 31 December 2008 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor
Date: 13 May 2009

RCD1 LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2008

	Notes	2008 £000	2007 £000
Turnover (including share of joint ventures)	2	**483,876**	484,974
Less: share of joint venture turnover		**(60,813)**	(43,628)
Group turnover		**423,063**	441,346
Cost of sales		**(237,149)**	(228,436)
Gross profit		**185,914**	212,910
Distribution costs		**(31,988)**	(31,338)
Administrative expenses	3	**(113,749)**	(134,439)
Other operating income		**-**	2,359
Group operating profit		**40,177**	49,492
Share of operating profit/(loss) of Joint Ventures (after £3.4m (2007: £3.4m) goodwill amortisation)		**3,171**	(7,044)
Total operating profit	2/4	**43,348**	42,448
Profit on sale of subsidiary		**-**	15,020
Profit on ordinary activities before interest and taxation		**43,348**	57,468
Interest receivable and similar income	6	**5,852**	3,937
Interest payable and similar charges	7	**(5,659)**	(4,906)
Other financing expenses	28	**(1,900)**	(1,100)
Profit on ordinary activities before taxation	2	**41,641**	55,399
Tax on profit on ordinary activities	8	**(10,878)**	(7,781)
Profit for the financial year	24	**30,763**	47,618

The notes on pages 13 to 40 form part of these financial statements.

Turnover and operating profit are wholly attributable to continuing operations.

RCD1 LIMITED

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2008

	Notes	2008 £000	2007 £000
Profit/(loss) for the financial year			
- Group		31,133	52,545
- Joint Ventures		(370)	(4,927)
		30,763	47,618
Revaluation reserve – deficit on revaluation of property	11	(3,032)	(967)
Actuarial gain recognised in the pension scheme – excluding Joint Ventures	28	16,400	4,800
Movement on deferred tax relating to pension liability – excluding Joint Ventures		(4,592)	(1,344)
Actuarial (loss)/gain recognised in the Joint Venture pension scheme		(22,561)	5,136
Movement on deferred tax relating to Joint Venture pension liability		6,318	(1,438)
Net exchange differences on the retranslation of net investments and related borrowings		699	-
Total gains recognised for the year		23,995	53,805
Prior year adjustment		-	1,326
Total gains recognised since last annual report		23,995	55,131
- Group		39,909	56,360
- Joint Ventures		(15,914)	(1,229)
Total gains recognised since last annual report		23,995	55,131

RCD1 LIMITED

CONSOLIDATED BALANCE SHEET as at 31 December 2008

	Notes	2008 £000	2007 £000
FIXED ASSETS			
Intangible assets	10	8,580	9,054
Tangible assets	11	75,367	83,916
Investments	12		
Interests in joint ventures			
Share of gross assets		23,812	19,289
Share of gross liabilities		(16,846)	(18,589)
Goodwill arising on acquisition		9,616	12,985
		16,582	13,685
Other		85	85
		16,667	13,770
		100,614	106,740
CURRENT ASSETS			
Stocks	13	9,893	4,412
Debtors	14	57,700	51,772
Current asset investments	16		
Quoted and unquoted equity investments		18	22
Government bonds		102,240	-
		102,258	22
Cash at bank and in hand		22,636	122,188
		192,487	178,394
CREDITORS: amounts falling due within one year	17	(117,951)	(111,316)
NET CURRENT ASSETS		74,536	67,078
TOTAL ASSETS LESS CURRENT LIABILITIES		175,150	173,818
CREDITORS: amounts falling due after more than one year	18	(66,207)	(73,203)
PROVISIONS FOR LIABILITIES AND CHARGES	19	(16,375)	(14,618)
NET ASSETS excluding pension liability		92,568	85,997
PENSION LIABILITY	28	(30,960)	(48,384)
NET ASSETS including pension liability		61,608	37,613
CAPITAL AND RESERVES			
Called up share capital	23	110	110
Other reserves	24	3,860	3,860
Revaluation reserve	24	(1,462)	1,570
Capital redemption reserve	24	-	100
Profit and loss account	24	59,100	31,973
TOTAL SHAREHOLDERS' FUNDS	24	61,608	37,613

Approved by the Board of Directors and signed on its behalf by:

Mr. R.C. Desmond
Chairman
Date: 12 May 2009

RCD1 LIMITED

COMPANY BALANCE SHEET as at 31 December 2008

	Notes	2008 £000	2007 £000
FIXED ASSETS			
Tangible assets	11	8,262	11,294
Investments	12	110	110
		8,372	11,404
CURRENT ASSETS			
Debtors	14	25,275	23,612
CREDITORS: amounts falling due within one year	17	(27,099)	(25,433)
NET CURRENT LIABILITIES		(1,824)	(1,821)
TOTAL ASSETS LESS CURRENT LIABILITIES		6,548	9,583
CREDITORS: amounts falling due after more than one year	18	(3,051)	(3,805)
NET ASSETS		3,497	5,778
CAPITAL AND RESERVES			
Called up share capital	23	110	110
Revaluation reserve	24	(1,462)	1,570
Profit and loss account	24	4,849	4,098
TOTAL SHAREHOLDERS' FUNDS	24	3,497	5,778

Approved by the Board of Directors and signed on its behalf by:

Mr. R.C. Desmond
Chairman
Date: 12 May 2009

RCD1 LIMITED

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Notes	2008 £000	2007 £000
Net cash inflow from operating activities	25	**37,651**	78,069
Dividends received from joint ventures		**2,774**	2,036
Returns on investments and servicing of finance			
Interest received		**5,060**	3,057
Interest paid		**(5,742)**	(4,070)
Issue costs of new bank loan		**-**	(502)
Interest element of finance lease rentals		**(31)**	(49)
Net cash outflow from returns on investments and servicing of finance		**(713)**	(1,564)
Taxation		**(377)**	(228)
Capital expenditure			
Payments to acquire tangible fixed assets		**(8,920)**	(5,637)
Payments to acquire intangible assets		**(1,039)**	(1,134)
Receipts from disposal of fixed assets		**129**	5
Net cash outflow for capital expenditure		**(9,830)**	(6,766)
Acquisitions and disposals			
Contributions to Joint Ventures		**(21,586)**	(3,445)
Receipts from sale of subsidiary		**-**	3,875
Net cash disposal with subsidiary		**-**	(50)
Net cash (outflow)/inflow from acquisitions and disposals		**(21,586)**	380
Net cash inflow before use of liquid resources and financing		**7,919**	71,927
Management of liquid resources			
Purchase of government bonds		**(114,417)**	-
Sale of government bonds		**13,902**	-
Net cash outflow from management of liquid resources		**(100,515)**	-
Financing			
External loan repayments		**(6,312)**	(16,084)
External loan		**-**	50,500
Capital element of finance lease rentals		**(397)**	(397)
Net cash (outflow)/inflow from financing		**(6,709)**	34,019
(Decrease)/increase in net cash	26/27	**(99,305)**	105,946

1. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of accounting

The financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and in accordance with the Companies Act 1985 and applicable accounting standards. The principal accounting policies are set out below.

