TELEGRAPH GROUP LIMITED

Report and Accounts

for the year ended

31 December 1997

TELEGRAPH GROUP LIMITED

Board of directors

Hon C M Black PC OC, chairman
The Hon A M Berry
P N Buckley
The Rt Hon Lord Carrington
D W Colson, deputy chairman and chief executive
The Rt Hon the Viscount Cranborne
The Hon J W Deedes, managing director
The Hon Paul Desmarais
R N Hambro
A R Hughes
S A Jarislowsky
H N L Keswick
The Lord King of Wartnaby
N O'Donnell-Keenan, finance director
F D Radler
The Rt Hon Lord Rawlinson of Ewell
Sir Frank Rogers
Sir Evelyn de Rothschild
L M Sanderson, advertisement director
The Hon R G H Seitz

Secretary

A J Davies

Auditor

KPMG Audit Plc
PO Box 695
8 Salisbury Square
London EC4Y 8BB

Company Registration: 451593

Registered Office

1 Canada Square
Canary Wharf
London E14 5DT

Directors' report

The directors present their report, together with the accounts, for the year ended 31 December 1997.

Principal activities

The principal activity of the company is the publication of national newspapers.

Results for the year

The profit on ordinary activities before tax for the year was £13.1 million (*1996: £41.4 million*). After taking taxation and dividends into account, the retained profit was £8.3 million (*1996: £4.5 million deficit*).

The directors do not recommend the payment of a final dividend for the year (*1996: £Nil*).

Directorate

The directors holding office during the year were:

The Hon A M Berry - reappointed 21.05.97
Hon C M Black PC OC, chairman
P N Buckley - reappointed 21.05.97
The Rt Hon Lord Carrington - reappointed 21.05.97
D W Colson, deputy chairman and chief executive
The Rt Hon the Viscount Cranborne - appointed 17.09.97
The Hon J W Deedes, managing director
R N Hambro - reappointed 21.05.97
C J Haslum - resigned 31.07.97
A R Hughes
S A Jarislowsky - reappointed 21.05.97
H N L Keswick - reappointed 21.05.97
The Lord King of Wartnaby - reappointed 21.05.97
N O'Donnell-Keenan, finance director - appointed 17.09.97
F D Radler
The Rt Hon Lord Rawlinson of Ewell - reappointed 21.05.97
Sir Frank Rogers - reappointed 21.05.97
Sir Evelyn de Rothschild - reappointed 21.05.97
L M Sanderson, advertisement director
The Hon R G H Seitz - reappointed 21.05.97

The Hon P Desmarais was appointed to the board on 11 February 1998.

Following the adoption of new articles of association at the extraordinary general meeting held on 26 June 1996, directors are no longer required to retire by rotation.

Directors' interests in shares and remuneration

Details of directors' interests and their remuneration for the year are set out in note 5 to the accounts.

Transactions with directors

Apart from the arrangements disclosed in notes 5 and 23(c) to the accounts and service agreements, at no time during the year was any director interested in any contract with the company or any of its subsidiaries.

Employees

During the year, our GCSE work experience programme provided one week placements for 58 pupils, each spending time in various departments over the week, gaining an insight into how they operate. In addition, 39 undergraduates were offered placements of up to four weeks, each based in an identified department during their stay.

During 1997, the company continued to develop the skills of its employees through a selection of internal and external personal development training courses. In the area of Information Technology, a variety of workshops were arranged internally to further enhance the existing skills of our staff.

The company offers equal employment opportunities to disabled persons; and suitable retraining is provided wherever practicable for employees who become disabled during service.

Political and charitable contributions

During the year, the company made charitable donations of £150,000 (*1996: £150,000*). The company made no political donations (*1996: nil*).

Creditor payment policy

The company does not follow any specific codes or industry standards in respect of payments to its suppliers but ensures that as far as is practicable debts are settled on a timely basis having regard to the credit period agreed with each supplier. In the absence of any specific agreement, the company normally makes payment before the end of the month following the month of invoicing. Special arrangements are made in connection with contributors to the newspapers where twice monthly payment runs ensure payment is made in the main within two to three weeks of the relevant date of publication. At the year end, the number of creditor days outstanding was 32 days.

Directors' responsibilities in respect of the financial statements

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 of the profit or loss for that period. In preparing those 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities. In the opinion of the directors they have complied with these requirements and fulfilled the said responsibilities.

