

**NORTHERN & SHELL MEDIA GROUP LIMITED**  
**(Formerly RCD1 Limited)**

**GROUP REPORT & FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

**NORTHERN & SHELL MEDIA GROUP LIMITED**

**ANNUAL REPORT**

**For the year ended 31 December 2010**

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**NORTHERN & SHELL MEDIA GROUP LIMITED**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

Mr. R.C. Desmond (Chairman)  
Mr. R. Sanderson  
Mr. S. Myerson  
Mr. M.S. Ellice  
Dr. P. Ashford

**SECRETARY**

Mr. R. Sanderson

**COMPANY NUMBER**

4086466 (England)

**AUDITORS**

KPMG LLP  
8 Salisbury Square  
London, EC4Y 8BB  
United Kingdom

**BANKERS**

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

HSBC  
69 Pall Mall  
London, SW1Y 5EY  
United Kingdom

Bank of Scotland  
155 Bishopsgate  
London, EC2M 3YB  
United Kingdom

HSBC  
452 Fifth Avenue  
New York  
NY10018  
USA

**REGISTERED OFFICE**

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

**DIRECTORS' REPORT**

**For the year ended 31 December 2010**

The directors present their report and the audited financial statements of the Group and Company for the year ended 31 December 2010.

**PRINCIPAL ACTIVITIES**

Northern & Shell Media Group Limited is the ultimate holding company of the Northern & Shell group of companies. It owns a group of companies principally engaged in newspaper publishing and printing, magazine publishing, television broadcasting and the exploitation and further development of intellectual property. The Group, through its subsidiary Northern & Shell Insurance Limited, is also engaged in insurance activities.

The Group's position in television broadcasting was significantly enhanced during the year with the purchase of the public service broadcasting entity Channel 5. This acquisition complements the Group's other major media businesses and has positioned the Group as a major UK broadcaster, with exposure to a segment of the media industry emerging most swiftly from the recession in developed countries.

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

On 7 December 2010, the Company changed its name from RCD1 Limited to Northern & Shell Media Group Limited.

**RESULTS AND DIVIDENDS**

The Group recorded a profit before taxation of £30.3 million (2009: £8.9 million) and a profit after taxation of £52.5 million (2009: £3.7 million loss).

The directors do not recommend the payment of a dividend (2009: £nil).

**REVIEW OF THE YEAR AND FUTURE PROSPECTS**

The year 2010 proved to be a truly transforming year for the Northern & Shell group. The Group had long held the ambition to break into mainstream television broadcasting which, with cautious recovery from a major recession, was viewed as a natural growth area in the competitive and rapidly changing media landscape. Accordingly, when we became aware that RTL was considering the sale of Channel 5, the Group resolved to pursue the opportunity to acquire this iconic UK public service broadcaster. We were therefore delighted to announce on 23 July 2010 that, after an extensive due diligence and auction process, the Group had purchased the Channel 5 television business for a total consideration of £99.1 million (note 24).

With this acquisition of one of the major UK broadcasters, the Group has complemented its Newspaper publishing and printing and Magazine publishing businesses, enabling Northern & Shell to attain synergies throughout its expanded media operations. Each of the Group's principal units work towards a common strategy and cross promote their associated operations, providing a platform for each of the businesses to compete more effectively against the competitors in their respective markets.

Channel 5's performance, from the date of acquisition, contributed £16.0 million towards an overall increase of £28.8 million in gross profit. Overall, Group profit before interest and tax increased by £21.7 million or 150%, a highly satisfactory result given the difficult macroeconomic background of recession, inflationary pressures and low consumer confidence.

Following from the change of ownership, the Group commissioned an efficiency and effectiveness review of the Channel 5 business, resulting in a restructuring exercise which involved a successful voluntary redundancy offering, at a cost in the year of £9.8 million. The Group also vacated and subsequently sub-let Channel 5's Long Acre offices with staff moving into the Group's existing business premises. The sub-let entailed the recognition of a £1.2 million onerous property lease charge, which together with the restructuring charge made up total exceptional costs of £11.0 million. Without these charges the Channel 5 division would have posted an operating profit, entirely due to a strong trading performance following the change of ownership. This trend has been continued into the early months of 2011 and accordingly the directors consider the underlying performance of the division to be highly satisfactory.

**NORTHERN & SHELL MEDIA GROUP LIMITED**

**DIRECTORS' REPORT**

**For the year ended 31 December 2010**

**REVIEW OF THE YEAR AND FUTURE PROSPECTS (Continued)**

Despite continuing tough trading conditions in the Newspaper industry, the division's operating result showed a significant improvement on that of the previous year. This was achieved whilst maintaining throughout the year the Company's policy of ensuring that its main products were the most competitively priced in each of its market segments. This resulted in the continuance of the national cover price reductions on the Daily Star and the money off voucher offers in the Daily Express and Sunday Express. The cost of these promotions amounted to £43.0 million in 2010.

The directors consider the underlying performance of the newspaper division to be highly satisfactory given the prevailing economic climate and the highly competitive market in which the Group operates. The commitment of the Group to the Newspaper publishing and printing business was underscored by the commissioning of a new printing facility during the year, which is anticipated to come on stream in late 2011. This is expected to benefit the Group by significantly lowering printing charges whilst also delivering a better quality product. As part of the Group's implementation process for the new printing facility, through its subsidiary company West Ferry Printers Limited, the Group is undergoing a voluntary redundancy process for which a provision of £8.2 million has been included as at 31 December 2010.