(b) Basis of consolidation

The consolidated profit and loss account, balance sheet, statement of total recognised gains and losses and cash flow statement include the results, financial position and cash flows of the Company and its subsidiary undertakings, and the Group's share of profits or losses and reserves of its joint ventures, from the date of acquisition and until the date of disposal. Intra-group sales, profits and balances are eliminated fully on consolidation.

(c) Revenue recognition

Turnover represents the invoiced amount of goods dispatched and services provided (stated net of value added tax, or other applicable sales taxes and net of trade discounts). Turnover generated from publishing activities is recognised on release of the newspaper or magazine issue to which it relates. Television subscription revenue is recognised evenly over the period of the subscription and pay for view revenue is recognised in the period in which the broadcast occurs.

Group turnover includes sales made by group undertakings to joint ventures, but excludes sales by joint ventures.

(d) Foreign currencies

Transactions denominated in foreign currencies are recorded at the exchange 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 with any differences being taken to the profit and loss account.

For consolidation purposes, the monetary assets and liabilities of overseas subsidiary undertakings are translated at the exchange rates ruling at the balance sheet date or at a contracted rate if applicable. Non-monetary assets and liabilities are translated at the exchange rate ruling at the date of transaction or, where forward contracts have been arranged, at the contracted rates. The profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Exchange differences arising are taken to reserves.

Foreign operations which are conducted through a foreign branch and overseas subsidiary undertakings whose operations are closely interlinked with those of the Group and Company are accounted for using the temporal method, whereby transactions denominated in foreign currencies are recorded at the average rate of exchange during the year. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date with any differences being taken to the profit and loss account.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Intangible fixed assets

Trademarks

Trademarks comprise the cost of registering trademarks. These are amortised over 20 years, which is considered to be the useful economic life of the trademarks.

Goodwill

Goodwill represents the excess of the fair value of the consideration paid for acquisitions over the fair value of net assets acquired. Goodwill is amortised on a straight line basis over the estimated economic life of the acquisition.

Goodwill arising on acquisition of the Express Newspapers in 2000 is being amortised over its estimated economic life of 20 years.

Goodwill arising on joint venture acquisitions is being amortised over its estimated useful economic life of 10 years.

These periods are the periods over which the directors estimate that the value of the underlying businesses acquired are expected to match the value of the underlying assets.

Assets are reviewed for impairment at the level of income-generating units whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the difference between the carrying amount and the recoverable amount and taken immediately to the profit and loss account. The recoverable amount is the higher of the asset's net realisable value and its value in use.

Programming rights

Programming rights are stated at cost less accumulated amortisation. The cost of the programming rights represents the purchase cost together with any incidental costs of acquisition.

Amortisation is provided on all programming rights to write off the cost of each asset, less any residual value, over its expected useful life of 4 years. Amortisation is charged to the profit and loss account at 25 percent on the date of first transmission in the first year, then evenly over 3 years. The Group reviews its amortisation policy regularly to take account of changes to transmission of programming and the rights assigned. Where the Group transmits programming, which is owned by a third party, the charge is written off to the profit and loss account over the period that the charge relates to.

(f) Tangible fixed assets

Freehold investment properties are stated at their open market value at the balance sheet date. In accordance with SSAP 19, investment properties are revalued annually and the aggregate surplus or deficit is transferred to the revaluation reserve unless a deficit, or its reversal, is expected to be permanent in which case it is charged in the profit and loss account. No provision is made for the depreciation of freehold investment properties. This departure from the requirements of the Companies Act 1985, which requires all properties to be depreciated, is, in the opinion of the directors, necessary for the accounts to show a true and fair view in accordance with applicable accounting standards.

All other tangible fixed assets are stated at cost less accumulated depreciation. The cost of tangible fixed assets represents the purchase cost together with any incidental costs of acquisition (including interest costs). Depreciation is provided on all tangible fixed assets to write off the cost of each asset, less any estimated residual value, evenly over its expected useful life, as follows: -

Leasehold land and buildings	50 years, estimated useful life or period of the lease, whichever is the shorter
Plant and machinery	3 to 24 years
Fixtures, fittings and office equipment	2 to 10 years or period of the lease, if shorter
Motor vehicles	2 to 5 years

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Tangible fixed assets (Continued)

The Group reviews its depreciation rates regularly to take account of technological changes, intensity of use over the life of the assets and market requirements.

(g) Fixed asset investments

Fixed asset investments are recorded at cost, adjusted for any permanent diminution in value. Any diminution in value is reflected in the profit and loss account when the diminution is identified.

(h) Current asset investments

Current asset investments are liquid resources which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying value or traded in an active market. Current asset investments are stated at the lower of cost and net realisable value.

(i) Cash and liquid resources

Cash, for the purpose of the consolidated cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts repayable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying value or traded in an active market. Liquid resources comprise government securities.

(j) Stocks

Raw materials comprise mainly paper and are stated at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

(k) Debtors

Debtors are initially stated at fair value. The carrying value of debtors is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

(l) Borrowings

All borrowings are initially stated at the fair value of the consideration received after deduction of issue costs. Issue costs together with finance costs are charged to the profit and loss account over the term of the borrowings. Accrued finance costs attributable to borrowings where the maturity at the date of issue is less than one year are included within current liabilities. For all other borrowings, accrued finance charges and issue costs are included within Creditors due after more than one year.

(m) Leases

Assets obtained under finance leases are capitalised and depreciated over the lesser of the period of the lease and the estimated useful life of the asset. Obligations relating to finance leases, net of finance charges in respect of future periods, are included in Creditors due within or after more than one year, as appropriate.

Finance costs are charged to the profit and loss account and allocated to accounting periods during the lease term so as to produce a constant periodic rate of charge on the remaining balance of the obligation for each accounting period.

Rental costs under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Assets leased to third parties under operating leases are capitalised and depreciated over the estimated useful life of the asset.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Leases (Continued)

Rental income is recognised on a straight line basis over the shorter of the entire lease term or the period to the first break option. Where a lease incentive does not enhance the property, it is amortised on a straight line basis over the period from the date of the lease commencement to the earlier of the first break option, or the end of the lease term. On new leases with rent free periods, rental income is allocated evenly over the period from the date of lease commencement to the earlier of the first rent review and the lease end date.

(n) Interests in joint ventures

Where the Group holds a 50% interest in an entity on a long term basis and this interest is jointly controlled by the Group and other parties, the investment is treated as a joint venture. The Group's share of the profits and losses of the joint venture are disclosed separately in the Group's profit and loss account. Joint ventures are disclosed using the gross equity method under which the share of gross assets and liabilities are disclosed in the balance sheet.

(o) Deferred taxation

Deferred taxation 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 regarded as recoverable and recognised in the financial statements when, on the basis of available evidence, it is more likely than not that there will be suitable taxable profits from which the future reversal of the timing differences can be deducted. The recoverability of tax losses is assessed by reference to forecasts, which have been prepared and approved by the board.

Deferred tax assets and liabilities are not discounted and are calculated at the standard rate of corporation tax in the UK of 28% (2007: 30% for those timing differences reversing before 1 April 2008 and 28% for those reversing after 1 April 2008).

