

4086466

NORTHERN & SHELL MEDIA GROUP LIMITED

GROUP REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012



NORTHERN & SHELL MEDIA GROUP LIMITED

ANNUAL REPORT

For the year ended 31 December 2012

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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

Barclays Bank
27 Soho Square
London, W1D 3QR
United Kingdom

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 2012

The directors present their report and the audited financial statements of the Group and Company for the year ended 31 December 2012

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, property investment 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 loss before tax for the financial year of £20.1 million (2011 profit £5.0 million), with an operating loss of £5.6 million (2011 loss £20.8 million).

The directors do not recommend the payment of a dividend (2011 £nil).

REVIEW OF THE YEAR AND FUTURE PROSPECTS

The performance of the Group for 2012 largely reflected the continued investment in our start up lottery operations and the impact of the challenging environment we faced across our various media businesses. While the Group is committed to acting decisively to tackle the short term challenges and seize opportunities in each segment of its activities, the focus remains on the longer term goal of positioning our operations for sustainable growth in the coming years.

Considering the significant progress that had been made in the two preceding financial years, the financial performance of the Group's broadcasting operations for 2012 was rather disappointing. Revenues were impacted by a sluggish commercial television market, which did not derive a widely anticipated boost from certain high profile events in the year. In fact these events, particularly the Olympics, Paralympics, Euro 2012 and the Queen's Jubilee, all of which were the broadcasting preserves of the BBC or our principal commercial rivals, had a distinctly negative impact on revenues for Channel 5.

However, the directors believe that other facets of the broadcasting businesses' performance in 2012 are of more significance with longer lasting effects. As with the previous year, Channel 5 once again increased its investment in the programming schedule on brand defining original content and the best of US dramas, spending an additional £15.9 million (8%) in the year. This investment had a positive effect on the Channel 5 audience share and profile. We were the only terrestrial channel to show growth in commercial impacts, slightly up in the all Adult category and up 6% and 4% among ABC1's and 16-34's respectively. Our ABC1 impact profile for 2012 was higher than it has ever been in the channel's history and the 16-34 impact profile higher than it has been for the last 5 years.

The performance of Channel 5 in the early part of 2013 underlies the directors' firm belief that the business has been positioned for growth and accordingly their confidence in the future prospects of the company. For the first quarter of 2013, a period when traditionally the business trading is weak largely due to seasonal lows in advertising revenues, Channel 5 has recorded an operating profit of £8.1 million, a positive turnaround of £25.4 million against the result for the corresponding quarter of 2012.

A strategic goal of the Channel 5 group of companies is to increase its revenue streams through the development, ownership and exploitation of programming content. Several shows were developed and co-produced internally in 2012 and increased resources have been allocated to the Group's in-house production business for 2013. Also during the year, the Channel 5 news service was brought in-house, broadcasting from a new technologically advanced virtual studio based in the Group's headquarters.

The broadcasting division 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 customer base but enables the business to offer advertisers the ability to run cross-media campaigns.

NORTHERN & SHELL MEDIA GROUP LIMITED

DIRECTORS' REPORT

For the year ended 31 December 2012

REVIEW OF THE YEAR AND FUTURE PROSPECTS (Continued)

The Group's broadcasting division is ensuring that it is well placed to respond to technology led changes to viewing preferences. Channel 5 continued to build on its significant digital presence during 2012. Since its launch in the summer of 2011, there have been around 2 million downloads of the Demand 5 iPad App and over 1 million downloads of the Xbox App since its launch in December 2011. Expansion into the tablet and connected device arena continues into 2013, with the launch of Demand 5 on Windows 8 and Samsung connected TVs. Further releases across popular tablets and consoles are scheduled for 2013.

The year also heralded the launch of YouView, the next generation of internet protocol digital terrestrial television into the UK television market. 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.

The trading environment for newspapers remained challenging in the year with continued pressures on circulations and competitor activity, particularly with the launch of a new national Sunday tabloid in February 2012. Despite these conditions, Express Newspapers' revenues of £222.5 million declined by only 2.7% against the previous year. With savings achieved on newsprint and printing costs, Express Newspapers' gross margin improved from 42.4% to 47.2%.

Overall the directors consider the underlying performance of the newspaper's division to be highly satisfactory given the prevailing economic climate and the highly competitive market in which the Group operates. The new West Ferry state of the art printing operation at Luton became fully operational in March 2012 and has delivered, to the benefit of the Newspaper titles, an improved quality product at a reduced printing cost. With resilient revenues and the effective management of the cost base, the directors remain optimistic on the outlook for the newspaper business.

In the highly challenging magazine publishing business the Northern & Shell titles, OK!, new! and Star magazines, consolidated the Group's market leading position in the UK celebrity weekly magazine market during the year, with our titles comprising three of the top four selling titles on the newsstand in this 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, measured by both copy sales and retail value.

In the UK, the largest segment by copy sales are TV listing titles. In an environment characterised more by magazine closures than new launches, the magazines division saw the opportunity to use the Group's expertise and extensive promotional reach to launch TV Pick in March 2013. Still in the launch period, this title is already one of the top four selling TV listings titles and is a sign of the Group's readiness to move quickly and exploit opportunities in the magazines publications sector.

Internationally, the OK! Magazine brand is also widely recognised. The Group currently has 19 international editions of OK! Magazine under licence agreements with other publishers, in addition to an international title owned by the Group through a joint venture with an established publishing group in Australia.

In the previous year, the Group undertook a strategic review of its non UK magazine business, which led directly to the sale of the OK! USA title in 2011. The decision to focus the Group's directly owned magazine publishing operations on the UK market also resulted in the sale in 2012 of our interests in the joint venture that published the OK! Germany title. We are currently examining the options for our other magazine joint venture in Australia. However, the Group remains committed to its overseas licence network and expects the launch of further OK! international titles in 2013.

In response to the rapidly changing market for print media, both the newspaper and magazine publishing divisions have begun a programme of investment in their digital assets, with plans to re-design and re-launch all of our websites over the next 12 months and to maximise the opportunities presented by data, tablet and mobile applications.

In our lottery division The Health Lottery has, in its first full year of operation, been successfully established in Great Britain as a highly visible lottery product with strong brand recognition.

NORTHERN & SHELL MEDIA GROUP LIMITED

DIRECTORS' REPORT

For the year ended 31 December 2012

REVIEW OF THE YEAR AND FUTURE PROSPECTS (Continued)

The Health Lottery, through its brand, manages lotteries and provides financial services for 51 Community Interest Companies (CIC's) covering each region of Great Britain who function to raise monies for health related causes with a specific brief of addressing health inequalities in their individual localities. In a little over 18 months a total of £32.0 million has been raised for Charity to date, with donations distributed through a separate Charity, The Peoples Health Trust.

To date grants through the People's Health Trust have been made to more than 500 local health projects throughout England, Scotland and Wales which has directly aided around 50,000 people. Among Charities that have benefitted are The Carers Trust, Alzheimer's Society, Dementia UK, TCV, Youth Sports Trust, Sustrans, School Food Trust and WVRs. Organisations interested in, or enquiring about, funding should apply to The People's Health Trust, 356 Holloway Road, London, N7 6PA and application forms are available at www.peopleshealthtrust.org.uk/index.php/apply-for-funding. The directors are enormously proud of the philanthropic work that has been enabled through the efforts and activities of The Health Lottery and the truly positive effects that it has already had on so many people's lives in Great Britain.

