NORTHERN & SHELL NETWORK LIMITED

GROUP REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

NORTHERN & SHELL NETWORK LIMITED

ANNUAL REPORT

For the year ended 31 December 2009

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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

4086475 (England)

AUDITORS

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

BANKERS

Bank of Scotland
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United Kingdom

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452 Fifth Avenue
New York
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Number 10 Lower Thames Street
London, EC3R 6EN
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NORTHERN & SHELL NETWORK LIMITED

DIRECTORS' REPORT

For the year ended 31 December 2009

The directors present their report and the audited financial statements of the Group and Company for the year ended 31 December 2009

PRINCIPAL ACTIVITIES

Northern & Shell Network Limited is the principal holding company in the Northern & Shell group of companies Through its subsidiaries, Northern & Shell Plc, Northern & Shell Media Limited, Portland Media Group Limited and Northern & Shell Worldwide Limited it owns a group of companies principally engaged in newspaper publishing and printing, magazine publishing, television broadcasting 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 and the Company to continue trading in these areas for the foreseeable future

RESULTS AND DIVIDENDS

The Group recorded a profit before taxation of £8 5 million (2008 £41 1 million)

The directors do not recommend the payment of a dividend (2008 £nil)

REVIEW OF THE YEAR AND FUTURE PROSPECTS

Key highlights

- Challenging market conditions,
- OK! Magazine remains the UK's no 1 celebrity title and the worldwide presence of the brand continues to grow,
- Newspapers have remained competitive and grown market share, with average Daily Star newsstand sales increasing 20% year on year,
- Continued investment in the newspaper titles with national cover price reductions and voucher offers, reducing revenue by £52 2m in 2009,
- Focus on cost controls and efficiency savings, including redundancy costs of £10 9 million,
- Non-recurring bad debt charge of £3 7 million from the insolvency of a distributor,
- Significantly improved first quarter trading in 2010 with a positive outlook for the full year 2010

In line with expectations, given the context of a severe economic downturn in the UK and other developed markets, 2009 proved to be an extremely challenging year for the media industry In response to these conditions, the Group pursued a range of initiatives across all of the highly competitive publishing, printing and broadcasting markets in which it operates, designed to mitigate the effects of pressures on revenues and inflationary cost increases, with the tight control of costs and further efficiency savings Against this backdrop, the group continued to make investment on brand extension in the magazine sector and in newspapers through the competitive pricing of the products Also in television both new and added value offerings have been provided to customers Accordingly, the directors consider the underlying performance of the Group to be highly satisfactory The Group's gross profit margin remained constant at 44 0% (2008 43 9%) and after deducting the cost of the newspaper cover price reductions and voucher offers (reducing revenue by £52 2 million), redundancy costs of £10 9 million and bad debts from the insolvency of a distributor of £3 7 million, the Group recorded an operating profit of £14 5 million (2008 £39 5 million)

The Newspaper division's operating result was adversely impacted by a combination of factors experienced across the newspaper industry Advertising revenues declined with many clients responding to the economic downturn by reducing their promotional budgets The division also felt the impact of the steep increases in the price of newsprint in 2009 However, the largest single factor which affected the financial performance of the newspaper operations in the year arose from the furtherance of the group's policy to ensure that its main products were the most competitively priced in each of its market segments This entailed the continuance of the national cover price reductions on the Daily Star and the offer of money off vouchers in the Daily Express and Sunday Express The cost of these promotions amounted to £52 2 million in 2009, but have contributed to the maintenance and growth in the overall market share for the titles, which the directors consider to be of significant benefit for the long term future of the business

During the year, Express Newspapers exercised its option to purchase the remaining 50% shareholding in West Ferry Printers Limited, fulfilling the strategic ambition of taking full control of its key printing arrangements In

REVIEW OF THE YEAR AND FUTURE PROSPECTS (Continued)

addition to the cost of this acquisition, the group incurred a charge of £7 6 million arising from redundancies following the re-structuring of the West Ferry business

Given these events and conditions, the directors are highly satisfied with the performance of the business Furthermore, with the improvement in the advertising revenues seen to date after the year end, together with the significant reductions in the prices of newsprint and tight management of other costs, the newspaper division is well placed to improve its financial performance in 2010, even allowing for the continued cover price and voucher promotions strategy

In the magazine publishing area the principal focus was on improving the performance of the division whilst maintaining the breadth of the worldwide presence of the OK! Magazine brand which has been strategically nurtured and extended over the past few years OK! Magazine, together with the other Northern & Shell celebrity titles, new! and Star magazines, consolidated the group's market leading position in the UK Woman's Weekly magazine market during the year, with OK! Magazine being by some distance the largest newsstand revenue generating title in its category Outside the UK a significant improvement was made in the financial performance of the American title, with its progress evidenced by OK! Weekly being one of the very few magazine titles to show a year on year increase in the number of advertising pages it carried compared to 2008, a significant achievement in an extremely challenging, consumer recession hit, market in the United States

The Australian and German OK! titles, produced through joint ventures with established publishing groups in Australia and Germany also performed well with both achieving improved results in line with expectations Additionally, the worldwide presence of the brand has been further extended so that currently the Group also has 17 international editions of OK! Magazine under licence agreements with other publishers, making a total of 21 individual editions of the title Given the painful global economic conditions in the year, the directors consider the maintenance of the OK! publishing network to be a significant achievement and a clear testament to the appeal and resilience of the OK! brand Further international editions are also scheduled to launch in 2010 and 2011

Overall the Group operates in highly competitive markets both in the UK and overseas, particularly around price and product quality, and given the nature of the environment, the directors are highly satisfied with the performance of the magazine division Building on the strength of the UK titles and in expectation of further improvements in the performance of the US, Australian and German titles, the directors are optimistic on the future prospects of the business

In the television production and broadcasting area, the Group operates in a highly competitive pay TV market, and its turnover and strong operating profits fell below those achieved in 2008 Primarily the directors attribute this to the prevailing general economic climate, as a consequence of which consumers have reigned back on discretionary spend In addition the continued competition from free to air telephony based channels and the proliferation of free material available on the internet are also considered to be contributing factors Responding to these challenges the Group has, in its television broadcasting activities, continued to focus on its core product offering, established its own telephony based operations, further developed its broadband offerings and established a new pay TV offering branded 'Primetime', initially to cover live Boxing events The division also continued its policy of diversifying its activities into the provision of television production services for more third party (non Group) business With these developments, the directors view the future with confidence