In the magazine publishing area the principal focus was on improving the performance of the division whilst maintaining the breadth of the worldwide presence of the OK! Magazine brand which has been strategically nurtured and extended over the past few years. OK! Magazine, together with the other Northern & Shell celebrity titles, new! and Star magazines, consolidated the Group's market leading position in the UK Woman's Weekly magazine market during the year, with OK! Magazine being by some distance the largest newsstand revenue generating title in its category. Outside the UK, a significant improvement was made in the operating performance of the American title. The Australian and German OK! titles, produced through joint ventures with established publishing groups in Australia and Germany also performed well with both achieving results in line with expectations. Additionally, the worldwide presence of the brand has been nurtured so that currently the Group also has 17 international editions of OK! Magazine under license agreements with other publishers, making a total of 21 individual editions of the title. Given the continued painful global economic conditions in the year, the directors consider the maintenance of the OK! publishing network to be a significant achievement and a clear testament to the appeal and resilience of the OK! brand. Further international editions are also scheduled to launch in 2011.

Overall the Group operates in highly competitive markets both in the UK and overseas, particularly around price and product quality, and given the nature of the environment, the directors are highly satisfied with the performance of the magazine division.

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

Under FRS 17, 'Retirement benefits', the Group's financial statements recognise a net pension liability of £52.0 million at 31 December 2010 (2009: £63.9 million pension liability excluding joint venture companies), after an actuarial loss of £3.4 million (2009: £38.9 million loss). The directors continue to monitor the pension liability position and are committed to taking steps to reduce this deficit. The Group's net assets before a net pension liability of £52.0 million (2009: £63.9 million) were £115.1 million at 31 December 2010 (2009: £78.2 million). The Group's net deficit, including liquid resources in the form of equity investments and bonds, was £4.2 million at 31 December 2010 (2009: £38.7 million net funds).

The Group actively manages its cash resources. After the acquisition of Channel 5 for £99.1 million and a prepayment in the year of £15.5 million towards the new printing facility, the Group held cash and liquid resources of £91.7 million as at 31 December 2010 (2009: £104.9 million).

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

**DIRECTORS' REPORT**

**For the year ended 31 December 2010**

**DIRECTORS**

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

**POLICY ON PAYMENT OF CREDITORS**

The Company and its subsidiaries agree terms and conditions for their business transactions with their suppliers. Payment is made on these terms, subject to the terms and conditions being met by the supplier.

The Company does not have any trade creditors.

**EMPLOYEE INVOLVEMENT**

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

**FINANCIAL RISK MANAGEMENT**

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

**Credit risk**

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

**Liquidity risk**

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

**Interest rate cash flow risks**

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

**Foreign exchange risk**

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

**POLITICAL AND CHARITABLE DONATIONS**

Charitable donations were made during the year amounting to £551,000 (2009: £156,000) including contributions to a charitable trust (note 32).

There were no political contributions made during the year (2009: £nil).

**DIRECTORS' REPORT**

**For the year ended 31 December 2010**

**DISCLOSURE OF INFORMATION TO AUDITORS**

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

**AUDITORS**

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board:

A handwritten signature in black ink, appearing to be 'R. Sanderson', written over a light grey horizontal line.

Mr. R. Sanderson  
Secretary

Date: 10 May 2011

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

**NORTHERN & SHELL MEDIA GROUP LIMITED**  
**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND**  
**THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Group and Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



8 Salisbury Square  
London  
EC4Y 8BB  
United Kingdom

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF  
NORTHERN & SHELL MEDIA GROUP LIMITED**

**For the year ended 31 December 2010**

We have audited the financial statements of Northern & Shell Media Group Limited for the year ended 31 December 2010 set out on pages 10 to 45. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS**

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

**OPINION ON FINANCIAL STATEMENTS**

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2010 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006**

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

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF  
NORTHERN & SHELL MEDIA GROUP LIMITED**

**For the year ended 31 December 2010**

**MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

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

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



Adrian John Wilcox (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
KPMG LLP  
8 Salisbury Square  
London, EC4Y 8BB  
United Kingdom

Date: 11 May 2011

**NORTHERN & SHELL MEDIA GROUP LIMITED**  
**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

**For the year ended 31 December 2010**

	Notes	2010 £000	2009 £000
Turnover (including share of joint ventures)	2	524,805	421,477
Less: share of joint venture turnover		(28,538)	(40,425)
<b>GROUP TURNOVER</b> (acquisitions £129.8m)		<u>496,267</u>	<u>381,052</u>
Cost of sales		<u>(299,682)</u>	<u>(213,258)</u>
<b>GROSS PROFIT</b> (acquisitions £16.0m)		196,585	167,794
Distribution costs		(29,419)	(30,611)
Administrative expenses	3	(135,169)	(134,874)
Other operating income		<u>3,489</u>	<u>12,871</u>
<b>GROUP OPERATING PROFIT</b> (acquisitions loss £10.9m)	4	35,486	15,180
Share of operating profit/(loss) of Joint Ventures (after £0.9m (2009: £2.1m) goodwill amortisation)		<u>720</u>	<u>(704)</u>
<b>TOTAL OPERATING PROFIT AND PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION</b>	2/4	36,206	14,476
Other interest receivable and similar income	6	649	1,168
Interest payable and similar charges	7	(5,585)	(4,507)
Other financing expenses	30	<u>(995)</u>	<u>(2,248)</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b> (acquisitions loss £12.1m)	2	30,275	8,889
Tax on profit on ordinary activities	8	<u>22,235</u>	<u>(12,614)</u>
<b>PROFIT/(LOSS) FOR THE FINANCIAL YEAR</b>	26	<u>52,510</u>	<u>(3,725)</u>

The notes on pages 15 to 45 form part of these financial statements.