Elective Resolutions

At the extraordinary general meeting held on 5 August 1996 the members invoked section 379A of the Companies Act 1985 ("the Act") by passing elective resolutions:

(i) as permitted by section 252 of the Act, to dispense with the laying of accounts and reports before the company in general meeting;

(ii) as permitted by section 366A of the Act, to dispense with the holding of annual general meetings; and

(iii) as permitted by section 386 of the Act, to dispense with the obligation to appoint auditors annually.

By order of the board

AJ Davies

A J Davies
Secretary

20th May 1998

Report of the auditors to the members of Telegraph Group Limited

We have audited the financial statements on pages 7 to 24.

Respective responsibilities of directors and auditors

As described above the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 as at 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

2 June 1998

TELEGRAPH GROUP LIMITED

Profit and loss account
for the year ended 31 December 1997

	Notes	1997 £'000	*1996 £'000*
Turnover	2	293,593	*282,409*
Cost of sales	3	(230,039)	*(233,098)*
Gross profit		63,554	*49,311*
Distribution costs		(26,070)	*(21,193)*
Administrative expenses		(22,810)	*(23,352)*
Operating profit	4	14,674	*4,766*
Profit on sale of fixed asset investments	7	-	*41,305*
Interest receivable and similar income	8	1,332	*1,026*
Interest payable and similar charges	9	(2,863)	*(5,706)*
Profit on ordinary activities before taxation		13,143	*41,391*
Tax on profit on ordinary activities	10	(2,241)	*(1,100)*
Profit for the financial year		10,902	*40,291*
Dividends paid on equity and non-equity shares	11	(2,555)	*(44,783)*
Retained profit/(loss) for the year		8,347	*(4,492)*

There were no gains or losses recognised during the year or the previous year other than those shown above. The historical cost profit is the same as that shown above.

The notes on pages 9 to 24 form part of these accounts.

TELEGRAPH GROUP LIMITED

Balance sheet
at 31 December 1997

	Notes	1997 £'000	*1996 £'000*
Fixed assets			
Intangible assets	12	175,000	*175,000*
Tangible assets	13	18,170	*19,304*
Investments	14	220,320	*224,446*
		413,490	*418,750*
Current assets			
Stocks - raw materials		841	*3,359*
Debtors	15	78,710	*89,591*
Cash at bank and in hand		28,455	*15,932*
		108,006	*108,882*
Creditors: amounts falling due within one year	16	(100,607)	*(104,043)*
Net current assets		7,399	*4,839*
Total assets less current liabilities		420,889	*423,589*
Creditors: amounts falling due after more than one year	17	(5,946)	*(17,607)*
Provisions for liabilities and charges	18	(6,647)	*(6,033)*
Net Assets		408,296	*399,949*
Capital and reserves			
Called up share capital	19	19,747	*19,747*
Share premium account		160,064	*160,064*
Revaluation reserve		175,000	*175,000*
Other reserves	20	41,840	*41,840*
Profit and loss account	21	11,645	*3,298*
Total equity and non-equity shareholders' funds	22	408,296	*399,949*

Approved by the board 20th May 1998 and signed on its behalf by

N O'Donnell-Keenan
Director

The notes on pages 9 to 24 form part of these accounts.

TELEGRAPH GROUP LIMITED

Notes to the accounts
31 December 1997

1. Accounting policies

(a) Basis of accounting

The accounts are prepared under the historical cost convention as modified by the revaluation of titles and in accordance with applicable accounting standards.

The company is exempted by section 228 of the Act from the requirement to prepare group accounts because it is a wholly owned subsidiary of a company established under the law of a member state of the European Community.

The company is exempt from the requirement of Financial Reporting Standard No. 1 (Revised) to prepare a cashflow statement as it is a wholly owned subsidiary undertaking of DT Holdings Limited, and its cashflows are included within the consolidated cashflows of that company.

(b) Intangible fixed assets

Newspaper and other titles are stated at current cost in accordance with the valuations described more fully in note 12. Titles are not considered to have a finite life and consequently no amortisation is charged, but provision is made if appropriate for any permanent diminution in value.

(c) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Cost represents the cost of acquisition or construction, including the direct costs of financing the acquisition or construction until the asset comes into use.