This transformation has been brought about at some considerable financial cost to the Group, which has accumulated pre-tax losses of £48.8 million since acquiring the business in February 2011. Huge effort has also gone into protecting the business from the anti-competitive activities of the grasping, monopolistic National Lottery, with its vast network of established interests and tentacles into all prominent levels of political and establishment life in Britain. During the year, the High Court threw out an attempt brought by Camelot to have the Health Lottery classified as unlawful. Many thousands of people at grass roots levels in some of the most deprived and neglected areas of the country have good cause to celebrate that decision.

However, to secure a sustainable future for these charitable works it is vital that once the business is out of the start-up period of operations it is in a position to cease relying on support from the Northern & Shell group and starts to self-finance its operations. To this end considerable progress has been made in recent months. A midweek draw to complement the Saturday lottery was successfully launched in October 2012. Also, continuing improvements are being made to the online player offering and to the retailer network selling the lottery, with a number of major outlets scheduled to come on stream in 2013.

In January 2013, the lottery division recruited a new CEO with considerable expertise in the online gaming business, part of whose remit is to develop such businesses to lever off and complement the core Health Lottery game. In addition to these developments, there are planned changes to the core game from May 2013 to make it more attractive to customers and so boost sales. Further opportunities have arisen from the announced decision by Camelot to double the price of their tickets in the latter part of 2013. Accordingly, the directors are encouraged by the potential of the business and view the future with confidence.

During the year, the ultimate controlling party of the Northern & Shell group, Mr R C Desmond, suggested to the Group an alternative source of debt financing to that provided by its current bankers. After due and careful consideration the Group decided that the term, security package and other conditions around the offered debt were more appropriate for its corporate requirements and would be to the overall benefit of the business. Accordingly, in December 2012 £65.0 million of the bank facilities were repaid and the new debt assumed (see notes 21, 31 and 32). The remaining bank loans of £0.6 million at 31 December 2012 were repaid in full after the year end and the Group now has no external bank debt.

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 £59.3 million at 31 December 2012 (2011 £47.6 million), after an actuarial loss of £20.0 million (2011 £2.9 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 £59.3 million (2011 £47.6 million) were £116.2 million at 31 December 2012 (2011 £147.9 million).

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.

NORTHERN & SHELL MEDIA GROUP LIMITED

DIRECTORS' REPORT

For the year ended 31 December 2012

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. Where appropriate, 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.

NORTHERN & SHELL MEDIA GROUP LIMITED

DIRECTORS' REPORT

For the year ended 31 December 2012

POLITICAL AND CHARITABLE DONATIONS

Charitable donations were made during the year amounting to £262,000 (2011 £790,000) including contributions to a charitable trust (note 32)

There were no political contributions made during the year (2011 £nil)

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 18 April 2013

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 2012

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.



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 2012

We have audited the financial statements of Northern & Shell Media Group Limited for the year ended 31 December 2012 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2012 and of the Group's loss 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 2012

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 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 **19** April 2013

NORTHERN & SHELL MEDIA GROUP LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2012

	Notes	2012 £000	2011 £000
Turnover (including share of joint ventures)	2	642,046	713,618
Less share of joint venture turnover		<u>(19,962)</u>	<u>(24,823)</u>
GROUP TURNOVER		622,084	688,795
Continuing operations		622,084	664,726
Acquisitions		-	10,032
Discontinued operations		-	14,037
	4	622,084	688,795
Cost of sales	4	<u>(442,572)</u>	<u>(462,971)</u>
GROSS PROFIT	4	179,512	225,824
Distribution costs	4	(22,612)	(25,627)
Administrative expenses	3/4	(163,821)	(221,960)
Other operating income	4	<u>1,086</u>	<u>1,099</u>
GROUP OPERATING LOSS		(5,835)	(20,664)
Continuing operations		(6,428)	8,773
Acquisitions		-	(22,113)
Discontinued operations		593	(7,324)
	4	(5,835)	(20,664)
Share of operating profit/(loss) of Joint Ventures (after £nil (2011 £nil) goodwill amortisation)		<u>230</u>	<u>(116)</u>
TOTAL OPERATING LOSS	2/5	(5,605)	(20,780)
Investment property revaluation	12	(6,824)	-
Profit on sale of a discontinued operation	24	-	11,882
Profit on financing reorganisation	21	-	23,727
Other interest receivable and similar income	7	243	463
Interest payable and similar charges	8	(7,079)	(9,623)
Other financing expenses	30	<u>(839)</u>	<u>(690)</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	(20,104)	4,979
Tax on (loss)/profit on ordinary activities	9	<u>(6,591)</u>	<u>35,259</u>
(LOSS)/PROFIT FOR THE FINANCIAL YEAR	26	<u>(26,695)</u>	<u>40,238</u>

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 2012

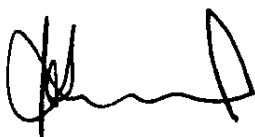
	Notes	2012 £000	2011 £000
(Loss)/profit for the financial year			
- Group		(26,755)	40,471
- Joint Ventures		<u>60</u>	<u>(233)</u>
		(26,695)	40,238
Revaluation reserve – deficit on revaluation of property	12	-	(220)
Release to profit & loss account	12	3,424	-
Actuarial loss recognised in the pension scheme	30	(25,988)	(3,867)
Movement on deferred tax relating to pension liability		<u>5,977</u>	<u>967</u>
Total (losses)/gains recognised since last annual report		<u>(43,282)</u>	<u>37,118</u>
- Group		(43,342)	38,182
- Joint Ventures		<u>60</u>	<u>(1,064)</u>
Total (losses)/gains recognised since last annual report		<u>(43,282)</u>	<u>37,118</u>

NORTHERN & SHELL MEDIA GROUP LIMITED

CONSOLIDATED BALANCE SHEET as at 31 December 2012

	Notes	2012 £000	2011 £000
FIXED ASSETS			
Intangible assets	11	41,900	54,053
Tangible assets	12	131,904	143,135
Investments	13		
Interests in joint ventures			
Share of gross assets		2,615	3,609
Share of gross liabilities		(3,524)	(4,003)
		(909)	(394)
Other Investments		107	107
		<u>(802)</u>	<u>(287)</u>
		<u>173,002</u>	<u>196,901</u>
CURRENT ASSETS			
Stocks	14	3,675	5,809
Programme inventory	15	112,477	118,236
Debtors	16	134,204	165,576
Cash at bank and in hand		34,449	61,297
		<u>284,805</u>	<u>350,918</u>
CREDITORS , amounts falling due within one year	18	<u>(218,064)</u>	<u>(246,219)</u>
NET CURRENT ASSETS		<u>66,741</u>	<u>104,699</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>239,743</u>	<u>301,600</u>
CREDITORS , amounts falling due after more than one year	19	<u>(118,307)</u>	<u>(145,878)</u>
PROVISIONS FOR LIABILITIES AND CHARGES	20	<u>(5,218)</u>	<u>(7,845)</u>
NET ASSETS excluding pension liability		<u>116,218</u>	<u>147,877</u>
PENSION LIABILITY	30	<u>(59,264)</u>	<u>(47,641)</u>
NET ASSETS including pension liability		<u>56,954</u>	<u>100,236</u>
CAPITAL AND RESERVES			
Called up share capital	25	110	110
Other reserves	26	3,860	3,860
Revaluation reserve	26	-	(3,424)
Profit and loss account	26	52,984	99,690
TOTAL SHAREHOLDERS' FUNDS	26	<u>56,954</u>	<u>100,236</u>