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

Under FRS 17, 'Retirement benefits', the Group's financial statements recognise a net pension liability of £63 9 million at 31 December 2009, after an actuarial loss of £38 8 million (2008 £31 0 million pension liability excluding joint venture companies) 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 £63 9 million (2008 £31 0 million) were £76 0 million at 31 December 2009 (2008 £89 2 million) The Group's net funds, including liquid resources in the form of equity investments and bonds, were £41 7 million at 31 December 2009 (2008 £55 5 million)

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

NORTHERN & SHELL NETWORK LIMITED

DIRECTORS' REPORT

For the year ended 31 December 2009

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 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 using various methods, including formal briefings, e-mails, a corporate brochure and a corporate website Consultation with employees or their representatives has continued at all levels, with the aim of ensuring their views are taken into account where decisions are likely to affect their interests This practice is reviewed regularly Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group and Company continues and the appropriate training is arranged It is the policy of the Group and Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability

FINANCIAL RISK MANAGEMENT

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

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

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

Interest rate cash flow risk
The Group has both interest bearing assets and liabilities The interest bearing assets are cash balances subject to floating and fixed interest rates respectively The Group utilises interest rate swaps with a fixed rate to manage its liabilities The directors keep these measures under constant review

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

POLITICAL AND CHARITABLE DONATIONS

Charitable donations were made during the year amounting to £156,000 (2008 £554,000), including contributions to a charitable trust (note 31)

There were no political contributions made during the year (2008 £nil)

NORTHERN & SHELL NETWORK LIMITED

DIRECTORS' REPORT

For the year ended 31 December 2009

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

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

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

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

Mr R Sanderson
Secretary
Date 22 April 2010

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

NORTHERN & SHELL NETWORK LIMITED

For the year ended 31 December 2009

We have audited the financial statements of Northern & Shell Network Limited for the year ended 31 December 2009 set out on pages 8 to 41 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 auditors' 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 6, 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

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 2009 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

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 financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Adrian John Wilcox (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
20 Farringdon Street
London, EC4A 4PP
Date 23 April 2010

NORTHERN & SHELL NETWORK LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2009

	Notes	2009 £000	2008 £000
Turnover (including share of joint ventures)	2	**421,477**	483,876
Less share of joint ventures' turnover		**(40,425)**	(60,813)
Group turnover		**381,052**	423,063
Cost of sales		**(213,258)**	(237,149)
Gross profit		**167,794**	185,914
Distribution costs		**(30,611)**	(31,988)
Administrative expenses	3	**(135,596)**	(114,454)
Other operating income		**12,871**	-
Group operating profit	4	**14,458**	39,472
Share of operating (loss)/profit of Joint Ventures (after £2 1m (2008 £3 4m) goodwill amortisation)		**(704)**	3,171
Total operating profit and profit on ordinary activities before interest and taxation		**13,754**	42,643
Other interest receivable and similar income	6	**1,854**	7,472
Interest payable and similar charges	7	**(4,872)**	(7,075)
Other financing expenses	29	**(2,248)**	(1,900)
Profit on ordinary activities before taxation	2	**8,488**	41,140
Tax on profit on ordinary activities	8	**(12,505)**	(11,128)
(Loss)/profit for the financial year	25	**(4,017)**	30,012

The notes on pages 13 to 41 form part of these financial statements

Turnover and operating profit are wholly attributable to continuing operations

NORTHERN & SHELL NETWORK LIMITED

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2009

	Notes	2009 £000	2008 £000
(Loss)/profit for the financial year			
- Group		**(3,885)**	30,382
- Joint Ventures		**(132)**	(370)
		(4,017)	30,012
Actuarial (loss)/gain recognised in the pension scheme – excluding Joint Ventures	29	**(53,958)**	16,400
Movement on deferred tax relating to pension liability – excluding Joint Ventures		**15,108**	(4,592)
Actuarial loss recognised in the Joint Venture pension scheme		**(4,165)**	(22,561)
Movement on deferred tax relating to Joint Venture pension liability		**1,166**	6,318
Net exchange differences on the retranslation of net investments and related borrowings		**(293)**	699
Total (losses)/gains recognised since last annual report		**(46,159)**	26,276
- Group		**(42,735)**	42,190
- Joint Ventures		**(3,424)**	(15,914)
Total (losses)/gains recognised since last annual report		**(46,159)**	26,276

NORTHERN & SHELL NETWORK LIMITED

CONSOLIDATED BALANCE SHEET as at 31 December 2009

	Notes	2009 £000	2008 £000
FIXED ASSETS			
Intangible assets	10	**15,492**	8,580
Tangible assets	11	**82,181**	67,105
Investments	12		
Interests in joint ventures			
Share of gross assets		**5,290**	23,812
Share of gross liabilities		**(5,540)**	(16,846)
Goodwill arising on acquisition		**886**	9,616
		636	16,582
Other Investments		**85**	85
		721	16,667
		98,394	92,352
CURRENT ASSETS			
Stocks	13	**4,273**	9,893
Debtors	14	**56,526**	58,572
Current asset investments	16		
Quoted and unquoted equity investments		**7,677**	18
Corporate bonds		**25,904**	-
Government bonds		**-**	102,240
		33,581	102,258
Cash at bank and in hand		**71,272**	22,636
		165,652	193,359
CREDITORS amounts falling due within one year	17	**(113,182)**	(116,999)
NET CURRENT ASSETS		**52,470**	76,360
TOTAL ASSETS LESS CURRENT LIABILITIES		**150,864**	168,712
CREDITORS: amounts falling due after more than one year	18	**(56,612)**	(63,156)
PROVISIONS FOR LIABILITIES AND CHARGES	19	**(18,254)**	(16,375)
NET ASSETS excluding pension liability		**75,998**	89,181
PENSION LIABILITY	29	**(63,936)**	(30,960)
NET ASSETS including pension liability		**12,062**	58,221
CAPITAL AND RESERVES			
Called up share capital	24	**110**	110
Other reserves	25	**3,860**	3,860
Capital redemption reserve	25	**100**	100
Profit and loss account	25	**7,992**	54,151
TOTAL SHAREHOLDERS' FUNDS/EQUITY	25	**12,062**	58,221

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

Mr R C Desmond
Chairman
Date 22 April 2010

Company registered number 4086475

NORTHERN & SHELL NETWORK LIMITED

COMPANY BALANCE SHEET as at 31 December 2009

	Notes	2009 £000	2008 £000
FIXED ASSETS			
Investments	12	**890,571**	569,338
CURRENT ASSETS			
Debtors	14	**149,589**	324,330
Cash at bank and in hand		**82**	1
		149,671	324,331
CREDITORS: amounts falling due within one year	17	**(686,403)**	(499,417)
NET CURRENT LIABILITIES		**(536,732)**	(175,086)
TOTAL ASSETS LESS CURRENT LIABILITIES		**353,839**	394,252
NET ASSETS		**353,839**	394,252
CAPITAL AND RESERVES			
Called up share capital	24	**110**	110
Capital redemption reserve	25	**100**	100
Profit and loss account	25	**353,629**	394,042
TOTAL SHAREHOLDERS' FUNDS/EQUITY	25	**353,839**	394,252

