NORTHERN & SHELL MEDIA GROUP LIMITED

GROUP REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

NORTHERN & SHELL MEDIA GROUP LIMITED

ANNUAL REPORT

For the year ended 31 December 2011

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NORTHERN & SHELL MEDIA GROUP 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
8 Salisbury Square
London, EC4Y 8BB
United Kingdom

BANKERS

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New York
NY10018
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REGISTERED OFFICE

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

NORTHERN & SHELL MEDIA GROUP LIMITED

DIRECTORS' REPORT

For the year ended 31 December 2011

The directors present their report and the audited financial statements of the Group and Company for the year ended 31 December 2011

PRINCIPAL ACTIVITIES

Northern & Shell Media Group Limited is the ultimate holding company of the Northern & Shell group of companies It owns a group of companies principally engaged in newspaper publishing and printing, magazine publishing, television broadcasting, lottery management services and the 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 these areas for the foreseeable future

RESULTS AND DIVIDENDS

The Group recorded a profit for the financial year of £40 2 million (2010 £52 5 million)

The directors do not recommend the payment of a dividend (2010 £nil)

REVIEW OF THE YEAR AND FUTURE PROSPECTS

Last year the defining event for the Group was the major acquisition of Channel 5, which complemented the Northern & Shell Group's newspaper and magazine publishing assets, enabling it to attain synergies throughout its expanded media operations In 2011, the Group once again extended its business activities, this time with the acquisition of a lottery management business, The Health Lottery (note 25) Regulated by the Gambling Commission, The Health Lottery manages the lottery operations of 51 individual Society Lotteries representing each region of Great Britain, with the aim of raising money for local health related good causes At acquisition the business was in an embryonic state and required nine months of planning and preparation before the first weekly draw took place on 8 October 2011 After only a few months, the lotteries have to date raised over £15 0 million for health causes benefitting local communities and paid out more than twice that in prize monies

The Group had a clear rationale for investing in the lottery management business Through its media assets it had both the means of promotion and the necessary distribution contacts to ultimately make the business a success and, thereby, fulfill Northern & Shell's philanthropic ambitions of raising significant amounts of monies for Charities in such a deserving sector To date, major charities including The Alzheimer's Society, Dementia UK, Mencap, BTCV, The School's Food Trust, The Princess Royal Carers' Trust and The Youth Sport Trust have all been beneficiaries, as have smaller charities such as Adapt PremBabies, through the small-grants program The business, being firmly within the start up period of operations, recorded a loss before tax of £28 5 million in 2011 Having quickly achieved a strong, stable base of customers and with plans for further expansion in 2012, the directors view the future of this business with confidence

Following a comprehensive restructuring of the Group's television business, Channel 5 achieved a significant improvement in its fortunes in its first full year under Northern & Shell ownership An operating loss of £48 1 million in 2010 was transformed into an operating profit of £26 2 million for the year On a like for like basis, pre exceptional items, the company recorded an operating profit for the year of £27 5 million compared to £0 6 million for 2010

This turnaround was achieved through a combination of increased revenue and savings in non-programming costs Turnover for the year was £353 0 million, an increase of £66 7 million (23%), a highly satisfactory result in a largely flat UK TV advertising market This achievement was recognised in the Campaign Media Awards when the Channel 5 sales team were named 2011 Best TV sales team in the UK and received a special commendation for innovative work doing cross media deals

The success of Channel 5 was also founded on increased investment in the programming schedule on brand defining content with appeal to both audiences and advertisers In 2011, Big Brother was brought to Channel 5 and this contributed to an increased share of viewing in the key 16-34 demographic The Group intends to continue to increase the programming budget in 2012, to further enhance the brand and the appeal of the Channel and make it a favoured destination of choice for viewers

REVIEW OF THE YEAR AND FUTURE PROSPECTS (Continued)

A key strategic goal of the Group's television business is to increase its revenue streams through the development, ownership and exploitation of programming content A number of shows were developed and co-produced internally in the year and increased resources are earmarked to be allocated to the Group's nascent in-house production business in 2012

The Group continues to invest in its digital platforms and looks to utilise developments in technology to deliver content to customers in formats convenient to their usage patterns This not only maintains brand loyalty amongst the Group's customer base but enables the Group to offer advertisers the ability to run cross-media campaigns

The Group's broadcasting division is ensuring it is well placed to respond to technology led changes to viewing preferences Channel 5 continued to build on its significant digital presence during 2011, with the launch of Demand 5 on the iOS and Xbox platforms during the year Since its launch in the summer of 2011, there have been around 700,000 downloads of the Demand 5 iPad App and 650,000 downloads of the Xbox App since its launch in December 2011

Channel 5's expansion into the tablet and game console arena continues into 2012, with the launch of Demand 5 on PS3 and Android scheduled for the spring and summer of this year This summer will also herald the launch of YouView, the next generation of internet protocol digital terrestrial television Channel 5 is a major partner in the YouView consortium, alongside the BBC, Channel 4, ITV, BT, TalkTalk and Arqiva, and believes it will enhance the way viewers watch and enjoy television whilst interacting with their friends and social media groups

To ensure that its programming is available as widely as possible, and to enhance the quality of the viewer experience, the television division keeps its infrastructure and distribution platforms under constant review During 2011, a number of infrastructure deals were consolidated with some functions brought in-house and in December 2011 the company successfully launched a time shifted + 1 service for the main channel

Despite continuing tough trading conditions in the newspaper industry, the division's operating result was broadly similar to that of the previous year Express Newspapers achieved an increase in turnover of £14 6 million (6 8%), largely due to reducing the level of cover price reductions on the Daily Star and voucher offers on the Daily and Sunday Express This benefit was, however, offset by a 25% increase in newsprint costs, which accounted for an additional cost of £10 5 million in the year

The Group remains committed to its policy of ensuring that its newspapers are competitively priced in each of the market segments in which it operates This policy continues to be actively managed through the aid of cover price reductions and voucher offers at a cost of £20 3 million in 2011

The market for the Sunday newspaper titles was distorted during the year by the closure of the 'News of the World' in July 2011 and recently by the subsequent launch of the 'Sun on Sunday' in February 2012 The effect of these events to date has been that circulation of the Sunday Express is broadly what it was pre closure of the News of the World while sales of the Daily Star Sunday, supported by price discounting to match the replacement title, are comfortably over 50% higher than its previous level Accordingly, the directors are encouraged by the resilience shown in the sales of the Group's newspaper titles

The commitment of the Group to the newspaper publishing and printing business was evidenced by the investment in a new printing facility for West Ferry Printers Limited, a group undertaking, which commenced production in late 2011 and became fully operational in March 2012 The division is now seeing the benefits of an improved quality product delivered at a reduced printing cost In addition to the printed product, the Group's newspaper and magazine titles are now available in tablet format and the titles are continuing to invest in their online and digital presence Given the highly competitive market in which the Group operates and the prevailing economic climate, the directors consider the underlying performance of the division to be highly satisfactory and remain optimistic on the outlook for the business

REVIEW OF THE YEAR AND FUTURE PROSPECTS (Continued)

In the highly challenging magazine publishing business the Northern & Shell celebrity titles, OK!, new! and Star magazines, consolidated the Group's market leading position in the UK Woman's Weekly magazine market during the year OK! Magazine remains by some distance the largest newsstand revenue generating title in its category and new! Magazine is the number 1 best selling title in the celebrity category The strength of the Group's titles is evidenced by all three of them being within the top 15 actively purchased magazines in the UK Internationally, the OK! Magazine brand is also widely recognised In both Australia and Germany the Group produces local OK! titles, through joint ventures with established publishing groups in those countries Additionally, the Group currently has 18 international editions of OK! Magazine under licence agreements with other publishers, with a further five licencees scheduled to launch in 2012