(p) Pension costs

For the defined benefit schemes, the amount charged to operating profit is the cost of accruing pension benefits promised to employees over the year plus any benefit improvements granted to members by the Group during the year. Other finance charges/income in the profit and loss account include a credit equivalent to the Group's expected return on the pension plans' assets over the year, offset by a charge equal to the expected increase in the plans' liabilities over the year. The difference between the market value of the plans' assets and the present value of the plans' liabilities is disclosed as an asset/liability on the balance sheet, net of deferred tax (to the extent that it is recoverable). Any difference between the expected return on assets and that actually achieved, and any changes in the liabilities over the year due to changes in assumptions or experience within the plans, are recognised in the statement of total recognised gains and losses.

Pension costs relating to defined contribution schemes are the amount of the contributions payable for the year.

(q) Insurance premiums and claims

Premiums written relate to business incepted during the period less an allowance for cancellations. Premiums are accounted for net of relevant taxes.

Claims incurred comprise claims and related expenses paid in the year.

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported ("IBNR") to the Group. The estimated cost of claims includes expenses to be incurred in settling claims. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

2. SEGMENTAL ANALYSIS

The Group's turnover and profit before taxation arise principally from its publishing, broadcasting and printing activities. The Group's turnover also includes income from its insurance activities.

The Group's turnover, profits before taxation and net assets/(liabilities) are principally attributable to activities in the United Kingdom and the United States of America.

Turnover in respect of continuing joint venture entities arises principally from printing activities in the United Kingdom and from publishing activities in the Republic of Ireland and Australia.

Included in total operating profit and profit before taxation are losses in respect of a joint venture company in Spain, which commenced trading in 2008. After the year end, and with the withdrawal of support for the business from the local publishing partner in Spain, the directors made the decision to terminate operations in Spain. The operations are not material to the Group and the directors do not consider it necessary to treat as a discontinued operation in the profit and loss account.

	2008 £000	2007 £000
Turnover (including share of Joint Ventures)		
Publishing and printing – excluding US	364,556	380,987
Publishing – US	32,221	26,160
Publishing and printing – Joint Ventures	60,813	43,628
Broadcasting	26,226	27,844
Insurance	60	6,355
	483,876	484,974
Group operating profit/(loss) – including Joint Ventures		
Publishing and printing – excluding US	45,062	58,892
Publishing – US	(14,183)	(18,103)
Publishing and printing – Joint Ventures	3,171	(7,044)
Broadcasting	7,492	8,259
Insurance	(33)	(98)
Property Investment	705	704
	42,214	42,610
Foreign exchange gain/(loss) (note 4)	1,134	(162)
	43,348	42,448
Group – excluding Joint Ventures	40,177	49,492
Joint Ventures	3,171	(7,044)
Total operating profit:	43,348	42,448
Profit/(loss) before taxation		
Publishing and printing – excluding US	45,060	71,152
Publishing – US	(14,172)	(18,069)
Publishing and printing – Joint Ventures	3,240	(6,169)
Broadcasting	5,838	8,204
Insurance	40	(11)
Property Investment	501	454
	40,507	55,561
Foreign exchange gain/(loss) (note 4)	1,134	(162)
	41,641	55,399

2. SEGMENTAL ANALYSIS (Continued)

Net operating assets/(liabilities) (including pension deficit)	2008 £000	2007 £000
Publishing and printing – excluding US	10,114	(22,108)
Publishing – US	(10,653)	(7,902)
Publishing and printing –Joint Ventures	16,582	13,648
Broadcasting	234	(428)
Broadcasting – Joint Ventures	-	37
Insurance	(23)	(16)
Aborted project costs	-	(13)
Property Investment	7,717	10,478
	23,971	(6,304)

Reconciliation of net operating assets/(liabilities) to net assets/(liabilities)		
Net operating assets/(liabilities)	23,971	(6,304)
Investments	103	107
Corporation tax	(31,514)	(20,795)
Deferred tax – asset	15,690	19,340
Net funds	53,358	45,265
	61,608	37,613

3. ADMINISTRATIVE EXPENSES

	2008 £000	2007 £000
Chairman's emoluments and pension contributions (note 5a)	641	631
Other administrative expenses	113,108	133,808
	113,749	134,439

4. GROUP OPERATING PROFIT

	2008 £000	2007 £000
Operating profit is stated after charging/(crediting):		
Depreciation – owned assets	**7,554**	7,355
Depreciation – leased assets	**2,279**	2,303
Amortisation of trademarks	**3**	4
Amortisation of programming rights	**929**	987
Amortisation of goodwill – acquisitions	**567**	567
Amortisation of goodwill – Joint Ventures	**3,369**	3,369
Profit on disposal of fixed assets	**(59)**	(5)
Operating lease rentals – plant and machinery	**339**	346
Operating lease rentals – other	**9,583**	9,064
Foreign exchange (gain)/loss	**(1,134)**	162
Sale of share of intellectual property	**-**	(1,000)
Operating lease rentals – other income	**(2,036)**	(2,917)

Services provided by the Group's auditor (in tenure as auditor) and associated firms

During the year, the Group (including its overseas subsidiaries) also obtained the following services from KPMG LLP, appointed as the Group's auditor on 18 December 2007, at costs as detailed below:

	2008	2007
Audit services		
Fees payable to the Company's auditor for the audit of the Company and consolidated accounts	**26**	23
Other services		
Fees payable to the Company's auditor and its associates for the audit of associates to the Company pursuant to legislation	**336**	207
All other services	**12**	13

In 2007, the Group (including its overseas subsidiaries) obtained the following services from PricewaterhouseCoopers LLP, the Group's auditor for the period to 12 November 2007, at costs as detailed below:

	2008	2007
Other services		
Fees payable to the Company's auditor and its associates for the audit of associates to the Company pursuant to legislation	**-**	85
Other services provided pursuant to such legislation	**-**	380
Other services relating to taxation	**-**	1,406
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or any of its associates	**-**	362
All other services	**-**	141

Audit fees for the Company are borne by subsidiary undertakings.

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

(a) Directors

	2008 £000	2007 £000
Emoluments	**2,092**	2,034
Company contributions to money purchase pension schemes	**72**	72
	2,164	2,106

Pension benefits are accruing to five directors under money purchase pension schemes (2007: five directors).

The above emoluments and pension contributions include the following amounts in respect of the highest paid director, the Chairman.

Highest paid director:	2008 £000	2007 £000
Emoluments	**641**	631

(b) Staff costs (including directors)

	2008 £000	2007 £000
Wages and salaries	**59,808**	59,359
Social security costs	**6,202**	6,948
Pension costs	**1,675**	4,230
	67,685	70,537

Pension costs include an FRS17 pension charge of £400,000 (2007: £2.9 million) (note 28).

