

NORTHERN & SHELL NETWORK LIMITED

GROUP REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004



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NORTHERN & SHELL NETWORK LIMITED

ANNUAL REPORT

31 December 2004

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NORTHERN & SHELL NETWORK 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. M. S. Gill

COMPANY NUMBER

4086475 (England)

AUDITORS

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

BANKERS

Bank of Scotland
155 Bishopsgate
London EC2M 3YB

REGISTERED OFFICE

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

NORTHERN & SHELL NETWORK LIMITED

DIRECTORS' REPORT

For the year ended 31 December 2004

The directors present their report and the audited financial statements of the Group and Company for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

Northern & Shell Network Limited is the principal holding company in the Northern & Shell group of companies. Through its subsidiaries, Northern & Shell Group Limited and Portland Television Limited, it owns a group of companies principally engaged in newspaper publishing and printing, magazine publishing and television broadcasting.

It is the intention of the Company and the Group to continue trading in these areas for the foreseeable future.

RESULTS AND DIVIDENDS

The Group recorded a profit before taxation of £0.9 million (2003: loss of £3.2 million).

The directors do not recommend the payment of a dividend on the £1 ordinary share capital (2003: £ nil).

REVIEW OF THE PERIOD AND FUTURE PROSPECTS

The directors consider the underlying performance of the Group to be highly satisfactory. Group turnover increased by £48.3 million (13.0%) and operating profit before tax and chairman's emoluments/pension contributions decreased by £1.3 million (2.9%). After deducting £51.7 million (2003: £46.2 million) Chairman's emoluments and pension contributions, the Group recorded an operating loss of £7.2 million (2003: loss £0.4m). Retained profit for the financial year was £3.2 million (2003: loss £5.4 million).

During the year the Group took up occupation of its prestigious new corporate headquarters at Number 10 Lower Thames Street in London, after spending £19.2 million on refurbishing the property.

The Newspaper operations achieved an increase in turnover of £33.6 million (12.2%), benefiting from circulation revenue increases and a strong advertising sales performance. Strong revenues were also achieved across magazine publishing, with turnover increasing by £17.2 million (27.3%).

During the year the Group has built upon its core strengths in the celebrity magazine publishing arena, with the launch of several international editions of OK! Magazine under license agreements with other publishers and with the establishment of a wholly owned operation in Australia to publish a separate edition of OK! Magazine for Australia and New Zealand. Further such overseas ventures and new magazine launches in the UK are anticipated for 2005. The non-strategic adult publishing business (which in 2003 accounted for just 1.6% of the group's turnover) together with Attitude magazine, was sold in March 2004.

Once again, the group has continued to expand its television production and broadcasting activities in the year. In September 2004 the Express Shopping Channel, a 50% owned joint venture home shopping operation with N.Brown Plc, was launched on digital satellite and cable.

The group is well placed to build on its established publishing and television activities and take advantage of new opportunities as they arise.

DIRECTORS AND THEIR INTERESTS

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

At the beginning and end of the year, Mr. R.C. Desmond was beneficially interested in the whole of the issued share capital of the Company. The interests of Mr. R.C. Desmond, who is also a director of the ultimate parent company, RCD1 Limited, are shown in the financial statements of that company.

None of the other directors had an interest in the share capital of the Company, or any other company within the RCD1 Limited group, at the beginning or end of the year.

NORTHERN & SHELL NETWORK LIMITED

REPORT OF THE DIRECTORS

For the year ended 31 December 2004

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 Group has approximately 59 days purchases outstanding at 31 December 2004 based on the average daily amount invoiced by suppliers during the year (2003: 67 days).

EMPLOYEE INVOLVEMENT

During the year, the Company and Group maintained their practice of keeping employees informed about current activities and progress using various methods including formal briefings and e-mails. 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 Company and Group continues and the appropriate training is arranged. It is the policy of the Company and Group 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.

POLITICAL AND CHARITABLE DONATIONS

Charitable contributions were made during the year amounting to £334,015 (2003: £452,371) to a charitable trust (see Note 31).

There were no political contributions made during the year (2003: £nil).

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2004 and that applicable accounting standards have been followed.

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

AUDITORS

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

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



Mr. M.S. Gill
Secretary

Dated: 28 April 2005

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

NORTHERN & SHELL NETWORK LIMITED

For the year ended 31 December 2004

We have audited the financial statements which comprise the profit and loss account, the balance sheets, the cashflow statement and the related notes.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 31 December 2004 and of the profit and cashflows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
Dated: 28 April 2005

NORTHERN & SHELL NETWORK LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2004

Continuing operations	Notes	2004 £000	2003 £000
Turnover (including share of joint ventures)	2	471,447	421,381
Less: share of joint venture turnover		(52,339)	(50,597)
Turnover		419,108	370,784
Cost of sales		(209,733)	(188,983)
Gross profit		209,375	181,801
Distribution costs		(18,986)	(23,870)
Administrative expenses	3	(198,504)	(159,354)
Other operating income		912	1,044
Group operating profit before Chairman's emoluments and pension contributions		44,532	45,855
– Chairman's emoluments and pension contributions	5(a)	(51,735)	(46,234)
Group operating loss	4	(7,203)	(379)
Share of operating (loss)/profit of joint ventures (after £3.4m (2003: £3.4m) goodwill amortisation)		(1,682)	364
Total operating loss		(8,885)	(15)
Profit on sale of subsidiary	6	12,072	-
Profit/(loss) on ordinary activities before interest and taxation		3,187	(15)
Interest receivable and similar income	7	2,097	1,621
Interest payable and similar charges	8	(4,353)	(4,806)
Profit/(loss) on ordinary activities before taxation		931	(3,200)
Tax on profit/(loss) on ordinary activities	9	2,316	(2,161)
Profit/(loss) on ordinary activities after taxation	25	3,247	(5,361)
Dividends – non equity	10/25	-	(5)
Retained profit/(loss) for the financial year	25	3,247	(5,366)

The notes on pages 10 to 32 form part of these financial statements.