During the year, the Group undertook a strategic review of its OK! USA Magazine business Launched in 2005, the OK! USA title was the only business the Group had in North America Without the benefits of scale in a very tough US Consumer magazines market, it was clear that the business would require further and potentially long term investment Accordingly, the Group decided to put the magazine up for sale and in June 2011 the title was sold to Odyssey Magazine Publishing Group LLC, owned by American Media Inc, for $23 0 million (note 26)

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 satisfied with the performance of the magazine division Following the sale of the US title and certain operational changes made in the UK, the directors are optimistic on the future prospects of the business

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, net advertising revenues, share of viewing figures, subscriber and pay per night numbers, lottery draw ticket sales, contribution by title, profitability by business segment, year on year variance analysis and cash flows

Under FRS 17, 'Retirement benefits', the Group's financial statements recognise a net pension liability of £47 6 million at 31 December 2011 (2010 £52 0 million pension liability), after an actuarial loss of £2 9 million (2010 £3 4 million loss) 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 £47 6 million (2010 £52 0 million) were £147 9 million at 31 December 2011 (2010 £115 1 million)

The Group actively manages its cash resources During 2010 and 2011, the Group made significant new investments across its business segments, totaling close to £250 million These investments comprised the acquisition of the Channel 5 group in 2010, the acquisition of The Health Lottery group, additional set up costs in launching The Health Lottery, payments in the period towards the new printing facility and, in 2011, significant additional new investment in programming content for Channel 5's television operations After incurring these costs, the Group held cash of £61 3 million as at 31 December 2011 (2010 £91 7 million cash and liquid resources) and the Group's net deficit was £7 7 million (2010 £4 2 million) (note 31)

The directors feel that the Group is well placed to build on its established activities and broader media interests to take advantage of improved market conditions and new opportunities as they arise

DIRECTORS

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 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 subject to floating and fixed interest rates respectively The Group utilises interest rate swaps with a fixed rate to manage its liabilities 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 £790,000 (2010 £551,000) including contributions to a charitable trust (note 34)

There were no political contributions made during the year (2010 £nil)

NORTHERN & SHELL MEDIA GROUP LIMITED

DIRECTORS' REPORT

For the year ended 31 December 2011

DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information

AUDITORS

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office

By order of the Board

Mr R Sanderson
Secretary

Date 19 April 2012

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

NORTHERN & SHELL MEDIA GROUP LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the Group and Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 Group and Parent Company and of their profit or loss for that period In preparing each of the Group and Parent Company financial statements, the directors are required to

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

KPMG

8 Salisbury Square
London
EC4Y 8BB
United Kingdom

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

NORTHERN & SHELL MEDIA GROUP LIMITED

For the year ended 31 December 2011

We have audited the financial statements of Northern & Shell Media Group Limited for the year ended 31 December 2011 set out on pages 11 to 46 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/private cfm

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements

- give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2011 and of the Group's profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

NORTHERN & SHELL MEDIA GROUP LIMITED

For the year ended 31 December 2011

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

Adrian John Wilcox (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
KPMG LLP
8 Salisbury Square
London, EC4Y 8BB
United Kingdom

Date 20 April 2012

NORTHERN & SHELL MEDIA GROUP LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2011

	Notes	2011 £000	2010 £000
Turnover (including share of joint ventures)	2	**713,618**	524,805
Less share of joint venture turnover		**(24,823)**	(28,538)
GROUP TURNOVER		**688,795**	496,267
Continuing operations		**664,726**	460,984
Acquisitions		**10,032**	-
Discontinued operations		**14,037**	35,283
	4	**688,795**	496,267
Cost of sales	4	**(462,971)**	(299,682)
GROSS PROFIT	4	**225,824**	196,585
Distribution costs	4	**(25,627)**	(29,419)
Administrative expenses	3/4	**(221,960)**	(135,169)
Other operating income	4	**1,099**	3,489
GROUP OPERATING (LOSS)/PROFIT		**(20,664)**	35,486
Continuing operations		**8,773**	38,470
Acquisitions		**(22,113)**	-
Discontinued operations		**(7,324)**	(2,984)
	4	**(20,664)**	35,486
Share of operating (loss)/profit of Joint Ventures (after £nil (2010 £0 9m) goodwill amortisation)		**(116)**	720
TOTAL OPERATING (LOSS)/PROFIT	2/5	**(20,780)**	36,206
Profit on sale of a discontinued operation	26	**11,882**	-
Profit on financing reorganisation	22	**23,727**	-
Other interest receivable and similar income	7	**463**	649
Interest payable and similar charges	8	**(9,623)**	(5,585)
Other financing expenses	32	**(690)**	(995)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	**4,979**	30,275
Tax on profit on ordinary activities	9	**35,259**	22,235
PROFIT FOR THE FINANCIAL YEAR	28	**40,238**	52,510

The notes on pages 16 to 46 form part of these financial statements

NORTHERN & SHELL MEDIA GROUP LIMITED

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2011

	Notes	2011 £000	2010 £000
Profit/(loss) for the financial year			
- Group		**40,471**	51,147
- Joint Ventures		**(233)**	1,363
		40,238	52,510
Revaluation reserve – deficit on revaluation of property	12	**(220)**	(229)
Actuarial loss recognised in the pension scheme	32	**(3,867)**	(4,645)
Movement on deferred tax relating to pension liability		**967**	1,254
Total gains recognised since last annual report		**37,118**	48,890
- Group		**38,182**	49,508
- Joint Ventures		**(1,064)**	(618)
Total gains recognised since last annual report		**37,118**	48,890

NORTHERN & SHELL MEDIA GROUP LIMITED

CONSOLIDATED BALANCE SHEET as at 31 December 2011

	Notes	2011 £000	2010 £000
FIXED ASSETS			
Intangible assets	11	**54,053**	63,804
Tangible assets	12	**143,135**	107,057
Investments	13		
Interests in joint ventures			
Share of gross assets		**3,609**	4,146
Share of gross liabilities		**(4,003)**	(4,569)
		(394)	(423)
Other Investments		**107**	107
		(287)	(316)
		196,901	170,545
CURRENT ASSETS			
Stocks	14	**5,809**	7,100
Programme inventory	15	**118,236**	134,093
Debtors	16	**165,576**	119,372
Current asset investments	18	**-**	411
Cash at bank and in hand		**61,297**	91,248
		350,918	352,224
CREDITORS: amounts falling due within one year	19	**(246,219)**	(240,708)
NET CURRENT ASSETS		**104,699**	111,516
TOTAL ASSETS LESS CURRENT LIABILITIES		**301,600**	282,061
CREDITORS: amounts falling due after more than one year	20	**(145,878)**	(143,972)
PROVISIONS FOR LIABILITIES AND CHARGES	21	**(7,845)**	(22,975)
NET ASSETS excluding pension liability		**147,877**	115,114
PENSION LIABILITY	32	**(47,641)**	(51,996)
NET ASSETS including pension liability		**100,236**	63,118
CAPITAL AND RESERVES			
Called up share capital	27	**110**	110
Other reserves	28	**3,860**	3,860
Revaluation reserve	28	**(3,424)**	(3,204)
Profit and loss account	28	**99,690**	62,352
TOTAL SHAREHOLDERS' FUNDS	28	**100,236**	63,118