Turnover and operating profit are wholly attributable to continuing operations.

**NORTHERN & SHELL MEDIA GROUP LIMITED****CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES****For the year ended 31 December 2010**


	<b>Notes</b>	<b>2010 £000</b>	<b>2009 £000</b>
Profit/(loss) for the financial year			
- Group		<b>51,147</b>	<b>(3,593)</b>
- Joint Ventures		<b>1,363</b>	<b>(132)</b>
		<b>52,510</b>	<b>(3,725)</b>
Revaluation reserve – deficit on revaluation of property	11	<b>(229)</b>	<b>(1,513)</b>
Actuarial loss recognised in the pension scheme – excluding Joint Ventures	30	<b>(4,645)</b>	<b>(53,958)</b>
Movement on deferred tax relating to pension liability – excluding Joint Ventures		<b>1,254</b>	<b>15,108</b>
Actuarial loss recognised in the Joint Venture pension scheme		-	<b>(4,165)</b>
Movement on deferred tax relating to Joint Venture pension liability		-	<b>1,166</b>
Net exchange differences on the retranslation of net investments and related borrowings		-	<b>(293)</b>
Total gains/(losses) recognised since last annual report		<b>48,890</b>	<b>(47,380)</b>
- Group		<b>49,508</b>	<b>(43,956)</b>
- Joint Ventures		<b>(618)</b>	<b>(3,424)</b>
Total gains/(losses) recognised since last annual report		<b>48,890</b>	<b>(47,380)</b>

**NORTHERN & SHELL MEDIA GROUP LIMITED**

**CONSOLIDATED BALANCE SHEET as at 31 December 2010**

	Notes	2010 £000	2009 £000
<b>FIXED ASSETS</b>			
Intangible assets	10	63,804	15,492
Tangible assets	11	107,057	88,930
Investments	12		
Interests in joint ventures			
Share of gross assets		4,146	5,290
Share of gross liabilities		(4,569)	(5,540)
Goodwill arising on acquisition		-	886
Other Investments		(423)	636
		107	85
		<u>(316)</u>	<u>721</u>
		<u>170,545</u>	<u>105,143</u>
<b>CURRENT ASSETS</b>			
Stocks	13	7,100	4,273
Programme inventory	14	134,093	-
Debtors	15	119,372	55,182
Current asset investments	17		
Quoted and unquoted equity investments		410	7,677
Corporate bonds		1	25,904
		411	33,581
Cash at bank and in hand		91,248	71,272
		<u>352,224</u>	<u>164,308</u>
<b>CREDITORS: amounts falling due within one year</b>	18	<u>(240,708)</u>	<u>(114,172)</u>
<b>NET CURRENT ASSETS</b>		<u>111,516</u>	<u>50,136</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>282,061</u>	<u>155,279</u>
<b>CREDITORS: amounts falling due after more than one year</b>	19	<u>(143,972)</u>	<u>(58,861)</u>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	20	<u>(22,975)</u>	<u>(18,254)</u>
<b>NET ASSETS excluding pension liability</b>		<u>115,114</u>	<u>78,164</u>
<b>PENSION LIABILITY</b>	30	<u>(51,996)</u>	<u>(63,936)</u>
<b>NET ASSETS including pension liability</b>		<u>63,118</u>	<u>14,228</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	25	110	110
Other reserves	26	3,860	3,860
Revaluation reserve	26	(3,204)	(2,975)
Profit and loss account	26	62,352	13,233
<b>TOTAL SHAREHOLDERS' FUNDS</b>	26	<u>63,118</u>	<u>14,228</u>

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



Mr. R.C. Desmond  
Chairman  
Date: 10 May 2011

Company registered number: 4086466

**NORTHERN & SHELL MEDIA GROUP LIMITED**

**COMPANY BALANCE SHEET as at 31 December 2010**

	Notes	2010 £000	2009 £000
<b>FIXED ASSETS</b>			
Tangible assets	11	6,520	6,749
Investments	12	110	110
		<u>6,630</u>	<u>6,859</u>
<b>CURRENT ASSETS</b>			
Debtors	15	189,146	25,686
<b>CREDITORS: amounts falling due within one year</b>	18	<u>(139,206)</u>	<u>(28,021)</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<u>49,940</u>	<u>(2,335)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>56,570</b>	<b>4,524</b>
<b>CREDITORS: amounts falling due after more than one year</b>	19	<u>(53,949)</u>	<u>(2,249)</u>
<b>NET ASSETS</b>		<u>2,621</u>	<u>2,275</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	25	110	110
Revaluation reserve	26	(3,204)	(2,975)
Profit and loss account	26	5,715	5,140
<b>TOTAL SHAREHOLDERS' FUNDS</b>	26	<u>2,621</u>	<u>2,275</u>