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

Mr R C Desmond
Chairman
Date 22 April 2010

Company registered number 4086475

NORTHERN & SHELL NETWORK LIMITED

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2009

	Notes	2009 £000	2008 £000
Net cash inflow from operating activities	26	**28,492**	36,840
Dividends received from joint ventures		**1,519**	2,774
Returns on investments and servicing of finance			
Interest received		**596**	5,060
Interest paid		**(4,294)**	(5,487)
Issue costs of new bank loan		**-**	-
Interest element of finance lease rentals		**(63)**	(31)
Net cash outflow from returns on investments and servicing of finance		**(3,761)**	(458)
Taxation		**(552)**	(377)
Capital expenditure			
Payments to acquire tangible fixed assets		**(24,100)**	(8,920)
Payments to acquire intangible assets		**(1,152)**	(1,039)
Receipts from disposal of fixed assets		**37**	129
Net cash outflow for capital expenditure		**(25,215)**	(9,830)
Acquisitions and disposals			
Contributions to Joint Ventures		**(1,624)**	(21,586)
Acquisition of ordinary shares		**(6,269)**	-
Acquisition of preference shares		**(5,375)**	-
Net cash outflow from acquisitions and disposals		**(13,268)**	(21,586)
Net cash (outflow)/inflow before use of liquid resources and financing		**(12,785)**	7,363
Management of liquid resources			
Purchase of government bonds		**-**	(114,417)
Sale of government bonds		**67,796**	13,902
Net cash inflow/(outflow) from management of liquid resources		**67,796**	(100,515)
Financing			
External loan repayments		**(6,229)**	(5,756)
Capital element of finance lease rentals		**(146)**	(397)
Net cash outflow from financing		**(6,375)**	(6,153)
Increase/(decrease) in net cash	27/28	**48,636**	(99,305)

1. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of accounting

The financial statements are prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards The principal accounting policies are set out below

(b) Basis of consolidation

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

(c) Revenue recognition

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

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

(d) Foreign currencies

Transactions denominated in foreign currencies are recorded at the exchange rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date with any differences being taken to the profit and loss account

For consolidation purposes, the monetary assets and liabilities of overseas subsidiary undertakings 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

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Intangible fixed assets

Trademarks

Trademarks comprise the cost of registering trademarks They 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 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 and then evenly over 3 years The Group reviews its amortisation policy regularly to take account of changes to transmission of programming and the rights assigned Where the Group transmits programming, which is owned by a third party, the charge is written off to the profit and loss account over the period that the charge relates to

(f) Tangible fixed assets

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

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Fixed asset investments

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

(h) Current asset investments

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

(i) Cash and liquid resources

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

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

(j) Stocks

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

(k) Debtors

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

(l) Borrowings

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

(m) Leases

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

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

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

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

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Leases (Continued)

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

(n) Interests in joint ventures

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

(o) Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date

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

Deferred tax assets and liabilities are not discounted and are calculated at the standard rate of corporation tax in the UK of 28% (2008 28%)

(p) Pension costs

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

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

(q) Insurance premiums and claims

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

Claims incurred comprise claims and related expenses paid in the year

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

2. SEGMENTAL ANALYSIS

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

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

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

	2009 £000	2008 £000
Turnover (including share of joint ventures)		
Publishing and printing	**358,664**	396,777
Publishing and printing – Joint Ventures	**40,425**	60,813
Broadcasting	**21,094**	26,226
Insurance	**1,294**	60
	421,477	483,876
Group operating profit/(loss) - including Joint Ventures		
Publishing and printing	**11,435**	30,879
Publishing and printing – Joint Ventures	**(704)**	3,171
Broadcasting	**3,984**	7,492
Insurance	**(11)**	(33)
	14,704	41,509
Foreign exchange (loss)/gain (note 4)	**(950)**	1,134
	13,754	42,643
Group – excluding Joint Ventures	**14,458**	39,472
Joint Ventures	**(704)**	3,171
Total operating profit	**13,754**	42,643
Profit/(loss) before taxation		
Publishing and printing	**8,051**	30,888
Publishing and printing – Joint Ventures	**(713)**	3,240
Broadcasting	**2,110**	5,838
Insurance	**(10)**	40
	9,438	40,006
Foreign exchange (loss)/gain (note 4)	**(950)**	1,134
	8,488	41,140

2. SEGMENTAL ANALYSIS (Continued)

Net operating (liabilities)/assets (including pension deficit)	2009 £000	2008 £000
Publishing and printing	(28,327)	(10)
Publishing and printing – Joint Ventures	636	16,582
Broadcasting	689	234
Insurance	(13)	(23)
	(27,015)	16,783

Reconciliation of net operating (liabilities)/assets to net assets/(liabilities)		
Net operating assets/(liabilities)	(27,015)	16,783
Investments	33,666	103
Corporation tax	(39,220)	(31,514)
Deferred tax – asset	34,501	15,690
Net funds	10,130	57,159
	12,062	58,221

3. ADMINISTRATIVE EXPENSES

	2009 £000	2008 £000
Chairman's emoluments and pension contributions (note 5a)	698	641
Other administrative expenses	134,898	113,813
	135,596	114,454

4. GROUP OPERATING PROFIT

	2009 £000	2008 £000
Operating profit is stated after charging/(crediting)		
Depreciation – owned assets	**7,977**	7,554
Depreciation – leased assets	**2,055**	2,279
Amortisation of trademarks	**2**	3
Amortisation of programming rights	**1,077**	929
Amortisation of goodwill – acquisitions	**2,037**	567
Amortisation of goodwill – Joint Ventures	**2,089**	3,369
Loss/(profit) on disposal of fixed assets	**129**	(59)
Operating lease rentals – plant and machinery	**501**	339
Operating lease rentals – other	**11,070**	9,583
Foreign exchange loss/(gain)	**950**	(1,134)
Other operating income (see note 31)	**(12,871)**	-
Operating lease rentals – other income	**(1,717)**	(1,331)