Depreciation is calculated so as to write off the cost, less residual value, of tangible fixed assets on a straight line basis over their expected useful economic lives which are as follows:

Buildings:		
Freehold	50 years	
Leasehold	50 years	or the lease term if under 50 years
Plant and machinery:		
Computer equipment	3-5 years	
Photocomposition equipment	5 years	
Furniture and fittings	10 years	
Other	3-10 years	

No depreciation is charged on freehold land.

(d) Investments

Investments acquired with the intention that they be held for the long term are stated at cost less provision, if appropriate, for any permanent diminution in value.

(e) Finance leases

The company has granted to West Ferry Printers Limited, an associated company, rights approximating to ownership over certain tangible fixed assets. Those assets are treated in the accounts as if they had been sold outright with the long term element of the corresponding debtor being included as part of loans to associated companies within investments. The amount due within one year is included as part of debtors in current assets. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding balance and the interest element is credited to profit in proportion to the balance outstanding.

Notes to the accounts
31 December 1997 - continued

1. Accounting policies (cont.)

(e) Finance leases (cont.)

Where asset purchases are financed by leasing agreements that give rights approximating to ownership, the assets are treated as if they had been purchased outright, and the corresponding liabilities are shown as obligations under finance leases.

(f) Stocks

Stocks are stated at the lower of cost and net realisable value.

(g) Taxation

Deferred taxation is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise. Timing differences arise from the recognition for tax purposes of income and expenditure in periods different from those in which they are included in the accounts. Provision is made at the rates which are expected to apply when the liability or asset is expected to crystallise.

Advance corporation tax recoverable by deduction from future corporation tax liabilities is carried forward by set off against the deferred tax balance with any excess included within debtors.

(h) Pension costs

The company's pension arrangements are explained in note 25. The costs of defined contribution schemes are charged to the profit and loss account as the obligation to pay arises. The costs of defined benefit schemes are charged to the profit and loss account over the period during which the company benefits from employees' services. Surpluses or deficiencies are spread over the expected average remaining working lifetime of employees in proportion to their expected payroll costs. The discounted value of ex gratia pensions and discretionary increases to pensions in payment is charged to the profit and loss account in the period in which they are granted.

(i) Turnover

Turnover represents the invoiced amount of goods sold and advertising space provided net of commission, allowances and value added tax.

(j) Foreign currency translation

Transactions denominated in foreign currencies are translated at the rate of exchange ruling on the day the transaction occurs. Assets and liabilities denominated in a foreign currency are translated at the rate ruling on the balance sheet date ("the closing rate") or, if appropriate, at the forward contract rate. All exchange differences are taken to the profit and loss account.

2. Turnover

Substantially all turnover and operating profit arises from the publication of newspapers within the United Kingdom which are all continuing operations.

Notes to the accounts
31 December 1997 - continued

3. Cost of sales

Included in cost of sales are amounts paid to West Ferry Printers Limited ("WFP") and Trafford Park Printers Limited ("TPP") of £22,900,000 and £7,011,000 respectively *(1996: £22,102,000 and £6,533,000)* for the contract printing of copies of *The Daily Telegraph* and *The Sunday Telegraph*. WFP and TPP are joint ventures between the company and third parties holding 50% each of the aggregate issued share capital.

4. Operating profit

	1997 £'000	*1996* *£'000*
The operating profit is stated after charging:		
Operating lease rentals:		
Plant and machinery	1,016	*1,083*
Other	4,592	*4,389*
	5,608	*5,472*
Depreciation of tangible fixed assets:		
Owned assets	4,537	*5,355*
	4,537	*5,355*
Auditors' remuneration - audit services	63	*72*
- non-audit services	85	*122*

5. Directors

Emoluments of the directors:

	1997	*1996*
Fees	182	*208*
Other emoluments - salaries and benefits	1,140	*1,143*
- discretionary bonuses	170	*74*
Compensation for loss of office	235	-
Company contributions to money purchase pension schemes	279	*272*
Pensions paid to directors and former directors	50	*50*
	2,056	*1,747*

The contributions made by the company to Money Purchase Schemes were on behalf of six directors.

Notes to the accounts
31 December 1997 - continued

5. Directors (cont.)

	1997 £'000	*1996 £'000*
Emoluments of the highest paid director:		
Highest paid director:		
Salary and benefits	344	*294*
Pension contributions	56	-
	400	*294*

During the year a charge of £2,292,959 was made by Hollinger Inc. under the services agreement referred to in note 23(c). It is not possible to identify whether any portion of the charge relates to services provided by any director of the company.