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



Mr R C Desmond
Chairman
Date 18 April 2013

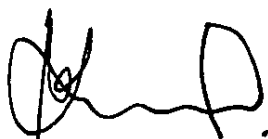
Company registered number 4086466

NORTHERN & SHELL MEDIA GROUP LIMITED

COMPANY BALANCE SHEET as at 31 December 2012

	Notes	2012 £000	2011 £000
FIXED ASSETS			
Tangible assets	12	2,900	6,300
Investments	13	<u>35,110</u>	<u>110</u>
		38,010	6,410
CURRENT ASSETS			
Debtors	16	162,184	209,509
CREDITORS , amounts falling due within one year	18	<u>(151,656)</u>	<u>(153,440)</u>
NET CURRENT ASSETS		<u>10,528</u>	<u>56,069</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		48,538	62,479
CREDITORS amounts falling due after more than one year	19	<u>(52,940)</u>	<u>(60,640)</u>
NET (LIABILITIES)/ASSETS		<u>(4,402)</u>	<u>1,839</u>
CAPITAL AND RESERVES			
Called up share capital	25	110	110
Revaluation reserve	26	-	(3,424)
Profit and loss account	26	<u>(4,512)</u>	<u>5,153</u>
TOTAL SHAREHOLDERS' (DEFICIT)/FUNDS	26	<u>(4,402)</u>	<u>1,839</u>

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



Mr R C Desmond
Chairman
Date 18 April 2013

Company registered number 4086466

NORTHERN & SHELL MEDIA GROUP LIMITED**CONSOLIDATED CASH FLOW STATEMENT****For the year ended 31 December 2012**

	Notes	2012 £000	2011 £000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	27	(2,839)	13,462
DIVIDENDS RECEIVED FROM JOINT VENTURES		646	831
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		243	463
Interest paid		(6,910)	(7,180)
Interest element of finance lease rentals		(5)	(4)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(6,672)	(6,721)
TAXATION		(523)	(2,679)
CAPITAL EXPENDITURE			
Payments to acquire tangible fixed assets		(14,422)	(39,024)
Payments to acquire intangible assets		(380)	(646)
Receipts from disposal of fixed assets		500	52
NET CASH OUTFLOW FOR CAPITAL EXPENDITURE		(14,302)	(39,618)
ACQUISITIONS AND DISPOSALS			
Contributions to Joint Ventures		(252)	(1,093)
Purchase of subsidiary undertaking	23	-	(804)
Sale of business	24	403	14,445
NET CASH INFLOW FROM ACQUISITIONS AND DISPOSALS		151	12,548
NET CASH OUTFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING		(23,539)	(22,177)
MANAGEMENT OF LIQUID RESOURCES			
Sale of government bonds		-	411
NET CASH INFLOW FROM MANAGEMENT OF LIQUID RESOURCES		-	411
FINANCING			
External loan repayments		(78,309)	(23,111)
New loan finance		75,000	15,000
Capital element of finance lease rentals		-	(74)
NET CASH OUTFLOW FROM FINANCING		(3,309)	(8,185)
DECREASE IN NET CASH	28/29	(26,848)	(29,951)

NORTHERN & SHELL MEDIA GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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.

NORTHERN & SHELL MEDIA GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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 in 2011, 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.

NORTHERN & SHELL MEDIA GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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 the 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) 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.

NORTHERN & SHELL MEDIA GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(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) 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.

(l) 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.

(m) 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.

(n) 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.

NORTHERN & SHELL MEDIA GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) 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.

(o) 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.

(p) 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 23% (2011: 25%).

(q) 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.

(r) Insurance premiums and claims

Premiums written relate to business inception 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.

NORTHERN & SHELL MEDIA GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2 SEGMENTAL ANALYSIS

The Group's turnover and (loss)/profit before taxation arise principally from its publishing and printing, broadcasting and lottery management activities. The Group's turnover also includes income from its insurance activities.

The Group's turnover, (losses)/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 24).

Turnover in respect of continuing joint venture entities arises principally from publishing activities in the Republic of Ireland and Australia. Joint venture activities in Germany were discontinued on 28 August 2012 (note 24).

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

	P&P	P&P - D	P&P - JV	B - PS	B - O	INS	LM	PI	TOTAL
	2012	2012	2012	2012	2012	2012	2012	2012	2012
	£000	£000	£000	£000	£000	£000	£000	£000	£000
TURNOVER									
Turnover gross	286,369	-	19,962	323,806	13,344	1,903	37,624	-	683,008
Inter-segment sales	(8,743)	-	-	(30,114)	(202)	(1,903)	-	-	(40,962)
Third party sales	277,626	-	19,962	293,692	13,142	-	37,624	-	642,046
OPERATING (LOSS)/PROFIT	24,623	4,716*	230	(17,797)	2,203	927	(19,348)	(1,159)	(5,605)
Investment property revaluation (note 12)	-	-	-	-	-	-	-	(6,824)	(6,824)
Other financing expenses (note 30)	(839)	-	-	-	-	-	-	-	(839)
	23,784	4,716*	230	(17,797)	2,203	927	(19,348)	(7,983)	(13,268)
Common costs									(6,836)
Loss on ordinary activities before taxation									(20,104)

	P&P	P&P - D	P&P - JV	B - PS	B - O	INS	LM	PI	TOTAL
	2011	2011	2011	2011	2011	2011	2011	2011	2011
	£000	£000	£000	£000	£000	£000	£000	£000	£000
TURNOVER									
Turnover gross	311,227	14,037	24,823	353,019	23,970	627	10,032	-	737,735
Inter-segment sales	(5,274)	-	-	(11,271)	(7,572)	-	-	-	(24,117)
Third party sales	305,953	14,037	24,823	341,748	16,398	627	10,032	-	713,618
OPERATING (LOSS)/PROFIT	31,606	(9,085)	(116)	24,983	6,654	(46,513)	(28,253)	(56)	(20,780)
Profit on sale of discontinued operation (note 24)	-	11,882	-	-	-	-	-	-	11,882
Profit on financing reorganisation (note 21)	-	-	-	-	23,727	-	-	-	23,727
Other financing expenses (note 30)	(690)	-	-	-	-	-	-	-	(690)
	30,916	2,797	(116)	24,983	30,381	(46,513)	(28,253)	(56)	14,139
Common costs									(9,160)
Profit on ordinary activities before taxation									4,979

NORTHERN & SHELL MEDIA GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2012****2 SEGMENTAL ANALYSIS (Continued)**

The common costs are the sum of other interest receivable and similar income of £243,000 (2011 £463,000) and interest payable and similar charges of £7.1 million (2011 9.6 million)

*The difference between discontinued operating profit as stated above and the operating profit shown in note 4 is as follows

	2012 £000
Segmental operating profit	4,716
Foreign exchange on amounts owed to group undertakings	<u>(4,123)</u>
Operating profit per analysis note (note 4)	<u>593</u>

The abbreviations used above relate to the following segments

P&P	Publishing and printing
P&P - D	Publishing and printing (discontinued)
P&P - JV	Publishing and printing - joint ventures
B - PS	Broadcasting - public service
B - O	Broadcasting - other
INS	Insurance
LM	Lottery management
PI	Property Investment