There are no material differences between the profit/(loss) on ordinary activities before taxation and the retained profit/(loss) for the year stated above and their historical cost equivalents.

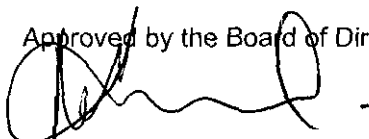
The Group has no significant recognised gains or losses other than the gains and losses stated above and therefore no separate statement of total recognised gains or losses has been presented.

NORTHERN & SHELL NETWORK LIMITED

CONSOLIDATED BALANCE SHEET as at 31 December 2004

	Notes	2004 £000	2003 £000
FIXED ASSETS			
Intangible assets	12	7,877	8,431
Tangible assets	13	70,127	60,493
Investments	14		
Interests in joint ventures			
Share of gross assets		31,287	34,744
Share of gross liabilities		(26,222)	(26,178)
Goodwill arising on acquisition		23,092	26,462
		28,157	35,028
Other		85	85
		<u>28,242</u>	<u>35,113</u>
		<u>106,246</u>	<u>104,037</u>
CURRENT ASSETS			
Stocks	15	3,039	3,327
Debtors	16	44,775	43,242
Current asset investments	17	8	8
Cash at bank and in hand		18,735	22,115
		<u>66,557</u>	<u>68,692</u>
CREDITORS: amounts falling due within one year	18	<u>(90,535)</u>	<u>(85,115)</u>
NET CURRENT LIABILITIES		<u>(23,978)</u>	<u>(16,423)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>82,268</u>	<u>87,614</u>
CREDITORS: amounts falling due after more than one year	19	<u>(34,456)</u>	<u>(39,839)</u>
PROVISIONS FOR LIABILITIES AND CHARGES	20	<u>(10,498)</u>	<u>(13,708)</u>
NET ASSETS		<u>37,314</u>	<u>34,067</u>
CAPITAL AND RESERVES			
Called up share capital	24	110	110
Profit and loss account	25	33,244	29,997
Other reserves	25	3,860	3,860
Capital redemption reserve	25	100	100
TOTAL EQUITY SHAREHOLDERS' FUNDS	25	<u>37,314</u>	<u>34,067</u>

Approved by the Board of Directors:



Mr. R.C. Desmond

Director

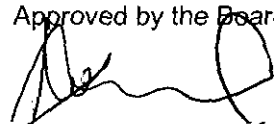
Dated: 28 April 2005

NORTHERN & SHELL NETWORK LIMITED

COMPANY BALANCE SHEET as at 31 December 2004

	Notes	2004 £000	2003 £000
FIXED ASSETS			
Investments	14	112	111
CURRENT ASSETS			
Debtors	16	55,941	50,371
CREDITORS: amounts falling due within one year	18	<u>(26,114)</u>	<u>(31,148)</u>
NET CURRENT ASSETS		<u>29,827</u>	<u>19,223</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		29,939	19,334
CREDITORS: amounts falling due after more than one year	19	<u>(8,000)</u>	<u>(16,000)</u>
NET ASSETS		<u>21,939</u>	<u>3,334</u>
CAPITAL AND RESERVES			
Called up share capital	24	110	110
Profit and loss account	11/25	<u>21,829</u>	<u>3,224</u>
TOTAL SHAREHOLDERS' FUNDS	25	<u>21,939</u>	<u>3,334</u>

Approved by the Board of Directors:


Mr. R.C. Desmond

Dated: 28 April 2005

NORTHERN & SHELL NETWORK LIMITED**CONSOLIDATED CASH FLOW STATEMENT****For the year ended 31 December 2004**

	Notes	2004 £000	2003 £000
Net cash inflow from continuing operating activities	26	17,582	7,976
Dividends received from joint ventures		4,820	623
Returns on investments and servicing of finance			
Interest received		929	735
Interest paid		(4,086)	(3,903)
Interest element of finance lease rentals		(39)	(48)
Non equity dividends paid to shareholders		-	(10)
		<u>19,206</u>	<u>(3,226)</u>
Taxation		(351)	(432)
Capital expenditure			
Payments to acquire intangible fixed assets		-	(2)
Receipt for disposal of fixed asset investment		12,000	-
Payments to acquire tangible fixed assets		(18,319)	(2,460)
Receipts from disposal of tangible fixed assets		14	13
		<u>(6,305)</u>	<u>(2,449)</u>
Net cash inflow before financing		<u>12,550</u>	<u>2,492</u>
Financing			
Loan to joint venture		(2,000)	-
Joint venture loan repaid		(3,500)	-
Redemption of preferred ordinary shares		-	(100)
External loan repayments		(10,000)	(10,000)
Capital element of finance lease rentals		(410)	(507)
		<u>(15,910)</u>	<u>(10,607)</u>
Decrease in net cash	28	<u>(3,360)</u>	<u>(8,115)</u>

NORTHERN & SHELL NETWORK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

1. PRINCIPAL ACCOUNTING POLICIES

(a) Accounting convention

The financial statements are prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards. The principal accounting policies are set out below.

(b) Basis of consolidation

The consolidated profit and loss account, balance sheet and cash flow statement includes the results, financial position and cash flows of the Company and its subsidiary undertakings, and the Groups 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 and net of trade discounts). Turnover generated from publishing activities is recognised on release of the newspaper or magazine issue to which it relates. Television subscription revenue is recognised evenly over the period of the subscription and pay for view revenue is recognised in the period in which the broadcast occurs.

