

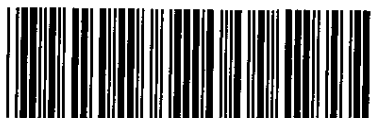
Registered number: 00679215

News Group Newspapers Limited

Report and financial statements

For the year ended 3 July 2016

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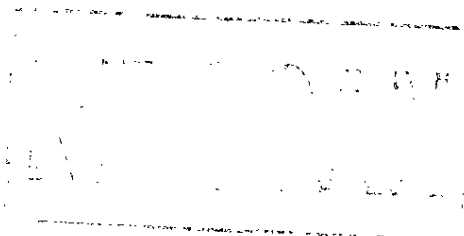
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News Group Newspapers Limited

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News Group Newspapers Limited

Strategic report For the year ended 3 July 2016

The directors present their Strategic report and the financial statements of the company for the year ended 3 July 2016.

Principal activities and business review

News Group Newspapers Limited forms part of News Corporation, which comprises newspapers and information businesses in the US, UK and Australia, leading book publishing brands, integrated marketing service companies, digital education groups as well as other assets in Australia. The principal activity of News Group Newspapers Limited is the publishing of The Sun and The Sun on Sunday ("The Sun"). The company uses the printing facilities of fellow subsidiaries of the News Corp Investments UK & Ireland group ("News UK" group).

The Sun is the number 1 newspaper in the UK, by circulation volume as measured by ABCs. It has a clear mission to build on its success as Britain's most popular newspaper and secure a sustainable future for its journalism.

Overall turnover was down on the previous year totalling £446,435,000 (2015 - £456,778,000). The main driver of this decline was the challenging market conditions for newspaper print advertising with double-digit declines currently common across the industry. The print advertising revenue decline offset the growth in both print circulation, supported by an increase in the Monday to Friday cover price during the year, and excellent digital advertising growth, following the removal of the paywall for the Sun website.

Circulation volume was down on prior year performance as the overall industry continues to contract, especially across the popular segment. Average annual Audit Bureau of Circulation (ABC) figures declined 8% for Monday to Saturday, compared to the 9% reported in 2015. The Sun on Sunday was 5% lower, showing solid progress over the previous year when circulation had declined 12%. Despite volume declines a cover price increase from 40p to 50p in March 2016 for the Sun on Monday to Friday led to an increase in print circulation revenue.

The print advertising market has been challenging over the last year but the relaunch of the News UK Commercial department as "the Bridge" has started to bring a sharpened focus to the business and benefits to advertising customers. The launch followed an extensive consultation programme and brought together the company's data, creativity and insight resources. It provides a modern approach to cross-platform sales, more effectively matching up advertisers with audiences through increased use of data.

The continued digital transformation for the Sun was a key growth driver for 2016, and should be over the next 12 months. Having been behind a paywall since August 2013, the Sun reverted to a policy of free access from 30 November 2015 and has consequently seen a significant increase in audience numbers driving a corresponding growth of digital advertising revenue. ABCe figures show monthly unique visitors more than doubled to 42m in June 2016 compared to 19m in October 2015 whilst behind the paywall. In addition to removing the paywall, the digital business has been through a number of exciting changes, notably the launch of a new bolder and brighter Sun website in June 2016. This has transformed the user experience making it easier for readers to find stories of interest and led to step change in the use of videos and photos. The re-launch of the website has been well received by consumers and should act as a key driver of future revenue. April 2016 also saw the highly successful launch of the Sun channel on Snapchat Discover with 12 new animations of stories added daily.

The Sun continued to invest behind the brand, notably in editorial and product innovations, which led to various exciting initiatives during the year to ensure it remains relevant to customers and a compelling proposition for advertising clients. The Sun brand benefited from an increase in marketing spend, to maintain visibility and engagement with customers. The Euros in June provided fantastic brand opportunities with an exciting multi-channel campaign called Tournamental. This complemented the Sun's unrivalled print and online coverage, having Sun writers reacting in real time on digital out of home screens. To celebrate Northern Ireland and the Republic of Ireland qualifying for the Euros, The Sun launched a 7 week half price trial in Ireland which led to significant daily uplifts. The acquisition of Unruly by the company's parent News Corp UK & Ireland Limited has already provided collaborative partnerships, for example the launch of a mobile-friendly vertical video and working with Activision to showcase the latest release from the Call of Duty video game franchise. As the partnership develops it is expected to help boost the digital part of the Sun business going forwards. The wider Sun portfolio continued to perform well with solid growth of Sun Bingo and Dream Team FC, which achieved 1.25 million managers competing in over 100,000 mini leagues across the country.

Strategic report (Continued)
For the year ended 3 July 2016

Principal activities and business review (continued)

The company's EBITDA has improved compared to the prior year, mainly due to a decrease in legal fees relating to UK Newspaper matters (presented within operating one-off costs). Excluding the impact of one-off costs and restructuring, EBITDA has decreased to £16,094,000 (2015 - £29,035,000). The main driver in the decrease in EBITDA is the fall in revenue as discussed above. Cost of sales has fallen as a result of reduced spend on Newsprint and other production related expenses directly related to the fall in circulation volumes. This saving is however offset by higher marketing spend in the year on campaigns such as the Euros and the Spend and Save promotions run during the year. The company utilised TV media more than in the prior year with additional marketing spend in relation to its digital products following the removal of the paywall. Administrative expenses are slightly higher than in the prior year, partly due to a write off of digital assets also related to the paywall in the current year. All other administrative costs have remained reasonably consistent year on year.

Key performance indicators

The key performance indicators include Turnover, EBITDA and newspaper ABCs as shown in the detail below:

	2016	2015
	£'000	£'000
Turnover	446,435	456,778
EBITDA	(28,974)	(51,063)
EBITDA excluding one-off operating charges and restructuring expense	16,094	29,035

EBITDA is defined as earnings before interest, taxation, depreciation and amortisation charges.

ABC Circulation (source: Audit Bureau of Circulations Limited June 2016 12 month certified average net circulation per issue)

	2016	2015
The Sun	1,781,000	1,929,000
The Sun on Sunday	1,476,000	1,557,000

Future developments

The changes implemented in 2016 will provide the foundations for growth over the next 12 months. A core aim is to sustain a market leading position in print by ensuring the proposition maintains its relevance for readers. This will be supported by a strong marketing campaign ensuring the brand is constantly visible.