Average number of people employed by activity:

	2008 Number	2007 Number
Production	**827**	888
Selling and distribution	**169**	182
Administration	**183**	187
	1,179	1,257

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2008 £000	2007 £000
Bank deposit and government bond interest	**5,709**	3,048
Other interest receivable	**71**	9
Joint venture interest receivable	**72**	880
	5,852	3,937

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2008 £000	2007 £000
Bank loans and overdrafts	**5,518**	4,512
Finance leases	**31**	49
Amortisation of financing charges	**103**	225
Other interest payable	**3**	116
Joint venture interest payable	**4**	4
	5,659	4,906

8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2008 £000	2007 £000
Current tax		
UK corporation tax on profit for the year at 28.5% (2007: 30%)	7,335	15,119
Adjustments in respect of previous periods	718	412
Foreign taxes suffered	416	222
Double taxation relief	(260)	(161)
Share of Joint Venture taxation	3,611	(1,241)
Total current tax charge	11,820	14,351
Deferred tax		
Origination and reversal of timing differences (Accelerated capital allowances and other)	(933)	(8,490)
Adjustment in respect of previous periods	(2,193)	-
Total deferred tax credit excluding deferred tax credit on pension liability (note 15)	(3,126)	(8,490)
Pension cost relief in excess of pension cost charge	2,184	448
Change in tax rate in respect of pension liability	-	1,472
Total deferred tax credit	(942)	(6,570)
Tax on profit on ordinary activities	10,878	7,781

With effect from 1 April 2008, the standard rate of UK corporation tax reduced from 30% to 28%. In view of this reduction, where relevant, group relief surrendered/claimed is being accounted for at the rate of 28.5%. The tax assessed for the year differs from the rate of 28.5% (2007: 30%) and the differences are explained below:

	2008 £000	2007 £000
Profit on ordinary activities before tax	41,641	55,399
Profit on ordinary activities multiplied by the rate of 28.5% (2007: 30%)	11,868	16,620
Effects of:		
Net effect of expenses not deductible for tax and income not subject to tax	1,431	(4,907)
Excess of depreciation over capital allowances and other timing differences	(1,193)	5,453
Group relief surrendered not paid	-	2,169
Adjustments in respect of previous periods	718	535
Profits subject to lower level of overseas tax	(2,867)	(5,557)
Non tax deductible goodwill amortisation and other permanent differences	1,122	1,181
Deferred tax assets not recognised	741	110,383
Profits on sale of subsidiary not subject to tax	-	(4,506)
Deductible items not shown through profit and loss account	-	(119,850)
Increase in tax provision	-	12,830
Current tax charge for the year	11,820	14,351

Factors that may effect future tax charges:

Based on current capital investment plans, the Group expects depreciation to continue to exceed capital allowances in future years. The deferred tax asset not recognised relates to unutilised trading losses realised during the period.

9. PROFIT OF COMPANY

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented as part of these financial statements. The Company's profit for the year amounted to £751,000 (2007: £320,000) before dividends paid of £nil (2007: £nil).

10. INTANGIBLE ASSETS

	Trademarks	Goodwill	Programming Rights	Total
	£000	£000	£000	£000
THE GROUP				
Cost:				
At 1 January 2008	158	11,347	4,724	16,229
Additions	32	-	1,007	1,039
Disposals	(29)	-	-	(29)
At 31 December 2008	**161**	**11,347**	**5,731**	**17,239**
Amortisation:				
At 1 January 2008	123	3,997	3,055	7,175
Charge for the year	3	567	929	1,499
Disposals	(15)	-	-	(15)
At 31 December 2008	**111**	**4,564**	**3,984**	**8,659**
Net book amounts:				
At 31 December 2008	**50**	**6,783**	**1,747**	**8,580**
At 31 December 2007	35	7,350	1,669	9,054

11. TANGIBLE ASSETS

THE GROUP	Freehold Land and Buildings £000	Short Leasehold Land and Buildings £000	Motor Vehicles, Plant and Machinery £000	Fixtures, Fittings and Office Equipment £000	Total £000
Cost/ valuation					
At 1 January 2008	11,294	64,108	114,826	29,129	219,357
Additions	-	1,064	217	3,635	4,916
Disposals	-	(48)	(825)	(51)	(924)
Rebate	-	-	(544)	-	(544)
Revaluation	(3,032)	-	-	-	(3,032)
At 31 December 2008	**8,262**	**65,124**	**113,674**	**32,713**	**219,773**
Depreciation:					
At 1 January 2008	-	20,396	90,130	24,915	135,441
Charge for the year	-	2,718	5,815	1,300	9,833
Disposals	-	(25)	(792)	(51)	(868)
At 31 December 2008	-	**23,089**	**95,153**	**26,164**	**144,406**
Net book amounts:					
At 31 December 2008	**8,262**	**42,035**	**18,521**	**6,549**	**75,367**
At 31 December 2007	11,294	43,712	24,696	4,214	83,916

Freehold land and buildings represents an investment property from which the Group derives rental income, which was previously recorded at open market valuation of £11.3 million. The property was valued at £8.3 million by Peter Galan & Company, a qualified chartered surveyor, as at 31 December 2008 on the basis of open market value. At 31 December 2008 the property is stated at the open market valuation of £8.3 million. The historical cost of the investment property is £10.5 million. If the investment property was depreciated the accumulated depreciation at 31 December 2008 would be £4.4 million (2007: £4.2 million). The net book value at 31 December 2008 would be £6.1 million (2007: £6.3 million).

Motor vehicles, plant and machinery, fixtures, fittings and office equipment include assets acquired under finance leases in respect of which, as at 31 December 2008, the net book value was £3.2 million (2007: £5.5 million) after charging £2.3 million (2007: £2.3 million) depreciation for the year.

Included within the following categories are assets leased to a joint venture under an operating lease:

- Short leasehold land and buildings - gross asset cost of £19.0 million (2007: £19.0 million) and accumulated depreciation of £10.2 million (2007: £9.7 million).

- Motor vehicles, plant and machinery - gross cost of £57.8 million (2007: £57.8 million) and accumulated depreciation of £54.7 million (2007: £52.5 million).

Capitalised interest included in the net book value of fixed assets amounted to:

- Short leasehold land and buildings - £0.7 million (2007: £0.8 million).

- Motor vehicles, plant and machinery - £0.1 million (2007: £0.3 million).

11. TANGIBLE ASSETS (Continued)

THE COMPANY

The tangible fixed assets of the company at 31 December 2008 amount to £8.3 million (2007: £11.3 million) and consist entirely of the investment property referred to above.

12. FIXED ASSET INVESTMENTS

THE GROUP

	2008 £000	2007 £000
Interest in Joint Ventures		
At 1 January - net assets/(liabilities)	700	(2,830)
- goodwill (gross)	33,691	33,691
	34,391	30,861
Share of profit/(loss)	2,997	(1,578)
Movement in profit and loss reserves	(18,318)	1,663
Capital contributions	21,587	3,445
	6,266	3,530
At 31 December – net assets	6,966	700
– goodwill (gross)	33,691	33,691
	40,657	34,391
Aggregate amortisation of goodwill		
At 1 January	(20,706)	(17,337)
Charge for the year	(3,369)	(3,369)
At 31 December	(24,075)	(20,706)
Net book amount at 31 December		
Net assets	6,966	700
Goodwill	9,616	12,985
	16,582	13,685
Other fixed asset investment	85	85
Total fixed asset investments	16,667	13,770

Interests in joint ventures principally comprise:

- 50% of the equity share capital of West Ferry Printers Limited, a newspaper printing company.
- 50% of the equity share capital of Independent Star Limited, a newspaper publisher registered in the Republic of Ireland, the principal activity of which is the publishing of 'The Star' newspaper in that country.
- 50% of the equity share capital of Northern & Shell Pacific Limited, a magazine publisher registered in the United Kingdom, the principal activity of which is the publishing of OK! Magazine in Australia and New Zealand.
- 50% of the equity share capital of OK! Verlag Verwaltungsgesellschaft mbH i.Gr and OK! Verlag GmbH & Co. KG, magazine publishers registered in Germany, the principal activities being the publishing of OK! Magazine in Germany.