These financial statements were approved by the Board of Directors and signed on its behalf by

Mr R C Desmond
Chairman
Date 19 April 2012

Company registered number 4086466

NORTHERN & SHELL MEDIA GROUP LIMITED

COMPANY BALANCE SHEET as at 31 December 2011

	Notes	2011 £000	2010 £000
FIXED ASSETS			
Tangible assets	12	6,300	6,520
Investments	13	110	110
		6,410	6,630
CURRENT ASSETS			
Debtors	16	209,509	189,146
CREDITORS. amounts falling due within one year	19	(153,440)	(139,206)
NET CURRENT ASSETS		56,069	49,940
TOTAL ASSETS LESS CURRENT LIABILITIES		62,479	56,570
CREDITORS amounts falling due after more than one year	20	(60,640)	(53,949)
NET ASSETS		1,839	2,621
CAPITAL AND RESERVES			
Called up share capital	27	110	110
Revaluation reserve	28	(3,424)	(3,204)
Profit and loss account	28	5,153	5,715
TOTAL SHAREHOLDERS' FUNDS	28	1,839	2,621

These financial statements were approved by the Board of Directors and signed on its behalf by

Mr R C Desmond
Chairman
Date 19 April 2012

Company registered number 4086466

NORTHERN & SHELL MEDIA GROUP LIMITED

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2011

	Notes	2011 £000	2010 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	29	**13,462**	80,933
DIVIDENDS RECEIVED FROM JOINT VENTURES		**831**	1,981
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**463**	648
Interest paid		**(7,180)**	(5,429)
Interest element of finance lease rentals		**(4)**	(20)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		**(6,721)**	(4,801)
TAXATION		**(2,679)**	(234)
CAPITAL EXPENDITURE			
Payments to acquire tangible fixed assets		**(39,024)**	(20,712)
Payments to acquire intangible assets		**(646)**	(816)
Receipts from disposal of fixed assets		**52**	12
NET CASH OUTFLOW FOR CAPITAL EXPENDITURE		**(39,618)**	(21,516)
ACQUISTIONS AND DISPOSALS			
Contributions to Joint Ventures		**(1,093)**	(445)
Purchase of subsidiary undertaking	25	**(804)**	-
Sale of business	26	**14,445**	-
NET CASH INFLOW/(OUTFLOW) FROM ACQUISTIONS AND DISPOSALS		**12,548**	(445)
NET CASH (OUTFLOW)/INFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING		**(22,177)**	55,918
MANAGEMENT OF LIQUID RESOURCES			
Sale of government bonds		**411**	33,170
NET CASH INFLOW FROM MANAGEMENT OF LIQUID RESOURCES		**411**	33,170
FINANCING			
External loan repayments		**(23,111)**	(129,305)
New loan finance		**15,000**	60,000
Capital element of finance lease rentals		**(74)**	(153)
NET CASH OUTFLOW FROM FINANCING		**(8,185)**	(69,458)
(DECREASE)/INCREASE IN NET CASH	30/31	**(29,951)**	19,630

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 2006 and applicable accounting standards The principal accounting policies are set out below

(b) Going Concern

The directors have a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts

(c) 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

(d) 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

Public Service Broadcasting revenue includes amounts invoiced for advertisements transmitted, programme rights sold, internet advertising, premium rate telephone revenues associated with programmes broadcast and other sales Revenue is stated exclusive of value added tax and net of agency commissions

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured The following specific recognition criteria must also be met before revenue is recognised

- Advertising sales are recognised when the related advertisement is broadcast
- Sales of programme rights under licence are recognised when the licence period commences and the sale is unconditional
- Premium rate telephone revenues are recognised when the related programme is broadcast

Television subscription revenue is recognised evenly over the period of the subscription and pay per view revenue is recognised in the period in which the broadcast occurs

Lottery turnover represents the gross amount receivable for lottery management services and money transfer and money handling services (stated net of value added tax or other applicable sales taxes) Turnover is recognised when the lottery draw to which the services relate has taken place

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

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) 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 and associated 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

(f) 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 Express Newspapers in 2000, the Channel 5 Television group in 2010 and The Health Lottery group during the year, 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% 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

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Intangible fixed assets (continued)

Videostream assets

Videostream assets are stated at cost less accumulated amortisation Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition and intended use

The videostream asset is the investment in Top Up TV 1 Limited which is amortised over its finite life This asset reflects the two videostreams used to broadcast the Group's Channel 5 digital channels Amortisation is calculated on a straight-line basis over the estimated useful life of the asset which is 7 years

An intangible fixed asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit and loss account in year the item is derecognised

(g) 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 2006, 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
Freehold land	No depreciation
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

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

(h) 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

(i) 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

(j) 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 equities and corporate bonds

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) 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

(l) Programme inventory

Programme inventory is acquired with the primary intention to be broadcast in the normal course of the Group's operating cycle The term "programme inventory" covers acquired programme rights and commissioned programmes

Programme inventory is stated at the lower of cost and net realisable value

Where programme rights are surplus to the Group's requirements or where the programme will not be broadcast for any other reason, a write-down to the profit and loss account is made within cost of sales Reversals of programme rights write-downs are recognised as reductions in cost of sales

Programme rights are recognised according to the following criteria

- Acquired programme rights are recognised at the level of payments made until the rights are available for transmission, whereupon the full cost of the rights is recognised within programme rights in current assets For the majority of programmes transmitted on the Channel 5 main channel, costs are recognised over the first two transmissions The exception to this is major films, for which costs are recognised over three transmissions Acquired programme costs for programmes transmitted on multi-channel are recognised over up to six transmissions

- The cost of commissioned programmes is recognised as costs are incurred (for fully funded programmes) or when completed episodes are available from the production Company The total cost is expensed to the profit and loss account on the date of first transmission

(m) 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

(n) 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

(o) 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)

(o) 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

(p) 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

(q) 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 25% (2010 27%)

(r) 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

(s) 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, printing and lottery management activities The Group's turnover also includes income from its insurance activities

The Group's turnover, profits before taxation and net assets are principally attributable to activities in the United Kingdom Activities in the United States of America were discontinued as of 22 June 2011 (note 26)

Turnover in respect of continuing joint venture entities arises principally from publishing activities in the Republic of Ireland, Australia and Germany

Segmental analysis is presented after elimination of intra-group sales, profits/(losses) and balances

	2011 £000	2010 £000
Turnover (including share of Joint Ventures)		
Publishing and printing	**306,580**	312,426
Publishing and printing (discontinued - note 4)	**14,037**	35,283
Publishing and printing - Joint Ventures	**24,823**	28,538
Broadcasting - public service	**341,748**	129,779
Broadcasting – other	**16,398**	18,728
Insurance	**-**	51
Lottery management	**10,032**	-
	713,618	524,805
Group operating profit – including Joint Ventures		
Publishing and printing	**35,260**	46,722
Publishing and printing (discontinued – note 4)	**(7,324)**	(2,984)
Publishing and printing - Joint Ventures	**(116)**	720
Broadcasting - public service	**19,884**	(10,942)
Broadcasting - other	**1,563**	2,449
Insurance	**(47,135)**	(31)
Property Investment	**(56)**	662
Lottery management	**(22,113)**	-
	(20,037)	36,596
Foreign exchange loss (note 5)	**(743)**	(390)
	(20,780)	36,206
Group – excluding Joint Ventures	**(20,664)**	35,486
Joint Ventures	**(116)**	720
Total operating (loss)/profit	**(20,780)**	36,206
Profit before taxation		
Publishing and printing	**36,664**	44,789
Publishing and printing (discontinued)	**4,569**	(2,984)
Publishing and printing - Joint Ventures	**(116)**	720
Broadcasting - public service	**17,693**	(12,064)
Broadcasting - other	**19,127**	40
Insurance	**(47,128)**	(25)
Property Investment	**(2,974)**	189
Lottery management	**(22,113)**	-
	5,722	30,665
Foreign exchange loss (note 5)	**(743)**	(390)
	4,979	30,275