From 1 June 2016, The Sun became the first red top to join the Waitrose loyalty scheme, MyWaitrose. This allows loyalty card members to receive the price of their paper off the rest of their shopping, when they spend £5 on shopping during the week, and £10 on weekends. This is expected to provide a solid uplift in sales. Growing digital continues to be key to growth over the next 12 months with a strong focus on driving the UK business and deepening engagement rather than a broad approach to global traffic generation. This will be supported by a combination of increased investment in editorial and delivery of the digital products.

The broader brand revenue is also vital to driving revenue growth in 2016. This started with the launch of Sun Bets in August 2016 in time for the start of the Premier League season. The Sun has partnered with Australia's leading bookmaker, Tabcorp, to create an exciting online gambling proposition that will complement the Sun's sporting credentials and look to leverage the success demonstrated by Dream Team FC. The aim is to deliver a best-in-class, profitable business that extends the audience's enjoyment of the Sun brand. In addition to the launch of Sun Bets, August 2016 also saw the enhancement of the Sun Bingo offer as the business moved to a new partnership with Playtech, the gambling software company, to power the site.

On 26 September 2016, News Corporation completed the acquisition of The Wireless Group - owners of leading radio stations such as talkSport and Virgin radio, acquiring their entire share capital for cash consideration of £220m. The acquisition provides further opportunities for the Sun to grow its reach in the world of sport in print and online. The Wireless Group represents an opportunity to leverage its strong radio presence to build on the Sun's growing digital success story and diversify revenue streams.

Principal risks and uncertainties facing the business

The company's advertising volume, circulation and the price of paper are the key variables whose fluctuations can have a material effect on its operating results and cash flows. The company has to anticipate the level of advertising volume, circulation and paper prices in managing its business to maximise operating profit during expanding and contracting economic cycles. The company continues to be exposed to risks associated with paper used for printing. Paper is a basic commodity and its price is sensitive to the balance of supply and demand. The company's expenses are affected by the cyclical increases and decreases in the price of paper. The company's products compete for readership and advertising amongst its competitors and also compete with other media alternatives in their respective markets. Competition for circulation and subscriptions is based on the content of the products provided, pricing and, from time to time, various promotions. The success of these products also depends on advertisers' judgements as to the most effective use of their advertising budgets. Competition for advertising is based upon the reach of products, advertising rates and advertiser results. Such judgements are based on factors such as cost, availability of alternative media, distribution and quality of readership demographics.

Like other newspaper groups, the company faces challenges to its traditional print business model from new media formats and shifting consumer preferences. The company is also exposed to the impact of long-term structural movements in advertising spending, in particular, the move in classified advertising from print to digital. These new media formats could impact the company's overall performance, positively or negatively.

As a multi-platform news provider, the company recognises the importance of maximising revenues from new media, both in terms of paid-for content and in new advertising models, and continues to invest in its digital products. The development of technologies such as smartphones, tablets and similar devices and their related application provides continued opportunities for the company to make its journalism available to a new audience of readers, introduce new or different pricing schemes, develop its products to continue to attract advertisers and/or affect the relationship between publisher and consumer. The company continues to develop and implement strategies to exploit its content in new media channels.

The company has also embarked on a savings initiative for its editorial department, while at the same time investing in new production tools and technology to ensure efficiencies and sustainability in the future.

The company has no trade debtors, with other companies within the News UK group collecting advertising and circulation revenue on behalf of the company. Bad debts associated with advertising and circulation revenue are recharged to the company.

Credit checks are performed for all new advertising customers requesting credit in excess of £1,500. Advance payment is requested when credit ratings are not sufficient. Formal processes are in place to ensure overdue accounts are followed up on a timely basis, with accounts being blocked for further advertisements when overdue.

Risk to bad debt from circulation customers is limited due to the majority of customers paying by direct debit and any overdue accounts being blocked for further supply until full settlement is received.

The majority of the company's transactions are in sterling, exposure to fluctuations in foreign currency exchange rates is therefore limited. Foreign currency is managed centrally by the News UK group, which takes into account the foreign currency transactions of the company.

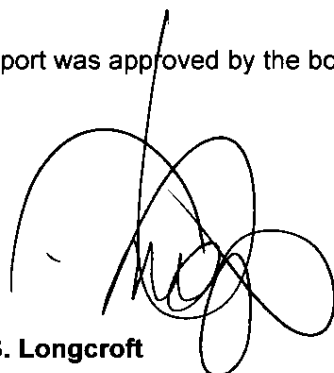
Strategic report (continued)
For the year ended 3 July 2016

Principal risks and uncertainties facing the business (continued)

The company is exposed to libel claims in the ordinary course of business and vigorously defends against claims received. The Group makes provision for the estimated costs to defend such claims when incurred and provides for any settlement costs when such an outcome is judged probable.

Following the allegations of voicemail interception and inappropriate payments to public officials there have been a number of civil cases brought against the company, most of which have been settled, or are in the process of being settled. A provision has been made at the balance sheet date in respect of all claims that have been filed up until the date of finalisation of the financial statements. In 2011 the company established a compensation scheme which was closed to new entrants in April 2013. A provision has been made at the balance sheet date for all applicants accepted to participate in this scheme. No provision has been made for letters of claim which have been received but where no formal court proceedings have been issued, or for individuals who have not contacted the company. It is not possible to estimate the liability for such additional claims given the information that is currently available to the company. If more claims are filed and additional information becomes available in the civil cases, the company will update the liability provision for such matters. A charge of £5,160,000 (2015 - £4,286,000) in respect of claimants legal fees and damages has been made in respect of this litigation, based on available information at the date of signing the financial statements. The final cost may or may not be significantly higher than the amounts recognised. This has been reported as a one off charge due to its size and incidence. Further information in connection with these matters is disclosed in note 22.

This report was approved by the board and signed on its behalf.

A handwritten signature in black ink, consisting of a large, stylized 'C' followed by a series of loops and a final vertical stroke.

C. C. S. Longcroft
Director

Date: **25 OCT 2016**

News Group Newspapers Limited

Directors' report For the year ended 3 July 2016

The directors present their report and the financial statements for the year ended 3 July 2016.

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report on pages 1 to 4.

The Sun newspaper is read by 4,317,000 people daily and The Sun on Sunday is read by 3,681,000 people every Sunday. The Sun continues to be the number one selling daily newspaper in the UK. The Sun brand is significantly cash generative and the directors consider that the company remains in a healthy position financially.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Results and dividends

The loss for the year, after taxation, amounted to £62,321,000 (2015 - loss £78,145,000).

The directors do not recommend a dividend.