12. FIXED ASSET INVESTMENTS (Continued)

Details of significant investments in Joint Venture Companies

	2008 £000	2007 £000
Summary of Joint Venture net assets		
Share of fixed assets	5,996	8,750
Share of current assets	15,048	10,539
Share of pension surplus	2,768	-
Share of gross assets	23,812	19,289
Share of liabilities		
Due within one year	(14,444)	(5,580)
Due after one year	(2,402)	(11,616)
Share of pension deficit	-	(1,393)
Share of gross liabilities	(16,846)	(18,589)
Net assets	6,966	700

The Group's share of the results of its principal joint venture company is disclosed below:

	2008 £000	2007 £000
West Ferry Printers Limited		
Turnover	30,618	26,949
Profit/(loss) before taxation	11,206	(5,083)
Taxation	(3,357)	1,427
Profit/(loss) after taxation	7,849	(3,656)
(Losses)/gains recognised in statement of total recognised gains and losses	(16,243)	3,698
Fixed assets	5,415	8,311
Current assets	7,053	5,213
Pension surplus/(deficit)	2,768	(1,393)
Liabilities due within one year	(5,597)	(720)
Liabilities due after more than one year	(2,127)	(11,504)
Net assets/(liabilities)	7,512	(93)

THE COMPANY	2008 £000	2007 £000
Shares in group undertakings		
At 1 January 2008 and 31 December 2008	110	110

The immediate subsidiary undertaking and its percentage holding is:

	Principal activity	Ordinary shares
Northern & Shell Network Limited	Publishing, printing and broadcasting	100%

Investments in group undertakings are stated at cost less any provision for permanent diminution in value. A list of the principal subsidiaries and joint ventures is given in note 31.

13. STOCKS

	The Group	
	2008 £000	2007 £000
Raw materials and consumables	9,893	4,408
Finished goods and goods for resale	-	4
	9,893	4,412

14. DEBTORS

	The Group	
	2008 £000	2007 £000
Trade debtors	35,972	32,081
Other debtors	3,472	4,084
Amounts owed by related party	981	408
Loan to joint venture company	-	2,025
Prepayments and accrued income	13,625	13,174
Deferred tax asset (notes 15 and 19)	3,650	-
	57,700	51,772

	The Company	
	2008 £000	2007 £000
Amounts owed by group undertakings	25,275	23,612

Amounts owed by group undertakings carry interest between 2.0% and 2.5% above base rate, are unsecured and repayable on demand. Amounts owed by dormant group undertakings, included in amounts owed by group undertakings, are non-interest bearing. The loan to a joint venture company carries interest of 2.5% above LIBOR, is unsecured and was repaid during the year.

15. DEFERRED TAX ASSET

	£000
At 1 January 2008	-
Reclassified from provisions for liabilities and charges (note 19)	(524)
Credited to the profit and loss account	(3,126)
At 31 December 2008	(3,650)

15. DEFERRED TAX ASSET (Continued)

The deferred taxation provided in these financial statements is as follows:

	2008 £000	2007 £000
Provision for deferred tax including deferred tax on pension liability		
Accelerated capital allowances	750	1,160
Other timing differences	(4,400)	(1,684)
Deferred tax excluding that relating to pension liability	(3,650)	(524)
Deferred tax on pension liability (note 28)	(12,040)	(18,816)
Total provision for deferred tax – asset	(15,690)	(19,340)
1 January 2008	(19,340)	(14,114)
Deferred tax credit in profit and loss account (note 8)	(942)	(6,570)
Deferred tax on the actuarial loss on the pension scheme charged to the statement of total recognised gains and losses	4,592	1,344
At 31 December 2008	(15,690)	(19,340)

Based on current capital investment plans, the Group expects depreciation to continue to exceed capital allowances in future years. Deferred tax is measured on a non-discounted basis at the rates and laws enacted at the balance sheet date.

16. CURRENT ASSET INVESTMENTS

	The Group	
	2008 £000	2007 £000
Government bonds	102,240	-
Quoted investments	10	13
Unquoted investments	8	9
	102,258	22

During the year, the directors made the strategic decision based on the then prevailing economic and financial market conditions to move surplus cash balances into short-term zero coupon Government bonds, with maturities of less than one year.

The Group intends to hold the bonds until maturity, at which time the proceeds will either be converted to cash deposits or used to purchase new short-term government bonds. Subsequent to the year end, £101.1 million of UK government bonds matured with the proceeds held by the Group as cash deposits.

17. CREDITORS: amounts falling due within one year

	The Group	
	2008	**2007**
	£000	**£000**
Bank loans and overdrafts (notes 20 and 27)	**6,978**	6,559
Less: deferred finance charges	**(651)**	(754)
Amounts owed with respect to group relief and consortium relief	**-**	5,024
Other amounts owed to joint ventures	**2,402**	1,686
Trade creditors	**25,651**	21,686
Other creditors	**4,008**	4,544
Taxation and social security	**1,468**	1,583
Obligations under finance leases (note 21)	**153**	348
Corporation tax	**31,514**	20,795
Redeemable ordinary 'B' shares	**900**	900
Accruals and deferred income	**45,528**	48,945
	117,951	111,316

	The Company	
	2008	**2007**
	£000	**£000**
Bank loans (note 20)	**750**	556
Amounts owed with respect to group relief	**343**	593
Amounts owed to group undertakings	**25,803**	24,062
Accruals and deferred income	**203**	222
	27,099	25,433

Amounts owed to group undertakings carry interest between 2.0% and 2.5% above base rate, are unsecured and repayable on demand. Amounts owed with respect to group relief are non interest bearing. Amounts owed to joint ventures carry interest between 2.0% and 2.5% above base rate, are unsecured and repayable on demand.

18. CREDITORS: amounts falling due after more than one year

	The Group	
	2008	**2007**
	£000	**£000**
Bank loans (notes 20 and 27)	**65,945**	72,928
Obligations under finance leases (note 21)	**73**	275
Other creditors	**189**	-
	66,207	73,203

	The Company	
	2008	**2007**
	£000	**£000**
Bank loan (note 20)	**3,051**	3,805

19. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred Tax – excluding deferred tax on pension liability £000	Insurance Claims provision £000	Other provisions £000	Total £000
The Group				
At 1 January 2008	(524)	12,696	2,446	14,618
Reclassified from accruals	-	-	487	487
Reclassified to debtors (notes 14 and 15)	524	-	-	524
Charged to the profit and loss account	-	-	768	768
Utilised during the year	-	(22)	-	(22)
At 31 December 2008	-	12,674	3,701	16,375

The insurance claims provision relates to the potential costs arising from claims that could be made against Northern & Shell Insurance Limited, a group company, resulting from insurance contracts written by that company. No claims have been made to date and, should they arise, any claims are likely to take several years to resolve. Whilst the ultimate cost, if any, of settling the potential claims is uncertain, the company has taken legal and professional advice and considers that a provision of £12.7 million is appropriate.