Net operating assets (including pension deficit)

	2012 £000	2011 £000
Publishing and printing	70,949	69,903
Publishing and printing (discontinued)	(125,862)	(128,513)
Publishing and printing - joint ventures	(909)	(394)
Broadcasting - public service	(34,710)	(30,962)
Broadcasting - other	114,258	108,405
Insurance	(2,113)	(2,673)
Lottery management	(52,139)	(37,954)
Property Investment	<u>60,007</u>	<u>70,775</u>
	<u>29,481</u>	<u>48,587</u>

Reconciliation of net operating assets to net assets

Net operating assets	29,481	48,587
Investments	107	107
Corporation tax	(5,364)	(4,459)
Deferred tax - asset	63,478	62,656
Net deficit	<u>(30,748)</u>	<u>(6,655)</u>
	<u>56,954</u>	<u>100,236</u>

NORTHERN & SHELL MEDIA GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3 ADMINISTRATIVE EXPENSES

	2012 £000	2011 £000
Chairman's emoluments and pension contributions	320	171
Insurance expenses (note 32)	-	46,561
Other administrative expenses	<u>163,501</u>	<u>175,228</u>
	<u>163,821</u>	<u>221,960</u>

4. ANALYSIS OF CONTINUING AND DISCONTINUED OPERATIONS

	2012 Discontinued Operations (Note 24) £000	2012 Continuing Operations £000	2012 Total £000	2011 Continuing Operations £000	2011 Acquisitions (Note 23) £000	2011 Discontinued Operations (Note 24) £000	2011 Total £000
Group turnover	-	622,084	622,084	664,726	10,032	14,037	688,795
Cost of sales	-	(442,572)	(442,572)	(454,763)	-	(8,208)	(462,971)
Gross profit	-	179,512	179,512	209,963	10,032	5,829	225,824
Distribution costs	-	(22,612)	(22,612)	(22,754)	-	(2,873)	(25,627)
Administrative expenses	593	(164,414)	(163,821)	(179,535)	(32,145)	(10,280)	(221,960)
Other operating income	-	1,086	1,086	1,099	-	-	1,099
Group operating loss	593	(6,428)	(5,835)	8,773	(22,113)	(7,324)	(20,664)

NORTHERN & SHELL MEDIA GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

5 NOTES TO THE PROFIT AND LOSS ACCOUNT

**2012
£000** **2011
£000**

Profit on ordinary activities before tax is stated after charging/(crediting):

Depreciation – owned assets	12,185	12,067
Depreciation – leased assets	100	323
Amortisation of trademarks	4	3
Amortisation of programming rights	782	870
Amortisation of videostream assets	8,921	8,922
Amortisation of goodwill – acquisitions	2,826	4,590
Profit on disposal of fixed assets	(387)	(6)
Impairment of fixed assets (note 12)	4,070	-
Operating lease rentals – other	7,137	9,091
Operating lease rentals – land and buildings	11,722	13,024
Operating lease rentals – transmission and distribution	45,813	50,885
Foreign exchange (gain)/loss	(1,814)	743
Rates rebate expense	-	1,500
Operating lease rentals – other income	(2,300)	(3,143)

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

Audit services

Fees payable to the Company's auditor for the audit of the Company and consolidated accounts	25	25
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Other services

Fees payable to the Company's auditor and its associates for the audit of associates to the Company pursuant to legislation	420	439
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All other services	2	4
Other services provided pursuant to such legislation	117	232

Audit fees for the Company are borne by subsidiary undertakings

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

(a) Directors

	2012 £000	2011 £000
Emoluments	1,756	2,235
Company contributions to money purchase pension schemes	74	154
	1,830	2,389

Pension benefits are accruing to five directors under money purchase pension schemes (2011 five directors)

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

	2012 £000	2011 £000
Emoluments	589	1,090
Company contributions to money purchase pension schemes	16	16
	605	1,106

NORTHERN & SHELL MEDIA GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (Continued)

(b) Staff costs (including directors)

	2012 £000	2011 £000
Wages and salaries	68,426	73,826
Social security costs	7,566	8,559
Pension costs	2,864	2,970
	<u>78,856</u>	<u>85,355</u>

Pension costs include an FRS17 pension charge of £1 2 million (2011 £1 2 million) (note 30)

Average number of people employed by activity

	2012 Number	2011 Number
Production	717	854
Selling and distribution	265	251
Administration	260	242
	<u>1,242</u>	<u>1,347</u>

7 OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2012 £000	2011 £000
Bank deposit and government bond interest	231	349
Other interest receivable	11	113
Joint venture interest receivable	1	1
	<u>243</u>	<u>463</u>

8 INTEREST PAYABLE AND SIMILAR CHARGES

	2012 £000	2011 £000
Bank loans and overdrafts	2,867	3,632
Finance leases	5	4
Amortisation of financing charges	557	139
Other interest payable	1,520	3,181
Settlement of interest rate swaps	2,130	2,667
	<u>7,079</u>	<u>9,623</u>

NORTHERN & SHELL MEDIA GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

9 TAXATION ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	2012 £000	2011 £000
Current tax		
UK corporation tax on (loss)/profit for the year at 24.5% (2011 26.5%)	-	172
Adjustments in respect of previous periods	882	(29,285)
Foreign taxes suffered	419	202
Double taxation relief	-	(172)
Share of Joint Venture taxation	135	117
	<hr/>	<hr/>
Total current tax charge/(credit)	1,436	(28,966)
Deferred tax		
Origination and reversal of timing differences (accelerated capital allowances and other)	(216)	(3,524)
Adjustments in respect of previous periods	1,216	(7,087)
	<hr/>	<hr/>
Total deferred tax charge/(credit) excluding deferred tax on pension liability (note 17)	1,000	(10,611)
Pension cost relief in excess of pension cost charge	4,155	4,318
	<hr/>	<hr/>
Total deferred tax charge/(credit) (note 17)	5,155	(6,293)
	<hr/>	<hr/>
Tax on (loss)/profit on ordinary activities	6,591	(35,259)

The tax assessed for the year differs from the rate of 24.5% (2011 26.5%) and the differences are explained below

	2012 £000	2011 £000
(Loss)/profit on ordinary activities before tax	(20,104)	4,979
(Loss)/profit on ordinary activities multiplied by the rate of 24.5% (2011 26.5%)	(4,925)	1,319
Effects of		
Net effect of expenses not deductible for tax and income not subject to tax	4,838	(3,299)
Excess of depreciation over capital allowances and other timing differences	(508)	(2,095)
Adjustments in respect of previous periods	882	(29,285)
Profits subject to lower level of overseas tax	(774)	(75)
Non tax deductible goodwill amortisation and other permanent differences	692	1,216
Deferred tax assets not recognised	2,915	12,845
Utilisation of losses	(1,684)	(9,592)
	<hr/>	<hr/>
Current tax charge/(credit) for the year	1,436	(28,966)

On 21 March 2012, the Chancellor announced a reduction in the main rate of UK corporation tax to 24%, with effect from 1 April 2012. On 3 July 2012, a further reduction in the UK corporation tax rate from 24% to 23%, with effect from 1 April 2013, became substantively enacted. The effect of the rate reduction on the deferred tax balances as at 31 December 2012 has been included in the figures above.