Directors

The directors who served during the year were:

R. Brooks (appointed 4 December 2015)
D. Dinsmore
C. C. S. Longcroft

Except as noted above, all directors served throughout the year and are still directors at the date of this report.

The Articles of Association do not require directors to retire either by rotation or in the year of appointment.

Directors' indemnity provision

News Corporation has indemnified all directors of the company against liability in respect of proceedings brought by third parties, except that, in accordance with the Companies Act 2006, no indemnity is provided against: any liability incurred by the director in defending civil proceedings brought by the company, or an associated company, in which the final judgment is given against the director; any liability of the director to pay a fine imposed by criminal proceedings; any liability incurred by the director in defending criminal proceedings in which the director is convicted; any liability of the director to pay a penalty sum to a regulatory authority in respect of non-compliance with any requirement of a regulatory nature, howsoever arising; or any liability of the director in connection with an application for relief in which the court refuses to grant him relief. Such qualifying third party indemnity provision was in force during the year and is in force as at the date of approving the directors' report.

Directors' report (continued)
For the year ended 3 July 2016

Directors' responsibilities statement

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the Company financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

Employment of disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation

It is the policy of the company to develop employee involvement throughout the organisation and to ensure that they are aware of the financial and economic factors affecting the company and the News UK group of which it is a member.

Communication meetings between management and employees are held both formally and informally, where matters of specific interest are discussed. Consultation with all employees occurs on a regular basis covering pensions and health and safety and their views are taken into consideration when making decisions. A range of training programs are held for employees.

Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- each director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

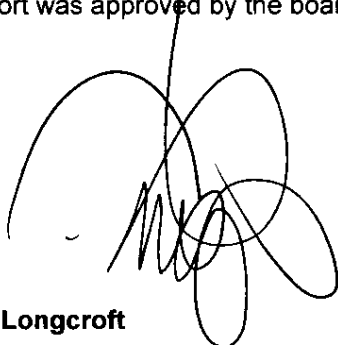
Auditors

The Directors have passed a resolution to dispense with the requirement to reappoint auditors annually. Ernst & Young LLP are deemed to be reappointed as auditor in the absence of a notice that the appointment is to be terminated.

News Group Newspapers Limited

**Directors' report (continued)
For the year ended 3 July 2016**

This report was approved by the board and signed on its behalf.

A handwritten signature in black ink, consisting of several large, overlapping loops and a final flourish.

C. C. S. Longcroft
Director

Date: **25 OCT 2016**

1 London Bridge Street
London
SE1 9GF

Independent auditor's report to the members of News Group Newspapers Limited

We have audited the financial statements of News Group Newspapers Limited for the year ended 3 July 2016, which comprise the Profit and loss account, the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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

Respective responsibilities of directors and auditor

As explained more fully in the statement of directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 3 July 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter - significant uncertainty over provisions and contingencies related to voicemail interception cases after allegations of voicemail interception and inappropriate payments to public officials and other related matters.

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 22 to the financial statements concerning future expenditures for which reliable estimates cannot be made and other contingencies related to voicemail interception cases after allegations of voicemail interception and inappropriate payments to public officials and other related matters. The ultimate exposure of News Group Newspapers in relation to these matters is subject to significant uncertainty, and the total amounts that will ultimately be determined to be payable by the company will be dependent on many factors, including the number of individuals making a claim against the company, and any findings as to the extent of their loss, as well as the potential size of any civil or administrative fines or penalties. Consequently the actual cost may or may not be significantly higher than the amounts recognised in the financial statements and disclosed in note 22.

Independent auditor's report to the shareholders of News Group Newspapers Limited

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



Richard Addison (Senior Statutory Auditor)
for and on behalf of
Ernst & Young LLP
Statutory Auditor
London

Date: 28 October 2016

News Group Newspapers Limited

Profit and Loss Account For the year ended 3 July 2016

	Note	2016 £000	2015 (restated) £000
Turnover	4	446,435	456,778
Cost of sales		(279,579)	(295,751)
Gross profit		166,856	161,027
Sales and marketing costs		(75,981)	(55,220)
Administrative expenses		(108,592)	(104,772)
Operating one-off charges	5	(30,249)	(72,311)
Adjusted operating loss		(47,966)	(71,276)
Restructuring expense	6	(14,818)	(7,787)
Total operating loss		(62,784)	(79,063)
Interest receivable and similar income	12	-	33
Loss on ordinary activities before taxation		(62,784)	(79,030)
Taxation on loss on ordinary activities	13	463	885
Loss for the year		(62,321)	(78,145)

Adjusted operating profit is defined as total operating profit before restructuring costs.

Statement of Comprehensive Income For the year ended 3 July 2016

	2016 £000	2015 (restated) £000
Loss for the financial year	(62,321)	(78,145)
Total comprehensive income for the year	(62,321)	(78,145)

The notes on pages 13 to 31 form part of these financial statements.

News Group Newspapers Limited
Registered number:00679215

Balance Sheet
As at 3 July 2016

	Note	2016 £000	2015 (restated) £000
Fixed assets			
Intangible assets	14	198,788	224,000
Heritage assets	15	107	107
		<u>198,895</u>	<u>224,107</u>
Current assets			
Stocks	17	8,093	8,765
Debtors: amounts falling due within one year	18	82,670	85,211
Cash at bank and in hand		525,990	604,864
		<u>616,753</u>	<u>698,840</u>
Creditors: amounts falling due within one year	21	(172,203)	(219,022)
Net current assets		<u>444,550</u>	<u>479,818</u>
Total assets less current liabilities		<u>643,445</u>	<u>703,925</u>
Provisions for liabilities			
Other provisions	22	(74,486)	(72,645)
Net assets		<u>568,959</u>	<u>631,280</u>
Capital and reserves			
Called up share capital	23	2,625	2,625
Share premium account		523,308	523,308
Other reserves	24	195,074	223,074
Profit and loss account		(152,048)	(117,727)
Shareholders' funds		<u>568,959</u>	<u>631,280</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

25 OCT 2016

C. C. S. Longcroft
Director

The notes on pages 13 to 31 form part of these financial statements.