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



Mr. R.C. Desmond  
Chairman  
Date: 10 May 2011

Company registered number: 4086466

**NORTHERN & SHELL MEDIA GROUP LIMITED****CONSOLIDATED CASH FLOW STATEMENT****For the year ended 31 December 2010**

	Notes	2010 £000	2009 £000
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	27	<b>80,933</b>	29,324
<b>DIVIDENDS RECEIVED FROM JOINT VENTURES</b>		<b>1,981</b>	1,519
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest received		648	596
Interest paid		(5,429)	(4,361)
Interest element of finance lease rentals		(20)	(63)
<b>NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		<b>(4,801)</b>	(3,828)
<b>TAXATION</b>		<b>(234)</b>	(552)
<b>CAPITAL EXPENDITURE</b>			
Payments to acquire tangible fixed assets		(20,712)	(24,100)
Payments to acquire intangible assets		(816)	(1,152)
Receipts from disposal of fixed assets		12	37
<b>NET CASH OUTFLOW FOR CAPITAL EXPENDITURE</b>		<b>(21,516)</b>	(25,215)
<b>ACQUISITIONS AND DISPOSALS</b>			
Contributions to Joint Ventures		(445)	(1,624)
Acquisition of ordinary shares		-	(6,269)
Acquisition of preference shares		-	(5,375)
<b>NET CASH OUTFLOW FROM ACQUISITIONS AND DISPOSALS</b>		<b>(445)</b>	(13,268)
<b>NET CASH INFLOW/(OUTFLOW) BEFORE USE OF LIQUID RESOURCES AND FINANCING</b>		<b>55,918</b>	(12,020)
<b>MANAGEMENT OF LIQUID RESOURCES</b>			
Sale of government bonds		33,170	67,796
<b>NET CASH INFLOW FROM MANAGEMENT OF LIQUID RESOURCES</b>		<b>33,170</b>	67,796
<b>FINANCING</b>			
External loan repayments		(129,305)	(6,994)
New loan finance		60,000	-
Capital element of finance lease rentals		(153)	(146)
<b>NET CASH OUTFLOW FROM FINANCING</b>		<b>(69,458)</b>	(7,140)
<b>INCREASE IN NET CASH</b>	28/29	<b>19,630</b>	48,636

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**1. PRINCIPAL ACCOUNTING POLICIES**

**( a ) Basis of accounting**

The financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and in accordance with the Companies Act 2006 and applicable accounting standards. The principal accounting policies are set out below.

**( b ) Going Concern**

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

**( c ) Basis of consolidation**

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

**( d ) Revenue recognition**

Turnover represents the invoiced amount of goods dispatched and services provided (stated net of value added tax, or other applicable sales taxes and net of trade discounts). Turnover generated from publishing activities is recognised on release of the newspaper or magazine issue to which it relates.

Public Service Broadcasting revenue includes amounts invoiced for advertisements transmitted, programme rights sold, internet advertising, premium rate telephone revenues associated with programmes broadcast, programme book sales and other sales. Revenue is stated exclusive of value added tax and net of agency commissions.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

- Advertising sales are recognised when the related advertisement is broadcast.
- Sales of programme rights under licence are recognised when the licence period commences and the sale is unconditional.
- Premium rate telephone revenues are recognised when the related programme is broadcast.

Television subscription revenue is recognised evenly over the period of the subscription and pay per view revenue is recognised in the period in which the broadcast occurs.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**1. PRINCIPAL ACCOUNTING POLICIES (Continued)**

**( e ) Foreign currencies**

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

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

Foreign operations which are conducted through a foreign branch and overseas subsidiary undertakings whose operations are closely interlinked with those of the Group and Company are accounted for using the temporal method, whereby transactions denominated in foreign currencies are recorded at the average rate of exchange during the year. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date with any differences being taken to the profit and loss account.

**( f ) Intangible fixed assets**

**Trademarks**

Trademarks comprise the cost of registering trademarks. These are amortised over 20 years, which is considered to be the useful economic life of the trademarks.

**Goodwill**

Goodwill represents the excess of the fair value of the consideration paid for acquisitions over the fair value of net assets acquired. Goodwill is amortised on a straight line basis over the estimated economic life of the acquisition.

Goodwill arising on acquisition of the Express Newspapers in 2000 and the Channel 5 Television group during the year, is being amortised over its estimated economic life of 20 years.

Goodwill arising on joint venture acquisitions is being amortised over its estimated useful economic life of 10 years.

These periods are the periods over which the directors estimate that the value of the underlying businesses acquired are expected to match the value of the underlying assets.

Assets are reviewed for impairment at the level of income-generating units whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the difference between the carrying amount and the recoverable amount and taken immediately to the profit and loss account. The recoverable amount is the higher of the asset's net realisable value and its value in use.

**Programming rights**

Programming rights are stated at cost less accumulated amortisation. The cost of the programming rights represents the purchase cost together with any incidental costs of acquisition.

Amortisation is provided on all programming rights to write off the cost of each asset, less any residual value, over its expected useful life of 4 years. Amortisation is charged to the profit and loss account at 25% on the date of first transmission in the first year, then evenly over 3 years. The Group reviews its amortisation policy regularly to take account of changes to transmission of programming and the rights assigned. Where the Group transmits programming, which is owned by a third party, the charge is written off to the profit and loss account over the period that the charge relates to.