2. SEGMENTAL ANALYSIS (Continued)

Net operating assets (including pension deficit)	2011 £000	2010 £000
Publishing and printing	**30,107**	(12,867)
Publishing and printing (discontinued)	**(1,019)**	(3,265)
Publishing and printing - Joint Ventures	**(394)**	(424)
Broadcasting - public service	**70,184**	57,420
Broadcasting - other	**(1,448)**	(160)
Insurance	**(60,369)**	(17)
Property Investment	**6,068**	6,204
Lottery management	**5,458**	-
	48,587	46,891

Reconciliation of net operating assets to net assets		
Net operating assets	**48,587**	46,891
Investments	**107**	518
Corporation tax	**(4,459)**	(36,369)
Deferred tax - asset	**62,656**	55,396
Net deficit	**(6,655)**	(3,318)
	100,236	63,118

3 ADMINISTRATIVE EXPENSES

	2011 £000	2010 £000
Chairman's emoluments and pension contributions	**171**	234
Insurance expenses (note 21)	**46,561**	-
Other administrative expenses	**175,228**	134,935
	221,960	135,169

4 ANALYSIS OF CONTINUING AND DISCONTINUED OPERATIONS

	2011 Continuing Operations £000	2011 Acquisitions (Note 25) £000	2011 Discontinued Operations (Note 26) £000	2011 Total £000	2010 Continuing Operations £000	2010 Discontinued Operations (Note 26) £000	2010 Total £000
Group turnover	664,726	10,032	14,037	**688,795**	460,984	35,283	496,267
Cost of sales	(454,763)	-	(8,208)	**(462,971)**	(278,259)	(21,423)	(299,682)
Gross profit	209,963	10,032	5,829	**225,824**	182,725	13,860	196,585
Distribution costs	(22,754)	-	(2,873)	**(25,627)**	(24,175)	(5,244)	(29,419)
Administrative expenses	(179,535)	(32,145)	(10,280)	**(221,960)**	(123,569)	(11,600)	(135,169)
Other operating income	1,099	-	-	**1,099**	3,489	-	3,489
Group operating (loss)/profit	8,773	(22,113)	(7,324)	**(20,664)**	38,470	(2,984)	35,486

5. NOTES TO THE PROFIT AND LOSS ACCOUNT

	2011 £000	2010 £000
Profit on ordinary activities before tax is stated after charging/(crediting)		
Depreciation – owned assets	12,067	10,011
Depreciation – leased assets	323	668
Amortisation of trademarks	3	4
Amortisation of programming rights	870	1,026
Amortisation of videostream assets	8,922	3,960
Amortisation of goodwill – acquisitions	4,590	3,725
Amortisation of goodwill – Joint Ventures	-	886
Profit on disposal of fixed assets	(6)	(11)
Operating lease rentals – plant and machinery	383	408
Operating lease rentals – other	13,043	12,316
Foreign exchange loss	743	390
Rates rebate expense	1,500	-
Other operating income	-	(2,445)
Operating lease rentals – other income	(3,143)	(3,208)

Services provided by the Group's auditor and associated firms

During the year, the Group (including its overseas subsidiaries) obtained the following services from KPMG LLP, at costs as detailed below

	2011	2010
Audit services		
Fees payable to the Company's auditor for the audit of the Company and consolidated accounts	25	22
Other services		
Fees payable to the Company's auditor and its associates for the audit of associates to the Company pursuant to legislation	439	375
All other services	4	9
Other services provided pursuant to such legislation	232	150

Audit fees for the Company are borne by subsidiary undertakings

Restructuring costs

The following costs are included within administration expenses They relate to the re-organisation and integration costs of the acquisition of the Channel 5 group

	2011 £000	2010 £000
Redundancy costs	1,321	9,809
Onerous lease	-	1,187

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

(a) Directors

	2011 £000	2010 £000
Emoluments	2,235	1,723
Company contributions to money purchase pension schemes	154	73
	2,389	1,796

Pension benefits are accruing to five directors under money purchase pension schemes (2010 five directors)

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

	2011 £000	2010 £000
Emoluments	1,090	595
Company contributions to money purchase pension schemes	16	16
	1,106	611

(b) Staff costs (including directors)

	2011 £000	2010 £000
Wages and salaries	73,826	67,012
Social security costs	8,559	7,287
Pension costs	2,970	(7,693)
	85,355	66,606

Pension costs include an FRS17 pension charge of £1 2 million (2010 £10 3 million credit) (note 32)

Average number of people employed by activity

	2011 Number	2010 Number
Production	854	876
Selling and distribution	251	178
Administration	242	200
	1,347	1,254

7. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2011 £000	2010 £000
Bank deposit and government bond interest	**349**	360
Other interest receivable	**113**	288
Joint venture interest receivable	**1**	1
	463	649

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2011 £000	2010 £000
Bank loans and overdrafts	**3,632**	4,109
Finance leases	**4**	20
Amortisation of financing charges	**139**	362
Other interest payable	**3,181**	1,094
Settlement of interest rate swaps	**2,667**	-
	9,623	5,585

9 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2011 £000	2010 £000
Current tax		
UK corporation tax on profit for the year at 26 5% (2010 28 0%)	172	195
Adjustments in respect of previous periods	(29,285)	(3,059)
Foreign taxes suffered	202	224
Double taxation relief	(172)	(195)
Share of Joint Venture taxation	117	241
Total current tax credit	(28,966)	(2,594)
Deferred tax		
Origination and reversal of timing differences (accelerated capital allowances and other)	(3,524)	(100)
Adjustments in respect of previous periods	(7,087)	(26,428)
Total deferred tax credit excluding deferred tax on pension liability (note 17)	(10,611)	(26,528)
Pension cost relief in excess of pension cost charge	4,318	6,887
Total deferred tax credit (note 17)	(6,293)	(19,641)
Tax on profit on ordinary activities	(35,259)	(22,235)

The tax assessed for the year differs from the rate of 26 5% (2010 28 0%) and the differences are explained below

	2011 £000	2010 £000
Profit on ordinary activities before tax	4,979	30,275
Profit on ordinary activities multiplied by the rate of 26 5% (2010 28 0%)	1,319	8,477
Effects of		
Net effect of expenses not deductible for tax and income not subject to tax	(3,299)	4,124
Excess of depreciation over capital allowances and other timing differences	(2,095)	(7,372)
Adjustments in respect of previous periods	(29,285)	(3,059)
Profits subject to lower level of overseas tax	(75)	(370)
Non tax deductible goodwill amortisation and other permanent differences	1,216	1,292
Deferred tax assets not recognised	12,845	(782)
Utilisation of losses	(9,592)	(4,904)
Current tax credit for the year	(28,966)	(2,594)