Other provisions of £3.7 million relate to the provision for onerous rental commitments of £2.5 million (2007: 2.4 million) at the main business premises, Number 10 Lower Thames Street, and £1.2 million (2007: £487,000 disclosed within creditors: amounts falling due within one year) at another business premises, 4 Selsdon Way, London. These provisions are expected to be utilised during the period to 31 December 2013 and 31 December 2012 respectively.

20. BANK LOAN OBLIGATIONS

	The Group 2008 £000	The Group 2007 £000
The Group's bank loan obligations are due :		
Within one year	6,978	6,312
In more than one year but not more than two years	7,251	6,821
In more than two years but not more than five years	23,716	21,961
In more than five years	34,978	44,146
	72,923	79,240
Less: deferred finance charges	(651)	(754)
	72,272	78,486

20. BANK LOAN OBLIGATIONS (Continued)

Bank loans are guaranteed by the Group (note 29). Included in bank loans is a loan of £30.8 million, which carries interest at LIBOR plus 1.0% and is repayable in quarterly instalments over eight years and a £38.3 million loan, which carries interest at LIBOR plus 2.0%. The £38.3 million loan is split into £18.3 million and £20.0 million tranches, loan A and loan B. Loan A is repayable in six monthly instalments over six years. Loan B is repayable over the same period, however, it is repaid with an annual 30% excess cash flow sweep payment and a final bullet repayment after loan A has been repaid in full. The balance of £3.8 million is secured on the investment property held by the Group, is repayable over seven years and carries interest at the Natwest bank base rate plus 1.0%.

The Group has entered into certain interest rate swap arrangements. The 20.0 million loan B is fixed at a rate of 5.86% plus 2.0%, and the £30.8 million is fixed at a blended rate of 5.53% plus 1%. After the year end, the Group entered into further interest rate swap arrangements and the £18.3 million loan A was fixed at a rate of 3.07% plus 2%. Arrangements were also in place for a top up amount of £5.0 million for loan B to be fixed at 4.33% plus 2%.

THE COMPANY

The Company's bank loan obligations of £3.8 million (2007: £4.4 million), of which £750,000 is due within one year (2007: £556,000), and £3.0 million is after more than one year (2007: £3.8 million), is subject to the terms and conditions set out in respect of the £3.8 million Group bank loan above.

21. OBLIGATIONS UNDER FINANCE LEASES

The Group is subject to finance lease obligations which are due:

	2008 £000	2007 £000
Within one year	**153**	348
Within two to five years	**73**	275
	226	623

22. OPERATING LEASE COMMITMENTS

At 31 December 2008, the Group was committed to making the following annual payments in respect of operating leases which expire:

	Land and Buildings 2008 £000	Land and Buildings 2007 £000	Other 2008 £000	Other 2007 £000
Within one year	**331**	110	**-**	2
Two to five years	**1,205**	41	**343**	339
After five years	**12,703**	9,269	**-**	-
	14,239	9,420	**343**	341

23. SHARE CAPITAL

The Group & Company

	Authorised 2008 £000	Authorised 2007 £000	Allotted and Fully Paid 2008 £000	Allotted and Fully Paid 2007 £000
110,000 Ordinary shares of £1 each	**110**	110	**110**	110

24. RESERVES AND SHAREHOLDERS' FUNDS/(DEFICIT)

The Group

a) Reserves	Capital redemption reserve £000	Other reserves £000	Revaluation reserve £000	Profit & loss £000
At 1 January 2008	100	3,860	1,570	31,973
Transfer	(100)	-	-	100
Deficit on revaluation of property	-	-	(3,032)	-
Profit for the year	-	-	-	30,763
Actuarial gain on pension scheme - excluding Joint Ventures (note 28)	-	-	-	16,400
Movement on deferred tax relating to pension scheme - excluding Joint Ventures	-	-	-	(4,592)
Actuarial loss on Joint Venture pension scheme	-	-	-	(22,561)
Movement on deferred tax relating to Joint Venture pension scheme	-	-	-	6,318
Net exchange differences on the retranslation of net investments and related borrowings	-	-	-	699
At 31 December 2008	-	3,860	(1,462)	59,100

The Company

Reserves	Revaluation reserve £000	Profit & loss £000
At 1 January 2008	1,570	4,098
Profit for the year	-	751
Deficit on revaluation of property	(3,032)	-
At 31 December 2008	(1,462)	4,849

The deficit on the revaluation reserve has arisen, due to, in the opinion of the directors', a non permanent diminution in value of the investment property disclosed within note 11, in line with SSAP 19.

24. RESERVES AND SHAREHOLDERS' FUNDS/(DEFICIT) (Continued)

b) Reconciliation of movements in shareholders' funds/(deficit)

	The Group	
	2008 **£000**	**2007** **£000**
Profit for the year	30,763	47,618
Deficit on revaluation of property	(3,032)	(967)
Actuarial gain on pension scheme – excluding Joint Ventures (note 28)	16,400	4,800
Movement on deferred tax relating to pension scheme – excluding Joint Ventures	(4,592)	(1,344)
Actuarial (loss)/gain on Joint Venture pension scheme	(22,561)	5,136
Movement on deferred tax relating to Joint Venture pension scheme	6,318	(1,438)
Net exchange differences on the retranslation of net investments and related borrowings	699	-
Net addition to shareholders' funds	23,995	53,805
Opening shareholders' funds/(deficit)	37,613	(16,192)
Closing shareholders' funds	61,608	37,613

	The Company	
	2008 **£000**	**2007** **£000**
Profit for the year	751	320
Deficit on revaluation of property	(3,032)	(967)
Net reduction in shareholders' funds	(2,281)	(647)
Opening shareholders' funds	5,778	6,425
Closing shareholders' funds	3,497	5,778

25. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW

	2008 **£000**	**2007** **£000**
Operating profit	40,177	49,492
Depreciation charge	9,833	9,658
Amortisation of intangible assets	1,499	1,558
Profit on sale of tangible assets	(59)	(5)
Increase in stocks	(5,481)	(643)
Increase in debtors	(4,401)	(2,102)
Increase in creditors	5,555	17,340
Difference between pension costs and cash contributions	(9,700)	(2,700)
Increase in provisions	1,233	5,582
Unrealised foreign exchange gains	(1,005)	(111)
Net cash inflow from operating activities	37,651	78,069

26. RECONCILIATION OF NET CASH FLOW TO MOVEMENTS IN NET FUNDS/(DEBT)

	2008 £000	2007 £000
Net funds/(debt) at 1 January	**42,100**	(29,499)
(Decrease)/increase in cash in the year	**(99,305)**	105,946
Cash outflow from finance lease payments	**428**	397
Loan finance received	**-**	(50,500)
Loan finance repaid	**6,312**	16,084
Other non cash changes	**685**	(439)
Exchange movements	**1,005**	111
Cash used to increase liquid resources	**100,515**	-
Net funds at 31 December	**51,740**	42,100