Directors' interests in shares and debentures

The beneficial interests of directors in office on 31 December 1997 in issued ordinary shares on 1 January 1997 and 31 December 1997 recorded by the company in its register maintained in accordance with section 325 of the Companies Act 1985 were as follows:

	31 December 1997	**1 January 1997**
Mr C M Black	147,474,654	147,474,654

In addition to the holding of ordinary shares imputed to him, Mr Black is deemed interested in the holding of 5,000,000 7% cumulative redeemable preference shares registered in the name of First DT Holdings Limited.

No changes in the directors' interests in shares disclosed above had been notified up to 20th May 1998.

Notes to the accounts
31 December 1997 - continued

6. Employee information

(a) Average number of persons (including executive directors) employed by the company during the year:

	1997	*1996*
Editorial	10	*12*
Selling, distribution and administration	18	*17*
	28	*29*

The majority of the staff engaged in the publication of the company's titles are employed by a subsidiary company, Telegraph Publishing Limited, which charges for their services. The charge for the year was £46,206,000 *(1996: £43,101,000).*

(b) Employment costs (including executive directors):

	£'000	*£'000*
Wages and salaries	3,859	*3,833*
National insurance contributions	385	*390*
Pension contributions	639	*767*
Total direct costs of employment	4,883	*4,990*

Notes to the accounts
31 December 1997 - continued

7. Profit on sale of fixed asset investments

The profit on sale of fixed asset investments in 1996 related to the transfer of the company's 42% stake in Creditscheme Limited to Deedtask Limited, a wholly owned subsidiary. No tax arose in this transfer.

8. Interest receivable and similar income

	1997 £'000	*1996 £'000*
Income from fixed asset investments - unlisted - subsidiary company	-	*7*
Interest receivable - from parent company	-	*12*
- from subsidiary company	8	*22*
- other	883	*381*
Finance lease income	441	*604*
	1,332	*1,026*

The finance lease income is receivable in respect of the long term finance lease debtor owed by West Ferry Printers Limited.

9. Interest payable and similar charges

	1997 £'000	*1996 £'000*
Interest payable on loans repayable within five years and bank borrowings	701	*5,339*
Interest payable - to parent company	372	*871*
- to subsidiary companies	2,882	*836*
Finance lease charges	605	*630*
Exchange differences	(1,697)	*(1,970)*
	2,863	*5,706*

Notes to the accounts
31 December 1997 - continued

10. Tax on profit on ordinary activities

	1997 £'000	*1996 £'000*
Based on profits for the year:		
Corporation tax at 31.5% (1996: 33%)	5,412	*2,198*
Deferred taxation	(70)	*(1,400)*
Advance corporation tax surrendered to subsidiaries	-	*302*
	5,342	*1,100*
Relating to previous years:		
Corporation tax	(2,372)	-
Deferred taxation	(729)	-
	2,241	*1,100*

11. Dividends

	1997 £'000	*1996 £'000*
Equity shares:		
Ordinary - Paid 10p per share	-	*5,055*
61.16p per "B" ordinary share	-	*30,000*
3.18p per share	-	*4,689*
3.18p per share	-	*4,689*
0.695p per share	1,025	-
0.800p per share	1,180	-
	2,205	*44,433*
Non-equity shares:		
Preference - Paid	350	*350*
	2,555	*44,783*

12. Intangible fixed assets

Newspaper and other titles have been included at valuations placed on them as at 31 December 1991 by the directors in consultation with professional advisers. In the opinion of the directors there has been no permanent diminution in their value since that date.

The valuations represent the estimated minimum amount realisable from a sale of the titles, arrived at by assessment of their economic value independent of the assets and other rights and interests which make up the business of the company.

The historic cost of the titles is not disclosed as it is not now possible to ascertain it. Provision for corporation tax that could arise if the titles were disposed of at the revalued amount has not been made as it is not the intention of the directors to dispose of them.

Notes to the accounts
31 December 1997 - continued

13. Tangible fixed assets

	Land & Buildings £'000	Plant & Machinery £'000	Total £'000
Cost:			
At 1 January 1997	9,313	38,744	48,057
Additions	-	3,410	3,410
Disposals	-	(383)	(383)
At 31 December 1997	9,313	41,771	51,084
Depreciation:			
At 1 January 1997	1,547	27,206	28,753
Charge for the year	404	4,133	4,537
Disposals	-	(376)	(376)
At 31 December 1997	1,951	30,963	32,914
Net Book Value:			
At 31 December 1997	7,362	10,808	18,170
At 31 December 1996	7,766	11,538	19,304

All Assets held under Finance Leases have been fully depreciated.