On 23 March 2011, the Chancellor announced a reduction in the main rate of UK corporation tax to 26%, with effect from 1 April 2011 On 5 July 2011, a further reduction in the UK corporation tax rate from 26% to 25%, with effect from 1 April 2012, became substantively enacted The effect of the rate reduction on the deferred tax balances as at 31 December 2011 has been included in the figures above

The Chancellor also announced proposed changes to further reduce the main rate of corporation tax to 22% by 1 April 2014, but these changes have not yet been substantively enacted and therefore are not included in the figures above The overall effect of the further reductions from 25% to 22%, if these applied to the deferred tax balance at 31 December 2011, would be to further reduce the deferred tax asset by approximately £7 5 million

9 TAXATION ON PROFIT ON ORDINARY ACTIVITIES (Continued)

Factors that may effect future tax charges

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

10. PROFIT OF THE COMPANY

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account The Company's loss for the year amounted to £562,000 (2010 profit of £575,000)

11. INTANGIBLE ASSETS

	Trademarks	Goodwill	Programming Rights	Videostream Assets	Total
	£000	£000	£000	£000	£000
THE GROUP					
Cost					
At 1 January 2011	156	62,236	7,628	65,426	135,446
Additions	-	3,988	646	-	4,634
At 31 December 2011	**156**	**66,224**	**8,274**	**65,426**	**140,080**
Amortisation					
At 1 January 2011	117	27,520	6,087	37,918	71,642
Charge for the year	3	4,590	870	8,922	14,385
At 31 December 2011	**120**	**32,110**	**6,957**	**46,840**	**86,027**
Net book amounts					
At 31 December 2011	**36**	**34,114**	**1,317**	**18,586**	**54,053**
At 31 December 2010	39	34,716	1,541	27,508	63,804

On 17 February 2011, the Group acquired 100% of the ordinary share capital in The Health Lottery Limited group Goodwill of £4 0 million arose on acquisition (note 25)

12 TANGIBLE ASSETS

THE GROUP	Assets under construction £000	Land and Buildings £000	Motor Vehicles, Plant and Machinery £000	Fixtures, Fittings and Office Equipment £000	Total £000
Cost/valuation					
At 1 January 2011	15,487	98,506	216,697	51,125	381,815
Acquisition	-	-	-	305	305
Additions	-	21,393	20,061	7,254	48,708
Disposals	-	(37)	(1,302)	(1,003)	(2,342)
Transfer	(15,487)	353	15,134	-	-
Revaluation	-	(220)	-	-	(220)
At 31 December 2011	-	**119,995**	**250,590**	**57,681**	**428,266**
Depreciation					
At 1 January 2011	-	30,622	206,298	37,838	274,758
Acquisition	-	-	-	279	279
Charge for the year	-	3,408	3,708	5,274	12,390
Disposals	-	(37)	(1,302)	(957)	(2,296)
At 31 December 2011	-	**33,993**	**208,704**	**42,434**	**285,131**
Net book amounts					
At 31 December 2011	-	**86,002**	**41,886**	**15,247**	**143,135**
At 31 December 2010	15,487	67,884	10,399	13,287	107,057

Included within land and buildings is an investment property from which the Group derives rental income, which was previously recorded at an open market valuation of £6 5 million The property was valued at £6 3 million by Peter Galan & Company, a qualified chartered surveyor, as at 31 December 2011 on the basis of open market value At 31 December 2011 the property is stated at the open market valuation of £6 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 2011 would be £5 0 million (2010 £4 8 million) The net book value at 31 December 2011 would be £5 5 million (2010 £5 7 million)

Land and buildings includes the following assets at net book value as at 31 December 2011

- freehold land and buildings £27 0 million (2010 £27 4 million)
- long leasehold land £10 8 million (2010 £11 0 million)
- short leasehold buildings £48 4 million (2010 £29 5 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 2011, the net book value was £100,000 (2010 £423,000) after charging £323,000 (2010 £665,000) depreciation for the year

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

- Land and buildings £630,000 (2010 £664,000)

12 TANGIBLE ASSETS (Continued)

THE COMPANY

The tangible fixed assets of the Company at 31 December 2011 amount to £6 3 million (2010 £6 5 million) and consist entirely of the investment property referred to above

13. FIXED ASSET INVESTMENTS

THE GROUP	2011 £000	2010 £000
Interest in Joint Ventures		
At 1 January - net liabilities	**(423)**	(250)
- goodwill (gross)	**9,856**	9,856
	9,433	9,606
Share of (loss)/profit	**(233)**	1,363
Movement in profit and loss reserves	**(831)**	(1,981)
Capital contributions	**1,093**	445
	29	(173)
At 31 December - net liabilities	**(394)**	(423)
- goodwill (gross)	**9,856**	9,856
	9,462	9,433
Aggregate amortisation of goodwill		
At 1 January	**(9,856)**	(8,970)
Charge for the year	**-**	(886)
At 31 December	**(9,856)**	(9,856)
Net book amount at 31 December		
Net liabilities	**(394)**	(423)
Goodwill	**-**	-
	(394)	(423)
Other fixed asset investment	**107**	107
Total fixed asset investments	**(287)**	(316)

Interests in joint ventures principally comprise

- 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 'Irish Daily 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

13. FIXED ASSET INVESTMENTS (Continued)

Details of investments in Joint Venture Companies

	2011 £000	2010 £000
Summary of Joint Venture net assets		
Share of fixed assets	**663**	682
Share of current assets	**2,946**	3,464
Share of gross assets	**3,609**	4,146
Share of liabilities		
Due within one year	**(3,656)**	(4,074)
Due after one year	**(347)**	(495)
Share of gross liabilities	**(4,003)**	(4,569)
Net liabilities	**(394)**	(423)

For the year ended 31 December 2011 the Joint Ventures do not exceed the 15% and 25% thresholds and therefore the Group's share of its principal joint venture has not been disclosed

THE COMPANY	2011 £000	2010 £000
Shares in group undertakings		
At 1 January 2011 and 31 December 2011	**110**	110

The immediate subsidiary undertakings and their percentage holdings are

	Principal activity	Ordinary shares
Northern & Shell Network Limited	Publishing, printing, broadcasting and lottery management	100%
Northern & Shell Broadcasting Limited	Television broadcasting	100%
West Ferry Leasing Limited	Leasing assets	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 35

14. STOCKS

	2011 £000	2010 £000
Raw materials and consumables	5,809	7,100

15. PROGRAMME INVENTORY

	2011 £000	2010 £000
Commissioned programmes	20,646	26,163
Acquired programmes	97,590	107,930
	118,236	134,093

16 DEBTORS

	The Group	
	2011 £000	2010 £000
Trade debtors	64,256	58,334
Other debtors	20,679	3,345
Amounts owed by related party	442	728
Prepayments and accrued income	33,423	20,800
Deferred tax asset (note 17)	46,776	36,165
	165,576	119,372

	The Company	
	2011 £000	2010 £000
Amounts owed by group undertakings	209,509	189,146

Amounts owed by group undertakings carry interest between 2 0% and 2 5% above base rate or LIBOR, are unsecured and repayable on demand Amounts owed by dormant group undertakings, included in amounts owed by group undertakings, and amounts owed by group undertakings with respect to group relief, are non-interest bearing

17. DEFERRED TAX ASSET

	£000
At 1 January 2011	(36,165)
Credited to the profit and loss account (note 9)	(10,611)
At 31 December 2011	(46,776)