On 20 March 2013, the Chancellor announced proposed changes to further reduce the main rate of corporation tax to 20% by 1 April 2015. The corporation tax rate reductions to 21% and 20% have not yet been substantively enacted and therefore are not included in the figures above. The overall effect of the rate reductions from 25% to 23% was to reduce the deferred tax asset at 31 December 2012 by approximately £5.0 million (2011 rate reduction from 27% to 25% £4.1 million). The overall effect of the further reductions from 23% to 20%, if these applied to the deferred tax balance at 31 December 2012, would be to further reduce the deferred tax asset by approximately £8.2 million.

NORTHERN & SHELL MEDIA GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

9 TAXATION ON (LOSS)/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 year.

The Group has tax losses of £261.3 million (2011: £254.0 million) available to carry forward against future profits. Whilst the Group expects to be able to benefit from tax losses carried forward, a deferred tax asset has only been recognised in respect of £159.0 million (2011: £168.5 million) of the available losses as future benefit is not certain.

10. LOSS 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 £9.7 million (2011: loss £562,000).

11. INTANGIBLE ASSETS

	Trademarks	Goodwill	Programming Rights	Videostream Assets	Total
	£000	£000	£000	£000	£000
THE GROUP					
Cost					
At 1 January 2012	156	66,224	8,274	65,426	140,080
Additions	-	-	380	-	380
Disposals	-	-	(44)	-	(44)
At 31 December 2012	156	66,224	8,610	65,426	140,416
Amortisation					
At 1 January 2012	120	32,110	6,957	46,840	86,027
Charge for the year	4	2,826	782	8,921	12,533
Disposals	-	-	(44)	-	(44)
At 31 December 2012	124	34,936	7,695	55,761	98,516
Net book amounts					
At 31 December 2012	32	31,288	915	9,665	41,900
At 31 December 2011	36	34,114	1,317	18,586	54,053

NORTHERN & SHELL MEDIA GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

12. TANGIBLE ASSETS

	Assets under construction	Land and Buildings	Motor Vehicles, Plant and Machinery	Fixtures, Fittings and Office Equipment	Total
	£000	£000	£000	£000	£000
THE GROUP					
Cost/valuation					
At 1 January 2012	-	119,995	250,590	57,681	428,266
Additions	500	2,398	1,243	4,496	8,637
Disposals	-	-	(102,563)	(453)	(103,016)
Revaluation	-	(3,400)	-	-	(3,400)
At 31 December 2012	500	118,993	149,270	61,724	330,487
Depreciation					
At 1 January 2012	-	33,993	208,704	42,434	285,131
Charge for the year	-	8,041	3,219	5,095	16,355
Disposals	-	-	(102,563)	(340)	(102,903)
At 31 December 2012	-	42,034	109,360	47,189	198,583
Net book amounts					
At 31 December 2012	500	76,959	39,910	14,535	131,904
At 31 December 2011	-	86,002	41,886	15,247	143,135

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 £6.3 million. After the year end, the property was sold by the Company for £2.9 million. Accordingly, the property was valued at £2.9 million as at 31 December 2012 on the basis of open market value. In accordance with SSAP 19, the revaluation amount of £3.4 million was charged to the profit and loss account, together with the deficit on revaluation of property of £3.4 million (note 26) which was transferred from the revaluation reserve to the profit and loss account on the basis that the deficit is expected to be permanent. During the year, a total charge of £6.8 million was recognised in the profit and loss account. The historical cost of the investment property is £10.5 million. If the investment property was depreciated the accumulated depreciation at 31 December 2012 would be £5.3 million (2011: £5.0 million). The net book value at 31 December 2012 would be £5.2 million (2011: £5.5 million).

Land and buildings includes the following assets at net book value as at 31 December 2012:

- freehold land and buildings and long leasehold land £36.7 million (2011: £37.8 million)
- short leasehold buildings £40.2 million (2011: £48.4 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 2012, the net book value was £nil (2011: £100,000) after charging £100,000 (2011: £323,000) depreciation for the year.

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

- Land and buildings £nil (2011: £630,000)

During the year, land and buildings with a net book value of £4.1 million and plant, machinery and motor vehicles with a net book value of £30,000 were impaired in full, with a charge of £4.1 million taken to the profit and loss account. The impairments are included in the depreciation charge for the year.

NORTHERN & SHELL MEDIA GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2012****12. TANGIBLE ASSETS (Continued)****THE COMPANY**

The tangible fixed assets of the Company at 31 December 2012 amount to £2.9 million (2011: £6.3 million) and consist entirely of the investment property referred to above.

13. FIXED ASSET INVESTMENTS**THE GROUP**

	2012 £000	2011 £000
Interest in Joint Ventures		
At 1 January - net liabilities	(394)	(423)
- goodwill (gross)	<u>9,856</u>	<u>9,856</u>
	<u>9,462</u>	<u>9,433</u>
Share of profit/(loss)	60	(233)
Movement in profit and loss reserves	(646)	(831)
Capital contributions	252	1,093
Disposal of net assets	<u>(181)</u>	<u>-</u>
	<u>(515)</u>	<u>29</u>
At 31 December - net liabilities	(909)	(394)
- goodwill (gross)	<u>9,856</u>	<u>9,856</u>
	<u>8,947</u>	<u>9,462</u>
Aggregate amortisation of goodwill		
At 1 January	(9,856)	(9,856)
Charge for the year	<u>-</u>	<u>-</u>
At 31 December	<u>(9,856)</u>	<u>(9,856)</u>
Net book amount at 31 December		
Net liabilities	(909)	(394)
Goodwill	<u>-</u>	<u>-</u>
	<u>(909)</u>	<u>(394)</u>
Other fixed asset investment	<u>107</u>	<u>107</u>
Total fixed asset investments	<u>(802)</u>	<u>(287)</u>

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. On 28 August 2012, the Group disposed of its entire 50% holding of equity share capital (note 24)

NORTHERN & SHELL MEDIA GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2012****13 FIXED ASSET INVESTMENTS (Continued)****Details of investments in Joint Venture Companies**

	2012 £000	2011 £000
Summary of Joint Venture net assets		
Share of fixed assets	532	663
Share of current assets	<u>2,083</u>	<u>2,946</u>
Share of gross assets	<u>2,615</u>	<u>3,609</u>
Share of liabilities		
Due within one year	(3,171)	(3,656)
Due after one year	<u>(353)</u>	<u>(347)</u>
Share of gross liabilities	<u>(3,524)</u>	<u>(4,003)</u>
Net liabilities	<u>(909)</u>	<u>(394)</u>

For the year ended 31 December 2012, 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

	2012 £000	2011 £000
Shares in group undertakings		
At 1 January	110	110
Additions	<u>35,000</u>	<u>-</u>
At 31 December	<u>35,110</u>	<u>110</u>

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%
Northern & Shell Investments No 2 Limited	Property Investment	100%

During the year, the Company subscribed for £35.0 million ordinary shares of £1 each in the capital of Northern & Shell Investments No 2 Limited, for a total consideration of £35.0 million

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 33.