27. ANALYSIS OF CHANGES IN NET FUNDS

	1 January £000	Cash flow £000	Non cash £000	Exchange movements £000	31 December £000
Cash in hand and at bank	122,188	(99,552)	-	-	**22,636**
Overdrafts excluding short term loan	(247)	247	-	-	**-**
	121,941	(99,305)	-		**22,636**
Finance leases	(623)	428	(31)	-	**(226)**
Loan finance due within one year	(6,312)	6,312	(6,978)	-	**(6,978)**
Loan finance due after one year	(72,928)	-	6,983	-	**(65,945)**
	(79,863)	6,740	(26)	-	**(73,149)**
Liquid resources	22	100,515	716	1,005	**102,258**
Net funds	42,100	7,950	690	1,005	**51,745**

28. PENSION SCHEMES

FRS17 Disclosure

The latest full actuarial valuations of the Express Newspapers 1988 Pension Fund and the Express Newspapers Senior Management Pension Fund were carried out as at 5 April 2006. The results below have been updated by a qualified independent actuary using the projected unit valuation method. The Group maintains contributions of 16% of the Contribution Earnings (2007: 16%), which amounted to £2.1 million (2007: £1.4 million). As part of an agreed recovery plan in respect of the shortfall in funding the Group also paid £6.0 million (2007: £3.0 million) into the 1988 Pension Fund during the year, in addition to £312,000 (2007: £294,000) paid into the Senior Management Pension Fund. Both Funds are defined benefit schemes. With effect from 31 December 2008 both schemes were closed to future accruals. The Group expects to contribute £7.3 million to its defined benefit plans in the next financial year.

The Group also participates in a defined contribution scheme for its employees. Contributions are charged to the profit and loss account to reflect amounts payable under the scheme. The charge for the year was £786,000 (2007: £745,000). At 31 December 2008, contributions of £65,000 were outstanding (2007: £63,000). These have been paid in full after the year end.

The major financial assumptions used in the calculations at 31 December were:

	2008	2007	2006
Discount rate	6.50%	6.00%	5.20%
Rate of increase in salaries	N/A	3.50%	3.20%
Rate of LPI increase in pensions in payment	3.20%	3.40%	3.10%
Inflation assumption	2.60%	3.10%	2.80%

The mortality assumptions used in the calculation at 31 December 2008 were:

1988 Fund mortality:
"92 series" base tables with year of birth projections, an allowance for the medium cohort effect and a minimum level of improvement of 1% per annum from 2007. The base table has been adjusted to assume 25% heavier mortality for males.

SMPF mortality:
"92 series" base tables with projections to 2005 for pensioners and 2015 for non-pensioners, an allowance for the medium cohort effect and a minimum level of improvement of 1% per annum.

28. PENSION SCHEMES (Continued)

FRS17 Disclosure (Continued)

The fair value of the assets presented below reflect the aggregated assets of the Express Newspapers 1988 Pension Fund and the Express Newspapers Senior Management Fund.

The fair value of the assets in the schemes and the expected rates of return at 31 December were:

	Long – term rate of return expected at 2008	Fair value at 2008 £000	Long – term rate of return expected at 2007	Fair value at 2007 £000	Long – term rate of return expected at 2006	Fair value at 2006 £000
Equities	7.8%	63,500	8.15%	149,300	8.25%	144,900
Gilts	3.8%	19,400	4.40%	68,600	4.50%	62,900
Corporate bonds	6.5%	171,900	6.00%	102,900	5.20%	142,200
Other	3.8%	46,900	5.50%	31,000	5.00%	14,500
Total market value of assets		301,700		351,800		364,500
Present value of scheme liabilities		(344,700)		(419,000)		(438,100)
Deficit in the schemes		(43,000)		(67,200)		(73,600)
Related deferred tax asset		12,040		18,816		22,080
Net pension liability under FRS17		(30,960)		(48,384)		(51,520)

Details of history scheme assets, obligations and experience adjustments:

	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Balance Sheet					
Present value of scheme liabilities	(344,700)	(419,000)	(438,100)	(431,100)	(418,300)
Fair value of scheme assets	301,700	351,800	364,500	375,000	346,200
Deficit on the scheme	(43,000)	(67,200)	(73,600)	(56,100)	(72,100)
Experience adjustments					
Experience adjustments arising on scheme liabilities	73,300	20,100	(12,600)	(11,200)	(31,100)
Experience item as percentage of scheme liabilities	21.3%	4.8%	(2.9)%	(2.6)%	(7.4)%
Experience adjustments arising on scheme assets	(56,900)	(15,300)	(11,400)	26,500	11,700
Experience item as percentage of scheme assets	(18.9)%	(4.4)%	(3.1)%	7.1%	3.4%
Cumulative actuarial loss shown in the STRGL	(6,900)	(23,300)	(28,100)	(4,100)	(19,400)

The total amount recognised in the statement of total recognised gains and losses in respect of actuarial gain is £16.4 million (2007: £4.8million).

28. PENSION SCHEMES (Continued)

FRS17 Disclosure (Continued)

The following amounts have been recorded in the consolidated profit and loss account for both schemes as at 31 December 2008:

Operating profit	**2008 £000**	**2007 £000**
Current service cost	3,200	3,400
Curtailment/settlement gains	(2,800)	(500)
Total operating charge	400	2,900

The expense is recognised in the following line items in the profit and loss account:

	2008 £000	**2007 £000**
Administrative expenses	400	2,900

Other finance income/(expenses)	**2008 £000**	**2007 £000**
Expected return on assets	22,600	21,200
Interest cost	(24,500)	(22,300)
Total net return	(1,900)	(1,100)

Movement in deficit during the year	**2008 £000**	**2007 £000**
Deficit at start of year	(67,200)	(73,600)
Current service cost	(3,200)	(3,400)
Settlement gains	2,800	500
Employer contributions	10,100	5,600
Other financing expenses	(1,900)	(1,100)
Actuarial gain	16,400	4,800
Deficit at end of the year	(43,000)	(67,200)

Reconciliation of opening and closing balances of the present value of the scheme liabilities:

	2008 £000	**2007 £000**
Liabilities at 1 January	419,000	438,100
Current service cost	3,200	3,400
Interest cost	24,500	22,300
Contributions by scheme participants	700	700
Actuarial gain	(73,300)	(20,100)
Benefits paid	(27,000)	(24,900)
Age related rebates due	400	-
Curtailments	(2,800)	-
Settlements	-	(500)
Liabilities at 31 December	344,700	419,000

28. PENSION SCHEMES (Continued)

FRS17 Disclosure (Continued)

Reconciliation of opening and closing balances of the fair value of the scheme assets:

	2008 £000	2007 £000
Fair value of scheme assets at 1 January	**351,800**	364,500
Expected return on scheme assets	**22,600**	21,200
Actuarial loss	**(56,900)**	(15,300)
Contributions by employers	**9,500**	5,600
Contributions by plan participants	**700**	700
Miscellaneous contributions	**900**	-
Age related rebates received	**100**	-
Benefits paid	**(27,000)**	(24,900)
Fair value of scheme assets at 31 December	**301,700**	351,800

29. GUARANTEES AND CONTINGENT LIABILITIES

As at 31 December 2008, the £30.9 million bank loan was jointly and severally guaranteed by two subsidiary companies, and the £38.2 million loan was guaranteed by certain subsidiary companies (note 20). The investment property of the Company is pledged as security for the £3.8 million Natwest loan. At 31 December 2008, the maximum liabilities that could arise under these credit arrangements, was £72.9 million (2007: £79.2 million).