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

	2009	2008
Audit services		
Fees payable to the Company's auditor for the audit of the Company and consolidated accounts	**28**	28
Other services		
Fees payable to the Company's auditor and its associates for the audit of associates to the Company pursuant to legislation	**387**	332
All other services	**12**	12

Audit fees for the Company are borne by subsidiary undertakings

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

(a) Directors	2009 £000	2008 £000
Emoluments	2,132	2,092
Company contributions to money purchase pension schemes	72	72
	2,204	2,164

Pension benefits are accruing to five directors under money purchase pension schemes (2008 five directors)

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

	2009 £000	2008 £000
Emoluments	698	641

(b) Staff costs (including directors)	2009 £000	2008 £000
Wages and salaries	68,746	59,808
Social security costs	7,338	6,202
Pension costs	2,709	1,675
	78,793	67,685

Pension costs include an FRS17 pension charge of £1 4 million (2008 £400,000) (note 29)

Average number of people employed by activity	2009 Number	2008 Number
Production	919	827
Selling and distribution	216	169
Administration	193	183
	1,328	1,179

6 OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2009 £000	2008 £000
Bank deposit and government bond interest	**1,093**	5,709
Interest receivable from parent company	**686**	1,624
Other interest receivable	**73**	67
Joint venture interest receivable	**2**	72
	1,854	7,472

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2009 £000	2008 £000
Bank loans and overdrafts	**4,281**	5,271
Finance leases	**63**	31
Amortisation of financing charges	**103**	103
Other interest payable	**2**	3
Interest payable to parent company	**412**	1,663
Joint venture interest payable	**11**	4
	4,872	7,075

NORTHERN & SHELL NETWORK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2009 £000	2008 £000
Current tax		
UK corporation tax on profit of the year at 28 0% (2008 28 5%)	1,878	7,192
Adjustments in respect of previous periods	5,428	1,111
Foreign taxes suffered	447	416
Double taxation relief	(249)	(260)
Share of Joint Venture taxation	429	3,611
Total current tax charge	7,933	12,070
Deferred tax (note 15)		
Origination and reversal of timing differences (Accelerated capital allowances and other)	3,236	(933)
Adjustment in respect of previous periods	(807)	(2,193)
Total deferred tax charge/(credit) excluding deferred tax credit on pension liability	2,429	(3,126)
Pension cost relief in excess of pension cost charge	2,143	2,184
Total deferred tax charge/(credit) (note 15)	4,572	(942)
Tax on profit on ordinary activities	12,505	11,128

The tax assessed for the year differs from the rate of 28 0% (2008 28 5%) and the differences are explained below

	2009 £000	2008 £000
Profit on ordinary activities before tax	8,488	41,140
Profit on ordinary activities multiplied by the rate of 28 0% (2008 28 5%)	2,377	11,725
Effects of		
Net effect of expenses not deductible for tax and income not subject to tax	1,298	1,431
Excess of depreciation over capital allowances and other timing differences	(5,322)	(1,193)
Adjustments in respect of previous periods	5,428	1,111
Profits subject to lower level of overseas tax	(3,453)	(2,867)
Non tax deductible goodwill amortisation and other permanent differences	1,155	1,122
Deferred tax assets not recognised	6,450	741
Current tax charge for the year	7,933	12,070

Factors that may effect future tax charges

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

9. (LOSS)/ PROFIT OF THE COMPANY

Under section 408 of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account The Company's loss for the year amounted to £40 4 million (2008 profit £79 6 million)

10 INTANGIBLE ASSETS

	Trademarks £000	Goodwill £000	Programming Rights £000	Total £000
THE GROUP				
Cost				
At 1 January 2009	161	11,347	5,731	17,239
Transfer	-	23,835	-	23,835
Additions	-	2,273	1,152	3,425
Disposals	(8)	-	(30)	(38)
At 31 December 2009	**153**	**37,455**	**6,853**	**44,461**
Amortisation				
At 1 January 2009	111	4,564	3,984	8,659
Transfer	-	17,194	-	17,194
Charge for the year	2	2,037	1,077	3,116
Disposals	-	-	-	-
At 31 December 2009	**113**	**23,795**	**5,061**	**28,969**
Net book amounts				
At 31 December 2009	**40**	**13,660**	**1,792**	**15,492**
At 31 December 2008	50	6,783	1,747	8,580

On 19 June 2009, the Group acquired the remaining 50% ordinary share capital in West Ferry Printers Limited Accordingly, the company is now accounted for as a subsidiary undertaking and joint venture goodwill of £6 6 million (net of accumulated amortisation of £17 2 million) was transferred from fixed assets investments – goodwill (note 12) to intangible assets – goodwill Additional goodwill of £2 3 million also arose on the acquisition

11 TANGIBLE ASSETS

THE GROUP	Land and Buildings £000	Motor Vehicles, Plant and Machinery £000	Fixtures, Fittings and Office Equipment £000	Total £000
Cost				
At 1 January 2009	65,124	113,674	32,713	211,511
Acquisition	1,263	102,624	-	103,887
Additions	23,292	249	706	24,247
Disposals	(3)	(493)	(2,274)	(2,770)
At 31 December 2009	**89,676**	**216,054**	**31,145**	**336,875**
Depreciation				
At 1 January 2009	23,089	95,153	26,164	144,406
Acquisition	938	101,902	-	102,840
Charge for the year	2,900	5,509	1,623	10,032
Disposals	(3)	(307)	(2,274)	(2,584)
At 31 December 2009	**26,924**	**202,257**	**25,513**	**254,694**
Net book amounts				
At 31 December 2009	**62,752**	**13,797**	**5,632**	**82,181**
At 31 December 2008	42,035	18,521	6,549	67,105

Land and buildings includes the following assets at net book value as at 31 December 2009

- freehold land and buildings £21 6 million (2008 £10 4 million)
- long leasehold land £11 2 million (2008 £nil)
- short leasehold buildings £29 9 million (2008 £31 6 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 2009, the net book value was £1 2 million (2008 £3 2 million) after charging £2 0 million (2008 £2 3 million) depreciation for the year

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

- Land and buildings - £0 7 million (2008 £0 7 million)
- Motor vehicles, plant and machinery - £nil (2008 £0 1 million)

During the year, the Group acquired the remaining 50% ordinary share capital in West Ferry Printers Limited Accordingly, the acquisitions of tangible assets amounting to a cost of £103 9 million and depreciation of £102 8 million have been included above