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**1. PRINCIPAL ACCOUNTING POLICIES (Continued)**

**( f ) Intangible fixed assets (continued)**

**Videostream assets**

Videostream assets are stated at cost less accumulated amortisation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition and intended use.

The videostream asset is the investment in Top Up TV 1 Limited which is amortised over its finite life. This asset reflects the two videostreams used to broadcast the Group's Channel 5 digital channels. Amortisation is calculated on a straight-line basis over the estimated useful life of the asset which is 7 years.

An intangible fixed asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

**( g ) Tangible fixed assets**

Freehold investment properties are stated at their open market value at the balance sheet date. In accordance with SSAP 19, investment properties are revalued annually and the aggregate surplus or deficit is transferred to the revaluation reserve unless a deficit, or its reversal, is expected to be permanent in which case it is charged in the profit and loss account. No provision is made for the depreciation of freehold investment properties. This departure from the requirements of the Companies Act 2006, which requires all properties to be depreciated, is, in the opinion of the directors, necessary for the accounts to show a true and fair view in accordance with applicable accounting standards.

All other tangible fixed assets are stated at cost less accumulated depreciation. The cost of tangible fixed assets represents the purchase cost together with any incidental costs of acquisition (including interest costs). Depreciation is provided on all tangible fixed assets to write off the cost of each asset, less any estimated residual value, evenly over its expected useful life, as follows: -

Leasehold land and buildings	50 years, estimated useful life or period of the lease, whichever is the shorter
Freehold land	No depreciation
Plant and machinery	3 to 24 years
Fixtures, fittings and office equipment	2 to 10 years or period of the lease, if shorter
Motor vehicles	2 to 5 years

The Group reviews its depreciation rates regularly to take account of technological changes, intensity of use over the life of the assets and market requirements.

**( h ) Fixed asset investments**

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

**( i ) Current asset investments**

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

**( j ) Cash and liquid resources**

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**1. PRINCIPAL ACCOUNTING POLICIES (Continued)**

**( k ) Stocks**

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

**( l ) Programme inventory**

Programme inventory is acquired with the primary intention to be broadcast in the normal course of the Group's operating cycle. The term "programme inventory" covers acquired programme rights and commissioned programmes.

Programme inventory is stated at the lower of cost and net realisable value.

Where programme rights are surplus to the Group's requirements or where the programme will not be broadcast for any other reason, a write-down to the profit and loss account is made within cost of sales. Reversals of programme rights write-downs are recognised as reductions in cost of sales.

Programme rights are recognised according to the following criteria:

- Acquired programme rights are recognised at the level of payments made until the rights are available for transmission, whereupon the full cost of the rights is recognised within programme rights in current assets. For the majority of programmes transmitted on the Channel 5 main channel, costs are recognised over the first two transmissions. The exception to this is major films, for which costs are recognised over three transmissions. Acquired programme costs for programmes transmitted on multi-channel are recognised over up to six transmissions.
- The cost of commissioned programmes is recognised as costs are incurred (for fully funded programmes) or when completed episodes are available from the production Company. The total cost is expensed to the profit and loss account on the date of first transmission.

**( m ) Debtors**

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

**( n ) Borrowings**

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

**( o ) Leases**

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**1. PRINCIPAL ACCOUNTING POLICIES (Continued)**

**( o ) Leases (continued)**

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

**( p ) Interests in joint ventures**

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

**( q ) Deferred taxation**

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

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

Deferred tax assets and liabilities are not discounted and are calculated at the standard rate of corporation tax in the UK of 27% (2009: 28%).

**( r ) Pension costs**

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

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

**( s ) Insurance premiums and claims**

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

Claims incurred comprise claims and related expenses paid in the year.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**2. SEGMENTAL ANALYSIS**

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

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

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

	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
<b>Turnover (including share of Joint Ventures)</b>		
Publishing and printing	347,709	358,664
Publishing and printing - Joint Ventures	28,538	40,425
Broadcasting - public service	129,779	-
Broadcasting - other	18,728	21,094
Insurance	51	1,294
	<hr/>	<hr/>
	<b>524,805</b>	<b>421,477</b>
<b>Group operating profit – including Joint Ventures</b>		
Publishing and printing	43,738	11,435
Publishing and printing - Joint Ventures	720	(704)
Broadcasting - public service	(10,942)	-
Broadcasting - other	2,449	3,984
Insurance	(31)	(11)
Property Investment	662	722
	<hr/>	<hr/>
	<b>36,596</b>	<b>15,426</b>
Foreign exchange loss (note 4)	<hr/>	<hr/>
	<b>(390)</b>	<b>(950)</b>
	<hr/>	<hr/>
	<b>36,206</b>	<b>14,476</b>
Group – excluding Joint Ventures	35,486	15,180
Joint Ventures	720	(704)
	<hr/>	<hr/>
<b>Total operating profit</b>	<b>36,206</b>	<b>14,476</b>
<b>Profit before taxation</b>		
Publishing and printing	41,805	8,051
Publishing and printing - Joint Ventures	720	(713)
Broadcasting - public service	(12,064)	-
Broadcasting - other	40	2,110
Insurance	(25)	(10)
Property Investment	189	401
	<hr/>	<hr/>
	<b>30,665</b>	<b>9,839</b>
Foreign exchange loss (note 4)	<hr/>	<hr/>
	<b>(390)</b>	<b>(950)</b>
	<hr/>	<hr/>
	<b>30,275</b>	<b>8,889</b>