News Group Newspapers Limited

Statement of Changes in Equity For the year ended 3 July 2016

	Called up share capital	Share premium account	Other reserves	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
At 29 June 2015 – as restated	2,625	523,308	223,074	(117,727)	631,280
Loss for the financial year	-	-	-	(62,321)	(62,321)
Total comprehensive income	-	-	-	(62,321)	(62,321)
Transfer in relation to intangible assets	-	-	(28,000)	28,000	-
At 3 July 2016	2,625	523,308	195,074	(152,048)	568,959

Statement of Changes in Equity For the year ended 28 June 2015

	Called up share capital	Share premium account	Other reserves	Profit and loss account (restated)	Total equity
	£000	£000	£000	£000	£000
At 30 June 2014	2,625	523,308	251,074	(67,582)	709,425
Loss for the financial year – as restated	-	-	-	(78,145)	(78,145)
Total comprehensive income	-	-	-	(78,145)	(78,145)
Transfer in relation to intangible assets	-	-	(28,000)	28,000	-
At 28 June 2015 – as restated	2,625	523,308	223,074	(117,727)	631,280

The notes on pages 13 to 31 form part of these financial statements.

News Group Newspapers Limited

Notes to the Financial Statements For the year ended 3 July 2016

1. General information

News Group Newspapers Limited is a limited liability company incorporated in the United Kingdom under the Companies Act. The address of the registered office is 1 London Bridge Street, London, SE1 9GF.

The nature of the group's operations and its principal activities are set out in the Strategic report on page 1 - 4.

2. Accounting policies

2.1 Statement of compliance

The financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

2.2 Basis of preparation

The financial statements of News Group Newspapers Limited were approved for issue by the Board of Directors on 25 October 2016. The financial statements have been prepared on a going concern basis, under the historical cost convention.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

The financial statements are made up to the Sunday closest to the 30 June each year. Consequently, the financial statements for the current period cover 53 weeks ended 3 July 2016. The financial statements are presented in pounds sterling which is the functional currency of the company, and rounded to the nearest £'000.

The Group transitioned from previously extant UK GAAP to FRS 102 as at 30 June 2014. An explanation of how transition to FRS 102 has affected the reported financial position and financial performance is given in note 27.

2.3 FRS 102 reduced disclosure exemptions

FRS 102 paragraph 1.12 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the company's shareholders. The equivalent disclosures are included in the consolidated financial statements of News Corporation, the ultimate parent undertaking.

The company has taken advantage of the following exemptions:

- (a) From preparing a statement of cash flows and related notes as required by Section 7 Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17(d);
- (b) From the financial instruments disclosures as required by FRS 102 paragraphs 11.39 to 11.48A and paragraphs 12.26 to 12.29, including:
 - Categories of financial instruments,
 - Items of income, expenses, gains or losses relating to financial instruments, and
 - Exposure to and management of financial risks.
- (c) From disclosing the company key management personnel compensation, as required by FRS 102 paragraph 33.7.

News Group Newspapers Limited

Notes to the Financial Statements For the year ended 3 July 2016

2. Accounting policies (continued)

2.4 Consolidated financial statements

Under Section 401 of the Companies Act 2006 the company is exempt from the requirement to prepare and deliver group financial statements since it is a wholly owned subsidiary of News Corporation which is incorporated in the United States of America and prepares consolidated financial statements. The consolidated financial statements are available to the public and may be obtained from 1 London Bridge Street, London, SE1 9GF. Accordingly, these financial statements present information about the company as an individual undertaking and not about its group.

2.5 Related party transactions

As a wholly owned subsidiary undertaking of News Corporation whose financial statements are publicly available, the company has taken advantage of the exemption in FRS 102 Section 33 'Related Party Disclosures' not to disclose transactions with other wholly owned members of the group headed by News Corporation.

2.6 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed by the company, and value added taxes.

The company recognises revenue when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the company retains no continuing involvement or control over the goods; (c) the amount of revenue can be measured reliably; (d) the costs incurred or to be incurred in respect of the transaction can be measured reliably and (e) it is probable that future economic benefits will flow to the entity. Specific revenue recognition criteria also apply depending on the revenue stream, as described below:

Print advertising revenue is recognised on issue of publication net of any agency rebate.

Digital advertising revenue is recognised on a straight line basis over the period of the online campaign.

Barter revenue is advertising revenue where consideration is received in the form of services rather than cash. Revenue is recognised on the same basis as print advertising revenue or digital advertising revenue as outlined above.

Circulation revenue is recognised at the point of sale. A deduction is made from circulation revenue for expected returns and is updated for actual returns as known.

Subscriptions revenue is recognised over the period of the subscription.

Other revenue is recognised at the time of sale or over the duration of the provision of service as appropriate.

2.7 Interest receivable

Interest receivable is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

2.8 Operating leases

Rentals payable under operating leases are charged on a straight-line basis to the profit and loss account over the lease term. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

2.9 Exceptional items

Exceptional items are transactions that fall within the ordinary activities of the Company but are presented separately due to their size or incidence. See notes 5 and 6 for more detail.

**Notes to the Financial Statements
For the year ended 3 July 2016**

2. Accounting policies (continued)

2.10 Pensions

The employees of the company participate in a defined contribution pension scheme; the amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

2.11 Taxation

Taxation expense for the reporting period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current tax, including UK corporation tax and foreign tax, is the amount payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax 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 considered as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits or deferred tax liabilities in the foreseeable future against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

2.12 Foreign currency

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

2.13 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life.

The estimated useful lives range as follows:

Internal use software	-	3	years
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2.14 Publishing rights and titles

Publishing rights and titles are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method over their estimated useful life of 20 years. Provision is made for any impairment.

News Group Newspapers Limited

Notes to the Financial Statements For the year ended 3 July 2016

2. Accounting policies (continued)

2.15 Heritage assets

The company holds a collection of manuscripts, newspapers and other artefacts within its archives. The collection is one of the most significant within the British newspaper industry and is available for both internal and external research purposes. This collection had previously been reported on the balance sheet at valuation following an independent valuation of the collection by Sotheby's in November 2003. Subsequent acquisitions, which have been purchased after this valuation, have been recorded at cost. However, FRS 102 paragraph 34.51 requires entities to recognise and measure heritage assets using the cost model or revaluation model. The company has applied the cost model, and has taken the deemed cost exemption under FRS 102 paragraph 35.10(d), as a result all heritage assets are carried at cost, from the date of transition. No depreciation has been charged on these assets.

2.16 Investments in subsidiaries

Investments in subsidiaries are recorded at cost and adjusted for any impairment provisions. When an impairment has been identified it is reflected in the profit and loss account.

2.17 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost includes all costs incurred in bringing each product to its present location and condition. Raw materials, consumables and goods for resale are held at purchase cost on a first-in first-out basis. Work in progress and finished goods are held at cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Provision is made for obsolete, slow moving or defective items where appropriate.