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

(d) Foreign currencies

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

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

Foreign operations which are conducted through a foreign branch are accounted for using the temporal method, whereby 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.

(e) 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 & buildings	50 years or estimated useful life
Plant & machinery	3 to 24 years
Fixtures and fittings & office equipment	2 to 5 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.

NORTHERN & SHELL NETWORK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) 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 the Express Newspapers group 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.

(g) 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. Also included within stocks are contributors and printing costs relating to magazines, which will be published in the following year. These amounts will be expensed upon publication.

Finished goods comprise mainly programme and film stocks, which are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow moving items. It is the policy of the Group to write off the whole cost of a film or programme in the month of its first transmission.

(h) 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 as incurred.

Assets leased to third parties under operating leases are capitalised and depreciated over the estimated useful life of the asset. Operating lease rentals are recorded as revenue in equal annual amounts over the period of the lease.

NORTHERN & SHELL NETWORK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) 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.

The Company carries its investment in subsidiary undertakings at cost less any provision for permanent diminution in value. Any diminution in value is reflected in the profit and loss account when the diminution is identified.

(j) 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.

(k) 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.

(l) Pension costs

The pension costs relating to defined benefit schemes are accounted for on the basis of charging the expected cost of providing pensions over the period in which the Group benefits from the employees' services. The effects of variation from regular cost are spread over the expected average remaining service lives of members of the schemes.

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

(m) Finance charges

Costs in relation to obtaining finance are deferred and amortised over the term of the related financing.

NORTHERN & SHELL NETWORK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

2. SEGMENTAL ANALYSIS

The Group's turnover and profit/(loss) before taxation arises solely from its publishing, broadcasting and printing activities.

There is no significant turnover, profit/(loss) before taxation and net assets in geographical locations other than the United Kingdom.

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

Certain comparative figures have been restated to conform with current year presentation.

	2004 £000	2003 £000
Turnover (including share of joint ventures)		
Publishing and printing	389,017	338,217
Publishing and printing – joint ventures	52,024	50,597
Broadcasting	30,091	32,567
Broadcasting – joint ventures	315	-
	<u>471,447</u>	<u>421,381</u>
Group operating profit/(loss) before Chairman's emoluments/pension contributions:		
Publishing and printing	34,452	33,396
Publishing and printing – joint ventures	(203)	364
Broadcasting	10,080	12,459
Broadcasting – joint ventures	(1,479)	-
	<u>42,850</u>	<u>46,219</u>
Group	44,532	45,855
Joint Ventures	(1,682)	364
	<u>42,850</u>	<u>46,219</u>
Chairman's emoluments and pension contributions	<u>(51,735)</u>	<u>(46,234)</u>
Total operating loss:	<u>(8,885)</u>	<u>(15)</u>
Profit/(loss) before taxation:		
Publishing and printing	(1,837)	(7,793)
Publishing and printing – joint ventures	(200)	128
Broadcasting	4,524	4,465
Broadcasting – joint ventures	(1,556)	-
	<u>931</u>	<u>(3,200)</u>

NORTHERN & SHELL NETWORK LIMITED**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2004****2. SEGMENTAL ANALYSIS (Continued)**

	2004	2003
	£000	£000
Net operating assets:		
Publishing and printing	24,037	15,018
Publishing and printing – joint ventures	29,244	35,028
Broadcasting	17,593	32,112
Broadcasting – joint ventures	(1,089)	-
	<u>69,785</u>	<u>82,158</u>
Reconciliation of net operating assets to net assets		
Net operating assets	69,785	82,158
Investments	93	93
Corporation tax	(4,270)	(3,583)
Deferred tax	(9,630)	(13,508)
Net borrowings	(18,664)	(31,093)
	<u>37,314</u>	<u>34,067</u>

3. ADMINISTRATIVE EXPENSES

	2004	2003
	£000	£000
Chairman's emoluments and pension contributions (note 5a)	51,735	46,234
Other administrative expenses	146,769	113,120
	<u>198,504</u>	<u>159,354</u>

4. GROUP OPERATING LOSS

	2004	2003
	£000	£000
Operating loss is stated after charging/(crediting):		
Auditors' remuneration – audit fees – group	274	254
Auditors' remuneration – non audit fees – group	587	621
Depreciation – owned assets	6,078	6,088
Depreciation – leased assets	2,444	2,816
Amortisation of trademarks	23	10
Amortisation of goodwill – acquisitions	491	491
Amortisation of goodwill – joint ventures	3,370	3,368
Loss on disposal of fixed assets	102	136
Operating lease rentals – plant and machinery	433	530
Operating lease rentals – other	6,849	2,369
Foreign exchange loss	4	-
Other operating income:		
Net rental income	(831)	(1,044)

Audit fees for the Company are borne by a subsidiary undertaking. Non audit fees relate mainly to tax advice.

NORTHERN & SHELL NETWORK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

(a) Directors	2004 £000	2003 £000
Emoluments	48,545	16,480
Company contributions to money purchase pension schemes	4,822	31,167
	53,367	47,647

Pension benefits are accruing to five directors under money purchase pension schemes (2003: five directors).