**NORTHERN & SHELL MEDIA GROUP LIMITED****NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2010****2. SEGMENTAL ANALYSIS (Continued)**

	<b>2010</b>	<b>2009</b>
<b>Net operating assets/(liabilities) (including pension deficit)</b>	<b>£000</b>	<b>£000</b>
Publishing and printing	(16,132)	(29,232)
Publishing and printing - Joint Ventures	(424)	636
Broadcasting - public service	57,420	-
Broadcasting - other	(160)	689
Insurance	(17)	(13)
Property Investment	6,204	6,111
	<u>46,891</u>	<u>(21,809)</u>
<b>Reconciliation of net operating assets/(liabilities) to net assets</b>		
Net operating assets/(liabilities)	46,891	(21,809)
Investments	518	33,666
Corporation tax	(36,369)	(39,220)
Deferred tax - asset	55,396	34,501
Net (deficit)/funds	<u>(3,318)</u>	<u>7,090</u>
	<u>63,118</u>	<u>14,228</u>

**3. ADMINISTRATIVE EXPENSES**

	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
Chairman's emoluments and pension contributions	234	698
Other administrative expenses	<u>134,935</u>	<u>134,176</u>
	<u>135,169</u>	<u>134,874</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

<b>4. NOTES TO THE PROFIT AND LOSS ACCOUNT</b>	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
<b>Profit on ordinary activities before tax is stated after charging/(crediting):</b>		
Depreciation – owned assets	<b>10,011</b>	7,977
Depreciation – leased assets	<b>668</b>	2,055
Amortisation of trademarks	<b>4</b>	2
Amortisation of programming rights	<b>1,026</b>	1,077
Amortisation of videostream assets	<b>3,960</b>	-
Amortisation of goodwill – acquisitions	<b>3,725</b>	2,037
Amortisation of goodwill – Joint Ventures	<b>886</b>	2,089
(Profit)/loss on disposal of fixed assets	<b>(11)</b>	129
Operating lease rentals – plant and machinery	<b>408</b>	501
Operating lease rentals – other	<b>12,316</b>	11,070
Foreign exchange loss	<b>390</b>	950
Other operating income	<b>(2,445)</b>	(12,871)
Operating lease rentals – other income	<b>(3,208)</b>	(2,438)

**Services provided by the Group's auditor and associated firms**

During the year, the Group (including its overseas subsidiaries) obtained the following services from KPMG LLP, at costs as detailed below:

**Audit services**

Fees payable to the Company's auditor for the audit of the Company and consolidated accounts	<b>22</b>	26
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**Other services**

Fees payable to the Company's auditor and its associates for the audit of associates to the Company pursuant to legislation	<b>375</b>	391
-----------------------------------------------------------------------------------------------------------------------------	------------	-----

All other services	<b>9</b>	12
Other services provided pursuant to such legislation	<b>150</b>	-

Audit fees for the Company are borne by subsidiary undertakings.

**Restructuring costs**

The following costs are included within administration expenses. They relate to the re-organisation and integration costs of the acquisition of the Channel 5 group.

	<b>2010</b>
	<b>£000</b>
Redundancy costs	9,809
Onerous lease	1,187

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES**

<b>( a ) Directors</b>	<b>2010 £000</b>	<b>2009 £000</b>
Emoluments	1,723	2,132
Company contributions to money purchase pension schemes	<u>73</u>	<u>72</u>
	<b><u>1,796</u></b>	<b><u>2,204</u></b>

Pension benefits are accruing to five directors under money purchase pension schemes (2009: five directors).

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

	<b>2010 £000</b>	<b>2009 £000</b>
Emoluments	<u>611</u>	<u>698</u>

**( b ) Staff costs (including directors)**

	<b>2010 £000</b>	<b>2009 £000</b>
Wages and salaries	67,012	68,746
Social security costs	7,287	7,338
Pension costs	<u>(7,693)</u>	<u>2,709</u>
	<b><u>66,606</u></b>	<b><u>78,793</u></b>

Pension costs include an FRS17 pension credit of £10.3 million (2009: £1.4 million charge) (note 30).

Average number of people employed by activity:

	<b>2010 Number</b>	<b>2009 Number</b>
Production	876	919
Selling and distribution	178	216
Administration	<u>200</u>	<u>193</u>
	<b><u>1,254</u></b>	<b><u>1,328</u></b>

**NORTHERN & SHELL MEDIA GROUP LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

<b>6. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME</b>	<b>2010 £000</b>	<b>2009 £000</b>
Bank deposit and government bond interest	360	1,093
Other interest receivable	288	73
Joint venture interest receivable	1	2
	<hr/>	<hr/>
	<b>649</b>	<b>1,168</b>
	<hr/>	<hr/>
<b>7. INTEREST PAYABLE AND SIMILAR CHARGES</b>	<b>2010 £000</b>	<b>2009 £000</b>
Bank loans and overdrafts	4,109	4,328
Finance leases	20	63
Amortisation of financing charges	362	103
Other interest payable	1,094	2
Joint venture interest payable	-	11
	<hr/>	<hr/>
	<b>5,585</b>	<b>4,507</b>
	<hr/>	<hr/>