2.18 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.19 Creditors

Short term trade creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.20 Provisions

Provisions are recognised when the company has a present obligation, legal or constructive, as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

3. Judgments in applying accounting policies and key sources of estimation uncertainty

3.1 Critical judgements in applying the company's accounting policies

Management are required to make judgements in the process of applying the company's accounting policies. The judgements that have the most significant effect on the amounts recognised in the financial statements are discussed below.

3.1.1 Operating one-off costs and restructuring expense

The company has made a judgement to present some operating items separately on the face of the profit and loss account as operating one-off costs or restructuring expenses. These operating items include significant transactions such as legal fees relating to on-going legal issues, costs in relation to early termination of contract agreements and costs relating to the restructuring of the business. In making this judgement the company considers whether such items are material to the profit and loss account and if their separate disclosure is necessary for an appropriate understanding of the company's financial performance. These items have been presented on a separate line in the company's profit and loss account, above operating profit/(loss), and are further explained in notes 5 and 6.

3.1.2 Amortisation of publishing rights and titles

Publishing rights and titles in previous periods were considered to have indefinite economic lives, so were reported at cost less impairment, and no amortisation was charged to the profit and loss account. As part of the transition to FRS 102, the useful economic life was re assessed as a period of 20 years, commencing on the acquisition date in 2003. The 20 year life is based on the directors' best estimate of the period over which significant economic benefit is likely to flow to the entity from these newspaper publishing rights and titles. The adjustment for accumulated amortisation brought forward can be seen in note 27.

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

3.2.1 Contract discount and rebate provisions

The company enters into agreements with advertising agencies and certain clients, which are subject to a minimum spend and typically include a commitment to deliver rebates to the agency or client based on the level of agency spend over the contract period. These rebates can take the form of free advertising space, cash payments or both. The rebate provision is calculated using the forecast spend over the contract period and rebate entitlement set out in the trading agreement. Calculating the required provision therefore requires an estimate of future period spend in determining what tier of spend the agencies may reach over the agreement. At the year end the company has contract discount and rebate provisions amounting to £8,083,000 (2015 - £5,779,000).

3.2.2 Provisions for on-going legal issues

There is uncertainty as to liabilities arising from the outcome or resolution of on-going legal claims against the company. Following the allegations of voicemail interception and inappropriate payments to public officials there have been a number of civil cases brought against the company, most of which have been settled or are in the process of being settled. A provision has been made at the balance sheet date in respect of all claims that have been filed up until the date of finalisation of the financial statements. In 2011 the company established a compensation scheme which was closed to new entrants in April 2013. A provision has been made at the balance sheet date for all applicants accepted to participate in this scheme. The provision is a best estimate of the amounts likely to be paid out. No provision has been made for letters of claim which have been received but where no formal court proceedings have been issued, or for individuals who have not contacted the company. It is not possible to estimate the liability for such additional claims given the information that is currently available to the company. Further details are given in note 22.

News Group Newspapers Limited

Notes to the Financial Statements For the year ended 3 July 2016

3. Judgments in applying accounting policies and key sources of estimation uncertainty (continued)

3.2.3 Provision for libel claims

The company is exposed to libel claims in the ordinary course of business and vigorously defends against claims received. The Group makes provision for the estimated costs to defend such claims when incurred and provides for any settlement costs when such an outcome is judged probable. The libel provision as at 3 July 2016 was £3,144,000 (28 June 2015 - £3,689,000) and is included in creditors: amounts falling due within one year.

3.2.4 Recoverability of deferred tax assets

The company makes estimates regarding the recoverability of deferred tax assets relating to brought forward losses based on forecasts of future taxable profits which are, by their nature, uncertain. The deferred tax asset recognised at 3 July 2016 was £34,835,000 (28 June 2015 - £34,367,000).

4. Turnover

Substantially all the company's turnover and profit, in both the current and prior year, are derived, both by origin and destination, from printing and publishing activities in the United Kingdom.

During the current year £14,280,000 (2015 - £10,609,000) of turnover related to advertising barter transactions.

5. Operating one-off charges

	2016 £000	2015 £000
Claimants' legal fees and damages (see note 22)	5,160	4,286
Costs in relation to UK newspaper matters	19,083	50,667
Costs in relation to the Management and Standards Committee	6,006	10,158
Costs in relation to early termination of contract agreements	-	7,200
	<u>30,249</u>	<u>72,311</u>

There are a number of on-going legal claims against the company as a result of voicemail interception allegations. A charge of £5,160,000 (2015 - £4,286,000) in respect of claimants' legal fees and damages has been made based on available information at the date of signing the financial statements.

The company has incurred £19,083,000 (2015 - £50,667,000) of one-off costs in regards to UK Newspaper matters. These include £13,149,000 (2015 - £41,596,000) of legal fees, £4,540,000 (2015 - £7,911,000) for compensation of loss of office payments, and £1,394,000 (2015 - £1,160,000) of other UK newspaper matter costs.

The News UK group has incurred costs of £6,006,000 (£10,158,000), which are primarily legal and professional fees relating to the Management and Standards Committee (MSC). The MSC is not a statutory entity; therefore whilst it has independence from the company, costs relating to the MSC must be recognised in the financial statements of a statutory entity. As the costs relate exclusively to investigations in The News of the World, these costs have been borne by News Group Newspapers Limited.

News Group Newspapers Limited

Notes to the Financial Statements For the year ended 3 July 2016

5. Operating one-off charges

During the prior year the company reached an agreement to terminate a long term printing contract with Independent News and Media in Belfast in return for a compensation payment of £7,200,000. This contract termination enabled the company to move printing to in-house printing facilities to utilise available capacity. The compensation amount was included in accruals at the prior year balance sheet date.

These items have been reported as one-off charges due to their size and incidence and one-off nature.

6. Restructuring expense

	2016 £000	2015 £000
Cost of restructuring the company	14,818	7,787

During the year the company restructured its workforce to match the requirements of the business and had incurred £14,818,000 (2015 - £7,787,000) of redundancy costs relating to this restructure as at the balance sheet date.

7. Operating loss

The operating loss is stated after charging:

	2016 £000	2015 £000
Amortisation of intangible assets	31,371	28,000
Loss on disposal of intangible assets	2,439	-
Operating lease rentals - plant and machinery	332	472

The operating lease costs relate to commitments held by News UK & Ireland Limited, another subsidiary company within the News UK group.