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

Highest paid director:	2004 £000	2003 £000
Emoluments	46,981	15,130
Company contributions to money purchase pension schemes	4,754	31,104
	51,735	46,234

(b) Staff Costs (Including Directors)	2004 £000	2003 £000
Wages and salaries	95,925	64,300
Social security costs	11,669	7,091
Pension costs	18,089	37,002
	125,683	108,393

Average number of people employed by activity:	2004 Number	2003 Number
Production	744	714
Selling and distribution	144	136
Administration	245	264
	1,133	1,114

6. PROFIT ON SALE OF SUBSIDIARY

During the year 100% of the share capital of Fantasy Publications Limited and Best Magazines Limited was sold by the Group to Remnant Media Limited for £10.9 million (at a profit of £10.9 million), and the business of Attitude magazine was also sold by the Group to Remnant Media Limited for a further £1.2 million (at a profit of £1.2million). Potentially further consideration, the precise amount of which is subject to certain criteria being met, may become due in respect of both of these disposals. The operations sold are not material to the Group and the directors do not consider it necessary to treat it as a discontinued operation in the profit and loss account.

NORTHERN & SHELL NETWORK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

7. INTEREST RECEIVABLE AND SIMILAR INCOME	2004 £000	2003 £000
Bank deposit	799	733
Interest receivable from parent company	1,160	886
Other interest receivable	130	2
Joint venture interest receivable	8	-
	<u>2,097</u>	<u>1,621</u>
 8. INTEREST PAYABLE AND SIMILAR CHARGES	 2004 £000	 2004 £000
Bank loans and overdrafts	2,582	2,863
Finance leases	39	48
Amortisation of financing charges	121	119
Other interest payable	292	439
Interest payable to parent company	1,237	1,101
Joint venture interest payable	82	236
	<u>4,353</u>	<u>4,806</u>

Included in other interest payable is £nil (2003: £252,000) payable to related parties (see note 31).

NORTHERN & SHELL NETWORK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

9. TAXATION ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

	2004 £000	2003 £000
Current tax:		
UK corporation tax on profit/(loss) of the year at 30% (2003: 30%)	569	568
Adjustment in respect of previous periods	623	3,044
Foreign taxes suffered	191	130
Double taxation relief	(5)	(85)
Share of joint venture taxation	295	632
	<hr/>	<hr/>
Total current tax	1,673	4,289
Deferred tax:		
Origination and reversal of timing differences (Accelerated capital allowances and other)	(3,232)	(1,941)
Adjustment in respect of previous periods	(757)	(187)
	<hr/>	<hr/>
Total deferred tax (note 20)	(3,989)	(2,128)
	<hr/>	<hr/>
Tax on profit/(loss) on ordinary activities	(2,316)	2,161

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 30% (2003: 30%).
The differences are explained below:

	2004 £000	2003 £000
Profit/(loss) on ordinary activities before tax	931	(3,200)
Profit/(loss) on ordinary activities multiplied by standard rate in the UK 30% (30%)	279	(960)
Effects of:		
Expenses not deductible for tax purposes	638	590
Excess of depreciation over capital allowances and other timing differences	3,505	2,060
Adjustments in respect of previous periods	623	3,044
Utilisation of prior year tax losses	(273)	(140)
Non taxable sale of subsidiaries	(3,262)	-
Underlying tax on overseas income to be offset against UK corporation tax	-	(85)
Profits subject to lower level of overseas tax	(995)	(1,149)
Non tax deductible goodwill amortisation and other permanent differences	1,158	1,158
Adjustment to tax in relation to joint ventures	-	(229)
	<hr/>	<hr/>
Current tax charge for the year	1,673	4,289

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.

Deferred tax liabilities have not been discounted.

NORTHERN & SHELL NETWORK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

10. DIVIDENDS

2004 £000	2003 £000
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Non-equity

Paid on 5.5% preferred ordinary shares (5.5p per share)

-	5
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The preferred ordinary shares were redeemed in 2003.

11. PROFIT OF COMPANY

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented as part of these financial statements. The Company's profit for the period amounted to £18.6 million (2003: £2.6 million) before dividends paid of £nil (2003: £5,500).

12. INTANGIBLE ASSETS

Trademarks £000	Goodwill £000	Total £000
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THE GROUP

Cost:

At 1 January 2004

Disposals

At 31 December 2004

Amortisation:

At 1 January 2004

Charge for the year

Disposals

At 31 December 2004

Net book amounts:

At 31 December 2004

At 31 December 2003

240	9,817	10,057
(82)	-	(82)
<u>158</u>	<u>9,817</u>	<u>9,975</u>
130	1,496	1,626
23	491	514
(42)	-	(42)
<u>111</u>	<u>1,987</u>	<u>2,098</u>
47	7,830	7,877
<u>110</u>	<u>8,321</u>	<u>8,431</u>

NORTHERN & SHELL NETWORK LIMITED**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2004**

13. TANGIBLE ASSETS	Short Leasehold Land & Buildings £000	Motor Vehicles, Plant & Machinery £000	Fixtures, Fittings & Office Equipment £000	Total £000
THE GROUP				
Cost				
At 1 January 2004	34,860	122,216	17,558	174,634
Additions	14,770	3,249	300	18,319
Disposals	-	(12,942)	(106)	(13,048)
At 31 December 2004	49,630	112,523	17,752	179,905
Depreciation:				
At 1 January 2004	12,374	87,340	14,427	114,141
Charge for the year	1,633	6,305	584	8,522
Disposals	-	(12,826)	(59)	(12,885)
At 31 December 2004	14,007	80,819	14,952	109,778
Net book amounts:				
At 31 December 2004	35,623	31,704	2,800	70,127
At 31 December 2003	22,486	34,876	3,131	60,493

Motor vehicles, plant & machinery, fixtures & fittings and office equipment includes assets acquired under finance leases in respect of which, as at 31 December 2004, the net book value was £12.9 million (2003: £15.3 million) after charging £2.4 million (2003: £2.8 million) depreciation for the year.

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

- Land and buildings - gross asset cost of £19.0 million (2003: £19.0 million) and accumulated depreciation of £8 million (2003 - £6.8 million). Motor vehicles, plant and machinery - gross cost of £57.8 million (2003: £57.8 million) and accumulated depreciation of £45.7 million (2003: £43.4 million).