NORTHERN & SHELL MEDIA GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

14 STOCKS

	2012 £000	2011 £000
Raw materials and consumables	<u>3,675</u>	<u>5,809</u>

15. PROGRAMME INVENTORY

	2012 £000	2011 £000
Commissioned programmes	15,540	20,646
Acquired programmes	<u>96,937</u>	<u>97,590</u>
	<u>112,477</u>	<u>118,236</u>

16. DEBTORS

	The Group	
	2012 £000	2011 £000
Trade debtors	48,384	64,256
Other debtors	12,964	20,679
Amounts owed by related party	442	442
Prepayments and accrued income	26,638	33,423
Deferred tax asset (note 17)	<u>45,776</u>	<u>46,776</u>
	<u>134,204</u>	<u>165,576</u>

	The Company	
	2012 £000	2011 £000
Amounts owed by group undertakings	161,355	209,509
Amounts owed by group undertakings with respect to group relief	818	-
Other debtors	<u>11</u>	<u>-</u>
	<u>162,184</u>	<u>209,509</u>

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.

NORTHERN & SHELL MEDIA GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

17. DEFERRED TAX ASSET

	£000
At 1 January 2012	(46,776)
Charged to the profit and loss account (note 9)	1,000
	<hr/>
At 31 December 2012	(45,776)
	<hr/>

The deferred taxation provided in these financial statements is as follows

	2012 £000	2011 £000
Provision for deferred tax including deferred tax on pension liability		
Accelerated capital allowances	(8,404)	582
Other timing differences	(803)	(5,223)
Losses	(36,569)	(42,135)
	<hr/>	<hr/>
Deferred tax excluding that relating to pension liability	(45,776)	(46,776)
Deferred tax on pension liability (note 30)	(17,702)	(15,880)
	<hr/>	<hr/>
Total provision for deferred tax – asset	(63,478)	(62,656)
	<hr/>	<hr/>
1 January 2012	(62,656)	(55,396)
Deferred tax charge/(credit) in profit and loss account (note 9)	5,155	(6,293)
Deferred tax on the actuarial loss on the pension scheme charged to the statement of total recognised gains and losses	(5,977)	(967)
	<hr/>	<hr/>
At 31 December 2012	(63,478)	(62,656)
	<hr/>	<hr/>

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.

NORTHERN & SHELL MEDIA GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

18. CREDITORS: amounts falling due within one year

	The Group	
	2012	2011
	£000	£000
Bank loans and overdrafts (notes 21 and 29)	640	8,309
Less deferred finance charges	-	(557)
Other loans	12,060	-
Trade creditors	86,709	119,429
Other creditors	31,867	31,417
Taxation and social security	11,350	12,631
Corporation tax	5,364	4,459
Redeemable ordinary 'B' shares	900	900
Accruals and deferred income	69,174	69,631
	<u>218,064</u>	<u>246,219</u>

	The Company	
	2012	2011
	£000	£000
Bank loans (note 21)	640	8,309
Less deferred finance charges	-	(557)
Other loans	12,060	-
Amounts owed to group undertakings with respect to group relief	-	97
Amounts owed to group undertakings	138,706	144,899
Accruals and deferred income	250	692
	<u>151,656</u>	<u>153,440</u>

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

Included in other loans is an amount of £6.3 million, which is secured and carries interest at 7.0%, and an amount of £5.8 million which is unsecured and carries interest at 9.0% (notes 31 and 32).

19 CREDITORS: amounts falling due after more than one year

	The Group	
	2012	2011
	£000	£000
Bank loans (notes 21 and 29)	-	60,640
Other loans	52,940	-
Other creditors	30,028	56,936
Trade creditors	35,339	28,302
	<u>118,307</u>	<u>145,878</u>

	The Company	
	2012	2011
	£000	£000
Bank loan (note 21)	-	60,640
Other loans	52,940	-
	<u>52,940</u>	<u>60,640</u>

NORTHERN & SHELL MEDIA GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

19 CREDITORS amounts falling due after more than one year (Continued)

The Group's creditors falling due after more than one year are due

	Other loans		The Group Other creditors		Trade creditors	
	2012	2011	2012	2011	2012	2011
	£000	£000	£000	£000	£000	£000
In more than one year but not more than two years	12,498	-	16,676	55,960	21,660	19,253
In more than two years but not more than five years	40,442	-	13,352	976	13,679	9,050
	52,940	-	30,028	56,936	35,339	28,303

	The Company Other loans	
	2012	2011
	£000	£000
In more than one year but not more than two years	12,498	-
In more than two years but not more than five years	40,442	-
	52,940	-

Included in other loans is an amount of £29.7 million, which is secured and carries interest at 7.0%, and an amount of £23.2 million which is unsecured and carries interest at 9.0% (notes 31 and 32)

Other creditors include the Top Up TV1 Limited acquisition loan of £0.9 million (2011: £1.0 million), which carries an interest rate of 6.82% and is due to be repaid by January 2014, and an amount of £29.1 million (2011: £44.8 million) owing to Mr R.C. Desmond in relation to an insurance claim in 2011

Programme creditors, included in trade creditors, are non-interest bearing and repayment terms are as per the contract for each individual programme acquisition or commission

An analysis of bank loans falling due after more than one year is included at note 21

NORTHERN & SHELL MEDIA GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

20. PROVISIONS FOR LIABILITIES AND CHARGES

£000

The Group

At 1 January 2012

7,845

Credited to the profit and loss account

(2,627)

At 31 December 2012

5,218

Provisions of £5.2 million relate to the provision for onerous rental commitments of £3.4 million (2011: £3.9 million) at the main business premises, Number 10 Lower Thames Street, and other provisions of £nil (2011: £0.6 million), £nil (2011: £0.6 million) and £1.8 million (2011: £2.7 million) at other business premises 22 Long Acre, 4 Selsdon Way London and 1155 Avenue of the Americas, respectively. The remaining provisions are expected to be utilised during the period to 31 December 2018.

21. BANK LOAN OBLIGATIONS

The Group & Company

2012

2011

£000

£000

The Group's bank loan obligations are due

Within one year

640

8,309

In more than one year but not more than two years

-

13,140

In more than two years but not more than five years

-

47,500

640

68,949

Less deferred finance charges

-

(557)

640

68,392

During the year, the Group repaid in full its £52.5 million and £15.0 million (as at 31 December 2011) bank loan facilities. The Group also settled interest rate swap arrangements amounting to £2.1 million. Included in the bank loans is a loan of £0.6 million which is secured on the investment property held by the Group, is repayable over one year and carries interest at the Natwest bank base rate plus 1.0%. After the year end, the loan balance of £0.6 million was repaid in full.

During 2011, following discussions 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.

THE COMPANY

The Company's bank loan obligations of £0.6 million (2011: £68.9 million), of which £0.6 million is due within one year (2011: £8.3 million) and £nil is due after more than one year (2011: £60.6 million), are subject to the terms and conditions set out in respect of the £0.6 million Group bank loan above.

NORTHERN & SHELL MEDIA GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2012****22. OPERATING LEASE COMMITMENTS**

At 31 December 2012, the Group was committed to making the following annual payments in respect of operating leases which expire

	Land and Buildings		Transmission and Distribution		Other	
	2012	2011	2012	2011	2012	2011
	£000	£000	£000	£000	£000	£000
Within one year	-	-	6,372	8,813	3,344	3,467
Two to five years	1,794	1,855	32,635	39,991	2,236	5,151
After five years	11,365	11,984	4,124	-	-	-
	13,159	13,839	43,131	48,804	5,580	8,618

23. 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. There were no acquisitions during 2012.

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	3,988

24. DISPOSALS

On 28 August 2012, the 50% share and partnership holdings in OK! Verlag Verwaltungsgesellschaft mbH i Gr and OK! Verlag GmbH & Co KG were sold to Klambt-Verlag GmbH & Cie for a total consideration of €500,000 (sterling equivalent of £403,000), a profit on disposal of £221,000.