8. Auditor's remuneration

	2016 £000	2015 £000
Audit of financial statements	252	234

Auditor's remuneration is borne by another group undertaking.

News Group Newspapers Limited

Notes to the Financial Statements For the year ended 3 July 2016

9. Staff costs

Staff costs were as follows:

	2016 £000	2015 £000
Wages and salaries	43,445	36,232
Social security costs	4,268	4,084
Other pension costs (see note 11)	3,957	3,093
	<u>51,670</u>	<u>43,409</u>

Included in wages and salaries is £11,779,000 (2015 - £3,121,000) of compensation for loss of office costs which are reported within restructuring costs.

The average monthly number of employees during the year was as follows:

	2016 No.	2015 No.
Editorial	<u>528</u>	<u>546</u>

10. Directors' remuneration

The directors' aggregate remuneration in respect of qualifying services were:

	2016 £000	2015 £000
Remuneration receivable	8,488	2,867
Value of company pension contributions to money purchase schemes	33	40
	<u>8,521</u>	<u>2,907</u>

The highest paid director received remuneration (excluding pension contributions) of £3,581,000 (2015 - £2,148,000).

No directors accrued benefits under company pension schemes (2015 - None).

The number of directors who through participating in News Corporation's long term incentive plan were remunerated in News Corporation Common A stock were as follows:

	2016 No	2015 No
Long term incentive plan	<u>2</u>	<u>2</u>

News Group Newspapers Limited

Notes to the Financial Statements For the year ended 3 July 2016

10. Directors' remuneration (continued)

The directors of the company are also directors of the holding company or fellow UK subsidiaries. The directors received total remuneration for the year as shown above, all of which was paid by a fellow group company. The directors do not believe that it is practicable to apportion this amount between their services as directors of the company and their services as directors of the holding company or subsidiary companies.

During the year £2,682,000 was paid to former directors as compensation for loss of office (2015 - £1,121,000).

11. Pensions

The company participates in pension schemes operated by News Corp UK & Ireland Limited. The defined contribution scheme covers the majority of the executive, staff and works personnel. The remaining employees, mainly senior executives, are covered by defined benefit multi-employer schemes and their share of the underlying assets and liabilities are not readily identifiable. The assets of the pension schemes are held in separate externally administered funds. The pension costs of the defined benefit schemes are calculated in accordance with the advice of a qualified actuary using the projected unit method. The schemes are valued by an independent actuary on a triennial basis. During 2011, News Corp UK & Ireland Limited closed the main UK defined benefit pension plan to future accrual. The latest full actuarial valuation of the defined benefit schemes range from 31 March 2011 to 31 March 2014.

Following a group restructure on 4 July 2011, all pension expenses were transferred to News Corp UK & Ireland Limited, where the group's pension provision is held. A recharge is made to the company for the services of the personnel working for the company. No defined benefit scheme costs are recharged.

The total pension cost for the company was £3,957,000 (2015 - £3,093,000) all of which relates to the defined contribution scheme.

Retirement benefit obligation disclosures for the defined benefit schemes are not presented in these company accounts, as the defined benefit scheme is a group scheme, and there is no group policy in place for charging the net defined benefit cost to individual group companies. Under FRS 102, this means that the defined benefit scheme deficit should be recognised in the financial statements of the group entity that is legally responsible for the plan, which for this group is News Corp UK & Ireland Limited. The News Corp UK & Ireland Limited deficit as at 3 July 2016 is £65,117,000 (2015 - £27,366,000). The fair value of the plans assets amounts to £407,226,000 (2015 - £380,956,000) whilst the benefit obligations amounts to £472,343,000 (2015 - £408,322,000).

12. Interest receivable

	2016 £000	2015 £000
Interest receivable on corporation tax debtor	-	33

News Group Newspapers Limited

**Notes to the Financial Statements
For the year ended 3 July 2016**

13. Taxation

a) Analysis of tax credit in the year

	2016 £000	2015 £000
UK corporation tax		
Adjustments in respect of prior years	-	(1,654)
Foreign tax		
Foreign tax on profits for the year	5	7
Total current tax	<u>5</u>	<u>(1,647)</u>
Deferred tax		
Origination and reversal of timing differences	(1,343)	255
Effect of rate change	669	(9)
Adjustments in respect of prior years	206	516
Total deferred tax	<u>(468)</u>	<u>762</u>
Taxation on loss on ordinary activities (see note below)	<u>(463)</u>	<u>(885)</u>

b) Factors affecting tax charge for the year

The tax assessed for the year/period is lower than (2015 - lower than) the standard rate of corporation tax in the UK of 20% (2015 - 20.75%). The differences are explained below:

	2016 £000	2015 £000
Loss on ordinary activities before tax	(62,784)	(79,030)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 20.75%)	(12,557)	(16,399)
Effects of:		
Expenses not deductible for tax purposes	1,119	6,129
Amortisation of publishing rights not deductible for tax purposes	5,600	5,810
Adjustments in respect of prior years	206	(1,138)
Unrelieved foreign taxes	5	7
Group relief and transfer pricing adjustments	4,950	4,243
Effect of rate change	669	(9)
Effect of prior year adjustment	(455)	472
Total tax credit for the year (see note above)	<u>(463)</u>	<u>(885)</u>

News Group Newspapers Limited

Notes to the Financial Statements For the year ended 3 July 2016

13. Taxation (continued)

c) Factors that may affect future tax charges

The standard rate of UK corporation tax reduced from 21% to 20% on 1 April 2015. The 2015 summer budget stated that the rate of corporation tax will be reduced from 20% to 19% from 1 April 2017, and 18% from 1 April 2020. This change received Royal Assent on 18 November 2015. Subsequently the 2016 Budget stated that from 1 April 2020 the rate will instead reduce to 17%. This change received Royal Assent on 15 September 2016.

Deferred tax balances have been measured at a rate of 18%, being the rate substantively enacted at the balance sheet date.

14. Intangible assets

	Internal use software £000	Publishing rights and titles £000	Total £000
Cost			
At 29 June 2015	-	560,000	560,000
Additions	2,493	-	2,493
Transfer from group	14,588	-	14,588
Disposals	(6,407)	-	(6,407)
At 3 July 2016	10,674	560,000	570,674
Amortisation			
At 29 June 2015	-	336,000	336,000
Charge for the year	3,371	28,000	31,371
Transfer from group	8,483	-	8,483
Disposals	(3,968)	-	(3,968)
At 3 July 2016	7,886	364,000	371,886
Net book value			
At 3 July 2016	2,788	196,000	198,788
At 28 June 2015	-	224,000	224,000

Internal use software assets with a net book value of £6,105,000 were transferred from News Corp UK & Ireland Limited to News Group Newspapers Limited on 29 June 2015, and therefore were owned by News Group Newspapers Limited throughout the year ending 3 July 2016.