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES**

	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
<b>Current tax</b>		
UK corporation tax on profit for the year at 28.0% (2009: 28.0%)	195	1,990
Adjustments in respect of previous periods	(3,059)	5,425
Foreign taxes suffered	224	447
Double taxation relief	(195)	(249)
Share of Joint Venture taxation	241	429
	<hr/>	<hr/>
Total current tax (credit)/charge	<b>(2,594)</b>	8,042
<b>Deferred tax</b>		
Origination and reversal of timing differences (Accelerated capital allowances and other)	(100)	3,236
Adjustments in respect of previous periods	(26,428)	(807)
	<hr/>	<hr/>
Total deferred tax (credit)/charge excluding deferred tax credit on pension liability	<b>(26,528)</b>	2,429
Pension cost relief in excess of pension cost charge	6,887	2,143
	<hr/>	<hr/>
Total deferred tax (credit)/charge (note16)	<b>(19,641)</b>	4,572
	<hr/>	<hr/>
Tax on profit on ordinary activities	<b>(22,235)</b>	12,614

The tax assessed for the year differs from the rate of 28.0% (2009: 28.0%) and the differences are explained below:

	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
Profit on ordinary activities before tax	30,275	8,889
Profit on ordinary activities multiplied by the rate of 28.0% (2009: 28.0%)	8,477	2,489
Effects of:		
Net effect of expenses not deductible for tax and income not subject to tax	4,124	1,298
Excess of depreciation over capital allowances and other timing differences	(7,372)	(5,322)
Adjustments in respect of previous periods	(3,059)	5,425
Profits subject to lower level of overseas tax	(370)	(3,453)
Non tax deductible goodwill amortisation and other permanent differences	1,292	1,155
Deferred tax assets not recognised	(782)	6,450
Utilisation of losses	(4,904)	-
	<hr/>	<hr/>
Current tax charge for the year	<b>(2,594)</b>	8,042

On 22 June 2010, the Chancellor announced that the main rate of UK corporation tax will reduce from 28% to 27% with effect from 1 April 2011. This tax change became substantively enacted in July 2010 and therefore the effect of the rate reduction on the deferred tax balances as at 31 December 2010 has been included in the figures above.

On 23 March 2011, the Chancellor announced a further reduction in the main rate of UK corporation tax to 26% with effect from 1 April 2011. This change became substantively enacted on 29 March 2011 and therefore the effect of the rate would create an additional reduction in the deferred tax asset of approximately £2.0 million. This has not been reflected in the figures above as it was not substantively enacted at the balance sheet date.

The Chancellor also proposed changes to further reduce the main rate of corporation tax by 1% per annum to 23% by 1 April 2014, but these changes have not yet been substantively enacted and therefore are not included in the figures above. The overall effect of the further reductions from 27% to 23%, if these applied to the deferred tax balance at 31 December 2010, would be to further reduce the deferred tax asset by approximately £8.1 million.

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES (Continued)**

Factors that may effect future tax charges:

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

**9. PROFIT OF COMPANY**

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. The Company's profit for the year amounted to £575,000 (2009: £291,000).

**10. INTANGIBLE ASSETS**

	<b>Trademarks</b>	<b>Goodwill</b>	<b>Programming Rights</b>	<b>Videostream Assets</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>THE GROUP</b>					
Cost:					
At 1 January 2010	153	37,455	6,853	-	44,461
Acquisition	-	-	-	65,426	65,426
Additions	3	24,781	775	-	25,559
At 31 December 2010	<b>156</b>	<b>62,236</b>	<b>7,628</b>	<b>65,426</b>	<b>135,446</b>
Amortisation:					
At 1 January 2010	113	23,795	5,061	-	28,969
Acquisition	-	-	-	33,958	33,958
Charge for the year	4	3,725	1,026	3,960	8,715
At 31 December 2010	<b>117</b>	<b>27,520</b>	<b>6,087</b>	<b>37,918</b>	<b>71,642</b>
Net book amounts:					
At 31 December 2010	<b>39</b>	<b>34,716</b>	<b>1,541</b>	<b>27,508</b>	<b>63,804</b>
At 31 December 2009	40	13,660	1,792	-	15,492

On 23 July 2010, the Group acquired 100% of the ordinary share capital in the Channel 5 group. Included above is the acquisition of Videostream assets of £31.5 million (net of accumulated amortisation of £34.0 million). Goodwill of £24.8 million also arose on the acquisition (see note 24).

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**11. TANGIBLE ASSETS**

	Assets under construction	Land and Buildings	Motor Vehicles, Plant and Machinery	Fixtures, Fittings and Office Equipment	Total
	£000	£000	£000	£000	£000
<b>THE GROUP</b>					
Cost/valuation:					
At 1 January 2010	-	96,425	216,054	31,145	343,624
Acquisition	-	1,814	-	19,054	20,868
Additions	15,487	496	712	3,018	19,713
Disposals	-	-	(69)	(2,092)	(2,161)
Revaluation	-	(229)	-	-	(229)
<b>At 31 December 2010</b>	<b>15,487</b>	<b>98,506</b>	<b>216,697</b>	<b>51,125</b>	<b>381,815</b>
Depreciation:					
At 1 January 2010	-	26,924	202,257	25,513	254,694
Acquisition	-	355	-	11,182	11,537
Charge for the year	-	3,343	4,103	3,233	10,679
Disposals	-	-	(62)	(2,090)	(2,152)
<b>At 31 December 2010</b>	<b>-</b>	<b>30,622</b>	<b>206,298</b>	<b>37,838</b>	<b>274,758</b>
Net book amounts:					
<b>At 31 December 2010</b>	<b>15,487</b>	<b>67,884</b>	<b>10,399</b>	<b>13,287</b>	<b>107,057</b>
<b>At 31 December 2009</b>	<b>-</b>	<b>69,501</b>	<b>13,797</b>	<b>5,632</b>	<b>88,930</b>