	1997 £'000	*1996 £'000*
Land and buildings at net book value as above:		
Freehold land (not depreciated)	1,268	*1,268*
Long leasehold buildings	3,739	*3,914*
Short leasehold buildings	2,355	*2,584*
	7,362	*7,766*

Notes to the accounts
31 December 1997 - continued

14. Investments

	Subsidiary Companies £'000	Associated Companies £'000	Loans to Associated Companies £'000	Other Investments £'000	Total £'000
At 1 January 1997	172,224	5	44,652	7,565	224,446
Additions	-	-	4,999	-	4,999
Repayments	-	-	(7,318)	(1,529)	(8,847)
Disposals	(100)	-	-	-	(100)
Reclassification	6,036	-	-	(6,036)	-
Movement on amount reclassified as a current debtor	-	-	(178)	-	(178)
At 31 December 1997	178,160	5	42,155	-	220,320

Details of the principal subsidiary and associated companies are given in note 27.

Loans to associated companies

These represent balances with joint venture companies as follows:

	1997 £'000	*1996 £'000*
Long term finance lease debtor (see (i) below)	9,920	*16,948*
Advances under printing contract (see (ii) below)	27,401	*23,756*
Loans to associated companies (see (iii) below)	4,834	*3,948*
	42,155	*44,652*

(i) This represents amounts receivable from West Ferry Printers Limited following the transfer to it of rights in certain assets as part of the joint venture agreement. The amount receivable within one year from the balance sheet date is included in debtors. The net book value of these assets at the time the rights were assigned less that of assets subsequently sold and therefore withdrawn from the leasing arrangements was £64,682,000.

(ii) This represents amounts paid in advance to West Ferry Printers Limited under the printing contract with that company.

(iii) The loans to associated companies have no fixed terms of repayment and do not bear interest.

As a result of the terms embodied in the West Ferry Printers Limited joint venture agreement, balances arising under the finance lease and printing contract with that company are considered to represent long term funding.

Notes to the accounts
31 December 1997 - continued

15. Debtors

	1997 £'000	*1996 £'000*
Current portion of finance lease debtor	7,027	*6,849*
Trade debtors	34,720	*41,482*
Amounts owed by parent companies	29,657	*26,866*
Amounts owed by subsidiary companies	1,331	*1,111*
Amounts owed by associated companies	266	*290*
Loan to The Daily Telegraph Group Pension Fund	1,313	*856*
Advance corporation tax recoverable	-	*3,021*
Other debtors	442	*3,331*
Prepayments and accrued income (see below)	3,954	*5,785*
	78,710	*89,591*

Prepayments and accrued income include prepayments in respect of contributions to pension schemes amounting to £343,000 *(1996 - £463,000)*.

16. Creditors: amounts due within one year

Current portion of obligations under finance leases (see note [17] below)	1,785	*1,595*
Bank loans	-	*33,214*
Trade creditors	20,301	*23,526*
Amounts owed to subsidiary companies	46,626	*18,462*
Amounts owed to associated companies	171	*199*
Advance corporation tax	22	*402*
Corporation tax	677	*1,184*
Other taxation and social security	5,225	*4,106*
Other creditors	724	*1,290*
Accruals and deferred income	25,076	*19,978*
Dividends	-	*87*
	100,607	*104,043*

The bank loans were secured by a fixed charge over the company's shareholdings in subsidiary and associated companies.

17. Creditors: amounts due after more than one year

	1997 £'000	*1996 £'000*
Obligations under finance leases (see below)	5,946	*7,718*
Loans from subsidiary companies	-	*9,889*
	5,946	*17,607*

Notes to the accounts
31 December 1997 - continued

17. Creditors: amounts due after more than one year (cont.)

Obligations under finance leases:

	1997 £'000	*1996 £'000*
Repayable:		
Within 1 year	2,521	*2,521*
Between 1-2 years	2,521	*2,521*
Between 2-5 years	4,412	*6,933*
Total obligations	9,454	*11,975*
Less: future finance charges included in obligations	(1,723)	*(2,662)*
Net obligations	7,731	*9,313*
Less: reclassified as a current creditor	(1,785)	*(1,595)*
Net long term obligations	5,946	*7,718*

Interest has been imputed on these leases at 11.0%.