Publishing rights and titles are amortised over their estimated useful life of 20 years.

News Group Newspapers Limited

Notes to the Financial Statements For the year ended 3 July 2016

14. Intangible assets (continued)

The company also tests intangible assets annually for impairment or more frequently if there are indicators that they may be impaired. The recoverable amounts for the company's intangible assets are measured through review of a value in use calculation. Value in use is determined by discounting future expected cash flows based on management approved budgets and 3 year projections. These reflect management's current experience and future expectations of the markets in which the company operates.

The pre-tax discount rate used by the company in its impairment test is 11.9% (2015 - 12.5%). The growth rate used in the projections that are extrapolated beyond the formally approved budgets and forecasts prepared by management is 2% and therefore does not exceed the long term average growth rate. This has resulted in an impairment charge of £Nil (2015 - £Nil) in the company.

15. Heritage assets

	£000
Cost	
At 29 June 2015 and 3 July 2016	107
Net book value	
At 3 July 2016	107
At 28 June 2015	107

The collection of manuscripts, newspapers and other artefacts were independently valued at £107,000 in November 2003 by Sotheby's. The directors feel that this valuation is still appropriate. The company has applied the cost model, and has taken the deemed cost exemption under FRS 102 paragraph 35.10(d), as a result all heritage assets are carried at cost, from the date of transition.

Additions and disposals in the year

During the period there have been no additions or disposals to the collections of heritage assets.

Five year history

There have been no additions or disposals of heritage assets within the past 5 financial years.

16. Fixed asset investments

The company holds a 100% investment in the ordinary shares of News 2026 Limited, a dormant company registered in England. The carrying value of this investment is £Nil (2015 - £Nil).

17. Stocks

	2016 £000	2015 £000
Raw materials and consumables	8,093	8,765

News Group Newspapers Limited

Notes to the Financial Statements For the year ended 3 July 2016

18. Debtors

	2016 £000	2015 £000
Amounts owed by group undertakings	29,102	29,314
Corporation tax repayable	4,780	4,780
Other debtors	2,581	3,708
Prepayments and accrued income	11,372	13,042
Deferred tax asset (see note 19)	34,835	34,367
	<u>82,670</u>	<u>85,211</u>

In the amounts included in debtors above, deferred taxation of £34,835,000 (2015 - £34,367,000) falls due after more than one year. All other amounts fall due within one year.

19. Deferred taxation

The deferred tax asset is made up as follows:

	2016 £000	2015 £000
At beginning of year	34,367	35,129
Profit and loss movement arising during the year	1,343	(255)
Effect of rate change	(669)	9
Adjustments in respect of prior years	(206)	(516)
At end of year	<u>34,835</u>	<u>34,367</u>

The balance of the deferred taxation account consists of the tax timing differences in respect of:

	2016 £000	2015 £000
Fixed asset timing differences	2,315	1,483
Tax losses	19,054	32,466
Other timing differences	13,466	418
	<u>34,835</u>	<u>34,367</u>

No reversal of the deferred tax asset is anticipated over the following year.

20. Group banking arrangements

News Corp UK & Ireland Limited operates two collective overdraft facilities with its bankers, which allows individual companies in the News UK group to overdraw subject to an agreed limit of £20 million, for each facility, not being exceeded in aggregate. The overdraft facilities are also guaranteed by News Corporation.

News Group Newspapers Limited

**Notes to the Financial Statements
For the year ended 3 July 2016**

21. Creditors: Amounts falling due within one year

	2016 £000	2015 (restated) £000
Amounts owed to group undertakings	105,108	127,551
Other taxation and social security	-	342
Other creditors	18,832	19,467
Accruals and deferred income	48,263	71,662
	<u>172,203</u>	<u>219,022</u>

22. Provisions for liabilities and charges

	Provisions for legal claims £000	Other provisions £000	Total £000
At 29 June 2015	7,917	64,728	72,645
Charged to the profit or loss	5,160	1,492	6,652
Utilised in year	(4,811)	-	(4,811)
At 3 July 2016	<u>8,266</u>	<u>66,220</u>	<u>74,486</u>

Provisions for legal claims

Following the allegations of voicemail interception and inappropriate payments to public officials there have been a number of civil cases brought against the company, most of which have been settled, or are in the process of being settled. A provision has been made at the balance sheet date in respect of all claims that have been filed up until the date of finalisation of the financial statements. In 2011 the company established a compensation scheme which was closed to new entrants in April 2013. A provision has been made at the balance sheet date for all applicants accepted to participate in this scheme. No provision has been made for letters of claim which have been received but where no formal court proceedings have been issued, or for individuals who have not contacted the company. It is not possible to estimate the liability for such additional claims given the information that is currently available to the company. If more claims are filed and additional information becomes available in the civil cases, the company will update the liability provision for such matters. A charge of £5,160,000 (2015 - £4,286,000) in respect of claimants' legal fees and damages has been made in respect of this litigation, based on available information at the date of signing the financial statements. The final cost may or may not be significantly higher than the amounts recognised. This has been reported as a one off charge due to its size and incidence. This provision has not been discounted due to the uncertainty over the timing of the settlement of these cases.

Other provisions

Other provisions relate to potential employment tax liabilities currently under discussion with HMRC.

News Group Newspapers Limited

Notes to the Financial Statements For the year ended 3 July 2016

23. Share capital

	2016 £000	2015 £000
Shares classified as equity		
Authorised, allotted, called up and fully paid		
2,625,000- Ordinary shares of £1 each	2,625	2,625

24. Other reserves

The other reserves brought forward relate to the profit on disposal of publishing rights of The Sun on 20 June 2003 to News 2026 Limited, the company's subsidiary. The profits were regarded as unrealised since the consideration received was in the form of assets for which the directors could not assess the ultimate cash realisation with reasonable clarity.

On transition to FRS 102, other reserves has been adjusted for accumulated amortisation since 2003 on the publishing rights of The Sun of £364,000,000 (2015 - £336,000,000). Annual amortisation of the publishing rights of £28,000,000 will be transferred to other reserves from the profit and loss account each year following the date of transition to FRS 102. See note 27 for more detail.

25. Operating lease commitments

Commitments under operating lease agreements are held by News UK & Ireland Limited, another company within the News UK group.