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

- Land and buildings - £0.9 million (2003: £1.0 million)
- Motor vehicles, plant and machinery - £0.7 million (2003: £0.8 million).

NORTHERN & SHELL NETWORK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

14. FIXED ASSET INVESTMENTS

THE GROUP	2004 £000	2003 £000
Interest in joint ventures		
At 1 January - net assets	8,566	6,325
- goodwill (gross)	<u>33,691</u>	<u>33,691</u>
	42,257	40,016
Share of profits retained	<u>(3,501)</u>	<u>2,241</u>
At 31 December - net assets	5,065	8,566
- goodwill (gross)	<u>33,691</u>	<u>33,691</u>
	38,756	42,257
Aggregate amortisation of goodwill		
At 1 January	(7,229)	(3,861)
Charge for the period	<u>(3,370)</u>	<u>(3,368)</u>
At 31 December	<u>(10,599)</u>	<u>(7,229)</u>
Net book amount at 31 December		
Net assets	5,065	8,566
Goodwill	<u>23,092</u>	<u>26,462</u>
	28,157	35,028
Other fixed asset investment	<u>85</u>	<u>85</u>
Total fixed asset investments	<u>28,242</u>	<u>35,113</u>

Interests in joint ventures principally comprise :

- 50% of the equity share capital of West Ferry Printers Limited, a newspaper printing company.
- 50% of the equity share capital of Independent Star Limited, a newspaper publisher registered in the Republic of Ireland, the principal activity of which is the publishing of 'The Star' newspaper in that country.
- 50% of the equity share capital of Express Shopping Channel, a broadcasting and television production company.

NORTHERN & SHELL NETWORK LIMITED**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2004****14. FIXED ASSET INVESTMENTS (Continued)****Details of significant investments in Joint Venture Companies**

	2004 £000	2003 £000
Summary of Joint Venture net assets		
Share of fixed assets	19,234	20,452
Share of current assets	12,053	14,292
Share of gross assets	31,287	34,744
Share of liabilities		
Due within one year	(5,428)	(3,071)
Due after one year	(20,794)	(23,107)
Share of gross liabilities	(26,222)	(26,178)
Net assets	5,065	8,566

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

	2004 £000	2003 £000
West Ferry Printers Limited		
Turnover	38,651	38,980
Profit before tax	2,156	2,643
Taxation	(651)	(528)
Profit after tax	1,505	2,115
Fixed assets	16,778	19,803
Current assets	9,428	12,227
Liabilities due within one year	(87)	(1,124)
Liabilities due after more than one year	(20,693)	(22,885)
Net assets	5,426	8,021

THE COMPANY

	2004 £000	2003 £000
Shares in group undertakings		
At 1 January 2004	111	111
Additions	1	-
At 31 December 2004	112	111

The immediate subsidiary undertakings and their percentage holdings are:

	Principal activity	Ordinary shares
Northern & Shell Group Limited	Publishing & printing	100%
Portland Television Limited	Broadcasting & publishing	100%
Northern & Shell Finance Limited	Group treasury	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.

NORTHERN & SHELL NETWORK LIMITED**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2004****15. STOCKS**

	The Group	
	2004 £000	2003 £000
Raw materials and consumables	2,688	2,876
Finished goods and goods for resale	351	451
	<u>3,039</u>	<u>3,327</u>

16. DEBTORS

	The Group	
	2004 £000	2003 £000
Trade debtors	31,145	27,762
Other debtors	6,640	8,021
Amounts owed by ultimate parent undertaking	241	-
Loan to joint venture company	2,000	-
Prepayments and accrued income	4,749	7,459
	<u>44,775</u>	<u>43,242</u>

Included in other debtors is a pension prepayment of £nil million (2003: £6.9 million).

	The Company	
	2004 £000	2003 £000
Amounts falling due within one year:		
Amounts owed by group undertakings	13,941	10,371
Loan to fellow group undertakings	40,000	40,000
Loan to joint venture company	2,000	-
	<u>55,941</u>	<u>50,371</u>

Loans to fellow group undertakings and amounts owed by group undertakings carry interest of 2.5% and 2.0% above base rate respectively, are unsecured and repayable on demand. The loan to a joint venture company carries interest of 2.5% above LIBOR, is unsecured and repayable on demand.

17. CURRENT ASSET INVESTMENTS

	The Group	
	2004 £000	2003 £000
Investments	<u>8</u>	<u>8</u>

NORTHERN & SHELL NETWORK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

18. CREDITORS: amounts falling due within one year

	The Group	
	2004	2003
	£000	£000
Bank loans and overdrafts (note 21 and note 28)	10,039	10,059
Less: deferred finance charges	(478)	(599)
Amounts owed to group companies with respect to group relief	206	-
Loans from joint venture	-	3,500
Other amounts owed to joint ventures	2,214	2,812
Trade creditors	20,960	19,532
Other creditors	29,471	21,095
Taxation and social security	1,396	1,336
Obligations under finance leases (note 22)	153	409
Corporation tax	4,270	3,583
Accruals and deferred income	22,304	23,388
	90,535	85,115

Amounts owed to ultimate parent undertaking and joint ventures carry interest between 2.0% and 2.5% above base rate, are unsecured and repayable on demand. Included in other creditors is £24.8 million (2003: £14.5 million) relating to directors bonuses and contributions payable to a director's money purchase pension scheme (note 31).