18. Provisions for liabilities and charges

Deferred taxation (see (a) below)	6,647	*4,767*
Unfunded ex gratia pension costs (see (b) below)	-	*1,266*
	6,647	*6,033*

(a) Deferred taxation

Amount provided, representing the full potential liability:

Accelerated capital allowances	842	*1,249*
Other timing differences	10,458	*10,851*
Full potential liability	11,300	*12,100*
Advance corporation tax recoverable	(4,653)	*(7,333)*
	6,647	*4,767*

Movements on the provision:	£'000
Balance at 1 January 1997	4,767
Credited to profit on ordinary activities	(800)
Advance corporation tax recoverable	2,680
Balance at 31 December 1997	6,647

(b) Unfunded ex gratia pension costs

	£'000
Balance at 1 January 1997	1,266
Charge in the year	149
Purchase of Annuities (see note 25)	(1,292)
Payments made in the year	(123)
Balance at 31 December 1997	-

TELEGRAPH GROUP LIMITED

Notes to the accounts
31 December 1997 - continued

19. Share capital

	1997 £'000	*1996 £'000*
Authorised:		
180,000,000 ordinary shares of 10p each	18,000	*18,000*
5,000,000 7% cumulative redeemable preference shares of £1 each	5,000	*5,000*
100,000,000 2.5% cumulative voting redeemable preference shares of £16.80 each	1,680,000	*1,680,000*
	1,703,000	*1,703,000*
Issued and fully paid:		
88,882,513 "A" ordinary shares of 10p each	8,888	*8,888*
43,692,141 "B" ordinary shares of 10p each	4,369	*4,369*
14,900,000 "C" ordinary shares of 10p each	1,490	*1,490*
5,000,000 7% cumulative redeemable preference shares of £1 each	5,000	*5,000*
	19,747	*19,747*

The 7% cumulative redeemable preference shares and the 2.5% cumulative voting redeemable preference shares are non-equity shares.

The 7% cumulative redeemable preference shares are generally non-voting and are redeemable at par at any time subject to the provisions of the articles of association and the agreement of both the company and the holders of the shares.

The 2.5% cumulative voting redeemable preference shares confer on the holders the right to receive notice of and to attend and vote at a general meeting and, subject to the provisions of the articles of association, may be redeemed by the company at any time after the second anniversary of the date of allotment at a price which does not exceed 110% of the nominal amount of the share. On 31 July 2021 the company shall redeem any of the shares remaining in issue.

On liquidation, holders of 7% cumulative redeemable preference shares and 2.5% cumulative voting redeemable preference shares rank pari passu and take priority over ordinary shareholders for repayment of capital but do not participate further in the assets of the company.

Notes to the accounts
31 December 1997 - continued

20. Other reserves

	1997 £'000	*1996 £'000*
Capital redemption reserve	536	*536*
Other capital reserves	41,304	*41,304*
	41,840	*41,840*

21. Profit and loss account

	£'000
Retained profit at 1 January 1997	3,298
Retained profit for the year	8,347
Retained profit at 31 December 1997	11,645

22. Reconciliation of movements in shareholders' funds

	1997 £'000	*1996 £'000*
Retained profit/(loss) for the year	8,347	*(4,492)*
New share capital subscribed	-	*88,096*
Share capital redeemed	-	*(3,214)*
Net addition to shareholders' funds	8,347	*80,390*
Opening shareholders' funds	399,949	*319,559*
Closing shareholders' funds	408,296	*399,949*
Attributable to equity shareholders	403,296	*394,949*
Attributable to non-equity shareholders	5,000	*5,000*
	408,296	*399,949*

TELEGRAPH GROUP LIMITED

Notes to the accounts
31 December 1997 - continued

23. Commitments

	£'000	*£'000*
(a) Capital expenditure contracted for but not provided in the accounts	2,273	*1,390*

(b) Operating leases

Annual commitments under non-cancellable operating leases which expire:

	1997		*1996*	
	Land & Buildings £'000	Other £'000	*Land & Buildings £'000*	*Other £'000*
Within 1 year	-	59	*-*	*117*
Between 1 and 5 years	562	636	*532*	*595*
After 5 years	4,024	-	*4,014*	*-*
	4,586	695	*4,546*	*712*

(c) Services agreement

Under the terms of a services agreement with Hollinger Inc., for so long as Mr Black remains chairman of the board the company will bear 66.7% of the cost of the office of the chairman incurred by Hollinger or such other proportion as may be agreed from time to time. Other services will be provided at cost and may include the arrangement of insurance, assistance in the arrangement of finance and assistance and advice on acquisitions, disposals and joint venture arrangements. Charges to the company in respect of Mr Black's office and these other services amounted to £2,292,959 in 1997 *(1996: £1,127,609)*.