26. Ultimate parent company

The company's immediate parent company is News Corp UK & Ireland Limited, a company incorporated in England.

The ultimate parent company is News Corporation, a company incorporated in Delaware in the United States.

The smallest and largest group in which the results of the company are consolidated is that headed by News Corporation, whose principal place of business is at 1211 Avenue of the Americas, New York, NY 10036. The consolidated financial statements are available to the public and may be obtained from 1 London Bridge Street, London, SE1 9GF.

News Group Newspapers Limited

**Notes to the Financial Statements
For the year ended 3 July 2016**

27. First time adoption of FRS 102

This is the first year that the company has presented its results under FRS 102. The last financial statements prepared under the previous UK GAAP were for the year ended 28 June 2015.

The date of transition to FRS 102 was 30 June 2014.

	Note	Previous UK GAAP 30 June 2014 £000	Effect of transition 30 June 2014 £000	FRS 102 30 June 2014 £000	Previous UK GAAP 28 June 2015 £000	Effect of transition 28 June 2015 £000	FRS 102 28 June 2015 £000
Intangible assets	27.1, 27.2, 27.3	560,000	(308,000)	252,000	355,660	(131,660)	224,000
Heritage assets	27.4	111	(4)	107	111	(4)	107
Current assets		748,666	-	748,666	698,840	-	698,840
Creditors: amounts falling due within one year		(227,482)	-	(227,482)	(219,022)	-	(219,022)
Net current assets		521,184	-	521,184	479,818	-	479,818
Total assets less current liabilities		1,081,295	(308,004)	773,291	835,589	(131,664)	703,925
Provisions for liabilities		(63,866)	-	(63,866)	(72,645)	-	(72,645)
Net assets		1,017,429	(308,004)	709,425	762,944	(131,664)	631,280
Capital and reserves	27.1, 27.2, 27.3, 27.4	1,017,429	(308,004)	709,425	762,944	(131,664)	631,280

News Group Newspapers Limited

**Notes to the Financial Statements
For the year ended 3 July 2016**

27. First time adoption of FRS 102 (continued)

	Note	Previous UK GAAP 28 June 2015 £000	Effect of transition 28 June 2015 £000	FRS 102 28 June 2015 £000
Turnover		456,778	-	456,778
Cost of sales		(295,751)	-	(295,751)
		161,027	-	161,027
Sales and marketing costs		(55,220)	-	(55,220)
Administrative expenses	27.3	(76,772)	(28,000)	(104,772)
Operating one-off charges	27.2	(276,651)	204,340	(72,311)
Other operating charges	27.5	-	(7,787)	(7,787)
Operating profit		(247,616)	168,553	(79,063)
Restructuring expense	27.5	(7,787)	7,787	-
Interest receivable		33	-	33
Taxation		885	-	885
Loss on ordinary activities after taxation and for the financial period		(254,485)	176,340	(78,145)

Explanation of changes to previously reported profit and equity:

27.1 Accumulated amortisation:

FRS 102 states that all intangible assets are assumed to have finite lives and must be amortised. Under previous UK GAAP, the company's intangible assets were deemed to have an indefinite useful life and therefore no amortisation was charged. The useful life was therefore re assessed as a period of 20 years, commencing on the acquisition date in 2003. Therefore, at transition, accumulated amortisation charge was recognised in other reserves of £308,000,000 as at 29 June 2014 and £336,000,000 as at 28 June 2015.

27.2 Reversal of impairment of intangibles:

During the year ended 28 June 2015, the company's intangible assets were reviewed for impairment and an impairment charge of £204,340,000 was recognised in the profit and loss account for the period. However, on transition to FRS 102, accumulated amortisation was recognised on this asset (see 1 above), which reduced its carrying value to less than the fair value calculated in the impairment review. Therefore, the impairment charge in the profit and loss account for the year ended 28 June 2015 has been reversed on transition, as the decrease in the fair value of the asset is now represented by amortisation.

**Notes to the Financial Statements
For the year ended 3 July 2016**

27. First time adoption of FRS 102 (continued)

27.3 Amortisation charge

Under FRS 102, amortisation is now being charged on the publishing rights and titles over a useful economic life of 20 years, on a straight line basis commencing in 2003, which was the year the asset was acquired. The annual amortisation charge recognised in the profit and loss account for the year ended 28 June 2015 was £28,000,000.

27.4 Heritage assets:

The heritage assets previously recognised by the company consist of manuscripts, newspapers and other artefacts, and an art collection. Under FRS 102 the art collection no longer meets the definition in Section 34 'Heritage Assets', because they are not maintained 'principally for their contribution to knowledge and culture'. These assets can also not be recognised under section 17 as Property, Plant and Equipment due to the specialised nature of the collections. As a result, the art collection has been derecognised from heritage assets and has been written off as at the date of transition, reducing heritage assets as at 28 June 2015 by £4,000 (2014 - £4,000).

27.5 Restructuring expenses:

Under previous UK GAAP, restructuring expenses were presented on the face of the profit and loss account below operating profit. Under FRS 102 all costs relating to the company's operating activities must be included in operating profit, and therefore restructuring expenses are now presented above operating profit in the profit and loss account. This has £Nil net impact on the reported loss for the financial period.

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Notes to the Financial Statements For the year ended 3 July 2016

27. First time adoption of FRS 102 (continued)

Reconciliation of equity at 30 June 2014

		3 July 2016 £000
Shareholders' funds at 30 June 2014 under previous UK GAAP		1,017,429
Accumulated amortisation of publishing rights and titles	27.1	(308,000)
Write-off of heritage assets	27.4	(4)
Shareholders' funds at 30 June 2014 under FRS 102		709,425

Reconciliation of equity at 28 June 2015

	Note	2015 £000
Shareholders' funds at 28 June 2015 under previous UK GAAP		762,944
Reversal of impairment of publishing rights and titles	27.2	204,340
Accumulated amortisation of publishing rights and titles	27.1	(336,000)
Write-off of heritage assets	27.4	(4)
Shareholders' funds at 28 June 2015 under FRS 102		631,280

28. Prior year adjustment

A prior year adjustment of £2,273,000 was identified in relation to contractual retrospective rebates with advertising clients. This is a key source of estimation uncertainty as per Note 3. The impact on the comparative information as at 28 June 2015 and for the year then ended was as follows: decreased revenue and profit for the financial year by £2,273,000, and increased shareholder's deficit and accruals and deferred revenue by £2,273,000.