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 profit of £593,000 (2011 £7.3 million loss) is attributable to this operation and has been disclosed as discontinued operations within note 4.

NORTHERN & SHELL MEDIA GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

25. SHARE CAPITAL

	The Group & Company			
	Authorised		Allotted and Fully Paid	
	2012 £000	2011 £000	2012 £000	2011 £000
110,000 Ordinary shares of £1 each	<u>110</u>	<u>110</u>	<u>110</u>	<u>110</u>

26. RESERVES AND SHAREHOLDERS' FUNDS/(DEFICIT)

a) Reserves	The Group		
	Other reserves	Revaluation reserve	Profit & loss
	£000	£000	£000
At 1 January 2012	3,860	(3,424)	99,690
Loss for the year	-	-	(26,695)
Release to profit & loss (note 12)	-	3,424	-
Actuarial loss on pension scheme (note 30)	-	-	(25,988)
Movement on deferred tax relating to pension scheme	-	-	5,977
At 31 December 2012	<u>3,860</u>	<u>-</u>	<u>52,984</u>

	The Company	
	Revaluation reserve	Profit & loss
	£000	£000
At 1 January 2012	(3,424)	5,153
Loss for the year	-	(9,665)
Release to profit & loss (note 12)	3,424	-
At 31 December 2012	<u>-</u>	<u>(4,512)</u>

During the year, in accordance with SSAP 19, the deficit on the revaluation reserve was transferred to the profit and loss account, on the basis that the deficit is expected to be permanent (note 12)

NORTHERN & SHELL MEDIA GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2012****26 RESERVES AND SHAREHOLDERS' FUNDS/(DEFICIT) (Continued)**

b) Reconciliation of movements in shareholders' funds/(deficit)	The Group	
	2012 £000	2011 £000
(Loss)/profit for the year	(26,695)	40,238
Deficit on revaluation of property	-	(220)
Release to profit & loss	3,424	-
Actuarial loss on pension scheme (note 30)	(25,988)	(3,867)
Movement on deferred tax relating to pension scheme	5,977	967
Net (decrease)/increase in shareholders' funds	(43,282)	37,118
Opening shareholders' funds	100,236	63,118
Closing shareholders' funds	56,954	100,236

	The Company	
	2012 £000	2011 £000
Loss for the year	(9,665)	(562)
Deficit on revaluation of property	-	(220)
Release to profit & loss	3,424	-
Net decrease in shareholders' funds	(6,241)	(782)
Opening shareholders' funds	1,839	2,621
Closing shareholders' (deficit)/funds	(4,402)	1,839

27. RECONCILIATION OF OPERATING LOSS TO NET CASH (OUTFLOW)/INFLOW

	2012 £000	2011 £000
Operating loss	(5,835)	(20,664)
Depreciation charge	16,355	12,390
Amortisation of intangible assets	12,533	14,385
Profit on sale of tangible assets	(387)	(6)
Decrease in stocks	2,134	1,291
Decrease/(increase) in debtors	36,131	(19,471)
(Decrease)/increase in creditors	(47,761)	52,927
Difference between pension costs and cash contributions	(13,382)	(12,260)
Decrease in provisions	(2,627)	(15,130)
Net cash (outflow)/inflow from operating activities	(2,839)	13,462

NORTHERN & SHELL MEDIA GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

28 RECONCILIATION OF NET CASH FLOW TO MOVEMENTS IN NET DEFICIT

	2012 £000	2011 £000
Net deficit at 1 January	(7,652)	(4,161)
Decrease in cash in the year	(26,848)	(29,951)
Cash outflow from finance lease payments	-	74
Loan acquired with subsidiary	-	(2,314)
Loan finance received	(75,000)	(15,000)
Loan finance repaid	78,309	23,111
Other non cash changes	-	21,000
Cash inflow from liquid resources	-	(411)
	<hr/>	<hr/>
Net deficit at 31 December	(31,191)	(7,652)

29 ANALYSIS OF CHANGES IN NET DEFICIT

	1 January £000	Cash flow £000	31 December £000
Cash in hand and at bank	61,297	(26,848)	34,449
Loan finance due within one year	(8,309)	(4,391)	(12,700)
Loan finance due after one year	(60,640)	7,700	(52,940)
	<hr/>	<hr/>	<hr/>
	(68,949)	3,309	(65,640)
	<hr/>	<hr/>	<hr/>
Net deficit	(7,652)	(23,539)	(31,191)

NORTHERN & SHELL MEDIA GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

30. 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 2012. The latest full actuarial valuation of the West Ferry Printers Pension Fund was carried out as at 31 December 2011. 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 (2011: £9.2 million) into the 1988 Pension Fund during the year, £500,000 (2011: £500,000) into the Senior Management Pension Fund and £2.8 million (2011: £2.4 million) into the West Ferry Printers Pension Fund. All three Funds are defined benefit schemes. The Group expects to contribute £12.7 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 £2.6 million (2011: £2.6 million). At 31 December 2012, contributions of £194,000 were outstanding (2011: £204,000). These have been paid in full after the year end.

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

	2012	2011	2010
Discount rate	4.50%	4.80%	5.50%
Rate of increase in salaries	N/A	N/A	N/A
Rate of LPI increase in pensions in payment	2.95%-3.30%	2.80%-3.10%	3.30%-3.60%
Inflation assumption	2.30%	2.0%	2.50%

The mortality assumptions used in the calculation at 31 December 2012 were:

Express Newspapers 1988 Fund mortality

"S1PA" base tables with year of birth projections and future improvements from a central year of 2006 in line with CMI 2011 model and a long term rate of improvement of 1.25% per annum.

Express Newspapers Senior Management Fund mortality

"S1PA" base tables with year of birth projections and future improvements from a central year of 2003 in line with the CMI 2011 model and a long term rate of improvement of 1.25% per annum.

West Ferry Printers Fund mortality

"S1NA" base tables with year of birth projections and future improvements from a central year of 2003 in line with the CMI 2011 model and a long term rate of improvement of 1.25% per annum.

NORTHERN & SHELL MEDIA GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

30. 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 2012*	Fair value at 2012 £000	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
Equities	4.88%	101,541	5.24%	75,182	6.27%	92,398
Gilts	4.88%	65,335	5.24%	118,680	6.27%	100,101
Corporate bonds	4.88%	96,881	5.24%	65,724	6.27%	92,411
Other	4.88%	327,809	5.24%	308,058	6.27%	229,340
Total market value of assets		591,566		567,644		514,250
Present value of scheme liabilities		(658,123)		(618,291)		(585,477)
Deficit in the schemes		(66,557)		(50,647)		(71,227)
Irrecoverable surplus		(10,409)		(12,874)		-
Deficit in the schemes after irrecoverable surplus		(76,966)		(63,521)		(71,227)
Related deferred tax asset		17,702		15,880		19,231
Net pension liability under FRS17		(59,264)		(47,641)		(51,996)

* The overall long term expected rate of return on the Scheme's assets at 31 December 2012 was 4.88%