The deferred taxation provided in these financial statements is as follows

	2011 £000	2010 £000
Provision for deferred tax including deferred tax on pension liability		
Accelerated capital allowances	582	(1,081)
Other timing differences	(5,223)	(5,277)
Losses	(42,135)	(29,807)
Deferred tax excluding that relating to pension liability	(46,776)	(36,165)
Deferred tax on pension liability (note 32)	(15,880)	(19,231)
Total provision for deferred tax – asset	(62,656)	(55,396)
1 January 2011	(55,396)	(34,501)
Deferred tax credit in profit and loss account (note 9)	(6,293)	(19,641)
Deferred tax on the actuarial loss on the pension scheme charged to the statement of total recognised gains and losses	(967)	(1,254)
At 31 December 2011	(62,656)	(55,396)

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

18 CURRENT ASSET INVESTMENTS

	The Group	
	2011 £000	2010 £000
Corporate bonds	-	1
Quoted investments	-	392
Unquoted investments	-	18
	-	411

19 CREDITORS: amounts falling due within one year

	The Group	
	2011	2010
	£000	£000
Bank loans and overdrafts (notes 22 and 31)	8,309	10,797
Less deferred finance charges	(557)	(528)
Trade creditors	119,429	105,309
Other creditors	31,417	18,958
Taxation and social security	12,631	8,054
Obligations under finance leases (note 23)	-	74
Corporation tax	4,459	36,234
Redeemable ordinary 'B' shares	900	900
Accruals and deferred income	69,631	60,910
	246,219	240,708

	The Company	
	2011	2010
	£000	£000
Bank loans (note 22)	8,309	8,297
Less deferred finance charges	(557)	(327)
Amounts owed to group undertakings with respect to group relief	97	452
Amounts owed to group undertakings	144,899	130,159
Accruals and deferred income	692	625
	153,440	139,206

Amounts owed to group undertakings carry interest at 2 0% above base rate, are unsecured and repayable on demand Amounts owed with respect to group relief are non-interest bearing

20 CREDITORS. amounts falling due after more than one year

	The Group	
	2011	2010
	£000	£000
Bank loans (notes 22 and 31)	60,640	84,949
Other creditors	56,936	22,627
Trade creditors	28,302	36,396
	145,878	143,972

	The Company	
	2011	2010
	£000	£000
Bank loan (note 22)	60,640	53,949

21 PROVISIONS FOR LIABILITIES AND CHARGES

	Insurance claims provision	Other provisions	Total
	£000	£000	£000
The Group			
At 1 January 2011	13,891	9,084	22,975
Credited to the profit and loss account	-	(1,239)	(1,239)
Utilised during the year	(13,891)	-	(13,891)
At 31 December 2011	-	**7,845**	**7,845**

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 During the year, a claim of £60 5 million was made against the company resulting in the utilisation of the provision The excess of the claim over the provision of £46 6 million has been charged to the profit and loss account (note 3) As at 31 December 2011 the provision amounted to £nil (2010 £13 9 million)

Other provisions of £7 8 million relate to the provision for onerous rental commitments of £3 9 million (2010 £7 5 million) at the main business premises, Number 10 Lower Thames Street, and other provisions of £0 6 million (2010 £1 2 million), £0 6 million (2010 £0 4 million) and £2 7 million (2010 £nil) at other business premises 22 Long Acre, 4 Selsdon Way London and 1155 Avenue of the Americas, respectively These provisions are expected to be utilised during the periods to 31 December 2017, 31 December 2017, 31 December 2012 and 31 December 2018 respectively

22. BANK LOAN OBLIGATIONS

	The Group	
	2011	**2010**
	£000	**£000**
The Group's bank loan obligations are due		
Within one year	**8,309**	10,797
In more than one year but not more than two years	**13,140**	11,305
In more than two years but not more than five years	**47,500**	73,644
	68,949	95,746
Less deferred finance charges	**(557)**	(528)
	68,392	95,218

22. BANK LOAN OBLIGATIONS (Continued)

Durıng the year, following dıscussıons with the bank, the Group re-negotiated its £33 5 million (as at 31 December 2010) bank loan facility with its previous bankers The Group settled interest rate swap arrangements, with a payment of £2 7 million made by the Group to the bank and paid £2 3 million of the outstanding facility The remaining facility was assigned to a related undertaking by the bank

Included in bank loans is a loan of £52 5 million which carries interest at LIBOR plus 1 4%, £22 5 million of which is repayable in six monthly installments over three years, with a final bullet repayment of £30 0 million, also included is a £15 0 million revolving credit facility entered into during the year which carries interest at LIBOR plus 2 0%, the total facility available is £30 0 million and is repayable in six monthly installments over three years The balance of £1 4 million is secured on the investment property held by the Group, is repayable over two years and carries interest at the Natwest bank base rate plus 1 0% Bank loans are guaranteed by the Group (note 33)

The Group has entered into certain interest rate swap arrangements The £52 5 million loan is fixed at a blended LIBOR rate of 3 2%

THE COMPANY

The Company's bank loan obligations of £68 9 million (2010 £62 2 million), of which £8 3 million is due within one year (2010 £8 3 million) and £60 6 million is due after more than one year (2010 £53 9 million), are subject to the terms and conditions set out in respect of the £52 5 million, £15 0 million and £1 4 million Group bank loans above

23. OBLIGATIONS UNDER FINANCE LEASES

The Group is subject to finance lease obligations which are due

	2011 £000	2010 £000
Within one year	-	74
	-	74

24. OPERATING LEASE COMMITMENTS

At 31 December 2011, the Group was committed to making the following annual payments in respect of operating leases which expire

	Land and Buildings		Other	
	2011 £000	2010 £000	2011 £000	2010 £000
Within one year	-	7	12,280	599
Two to five years	1,855	1,342	45,142	64,927
After five years	11,984	11,069	-	-
	13,839	12,418	57,422	65,526

Other operating lease commitments include amounts payable for transmission and distribution services

25 ACQUISITIONS

On 17 February 2011, the Group acquired 100% of the ordinary share capital in The Health Lottery Limited, the parent company of The Health Lottery group, for a total consideration of £3 1 million, comprising £0 8 million for the share capital and £2 3 million for the settlement of loans due to the vendor The resulting goodwill of £4 0 million was capitalised and will be written off over 20 years, in line with the Group's accounting policy for acquisitions

Details of the net book value and fair value of the company's net liabilities at acquisition date are set out below At 31 December 2011, the company was 100% owned by the Group and accordingly has been accounted for as a subsidiary undertaking

	Book and Fair value at 17 February 2011 £000
Fixed assets	
Tangible fixed assets	26
Current assets	
Debtors	265
Total assets	291
Creditors	(3,475)
Net liabilities	(3,184)
Goodwill (note 11)	3,988

26. DISPOSALS

On 22 June 2011, the trade and certain assets of Northern & Shell North America Limited, a subsidiary undertaking, were sold to Odyssey Magazine Publishing Group LLC for a total consideration of $23 0 million (sterling equivalent £14 4 million), a profit on disposal of £11 9 million An operating loss of £7 3 million (2010 £3 0 million) is attributable to this operation and has been disclosed as discontinued operations within note 4

27 SHARE CAPITAL

	The Group & Company			
	Authorised		Allotted and Fully Paid	
	2011 £000	2010 £000	2011 £000	2010 £000
110,000 Ordinary shares of £1 each	**110**	110	**110**	110