	The Company	
	2004	2003
	£000	£000
Bank loans (note 21)	8,000	8,000
Amounts owed to other group undertakings	12,593	19,750
Less: deferred finance charges	(180)	(275)
Corporation tax payable	3,800	3,000
Amounts owed to group companies with respect to group relief	1,117	537
Other creditors	700	-
Accruals and deferred income	84	136
	26,114	31,148

Amounts owed to group undertakings carry interest between 2.0% and 2.5% above base rate, are unsecured and repayable on demand.

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

	The Group	
	2004	2003
	£000	£000
Bank loan (note 21)	29,000	39,000
Obligations under finance leases (note 22)	685	839
Other creditors	4,771	-
	34,456	39,839

Included in other creditors is a pension creditor of £4.8m (2003: £nil) resulting from the difference between pension costs charged in the accounts and the amounts funded to date which is expected to be realised after more than one year.

	The Company	
	2004	2003
	£000	£000
Bank loan (note 21)	8,000	16,000

NORTHERN & SHELL NETWORK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

20. PROVISION FOR LIABILITIES AND CHARGES

	Deferred tax £000	Other provisions £000	Total £000
The Group			
At 1 January 2004	13,508	200	13,708
Additions in the year	-	750	750
On disposal of fixed asset investment	111	-	111
Credited to profit & loss account (note 9)	(3,989)	(82)	(4,071)
At 31 December 2004	<u>9,630</u>	<u>868</u>	<u>10,498</u>

The addition in the year of £750,000 relates to a provision in respect of the Group's move to its new business premises, Number 10 Lower Thames Street. This is expected to be settled in 2005.

The remaining amount provided in respect of other provisions is expected to be utilised within one year. The amounts of fully provided deferred taxation are as follows:

	The Group	
	2004	2003
	£000	£000
Accelerated capital allowances	7,990	5,856
Other timing differences	1,640	7,652
	<u>9,630</u>	<u>13,508</u>

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.

21. BANK LOAN OBLIGATIONS

	The Group	
	2004	2003
	£000	£000
The group's bank loan obligations are due :		
Within 1 year	10,000	10,000
In more than 1 year but not more than 2 years	10,000	10,000
In more than 2 years but not more than 5 years	6,000	14,000
In more than 5 years	<u>13,000</u>	<u>15,000</u>
	39,000	49,000
Less: deferred finance charges	<u>(478)</u>	<u>(599)</u>
	<u>38,522</u>	<u>48,401</u>

Bank loans are secured over the assets of the Group. Included in bank loans is an amount of £16 million, which is payable in six monthly instalments over two years. The Group entered into an interest rate swap arrangement on 24 February 2003, which has fixed the interest rate until 21 November 2006, the end of the loan period, at a LIBOR rate of 4.11%. The loan is also subject to a maximum margin of 1.25%. Also included in bank loans is a loan of £23 million, which carries interest at LIBOR plus 1.5% and is repayable in quarterly instalments over twelve years.

NORTHERN & SHELL NETWORK LIMITED**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2004****THE COMPANY**

The Company's bank loan obligations of £16 million (2003: £24 million), £8 million (2003: £8 million) due within one year and £8 million (2003: £16 million) due after more than one year, are subject to the terms and conditions set out in respect of the £16 million Group bank loan above.

22. OBLIGATIONS UNDER FINANCE LEASES

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

	2004 £000	2003 £000
Within one year	153	409
Within two to five years	605	759
In more than five years	80	80
	<hr/>	<hr/>
	838	1,248

23. OPERATING LEASE COMMITMENTS

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

	Land and Buildings		Other	
	2004 £000	2003 £000	2004 £000	2003 £000
Within one year	78	1,410	-	376
Two to five years	60	50	18	18
After five years	6,363	6,459	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	6,501	7,919	18	394

24. SHARE CAPITAL

	The Group & The Company			
	Authorised		Allotted and Fully Paid	
	2004 £000	2003 £000	2004 £000	2003 £000
Ordinary shares of £1 each	110	110	110	110
	<hr/>	<hr/>	<hr/>	<hr/>
	110	110	110	110

NORTHERN & SHELL NETWORK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

25. SHAREHOLDERS' FUNDS

Reserves	Capital Redemption Reserve £000	The Group	
		Other Reserve £000	Profit & loss £000
At 1 January 2004	100	3,860	29,997
Retained profit for the year	-	-	3,247
At 31 December 2004	<u>100</u>	<u>3,860</u>	<u>33,244</u>

Reconciliation of movements in shareholders' funds	The Group	
	2004 £000	2003 £000
Profit/(loss) for the year	3,247	(5,361)
Dividends	-	(5)
Net addition to/(reduction in) shareholders' funds	<u>3,247</u>	<u>(5,366)</u>
Redemption of preference shares	-	(100)
Opening shareholders' funds	<u>34,067</u>	39,533
Closing shareholders' funds	<u>37,314</u>	<u>34,067</u>

	The Company	
	2004 £000	2003 £000
Profit for the year	18,605	2,613
Dividends	-	(5)
Net addition to shareholders' funds	<u>18,605</u>	<u>2,608</u>
Redemption of preference shares	-	(100)
Opening shareholders' funds	<u>3,334</u>	826
Closing shareholders' funds	<u>21,939</u>	<u>3,334</u>

26. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW

	2004 £000	2003 £000
Operating loss	(7,203)	(379)
Depreciation	8,522	8,904
Amortisation of intangible assets	514	501
Loss on sale of tangible assets	102	136
Decrease in stocks	109	166
Decrease/(increase) in debtors	184	(132)
Increase/ (decrease) in creditors	14,686	(1,220)
Increase in provisions	668	-
Net cash inflow from continuing operating activities	<u>17,582</u>	<u>7,976</u>

NORTHERN & SHELL NETWORK LIMITED**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2004****27. RECONCILIATION OF NET CASH FLOW TO MOVEMENTS IN NET DEBT**