Details of history scheme assets, obligations and experience adjustments

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Balance Sheet					
Present value of scheme liabilities	(658,123)	(618,291)	(585,477)	(564,500)	(344,700)
Fair value of scheme assets	591,566	567,644	514,250	475,700	301,700
Deficit in the schemes	(66,557)	(50,647)	(71,227)	(88,800)	(43,000)
Experience adjustments					
Experience adjustments arising on scheme liabilities	(49,677)	(40,076)	(42,083)	(85,536)	73,300
Experience item as percentage of scheme liabilities	(7.6)%	(6.5)%	(7.2)%	(15.2)%	21.3%
Experience adjustments arising on scheme assets	20,047	48,096	37,438	31,578	(56,900)
Experience item as percentage of scheme assets	3.4%	8.5%	7.3%	6.6%	(18.9)%
Cumulative actuarial loss shown in the STRGL	(95,358)	(69,370)	(65,503)	(60,858)	(6,900)

The total amount recognised in the statement of total recognised gains and losses in respect of the actuarial loss is £26.0 million (2011: £3.9 million)

NORTHERN & SHELL MEDIA GROUP LIMITED

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For the year ended 31 December 2012

30. 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 2012

Operating profit	2012 £000	2011 £000
Current service cost	<u>1,156</u>	<u>1,151</u>
Total operating charge	<u>1,156</u>	<u>1,151</u>

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

	2012 £000	2011 £000
Administrative expenses	<u>1,156</u>	<u>1,151</u>
Other finance income/(expenses)	2012 £000	2011 £000
Expected return on assets	29,102	30,438
Effect of asset limit from paragraph 67(c)	(1,177)	-
Interest cost	<u>(28,764)</u>	<u>(31,128)</u>
Total net return	<u>(839)</u>	<u>(690)</u>

Movement in deficit during the year	2012 £000	2011 £000
Deficit at start of year	(63,521)	(71,227)
Current service cost	(1,156)	(1,151)
Employer contributions	13,652	13,411
Miscellaneous contributions	886	3
Other financing expenses	(839)	(690)
Actuarial loss	<u>(25,988)</u>	<u>(3,867)</u>
Deficit at end of the year	<u>(76,966)</u>	<u>(63,521)</u>

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

	2012 £000	2011 £000
Liabilities at 1 January	618,291	585,477
Current service cost	1,156	1,151
Interest cost	28,764	31,128
Actuarial loss	49,677	40,076
Benefits paid	<u>(39,765)</u>	<u>(39,541)</u>
Liabilities at 31 December	<u>658,123</u>	<u>618,291</u>

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For the year ended 31 December 2012

30. PENSION SCHEMES (Continued)

FRS17 Disclosure (continued)

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

	2012 £000	2011 £000
Fair value of scheme assets at 1 January	567,644	514,250
Expected return on scheme assets	29,102	30,438
Actuarial gain	20,047	49,083
Contributions by employers	13,652	13,411
Miscellaneous contributions	886	3
Benefits paid	(39,765)	(39,541)
Fair value of scheme assets at 31 December	591,566	567,644

31. GUARANTEES AND CONTINGENT LIABILITIES

As at 31 December 2012, the £29.0 million and £36.0 million other loans (notes 18 and 19) were jointly and severally guaranteed by the Company and certain subsidiary companies. The shares and certain assets of the Company and a subsidiary company are also pledged as security for these loans. The investment property of the Company (note 12) is pledged as security for the £0.6 million Natwest bank loan. The Company and certain subsidiaries previously jointly and severally guaranteed other bank loans, amounting to £nil as at 31 December 2012 (2011: £67.5 million) (note 21). At 31 December 2012, the maximum liabilities that could arise under these credit arrangements, was £65.6 million (2011: £68.9 million) (note 21).

At 31 December 2012, 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 \$4.6 million (sterling equivalent at 31 December 2012: £2.8 million) (2011: \$4.7 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 £nil (2011: £60.5 million) was made against the company.

At 31 December 2012, 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.

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For the year ended 31 December 2012

32 RELATED PARTY TRANSACTIONS

During the year the Group, through its subsidiary company Northern & Shell Worldwide Limited, charged certain joint venture companies for license fees. An amount of £1.1 million (2011: £1.0 million) was charged to Northern & Shell Pacific Limited and £253,000 (2011: £427,000) charged to OK! Verlag GmbH & Co KG, up until its date of disposal on 28 August 2012 (note 24). The Group also provided funding to support the ongoing operations of these companies. At 31 December 2012, Northern & Shell Pacific Limited owed the Group £442,000 (2011: £442,000) and OK! Verlag GmbH & Co KG owed the Group £nil (2011: £nil).

Management fees are charged by Northern & Shell Plc to Northern & Shell North America Limited for central overhead recharges. An amount of £nil (2011: £647,000) was charged during the year. Northern & Shell North America Limited also paid royalty fees of £nil (2011: £990,000) to Northern & Shell Worldwide during the year. At 31 December 2012, Northern & Shell North America Limited owed group undertakings £134.5 million (2011: £135.5 million) and amounts owed by group undertakings were £10.0 million (2011: £7.8 million).

During the year, the Group made contributions of £nil (2011: £518,000) 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 Number 10 Lower Thames Street property which is the head office of the Northern & Shell Media Group Limited Group. The Number 10 Lower Thames Street property is let to Express Newspapers on a 20 year lease from 1 January 2004 for an annual rental of £8.2 million (2011: £8.2 million), with a rent review every 5 years. The charge for the year was £8.2 million (2011: £8.2 million). No amounts were due to Badger Property Partners LLP as at 31 December 2012 (2011: £nil).

During the year, Mr R C Desmond paid insurance premiums of £nil (2011: £nil) to a subsidiary company, Northern & Shell Insurance Limited. The purpose of the premiums was to insure against personal risks and liabilities. During 2011, Mr R C Desmond made a claim of £60.5 million in relation to these insurance premiums. The excess of the claim over provisions made of £46.6 million was charged to the profit and loss account in 2011 (note 3). An amount of £44.8 million was outstanding at 31 December 2012 (2011: £60.5 million) and is included in other creditors falling due within one year of £15.7 million (2011: £15.7 million) and other creditors falling due after one year of £29.1 million (2011: £44.8 million) (notes 18 and 19).

During the year, the Company received loans totalling £65.0 million from Blue Cube Investments Limited, a company wholly owned by The Northern & Shell Richard Desmond Funded Unapproved Retirement Benefit Scheme, of which Mr R C Desmond is the beneficiary and The Northern & Shell Plc Group Pension Scheme, a personal Small Self Administered Scheme of which Mr R C Desmond is the beneficiary. The loans are included in other loans falling due within one year of £12.1 million and other loans falling due after more than one year of £52.9 million. The terms of the loans are set out in notes 18, 19 and 31 respectively.

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.

NORTHERN & SHELL MEDIA GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

33. PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

Principal subsidiaries and percentage holding

Company Name	Principal Activity	Ordinary shares
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 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%
Northern & Shell Investments No 2 Limited	Property investment	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 and Northern & Shell Insurance Limited which is registered in Guernsey

* Denotes operates a branch in the United States of America, of which the principal trade and assets were disposed during 2011 (note 24)

** Denotes operates a branch in Luxembourg

All of the above companies are consolidated within the Group accounts

NORTHERN & SHELL MEDIA GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

33. 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
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

34 COMMITMENTS

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

	2012 £000	2011 £000
Programme inventory	358,859	255,449
Other	-	611
	<u>358,859</u>	<u>256,060</u>

Other commitments include £nil in respect of the purchase of printing facilities which completed in 2012 (2011 £611,000)

35 ULTIMATE CONTROLLING PARTY

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