12. FIXED ASSET INVESTMENTS

THE GROUP	2009 £000	2008 £000
Interest in Joint Ventures		
At 1 January - net assets	6,966	700
- goodwill (gross)	33,691	33,691
	40,657	34,391
Share of profit	653	2,997
Movement in profit and loss reserves	(4,519)	(18,318)
Capital contributions	1,624	21,587
	(2,242)	6,266
Disposal of net assets	(4,974)	-
Disposal of goodwill (gross)	(23,835)	-
	(28,809)	-
At 31 December - net (liabilities)/assets	(250)	6,966
- goodwill (gross)	9,856	33,691
	9,606	40,657
Aggregate amortisation of goodwill		
At 1 January	(24,075)	(20,706)
Charge for the year	(2,089)	(3,369)
Disposal	17,194	-
At 31 December	(8,970)	(24,075)
Net book amount at 31 December		
Net (liabilities)/assets	(250)	6,966
Goodwill	886	9,616
	636	16,582
Other fixed asset investment	85	85
Total fixed asset investments	721	16,667

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 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 19 June 2009, the Group acquired the remaining 50% ordinary share capital in West Ferry Printers Limited for a consideration of £6 2 million, taking the total holding to 100% Accordingly West Ferry Printers Limited is accounted for as a subsidiary undertaking at 31 December 2009

12 FIXED ASSET INVESTMENTS (Continued)

Details of significant investments in joint venture companies – at 31 December 2009

	2009 £000	2008 £000
Summary of joint venture net assets		
Share of fixed assets	550	5,996
Share of current assets	4,740	15,048
Share of pension surplus	-	2,768
Share of gross assets	5,290	23,812
Share of liabilities		
Due within one year	(5,161)	(14,444)
Due after one year	(379)	(2,402)
Share of gross liabilities	(5,540)	(16,846)
Net (liabilities)/assets	(250)	6,966

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

	2009 £000	2008 £000
West Ferry Printers Limited		
Turnover	10,156	30,618
Profit before taxation	699	11,206
Taxation	(238)	(3,357)
Profit after taxation	461	7,849
Losses recognised in statement of total recognised gains and losses	(2,999)	(16,243)
Fixed assets	-	5,415
Current assets	-	7,053
Pension surplus	-	2,768
Liabilities due within one year	-	(5,597)
Liabilities due after more than one year	-	(2,127)
Net assets	-	7,512

THE COMPANY	2009 £000	2008 £000
Shares in group undertakings		
At 1 January	569,338	569,338
Additions in the year	321,233	-
At 31 December	890,571	569,338

12 FIXED ASSET INVESTMENTS (Continued)

The immediate subsidiary undertakings and their percentage holdings are

Company name	Principal activity	Ordinary shares
Northern & Shell Group Limited	Holding company	100%
Portland Media Group Limited	Broadcasting & publishing	100%
Northern & Shell Finance Limited	Group treasury	100%
Northern & Shell Insurance Limited	Insurance	100%
Northern & Shell Luxembourg SARL	Finance	100%
Northern & Shell Plc	Publishing	100%
Northern & Shell Leasing Limited	Leasing	100%
Northern & Shell Titles Limited	Holding of trademarks	100%
Northern & Shell Worldwide Limited	Intellectual property exploitation	100%
Northern & Shell Media Limited	Holding company	100%
Northern & Shell Investments Limited	Investments	100%

Investments in group undertakings are stated at cost less any provision for permanent diminution in value A list of the principal subsidiaries and joint ventures is given in note 32

13 STOCKS

	The Group	
	2009	2008
	£000	£000
Raw materials and consumables	4,273	9,893

14 DEBTORS

	The Group	
	2009	2008
	£000	£000
Trade debtors	29,015	35,972
Other debtors	2,984	3,472
Amounts owed by ultimate parent undertaking	906	529
Amounts owed by related party	1,431	981
Prepayments and accrued income	12,115	13,625
Amounts due with respect to group relief	438	343
Deferred tax asset (note 15)	9,637	3,650
	56,526	58,572

14 DEBTORS (Continued)

	The Company 2009 £000	The Company 2008 £000
Amounts owed by group undertakings	**145,161**	194,506
Loan to group undertakings	**-**	128,233
Amounts due with respect to group relief	**2,617**	-
Deferred tax asset	**220**	-
Other debtors	**1,591**	1,591
	149,589	324,330

Amounts owed by group undertakings carry interest between 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, are non-interest bearing

15 DEFERRED TAX ASSET

	£000
At 1 January 2009	**(3,650)**
Acquisition of subsidiary (note 23)	**(8,416)**
Charged to the profit and loss account	**2,429**
At 31 December 2009	**(9,637)**

The deferred taxation provided in these financial statements is as follows

	2009 £000	2008 £000
Provision for deferred tax including deferred tax on pension liability		
Accelerated capital allowances	**129**	750
Other timing differences	**(9,766)**	(4,400)
Deferred tax excluding that relating to pension liability	**(9,637)**	(3,650)
Deferred tax on pension liability (note 29)	**(24,864)**	(12,040)
Total provision for deferred tax – asset	**(34,501)**	(15,690)
1 January 2009	**(15,690)**	(19,340)
Deferred tax credit in profit and loss account (note 8)	**4,572**	(942)
Acquisition of subsidiary excluding deferred tax on pension asset (note 23)	**(8,416)**	-
Acquisition of subsidiary's deferred tax on pension asset (note 23)	**141**	-
Deferred tax on the actuarial loss on the pension scheme charged to the statement of total recognised gains and losses	**(15,108)**	4,592
At 31 December 2009	**(34,501)**	(15,690)

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

16. CURRENT ASSET INVESTMENTS

	The Group	
	2009	2008
	£000	£000
Government bonds	-	102,240
Corporate bonds	25,904	-
Quoted investments	7,669	10
Unquoted investments	8	8
	33,581	102,258

17. CREDITORS: amounts falling due within one year

	The Group	
	2009	2008
	£000	£000
Bank loans and overdrafts (notes 20 and 28)	6,479	6,229
Less deferred finance charges	(548)	(651)
Other amounts owed to joint ventures	-	2,402
Trade creditors	20,505	25,651
Other creditors	4,682	4,008
Taxation and social security	1,392	1,468
Obligations under finance leases (note 21)	153	153
Corporation tax	39,218	31,514
Redeemable ordinary 'B' shares	900	900
Accruals and deferred income	40,401	45,325
	113,182	116,999

	The Company	
	2009	2008
	£000	£000
Amounts owed to group undertakings	683,564	495,238
Amounts owed with respect to group relief	-	1,340
Corporation tax	2,839	2,839
	686,403	499,417

Amounts owed to group undertakings carry interest between nil and 2 5% above base rate or LIBOR, are unsecured and repayable on demand Amounts owed with respect to group relief are non interest bearing Amounts owed to joint ventures carry interest between nil and 2 5% above base rate, are unsecured and repayable on demand