28. RESERVES AND SHAREHOLDERS' FUNDS

a) Reserves

	The Group		
	Other reserves £000	Revaluation reserve £000	Profit & loss £000
At 1 January 2011	3,860	(3,204)	62,352
Deficit on revaluation of property	-	(220)	-
Profit for the year	-	-	40,238
Actuarial loss on pension scheme (note 32)	-	-	(3,867)
Movement on deferred tax relating to pension scheme	-	-	967
At 31 December 2011	**3,860**	**(3,424)**	**99,690**

	The Company	
	Revaluation reserve £000	Profit & loss £000
At 1 January 2011	(3,204)	5,715
Loss for the year	-	(562)
Deficit on revaluation of property	(220)	-
At 31 December 2011	**(3,424)**	**5,153**

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 12, in line with SSAP 19

28. RESERVES AND SHAREHOLDERS' FUNDS (Continued)

b) Reconciliation of movements in shareholders' funds	The Group 2011 £000	2010 £000
Profit for the year	40,238	52,510
Deficit on revaluation of property	(220)	(229)
Actuarial loss on pension scheme (note 32)	(3,867)	(4,645)
Movement on deferred tax relating to pension scheme	967	1,254
Net increase in shareholders' funds	37,118	48,890
Opening shareholders' funds	63,118	14,228
Closing shareholders' funds	100,236	63,118

	The Company 2011 £000	2010 £000
(Loss)/profit for the year	(562)	575
Deficit on revaluation of property	(220)	(229)
Net (decrease)/increase in shareholders' funds	(782)	346
Opening shareholders' funds	2,621	2,275
Closing shareholders' funds	1,839	2,621

29 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW

	2011 £000	2010 £000
Operating (loss)/profit	(20,664)	35,486
Depreciation charge	12,390	10,679
Amortisation of intangible assets	14,385	8,715
Profit on sale of tangible assets	(6)	(3)
Decrease/(increase) in stocks	1,291	(2,827)
(Increase)/decrease in debtors	(19,471)	29,505
Increase/(decrease) in creditors	52,927	17,870
Difference between pension costs and cash contributions	(12,260)	(23,213)
(Decrease)/increase in provisions	(15,130)	4,721
Net cash inflow from operating activities	13,462	80,933

30 RECONCILIATION OF NET CASH FLOW TO MOVEMENTS IN NET FUNDS

	2011 £000	2010 £000
Net (deficit)/funds at 1 January	**(4,161)**	38,697
(Decrease)/increase in cash in the year	**(29,951)**	19,630
Cash acquired with subsidiary	**-**	346
Cash outflow from finance lease payments	**74**	153
Loan acquired with subsidiary	**(2,314)**	(99,122)
Loan finance received	**(15,000)**	(60,000)
Loan finance repaid	**23,111**	129,305
Other non cash changes	**21,000**	-
Cash inflow from liquid resources	**(411)**	(33,170)
Net deficit at 31 December	**(7,652)**	(4,161)

31. ANALYSIS OF CHANGES IN NET DEFICIT

	1 January £000	Cash flow £000	Non cash £000	31 December £000
Cash in hand and at bank	91,248	(29,951)	-	**61,297**
Finance leases	(74)	74	-	**-**
Loan finance due within one year	(10,797)	2,488	-	**(8,309)**
Loan finance due after one year	(84,949)	3,309	21,000	**(60,640)**
	(95,820)	5,871	21,000	**(68,949)**
Liquid resources	411	(411)	-	**-**
Net deficit	(4,161)	(24,491)	21,000	**(7,652)**

32 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 2009 The latest full actuarial valuation of the West Ferry Printers Pension Fund was carried out as at 31 December 2008 The results below have been updated by a qualified independent actuary using the projected unit valuation method Both the Express Newspaper schemes and the West Ferry Printers scheme were closed to future accruals with effect from 31 December 2008 and 28 February 2010 respectively The Group currently has an agreed recovery plan in respect of the shortfall in funding and has paid £9 2 million (2010 £7 8 million) into the 1988 Pension Fund during the year, £500,000 (2010 £453,000) into the Senior Management Pension Fund and £2 4 million (2010 £1 8 million) into the West Ferry Printers Pension Fund All three Funds are defined benefit schemes The Group expects to contribute £12 5 million towards the deficit in 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 £1 9 million (2010 £2 0 million) At 31 December 2011, contributions of £155,000 were outstanding (2010 £204,000) These have been paid in full after the year end

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

	2011	2010	2009
Discount rate	4 80%	5 50%	5 90%
Rate of increase in salaries*	N/A	N/A	3 50%/N/A
Rate of LPI increase in pensions in payment	2 80%-3 10%	3 30%-3 60%	3 50%-3 70%
Inflation assumption	2 0%	2 50%	3 50%

* Applicable to West Ferry Printers Scheme only

The mortality assumptions used in the calculation at 31 December 2011 were

Express Newspapers 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

Express Newspapers Senior Management Fund 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

West Ferry Printers 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 The base table has been adjusted for an age rating of +2 for both males and females

32. 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, the Express Newspapers Senior Management Pension Fund and the West Ferry Printers Pension 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 2011*	Fair value at 2011 £000	Long-term rate of return expected at 2010	Fair value at 2010 £000	Long-term rate of return expected at 2009	Fair value at 2009 £000
Equities	5 24%	75,182	6 27%	92,398	6 74%	71,500
Gilts	5 24%	118,680	6 27%	100,101	6 74%	104,500
Corporate bonds	5 24%	65,724	6 27%	92,411	6 74%	92,800
Other	5 24%	308,058	6 27%	229,340	6 74%	206,900
Total market value of assets		567,644		514,250		475,700
Present value of scheme liabilities		(618,291)		(585,477)		(564,500)
Deficit in the schemes		(50,647)		(71,227)		(88,800)
Irrecoverable surplus		(12,874)		-		-
Deficit in the schemes after irrecoverable surplus		(63,521)		(71,227)		(88,800)
Related deferred tax asset		15,880		19,231		24,864
Net pension liability under FRS17		(47,641)		(51,996)		(63,936)

* The overall long term expected rate of return on the Scheme's assets at 31 December 2011 was 5 24%

Details of history scheme assets, obligations and experience adjustments

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Balance Sheet					
Present value of scheme liabilities	(618,291)	(585,477)	(564,500)	(344,700)	(419,000)
Fair value of scheme assets	567,644	514,250	475,700	301,700	351,800
Deficit in the schemes	(50,647)	(71,227)	(88,800)	(43,000)	(67,200)
Experience adjustments					
Experience adjustments arising on scheme liabilities	(40,076)	(42,083)	(85,536)	73,300	20,100
Experience item as percentage of scheme liabilities	(6 5)%	(7 2)%	(15 2)%	21 3%	4 8%
Experience adjustments arising on scheme assets	48,096	37,438	31,578	(56,900)	(15,300)
Experience item as percentage of scheme assets	8 5%	7 3%	6 6%	(18 9)%	(4 4)%
Cumulative actuarial loss shown in the STRGL	(69,370)	(65,503)	(60,858)	(6,900)	(23,300)

The total amount recognised in the statement of total recognised gains and losses in respect of the actuarial loss is £3 9 million (2010 £4 6 million)

32. 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 2011

Operating profit	**2011**	**2010**
	£000	**£000**
Current service cost	**1,151**	1,303
Past service credit	**-**	(11,618)
Total operating charge/(credit)	**1,151**	(10,315)

The charge/(credit) is recognised in the following line items in the profit and loss account

	2011	**2010**
	£000	**£000**
Administrative expenses	**1,151**	(10,315)

Other finance income/(expenses)	**2011**	**2010**
	£000	**£000**
Expected return on assets	**30,438**	31,067
Interest cost	**(31,128)**	(32,062)
Total net return	**(690)**	(995)