At 31 December 2008, Northern & Shell North America Limited, held in place a bank guarantee. The bank, subject to the terms of the guarantee but otherwise unconditionally, undertakes to pay to the landlord of the company's business premises on demand any sum or sums to an amount not exceeding USD $5.0 million (sterling equivalent at 31 December 2008: £3.5 million). The guarantee amortises on a reducing balance basis over the term of the lease and shall be reduced to USD $1.5 million following the ninth year of the lease. The bank's liabilities have also been jointly guaranteed by the company. The bank's liabilities cease and are determined on 31 August 2018.

The Group, through its subsidiary company Northern & Shell Insurance Limited, provides against any potential insurance claims. No claims have been made to date and, should they arise, any claims are likely to take several years to resolve (note 19).

At 31 December 2008, certain claims in the normal course of business were pending against the Company and certain subsidiaries and certain tax computations were still subject to agreement with the relevant taxation authorities. Although there is uncertainty regarding the final outcome of these matters, the directors believe, based on professional advice received, that adequate provision has been made in the financial statements for anticipated liabilities and the probable ultimate resolution of such matters will not have a material effect on the financial statements of the Group.

30. RELATED PARTY TRANSACTIONS

The Group, through its subsidiary company Express Newspapers, participates in a joint venture under which it holds a 50% shareholding in the company West Ferry Printers Limited, where the remaining shares are owned by Telegraph Media Group Limited. The purpose of the joint venture is the provision of printing facilities to both Express Newspapers and Telegraph Media Group Limited and to certain third parties. In the year ended 31 December 2008, West Ferry Printers Limited provided Express Newspapers with printing which was included in turnover in the year ended 31 December 2008 at £22.6 million (2007: £15.5 million). At 31 December 2008, £2.4 million was payable in respect of that printing (2007: £1.6 million) by the Group to West Ferry Printers Limited.

30. RELATED PARTY TRANSACTIONS (Continued)

During the year the Group, through its subsidiary companies Northern & Shell Plc, Northern & Shell Worldwide Limited and Northern & Shell North America Limited charged certain joint venture companies for license fees and picture recharges. An amount of £984,000 (2007: £132,000) was charged to Northern & Shell Pacific Limited, £968,000 (2007: £nil) was charged to Iberian Ediciones Limited and £510,000 (2007: £nil) charged to OK! Verlag GmbH & Co.KG. The Group also provided funding to support the ongoing operations of these companies. At 31 December 2008, Northern & Shell Pacific Limited owed the Group £833,000 (2007: £408,000), Iberian Ediciones Limited owed the Group £557,000 (2007: £nil) and OK! Verlag GmbH & Co.KG owed the Group £56,000 (2007: £nil).

During the year, the Group made contributions of £350,000 (2007: £419,000) to a charitable trust, of which Mr. R.C. Desmond is a trustee. At the year end, there were no balances due to or from the charitable trust.

Badger Property Partners LLP, of which Mr. R.C. Desmond is a member, owns the 10 Lower Thames Street property which is the head office of the Northern & Shell Network group. The 10 Lower Thames Street property is let to Express Newspapers on a 20 year lease from 1 January 2004 for an annual rental of £7.6 million (2007: £7.6 million), with a rent review every 5 years. The charge for the year was £7.6 million (2007: £7.6 million). No amounts were due to Badger Property Partners LLP as at 31 December 2008 (2007: £nil). After the year end the annual rental was increased to £8.2 million, effective from 1 January 2009.

During the year, Mr. R.C. Desmond paid insurance premiums of £nil (2007: £6.4 million) to a subsidiary company, Northern & Shell Insurance Limited. The purpose of the premiums was to insure against personal risks and liabilities. The Group is committed to taking steps to mitigate the risks and liabilities, however, the amount of the potential liabilities is uncertain.

The Company has taken advantage of the exemption available under FRS 8 from disclosing transactions with other group companies that form part of the wholly owned group.

31. PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

Principal subsidiaries and percentage holding:

Company Name	Principal Activity	% Shareholding
Northern & Shell Network Limited	Principal holding company	100%
Northern & Shell Group Limited	Holding company	100%
Portland Media Group Limited	Holding company	100%
Northern & Shell Finance Limited	Treasury	100%
Express Newspapers	Publishing	100%
Broughton Printers Limited	Printing	100%
Northern & Shell Distribution Limited	Magazine distributor	100%
Northern & Shell Plc	Publishing	100%
Portland Enterprises Limited	Television production	100%
Portland Enterprises (CI) Limited	Television broadcasting	100%
RHF Productions Limited	Television broadcasting	100%
Northern & Shell Magazines Limited	Publishing	100%
Northern & Shell North America Limited *	Publishing	100%
Northern & Shell Insurance Limited	Insurance	100%
Northern & Shell Luxembourg SARL	Finance	100%
Northern & Shell Worldwide Limited**	Intellectual property exploitation	100%

All of the above companies are registered in England, except for Portland Enterprises (CI) Limited and RHF Productions Limited which are registered in Jersey, Northern & Shell Insurance Limited which is registered in Guernsey and Northern & Shell Luxembourg SARL which is registered in Luxembourg.

All of the above companies are consolidated within the group accounts.
* Denotes operates a branch in the United States of America.
** Denotes operates a branch in Luxembourg.

31. PRINCIPAL SUBSIDIARIES AND JOINT VENTURES (Continued)

Joint Ventures	Incorporated in	Principal activity	Stake	Nominal value of allotted share
West Ferry Printers Limited	United Kingdom	Printing	50%	£50 ordinary shares
Independent Star Limited	Republic of Ireland	Publishing	50%	€635 'E' ordinary shares
Northern & Shell Pacific Limited***	United Kingdom	Publishing	50%	£50 ordinary shares
OK! Verlag Verwaltungsgesellschaft mbH i.Gr.	Germany	Publishing	50%	€12,500 ordinary shares
OK! Verlag GmbH & Co. KG	Germany	Publishing	50%	€10,000 partnership interest
Iberian Ediciones Limited****	United Kingdom	Publishing	50%	£500 ordinary shares

*** Denotes operates a branch in Australia.
**** Denotes operates a branch in Spain.

32. CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure authorised and contracted for but not provided in the accounts amounted to USD $56.5 million (sterling equivalent at 31 December 2008: £39.3 million) relating to the purchase of a corporate aircraft (2007: £17.0 million) due for delivery in 2017. To date USD $3.0 million has been paid with no further payments due until 2011. In the event that the Group decided not to take delivery of the aircraft, the Group would incur liquidated damages of USD $1.5 million, with the remaining balance of any payments previously made returned to the Group.

33. POST BALANCE SHEET EVENT

Subsequent to the year end, on 10 March 2009 the Group, through a subsidiary company, exercised its option to purchase the other 50% holding of West Ferry Printers Limited currently owned by Telegraph Media Group Limited. The price for this holding will be determined by either an agreed settlement or through a formal arbitration process.

34. ULTIMATE CONTROLLING PARTY

The ultimate controlling party is Richard Desmond, the Chairman of the Company.