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

	The Group	
	2009	2008
	£000	£000
Bank loans (notes 20 and 28)	**56,415**	62,894
Obligations under finance leases (note 21)	**74**	73
Other creditors	**123**	189
	56,612	63,156

19. PROVISIONS FOR LIABILITIES AND CHARGES

	Insurance claims provision £000	Other provisions £000	Total £000
The Group			
At 1 January 2009	12,674	3,701	16,375
Charged to the profit and loss account	1,217	662	1,879
At 31 December 2009	**13,891**	**4,363**	**18,254**

The insurance claims provision relates to the potential costs arising from claims that could be made against Northern & Shell Insurance Limited, a group company, resulting from insurance contracts written by that company No claims have been made to date and, should they arise, any claims are likely to take several years to resolve Whilst the ultimate cost, if any, of settling the potential claims is uncertain, the company has taken legal and professional advice and considers that a provision of £13 9 million is appropriate

Other provisions of £4 4 million relate to the provision for onerous rental commitments of £3 5 million (2008 £2 5 million) at the main business premises, Number 10 Lower Thames Street, and £0 9 million (2008 £1 2 million disclosed within creditors amounts falling due within one year) at another business premises, 4 Selsdon Way, London These provisions are expected to be utilised during the period to 31 December 2015 and 31 December 2012 respectively

20 BANK LOAN OBLIGATIONS

	The Group 2009 £000	2008 £000
The Group's bank loan obligations are due		
Within one year	**6,479**	6,229
In more than one year but not more than two years	**6,479**	6,479
In more than two years but not more than five years	**22,937**	21,437
In more than five years	**26,999**	34,978
	62,894	69,123
Less deferred finance charges	**(548)**	(651)
	62,346	68,472

Bank loans are guaranteed by the Group (note 30) Included in bank loans is a loan of £26 9 million, which carries interest at LIBOR plus 1 0% and is repayable in quarterly instalments over seven years and a £36 0 million loan, which carries interest at LIBOR plus 2 0% The £36 0 million loan is split into £16 0 million and £20 0 million tranches, loan A and loan B Loan A is repayable in six monthly instalments over five years Loan B is repayable over the same period, however, it is repaid with an annual 30% excess cash flow sweep payment and a final bullet repayment after loan A has been repaid in full

The Group has entered into certain interest rate swap arrangements The £26 9 million loan is fixed at a blended rate of 5 53% plus 1 0%, the £16 0 million loan A is fixed at a rate of 3 07% plus 2 0% and the £20 0 million loan B is fixed at a rate of 5 86% plus 2 0% Arrangements are also in place for a top up amount of £5 0 million for loan B to be fixed at 4 33% plus 2 0% commencing 18 July 2011

21. OBLIGATIONS UNDER FINANCE LEASES

	2009 £000	2008 £000
The Group is subject to finance lease obligations which are due		
Within one year	**153**	153
Within two to five years	**74**	73
	227	226

22 OPERATING LEASE COMMITMENTS

At 31 December 2009, the Group was committed to making the following annual payments in respect of operating leases which expire

	Land and Buildings 2009 £000	2008 £000	Other 2009 £000	2008 £000
Within one year	**51**	58	**7**	-
Two to five years	**132**	112	**442**	343
After five years	**11,022**	10,495	**-**	-
	11,205	10,665	**449**	343

23. ACQUISITIONS

On 19 June 2009, the Group acquired the remaining 50% ordinary share capital in West Ferry Printers Limited for £6 269 million The resulting goodwill of £2 3 million was capitalised and will be written off over 10 years, in line with the Group's accounting policy for joint venture acquisitions

Details of 50% of the net book value and fair value of the company's net assets/(liabilities) at acquisition date are set out below At 31 December 2009, the company was 100% owned by the Group and accordingly has been accounted for as a subsidiary undertaking

	Net book value and fair value at 19 June 2009 £000
Tangible fixed assets	524
Pension surplus	252
Deferred tax on pension asset	(71)
Deferred tax asset	4,208
Other net current liabilities	(917)
Net assets	3,996
Goodwill (see note 10)	2,273

The acquired undertaking made a profit of £2 9 million from the beginning of its financial year to the date of acquisition In its previous financial year commencing on 1 January 2008 the restated profit was £22 0 million

24 SHARE CAPITAL

	The Group & Company			
	Authorised		Allotted and Fully Paid	
	2009 £000	2008 £000	2009 £000	2008 £000
110,000 ordinary shares of £1 each	110	110	110	110

25. RESERVES AND SHAREHOLDERS' FUNDS

	The Group		
a) Reserves	Other reserves £000	Capital redemption reserve £000	Profit & loss £000
At 1 January 2009	3,860	100	54,151
Loss for the year	-	-	(4,017)
Actuarial loss on pension scheme - excluding Joint Ventures (note 29)	-	-	(53,958)
Movement on deferred tax relating to pension scheme - excluding Joint Ventures	-	-	15,108
Actuarial loss on Joint Venture pension scheme	-	-	(4,165)
Movement on deferred tax relating to Joint Venture pension scheme	-	-	1,166
Net exchange differences on the retranslation of net investments and related borrowings	-	-	(293)
At 31 December 2009	3,860	100	7,992

25 RESERVES AND SHAREHOLDERS' FUNDS (Continued)

	The Company Capital redemption reserve £000	Profit & loss £000
At 1 January 2009	100	394,042
Loss for the year	-	(40,413)
At 31 December 2009	**100**	**353,629**

b) Reconciliation of movements in shareholders' funds

	The Group 2009 £000	2008 £000
(Loss)/profit for the year	**(4,017)**	30,012
Actuarial (loss)/gain on pension scheme - excluding Joint Ventures (note 28)	**(53,958)**	16,400
Movement on deferred tax relating to pension scheme - excluding Joint Ventures	**15,108**	(4,592)
Actuarial loss on Joint Venture pension scheme	**(4,165)**	(22,561)
Movement on deferred tax relating to Joint Venture pension scheme	**1,166**	6,318
Net exchange differences on the retranslation of net investments and related borrowings	**(293)**	699
Net (reduction)/addition to shareholders' funds	**(46,159)**	26,276
Opening shareholders' funds	**58,221**	31,945
Closing shareholders' funds	**12,062**	58,221

	The Company 2009 £000	2008 £000
(Loss)/profit for the year	**(40,413)**	79,606
Net (reduction)/addition to shareholders' funds	**(40,413)**	79,606
Opening shareholders' funds	**394,252**	314,646
Closing shareholders' funds	**353,839**	394,252

26. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW

	2009 £000	2008 £000
Operating profit	**14,458**	39,472
Depreciation	**10,032**	9,833
Amortisation of intangible assets	**3,116**	1,499
Loss/(profit) on sale of tangible assets	**129**	(59)
Loss on sale of intangible assets	**10**	-
Decrease/(increase) in stocks	**5,620**	(5,481)
Decrease/(increase) in debtors	**8,128**	(4,534)
(Decrease)/increase in creditors	**(4,978)**	5,582
Difference between pension costs and cash contributions	**(9,902)**	(9,700)
Increase in provisions	**1,879**	1,233
Unrealised foreign exchange gain	**-**	(1,005)
Net cash inflow from operating activities	**28,492**	36,840

27. RECONCILIATION OF NET CASH FLOW TO MOVEMENTS IN NET FUNDS

	2009 £000	2008 £000
Net funds at 1 January	**55,545**	46,461
Increase/(decrease) in cash in the year	**48,636**	(99,305)
Cash outflow from finance lease payments	**146**	428
New finance leases	**(147)**	-
Loan finance repaid	**6,229**	5,756
Other non cash changes	**570**	685
Exchange movements	**(1,451)**	1,005
Cash (inflow)/outflow from liquid resources	**(67,796)**	100,515
Net funds at 31 December	**41,732**	55,545

28. ANALYSIS OF CHANGES IN NET FUNDS

	1 January £000	Cash flow £000	Non cash £000	Exchange movements £000	31 December £000
Cash in hand and at bank	22,636	48,636	-	-	**71,272**
Finance leases	(226)	146	(147)	-	**(227)**
Loan finance due within one year	(6,229)	6,229	(6,479)	-	**(6,479)**
Loan finance due after one year	(62,894)	-	6,479	-	**(56,415)**
	(69,349)	6,375	(147)	-	**(63,121)**
Liquid resources	102,258	(67,796)	570	(1,451)	**33,581**
Net funds	55,545	(12,785)	423	(1,451)	**41,732**

29 PENSION SCHEMES

FRS17 Disclosure

During the year, the Group increased its shareholding in West Ferry Printers Limited to 100% and now accounts for the company as a subsidiary undertaking (note 12) Accordingly, the results below include the addition of the West Ferry Printers Pension Fund in the year

The latest full actuarial valuations of the Express Newspapers 1988 Pension Fund and the Express Newspapers Senior Management Pension Fund were carried out as at 5 April 2006 and 5 April 2009 respectively A full valuation is being carried out as at 5 April 2009 for the Express Newspapers 1988 Pension Fund but the results have not yet been finalised The latest full actuarial valuation of the West Ferry Printers Pension Fund was carried out as at 31 December 2005 A full valuation is being carried out as at 31 December 2008 but the results have not yet been finalised 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 £7 0 million (2008 £6 0 million) into the 1988 Pension Fund during the year, £312,000 (2008 £312,000) into the Senior Management Pension Fund and £1 1 million into the West Ferry Printers Pension Fund All three Funds are defined benefit schemes The Group expects to contribute between £10 5 million and £12 5 million towards the deficit in its defined benefit plans in the next financial year, and is currently in discussions with the trustees of the pension funds to reach agreement on the recovery plan for the valuations at 31 December 2008 and 5 April 2009 respectively

The Group also participates in a defined contribution scheme for its employees Contributions are charged to the profit and loss account to reflect amounts payable under the scheme The charge for the year was £1 6 million (2008 £786,000) At 31 December 2009, contributions of £125,000 were outstanding (2008 £65,000) These have been paid in full after the year end

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

	2009	2008	2007
Discount rate	5 90%	6 50%	6 00%
Rate of increase in salaries*	3 50%/N/A	N/A	3 50%
Rate of LPI increase in pensions in payment	3 50%-3 70%	3 20%	3 40%
Inflation assumption	3 50%	2 60%	3 10%

* Applicable to West Ferry Printers Scheme only

The mortality assumptions used in the calculation at 31 December 2009 were

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

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

West Ferry Printers Fund mortality
"92 series" base tables with year of birth projections, an allowance for the medium cohort effect and a minimum level of improvement of 1% per annum The base table has been adjusted for an age rating of +2 for both males and females

29 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 2009*	Fair value at 2009 £000	Long – term rate of return expected at 2008	Fair value at 2008 £000	Long – term rate of return expected at 2007	Fair value at 2007 £000
Equities	6 74%	71,500	7 80%	63,500	8 15%	149,300
Gilts	6 74%	104,500	3 80%	19,400	4 40%	68,600
Corporate bonds	6 74%	92,800	6 50%	171,900	6 00%	102,900
Other	6 74%	206,900	3 80%	46,900	5 50%	31,000
Total market value of assets		475,700		301,700		351,800
Present value of scheme liabilities		(564,500)		(344,700)		(419,000)
Deficit in the schemes		(88,800)		(43,000)		(67,200)
Related deferred tax asset		24,864		12,040		18,816
Net pension liability under FRS17		(63,936)		(30,960)		(48,384)

* The overall long term expected rate of return on the Scheme's assets at 31 December 2009 was 6 74%

Details of history of scheme assets, obligations and experience adjustments

	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Balance Sheet					
Present value of scheme liabilities	(564,500)	(344,700)	(419,000)	(438,100)	(431,100)
Fair value of scheme assets	475,700	301,700	351,800	364,500	375,000
Deficit on the scheme	(88,800)	(43,000)	(67,200)	(73,600)	(56,100)
Experience adjustments					
Experience adjustments arising on scheme liabilities	(85,536)	73,300	20,100	(12,600)	(11,200)
Experience item as percentage of scheme liabilities	(15 2)%	21 3%	4 8%	(2 9)%	(2 6)%
Experience adjustments arising on scheme assets	31,578	(56,900)	(15,300)	(11,400)	26,500
Experience item as percentage of scheme assets	6 6%	(18 9)%	(4 4)%	(3 1)%	7 1%
Cumulative actuarial loss shown in the STRGL	(60,858)	(6,900)	(23,300)	(28,100)	(4,100)

The total amount recognised in the statement of total recognised gains and losses in respect of the actuarial loss is £54 0 million (2008 gain £16 4 million)

29. PENSION SCHEMES (Continued)

FRS17 Disclosure (Continued)

The following amounts have been recorded in the consolidated profit and loss account for all three schemes as at 31 December 2009

Operating profit	**2009 £000**	**2008 £000**
Current service cost	**1,489**	3,200
Curtailment/settlement gains	**(92)**	(2,800)
Total operating charge	**1,397**	400