Notes to the accounts
31 December 1997 - continued

24. Guarantees

The company has given joint and several guarantees and indemnities and sole guarantees in respect of certain leasing obligations of West Ferry Printers Limited and Trafford Park Printers Limited amounting to £13,976,269 at 31 December 1997 *(1996: £18,099,000)*.

The company has given a guarantee in respect of a borrowing made under a US $515,000,000 revolving credit facility made available to certain of the company's parent companies. This guarantee is secured by a fixed charge over the company's shareholdings in subsidiary and associated companies. At the year end this indebtedness stood at US$ 85,000,000 and Cdn$ 334,105,000.

25. Pensions

The company operates two principal pension arrangements, a defined contribution scheme and a defined benefit scheme. It also operates a defined contribution scheme to provide pension benefits for senior executives. In addition to these funded arrangements the company has paid ex gratia pensions out of its own resources.

The defined contribution scheme, The Telegraph Staff Pension Plan, covers the majority of the company's employees. It also provides final salary benefits on death and incapacity and a defined benefit underpin for certain members.

The defined benefit scheme, The Daily Telegraph Group Pension Fund, was closed on 1 July 1991 and provides only benefits accrued up to that date. Increases to pensions in payment are discretionary and are awarded by the trustees, with the company's consent, from surpluses arising in the fund from time to time. The trustees resolved to wind up the fund with effect from 31st October 1997 and as part of this process, annuities were bought from Standard Life during September 1997 to cover all the pensions then in payment. It is expected that responsibility for deferred pensions will pass to the Telegraph Staff Pension Plan during 1998.

Also during September 1997, the company purchased annuities from Standard Life to cover its obligations in respect of ex gratia pensions.

26. Ultimate parent company

Hollinger Inc., incorporated in Canada and listed on the Toronto, Montreal and Vancouver stock exchanges, is regarded by the directors of the company as the company's ultimate parent company.

The largest group in which the results of the company are consolidated is that of which Hollinger Inc. is the parent company. The consolidated accounts of Hollinger Inc. may be obtained from Montreal Trust Company of Canada, 151 Front Street West, 8th Floor, Toronto, Ontario, Canada M5J 2N1.

The smallest such group is that of which DT Holdings Limited is the parent company, whose consolidated accounts may be obtained at the offices of Stikeman Elliott, Regis House, 45 King William Street, London, EC4R 9AN. DT Holdings Limited is registered in England and Wales.

Notes to the accounts
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27. Subsidiary and associated companies

The directors consider that to give particulars of all subsidiary and associated companies would lead to a statement of excessive length. A full list of all such companies will be included in the company's annual return. As at 31 December 1997 the principal subsidiaries and associated companies were:

Name	Nature of Business	Class and proportion of nominal value of issued shares held
SUBSIDIARIES		
Incorporated and principally operating in Great Britain and registered in England and Wales		
The Spectator (1828) Limited	Publisher	Ordinary shares - 100%
Telegraph Publishing Limited	Management Services	Ordinary shares - 100%
Deedtask Limited	Holding Company	Ordinary shares - 100%
Creditscheme Limited*	Holding Company	Ordinary shares - 100%
Telegraph Australian Holdings Limited*	Holding Company	Ordinary shares - 100%

* held by a subsidiary

Incorporated and principally operating in The Netherlands and held by a subsidiary

Deedtask Holding BV	Holding Company	Ordinary shares - 100%
Daily Telegraph Holdings BV	Holding Company	Ordinary shares - 100%

ASSOCIATES

Incorporated and principally operating in Great Britain and registered in England and Wales

Trafford Park Printers Limited	Printer	A Ordinary shares - 100%
West Ferry Printers Limited	Printer	A Ordinary shares - 100%
Newsprint Management & Supply Services Limited	Newsprint supplier	A Ordinary shares - 100%

Each of these associated companies is a joint venture between the company and a third party holding 50% each of the aggregate issued ordinary share capital.