	2004 £000	2003 £000
Net debt at 1 January	(31,093)	(32,412)
Decrease in cash in the year	(3,360)	(8,115)
Cash outflow from finance lease payments	410	507
Loan finance repaid	10,000	10,000
Loan repaid to joint venture	3,500	-
Loan paid to joint venture	2,000	-
Related party loan received	-	(14,250)
Related party loan repaid	-	14,250
New finance leases	-	(954)
Other non cash changes	(121)	(119)
Net debt at 31 December	(18,664)	(31,093)

28. ANALYSIS OF CHANGES IN NET DEBT

	1 January £000	Cash flow £000	Non cash £000	31 December £000
Cash in hand & at bank	22,115	(3,380)	-	18,735
Overdrafts excluding short term loan	(59)	20	-	(39)
	22,056	(3,360)	-	18,696
Finance leases	(1,248)	410	-	(838)
Loan finance due within 1 year	(12,901)	15,500	(10,121)	(7,522)
Loan finance due after 1 year	(39,000)	-	10,000	(29,000)
Net debt	(31,093)	12,550	(121)	(18,664)

29. PENSION SCHEMES**a) SSAP 24 Disclosure**

The Group participates in a number of pension schemes. Eligible employees who joined the Group before October 1996 participate in schemes providing benefits based on final pensionable salary, where the trustees hold assets separately from the assets of the Group. Employees who joined the Group after October 1996 are eligible to participate in a money purchase scheme.

The Group contributes to money purchase pension schemes for the chairman, Mr. R.C. Desmond, and a defined contribution scheme for its employees. Contributions are charged to the profit and loss account to reflect amounts payable under the schemes. The charge in 2004 was £5.3 million (2003: £31.6 million).

The main defined benefit scheme is Express Newspapers 1988 Pension Fund (1988 Fund) which is operated by Mercer H.R. Consulting. The cost of the 1988 Fund has been assessed by a qualified independent actuary using the attained age method as at 31 December 2004. The principal assumptions adopted for accounting were investment returns of 5.30% per annum, salary growth of 3.75% per annum and that pensions earned after 5 April 1997 will increase in payment by 3.00% per annum.

The market value of the 1988 Fund's assets at 31 December 2004 was £346.2 million (2003: £332.9 million).

The latest triennial valuation for funding purposes was carried out by a qualified independent actuary using the projected unit method as at 6 April 2004. The principal assumptions adopted for funding purposes were pre-retirement investment returns of 7.0% per annum, post retirement investment returns of 5.25% per annum, inflation of 3% per annum, general salary increase of 4% per annum and post April 1997 pension increases of 3.0% per annum. The market value of assets at this date was £318.9m, sufficient to cover 85% of the Fund's liabilities. The company's contribution rate has been agreed at 6%.

NORTHERN & SHELL NETWORK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

29. PENSION SCHEMES (Continued)

a) SSAP 24 Disclosure (Continued)

The funding assumptions are more conservative than the accounting assumptions and may recognise any surplus or deficit over a period shorter than members' expected future working lifetime.

The total pension charge in respect of the defined benefit schemes is £12.7 million (2003: £5.3 million). The cash contributions paid by the Group for the year amounted to £1.0 million (2003: £0.8 million). At 31 December 2004, there was an accrual of £4.8 million (2003: prepayment £6.9 million) resulting from the accumulated difference between the pension costs charged and the contributions paid.

Included in the 2004 pensions charge of £12.7 million is £5.3 million in respect of 2002 and 2003, reflecting the recognition of additional plan liabilities which were identified in the 2004 formal scheme valuation of the 1988 fund. The additional liabilities were incorrectly excluded from the previous formal scheme valuation in 2001 and previous disclosures.

b) FRS17 Disclosure

The Group has not yet adopted FRS17. However, it has complied with the disclosure requirements of the transitional provisions of the standard.

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 6 April 2004 and 5 April 2003 respectively. The results below have been updated by a qualified independent actuary using the projected unit valuation method. The Group makes contributions at 6% of the Contribution Earnings.

The Express Newspapers 1988 Pension Fund was closed to new members in October 1996. As a result of the Fund becoming closed, the current service cost, as a percentage of Contribution Earnings, will increase as members approach retirement (but will reduce as members leave and are not replaced).

Following the April 2003 actuarial valuation of the Express Newspapers Senior Management Pension Fund, the Group contributions recommenced from 1 March 2004.

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

	2004	2003
Discount rate	5.30%	5.30%
Rate of increase in salaries	3.75%	3.75%
Rate of LPI increase in pensions in payment	3.00%	2.75%
Inflation assumption	2.80%	2.75%

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

The 2003 comparatives have been restated to reflect the additional plan liabilities explained in (a) above.

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 2004	Fair value at 2004 £000	Long-term rate of return expected at 2003	Restated Fair value at 2003 £000
Equities	7.75%	109,300	7.75%	120,900
Bonds	4.99%	228,800	4.89%	209,300
Other	4.75%	8,100	3.75%	2,800
Total market value of assets		346,200		333,000
Present value of scheme liabilities		(418,300)		(382,500)
Deficit in the schemes		(72,100)		(49,500)
Related deferred tax asset		21,630		14,850
Net pension liability under FRS 17		(50,470)		(34,650)

NORTHERN & SHELL NETWORK LIMITED**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2004****29. PENSION SCHEMES (Continued)**

Details of experience gains and losses for the year ended 31 December 2004:

History of experience gains and losses	2004	Restated 2003
Difference between the expected and actual rate of return on assets	£11.7m	£11.6m
Percentage of scheme assets	3.4%	3.5%
Experience loss on scheme liabilities	(£28.6m)	(£0.9m)
Percentage of the present value of scheme liabilities	(6.8)%	(0.2)%
Total amount recognised in STRGL	(£19.4m)	(£5.7m)
Percentage of the present value of the scheme liabilities	(4.6)%	(1.5)%

Had FRS17 been adopted in the current year, the following amount would have been recorded in the consolidated profit and loss account for both schemes as at 31 December 2004:

Operating profit	2004 £000	Restated 2003 £000
Current service cost	<u>3,400</u>	<u>2,300</u>
Total operating charge	<u>3,400</u>	<u>2,300</u>
Other finance income	2004 £000	2003 £000
Expected return on assets	19,100	18,500
Interest cost	<u>(19,800)</u>	<u>(19,500)</u>
Total net return	<u>(700)</u>	<u>(1,000)</u>
Movement in deficit during the year	2004 £000	2003 £000
Deficit at start of year	(49,500)	(41,300)
Current service cost	(3,400)	(2,300)
Employer contributions	900	800
Other financing income	(700)	(1,000)
Actuarial loss	<u>(19,400)</u>	<u>(5,700)</u>
Deficit at end of the year	<u>(72,100)</u>	<u>(49,500)</u>
Statement of total recognised gains and losses	2004 £000	2003 £000
Actual return less expected return on scheme assets	11,700	11,600
Experience gains and losses on scheme liabilities	(28,600)	(900)
Change in actuarial assumptions	<u>(2,500)</u>	<u>(16,400)</u>
Actuarial loss	<u>(19,400)</u>	<u>(5,700)</u>

NORTHERN & SHELL NETWORK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

29. PENSION SCHEMES (Continued)

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserve at 31 December would be as follows:

	2004	Restated 2003
	£000	£000
Net assets excluding SSAP24 pension (liability)/asset	40,674	29,237
Pension (liability) under FRS17	(50,470)	(34,650)
Net liabilities including pension liability under FRS17	(9,796)	(5,413)
Profit and loss reserve excluding SSAP 24 pension asset	36,604	25,167
Pension liability under FRS 17	(50,470)	(34,650)
Profit and loss reserve under FRS 17	(13,866)	(9,483)

30. GUARANTEES AND CONTINGENT LIABILITIES

Bank loans and overdrafts have been jointly and severally guaranteed by the Company and certain subsidiaries. At 31 December 2004 the maximum liabilities which could arise under these credit arrangements was £39 million (2003: £49 million). The shares of the subsidiary companies are pledged as security for these arrangements.

At 31 December 2004, 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 Company and Group.

31. RELATED PARTY TRANSACTIONS

The Group, through its subsidiary company Express Newspapers, participates in a joint venture under which it holds a 50% shareholding in the company West Ferry Printers Limited, where the remaining shares are owned by Telegraph Group Limited. The purpose of the joint venture is the provision of printing facilities to both Express Newspapers and Telegraph Group Limited and certain third parties. In the year ended 31 December 2004, West Ferry Printers Limited provided Express Newspapers with printing which was included in the turnover of the year ended 31 December 2004 at £16.2 million (2003: £15.4 million). At 31 December 2004, £2.2 million was payable in respect of that printing (2003: £1.8 million) by the Group to West Ferry Printers Limited. Of this, £nil million relates to pensions (2003: £1.0 million).

It was agreed by the shareholders of West Ferry Printers Limited that they could borrow, in equal amounts, some of the surplus cash of the company. The loan incurs interest of base rate plus 1.0% and there are no fixed repayment terms. During the year the loan was repaid in full, and the balance remaining payable by Express Newspapers was £nil as at 31 December 2004 (2003: £3.5 million).

The Group, through the Company, participates in a joint venture with N Brown Group Plc under which it holds a 50% shareholding in the company Express Shopping Channel Limited. The purpose of the joint venture is to expand the Group's operations in the broadcasting and television production sector. During the year the Group made a loan to Express Shopping Channel Limited and as at 31 December 2004 the amount owed to the Group was £2.0 million (2003: £nil). The loan incurs interest of Base rate plus 2.5% and there are no fixed repayment terms.

At 31 December 2004, the Group owed £24.8 million (2003: £14.5 million) in relation to Mr. R.C. Desmond's emoluments and pension contributions for 2004, which will be settled subsequent to the balance sheet date. The £14.5 million outstanding at 31 December 2003 was settled in 2004.

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31. RELATED PARTY TRANSACTIONS (Continued)

During the year, the Group made contributions of £334,015 (2003: £452,371) 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.

Mr. R.C.Desmond, the owner of the 10 Lower Thames Street property which is the new head office of the Northern & Shell Network group, entered into a 20 year lease of the entire property with Express Newspapers effective 1 January 2004 for an annual rental of £5,489,905 per annum, with a rent review every 5 years. The lease is drawn up in line with current market terms and the rent payable is in line with rents achieved in relation to other similar properties in the area. No amounts were due to Mr R.C. Desmond as at 31 December.

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 Television 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%

All of the above companies are registered in England, except for Portland Enterprises (CI) Limited and RHF Productions Limited which are registered in Jersey.

All of the above companies are consolidated within the group accounts.

Joint Ventures	Incorporated in	Principal activity	Stake	Nominal value of allotted share
West Ferry Printers Limited	United Kingdom	Printing	50%	£50 ordinary shares
Independent Star Limited	Republic of Ireland	Publishing	50%	IR£500 'E' ordinary shares
Express Shopping Channel	United Kingdom	Broadcasting	50%	£449 ordinary shares

33. CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure authorised and contracted for but not provided in the accounts amounted to £2.5 million relating to refurbishment costs for the new headquarters and the purchase of plant and machinery.

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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 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.