Movement in deficit during the year	**2011**	**2010**
	£000	**£000**
Deficit at start of year	**(71,227)**	(88,800)
Current service cost	**(1,151)**	(1,303)
Past service credit	**-**	11,618
Employer contributions	**13,414**	12,898
Other financing expenses	**(690)**	(995)
Actuarial loss	**(3,867)**	(4,645)
Deficit at end of the year	**(63,521)**	(71,227)

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

	2011	**2010**
	£000	**£000**
Liabilities at 1 January	**585,477**	564,500
Current service cost	**1,151**	1,303
Past service credit	**-**	(11,618)
Interest cost	**31,128**	32,062
Contributions by scheme participants	**-**	66
Actuarial loss	**40,076**	42,083
Benefits paid	**(39,541)**	(42,919)
Liabilities at 31 December	**618,291**	585,477

32. PENSION SCHEMES (Continued)

FRS17 Disclosure (continued)

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

	2011 £000	2010 £000
Fair value of scheme assets at 1 January	**514,250**	475,700
Expected return on scheme assets	**30,438**	31,067
Actuarial gain	**49,083**	37,438
Contributions by employers	**13,411**	10,902
Contributions by plan participants	**-**	66
Miscellaneous contributions	**3**	1,996
Benefits paid	**(39,541)**	(42,919)
Fair value of scheme assets at 31 December	**567,644**	514,250

33 GUARANTEES AND CONTINGENT LIABILITIES

As at 31 December 2011, the £52 5 million and £15 0 million bank loans were jointly and severally guaranteed by the Company and certain subsidiary companies The shares and certain assets of the Company and certain subsidiary companies are pledged as security for these loans The investment property of the Company is pledged as security for the £1 4 million Natwest loan At 31 December 2011, the maximum liabilities that could arise under these credit arrangements, was £68 9 million (2010 £95 7 million) (note 22)

At 31 December 2011, a group company, 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 $4 7 million (sterling equivalent at 31 December 2011 £3 0 million) (2010 $4 9 million) The guarantee amortises on a reducing balance basis over the term of the lease and shall be reduced to USD $1 6 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 During the year, a claim of £60 5 million was made against the company (note 21)

At 31 December 2011, 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

34 RELATED PARTY TRANSACTIONS

Durıng the year the Group, through ıts subsıdıary companıes Northern & Shell Worldwıde Lımıted and Northern & Shell North Amerıca Lımıted charged certaın joint venture companıes for license fees and pıcture recharges An amount of £1 0 mıllıon (2010 £1 0 mıllıon) was charged to Northern & Shell Pacıfic Lımıted and £427,000 (2010 £273,000) charged to OK! Verlag GmbH & Co KG The Group also provıded fundıng to support the ongoıng operatıons of these companıes At 31 December 2011, Northern & Shell Pacıfic Lımıted owed the Group £37,000 (2010 £82,000) and OK! Verlag GmbH & Co KG owed the Group £nıl (2010 £nıl)

Management fees were charged by Northern & Shell Plc to Northern & Shell North Amerıca Lımıted for central overhead recharges An amount of £647,000 (2010 £1 2 mıllıon) was charged durıng the year Northern & Shell North Amerıca Lımıted also paıd royalty fees of £990,000 (2010 £2 4 mıllıon) to Northern & Shell Worldwıde durıng the year At 31 December 2011, Northern & Shell North Amerıca Lımıted owed group undertakıngs £135 5 mıllıon (2010 £134 4 mıllıon) and amounts owed by group undertakıngs were £7 8 mıllıon (2010 £6 3 mıllıon)

Durıng the year, the Group made contrıbutıons of £518,000 (2010 £364,000) to a charıtable trust, of whıch Mr R C Desmond ıs a trustee At the year end, there were no balances due to or from the charıtable trust

Badger Property Partners LLP, of whıch Mr R C Desmond ıs a member, owns the Number 10 Lower Thames Street property whıch ıs the head office of the Northern & Shell Medıa Group Lımıted Group The Number 10 Lower Thames Street property ıs let to Express Newspapers on a 20 year lease from 1 January 2004 for an annual rental of £8 2 mıllıon (2010 £8 2 mıllıon), wıth a rent revıew every 5 years The charge for the year was £8 2 mıllıon (2010 £8 2 mıllıon) No amounts were due to Badger Property Partners LLP as at 31 December 2011 (2010 £nıl)

Durıng the year, Mr R C Desmond paıd ınsurance premıums of £nıl (2010 £nıl) to a subsıdıary company, Northern & Shell Insurance Lımıted The purpose of the premıums was to ınsure agaınst personal rısks and lıabılıtıes Durıng the year, Mr R C Desmond made a claım of £60 5 mıllıon ın relatıon to these ınsurance premıums Thıs amount was outstandıng at 31 December 2011 and ıs ıncluded ın other credıtors fallıng due wıthın one year of £15 7 mıllıon, and fallıng due after one year of £44 8 mıllıon (notes 19 and 20)

The Company has taken advantage of the exemptıon avaılable under FRS 8 from dısclosıng transactıons wıth other group companıes that form part of the wholly owned Group

35 PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

Principal subsidiaries and percentage holding

Company Name	Principal Activity	% Shareholding
Northern & Shell Network Limited	Holding company	100%
Northern & Shell Group Limited	Holding company	100%
Northern & Shell Broadcasting Limited	Holding company	100%
Channel 5 Television Group Limited	Television broadcasting	100%
Channel 5 Broadcasting Limited	Television broadcasting	100%
Northern & Shell Broadcasting (CI) Limited	Holding company	100%
West Ferry Leasing Limited	Leasing assets	100%
Portland Media Group Limited	Holding company	100%
Northern and Shell Finance Limited	Treasury	100%
Northern & Shell Media Limited	Holding company	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 Broadcasting 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%
West Ferry Printers Limited	Printing	100%
Northern & Shell Leasing Limited	Leasing assets	100%
Northern & Shell Health Limited	Holding company	100%
The Health Lottery Limited	Lottery management services	100%
Health Lottery Financial Limited	Money handling and money transfer services	100%
Health Lottery ELM Limited	Lottery management services	100%

All of the above companies are registered in England, except for Portland Broadcasting Limited, RHF Productions Limited and Northern & Shell Broadcasting (CI) 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

* Denotes operates a branch in the United States of America, of which the principal trade and assets were disposed during the year (note 26)
** Denotes operates a branch in Luxembourg

All of the above companies are consolidated within the Group accounts

35. PRINCIPAL SUBSIDIARIES AND JOINT VENTURES (Continued)

Joint Ventures	Incorporated in	Principal activity	Stake	Nominal value of allotted share
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 The company is currently in voluntary liquidation

36 COMMITMENTS

Capital and expenditure commitments at the end of the financial year for which no provision has been made, are as follows

	2011 £000	2010 £000
Programme inventory	**255,449**	291,475
Other	**611**	77,000
	256,060	368,475

Other commitments include £611,000 in respect of the purchase of printing facilities due for completion in 2012 (2010 £40 9 million) and USD $nil million (sterling equivalent at 31 December 2011 £nil million) in respect of the purchase of a corporate aircraft (2010 £36 1 million) due for delivery in 2017 During the year, the Group decided not to take delivery of the aircraft, incurring liquidated damages of USD $1 5 million, with the balance of a $3 0 million payment previously made returned to the Group

37. ULTIMATE CONTROLLING PARTY

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