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

	2009 £000	**2008 £000**
Administrative expenses	**1,397**	400

Other finance income/(expenses)	**2009 £000**	**2008 £000**
Expected return on assets	**23,863**	22,600
Interest cost	**(26,111)**	(24,500)
Total net return	**(2,248)**	(1,900)

Movement in deficit during the year	**2009 £000**	**2008 £000**
Deficit at start of year	**(43,000)**	(67,200)
Acquisition of pension scheme in year	**504**	-
Current service cost	**(1,489)**	(3,200)
Settlement gains	**92**	2,800
Employer contributions	**11,299**	10,100
Other financing expenses	**(2,248)**	(1,900)
Actuarial (loss)/gain	**(53,958)**	16,400
Deficit at end of year	**(88,800)**	(43,000)

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

	2009 £000	**2008 £000**
Liabilities at 1 January	**344,700**	419,000
Acquisition of pension scheme in year	**140,569**	-
Current service cost	**1,489**	3,200
Interest cost	**26,111**	24,500
Contributions by scheme participants	**601**	700
Actuarial loss/(gain)	**85,536**	(73,300)
Benefits paid	**(34,414)**	(27,000)
Age related rebates due	**-**	400
Curtailments	**(92)**	(2,800)
Liabilities at 31 December	**564,500**	344,700

29 PENSION SCHEMES (Continued)

FRS17 Disclosure (Continued)

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

	2009 £000	2008 £000
Fair value of scheme assets at 1 January	301,700	351,800
Acquisition of pension scheme in year	141,073	-
Expected return on scheme assets	23,863	22,600
Actuarial gain/(loss)	31,578	(56,900)
Contributions by employers	9,674	9,500
Contributions by scheme participants	601	700
Miscellaneous contributions	964	900
Age related rebates received	661	100
Benefits paid	(34,414)	(27,000)
Fair value of scheme assets at 31 December	475,700	301,700

30 GUARANTEES AND CONTINGENT LIABILITIES

As at 31 December 2009, the £26 9 million bank loan was jointly and severally guaranteed by the Company and a subsidiary company, and the £36 0 million loan was guaranteed by certain subsidiary companies (note 20) At 31 December 2009, the maximum liabilities that could arise under these credit arrangements, was £62 9 million (2008 £69 1 million)

At 31 December 2009 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 $5 0 million (sterling equivalent at 31 December 2009 £3 1 million) (2008 USD $5 2 million) The guarantee amortises on a reducing balance basis over the term of the lease and shall be reduced to USD $1 5 million following the ninth year of the lease The bank's liabilities have also been jointly guaranteed by the Company The bank's liabilities cease and are determined on 31 August 2018

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

At 31 December 2009, 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

31. RELATED PARTY TRANSACTIONS

The Group, through its subsidiary company Express Newspapers, participated in a joint venture under which it held a 50% shareholding in the company West Ferry Printers Limited, where the remaining shares were owned by Telegraph Media Group Limited The purpose of the joint venture was the provision of printing facilities to both Express Newspapers and Telegraph Media Group Limited and to certain third parties On 19 June 2009, Express Newspapers purchased the remaining 50% ordinary share capital in West Ferry Printers Limited (see note 12) For the period ended 18 June 2009 West Ferry Printers Limited provided Express Newspapers with printing which was included in turnover in the year ended 31 December 2009 at £9 5 million (2008 £22 6 million)

During the year the Group, through its subsidiary companies Northern & Shell Plc, Northern & Shell Worldwide Limited and Northern & Shell North America Limited charged certain joint venture companies for license fees and picture recharges An amount of £953,000 (2008 £984,000) was charged to Northern & Shell Pacific Limited, £59,000 (2008 £968,000) was charged to Iberian Ediciones Limited and £341,000 (2008 £510,000) charged to OK! Verlag GmbH & Co KG The Group also provided funding to support the ongoing operations of these companies At 31 December 2009, Northern & Shell Pacific Limited owed the Group £1 5 million (2008 £833,000), Iberian Ediciones Limited owed the Group £598,000 (2008 £557,000) all of which has been fully provided against in the financial statements and OK! Verlag GmbH & Co KG owed the Group £nil (2008 £56,000)

Management fees were also charged by Northern & Shell Plc to Northern & Shell North America for central overhead recharges An amount of £1 2 million (2008 £1 5 million) was charged during the year At 31 December 2009, Northern & Shell North America owed group undertakings £119 3 million (2008 £112 5 million) and amounts owed by group undertakings were £6 1 million (2008 £7 1 million) Group joint venture companies also owed £nil (2008 £246,000)

During the year, the Group made contributions of £nil (2008 £350,000) 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 Network 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 (2008 £7 6 million), with a rent review every 5 years The charge for the year was £8 2 million (2008 £7 6 million) No amounts were due to Badger Property Partners LLP as at 31 December 2009 (2008 £nil)

During the year, Mr R C Desmond paid insurance premiums of £1 3 million (2008 £nil) to a subsidiary company, Northern & Shell Insurance Limited The purpose of the premiums was to insure against personal risks and liabilities The Group is committed to taking steps to mitigate the risks and liabilities, however, the amount of the potential liabilities is uncertain

Mr R C Desmond also paid £12 0 million (2008 £nil) to a subsidiary company, Express Newspapers, in respect of a Chairman's incentive arrangement

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

32 PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

Principal subsidiaries and percentage holding

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

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

* Denotes operates a branch in the United States of America
** Denotes operates a branch in Luxembourg

All of the above companies are consolidated within the group accounts

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

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

33. CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure authorised and contracted for but not provided in the accounts amounted to USD $56 5 million (sterling equivalent at 31 December 2009 £35 0 million) relating to the purchase of a corporate aircraft (2008 £39 3 million) due for delivery in 2017 To date USD $3 0 million has been paid with no further payments due until 2011 In the event that the Group decided not to take delivery of the aircraft, the Group would incur liquidated damages of USD $1 5 million, with the remaining balance of any payments previously made returned to the Group

34. ULTIMATE PARENT UNDERTAKING

The immediate and ultimate parent undertaking is RCD1 Limited RCD1 Limited acts purely as a holding company and does not participate in operations Accordingly, Northern & Shell Network Limited acts as the operational parent of the Group The ultimate controlling party is Richard Desmond, the Chairman of the Company

The smallest and largest group into which these accounts are consolidated is RCD1 Limited, a company registered in England Copies of its financial statements can be obtained from The Northern & Shell Building, Number 10 Lower Thames Street, London, EC3R 6EN