Included within land and buildings is an investment property from which the Group derives rental income, which was previously recorded at an open market valuation of £6.7 million. The property was valued at £6.5 million by Peter Galan & Company, a qualified chartered surveyor, as at 31 December 2010 on the basis of open market value. At 31 December 2010 the property is stated at the open market valuation of £6.5 million. The historical cost of the investment property is £10.5 million. If the investment property was depreciated the accumulated depreciation at 31 December 2010 would be £4.8 million (2009: £4.6 million). The net book value at 31 December 2010 would be £5.7 million (2009: £5.9 million).

Land and buildings includes the following assets at net book value as at 31 December 2010:

- freehold land and buildings £27.4 million (2009: £28.3 million).
- long leasehold land £11.0 million (2009: £11.2 million).
- short leasehold buildings £29.5 million (2009: £29.9 million).

Motor vehicles, plant and machinery, fixtures, fittings and office equipment include assets acquired under finance leases in respect of which, as at 31 December 2010, the net book value was £0.5 million (2009: £1.2 million) after charging £0.7 million (2009: £2.0 million) depreciation for the year.

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

- Land and buildings £0.7 million (2009: £0.7 million).

On 23 July 2010, the Group acquired 100% of the ordinary share capital in the Channel 5 Television group. Included above is the acquisition of tangible assets amounting to a cost of £20.9 million and depreciation of £11.5 million.

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**11. TANGIBLE ASSETS (Continued)**

**THE COMPANY**

The tangible fixed assets of the company at 31 December 2010 amount to £6.5 million (2009: £6.7 million) and consist entirely of the investment property referred to above.

**12. FIXED ASSET INVESTMENTS**

**THE GROUP**

	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
<b>Interest in Joint Ventures</b>		
At 1 January - net assets	(250)	6,966
- goodwill (gross)	<u>9,856</u>	<u>33,691</u>
	<u>9,606</u>	<u>40,657</u>
Share of profit	1,363	653
Movement in profit and loss reserves	(1,981)	(4,519)
Capital contributions	<u>445</u>	<u>1,624</u>
	<u>(173)</u>	<u>(2,242)</u>
Disposal of net assets	-	(4,974)
Disposal of goodwill (gross)	<u>-</u>	<u>(23,835)</u>
	<u>-</u>	<u>(28,809)</u>
At 31 December - net liabilities	(423)	(250)
- goodwill (gross)	<u>9,856</u>	<u>9,856</u>
	<u>9,433</u>	<u>9,606</u>
<b>Aggregate amortisation of goodwill</b>		
At 1 January	(8,970)	(24,075)
Charge for the year	(886)	(2,089)
Disposal	<u>-</u>	<u>17,194</u>
At 31 December	<u>(9,856)</u>	<u>(8,970)</u>
<b>Net book amount at 31 December</b>		
Net liabilities	(423)	(250)
Goodwill	<u>-</u>	<u>886</u>
	<u>(423)</u>	<u>636</u>
<b>Other fixed asset investment</b>	<u>107</u>	<u>85</u>
<b>Total fixed asset investments</b>	<u>(316)</u>	<u>721</u>

Interests in joint ventures principally comprise:

- 50% of the equity share capital of Independent Star Limited, a newspaper publisher registered in the Republic of Ireland, the principal activity of which is the publishing of the 'Irish Daily Star' newspaper in that country.
- 50% of the equity share capital of Northern & Shell Pacific Limited, a magazine publisher registered in the United Kingdom, the principal activity of which is the publishing of OK! Magazine in Australia and New Zealand.
- 50% of the equity share capital of OK! Verlag Verwaltungsgesellschaft mbH i.Gr and OK! Verlag GmbH & Co. KG, magazine publishers registered in Germany, the principal activities being the publishing of OK! Magazine in Germany.

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**12. FIXED ASSET INVESTMENTS (Continued)**

**Details of significant investments in Joint Venture Companies**

	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
<b>Summary of Joint Venture net assets</b>		
Share of fixed assets	682	550
Share of current assets	<u>3,464</u>	<u>4,740</u>
<b>Share of gross assets</b>	<u>4,146</u>	<u>5,290</u>
Share of liabilities		
Due within one year	(4,074)	(5,161)
Due after one year	<u>(495)</u>	<u>(379)</u>
<b>Share of gross liabilities</b>	<u>(4,569)</u>	<u>(5,540)</u>
<b>Net liabilities</b>	<u>(423)</u>	<u>(250)</u>

The Group's share of the results of its principal joint venture company is disclosed below. During 2009, 100% of the share capital in West Ferry Printers Limited was acquired and therefore the results and assets of the company are not included for the year ended 31 December 2010.

For the year ended 31 December the Joint Ventures do not exceed the 15% and 25% thresholds and therefore the Group's share of its principal joint venture has not been disclosed.

	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
<b>West Ferry Printers Limited</b>		
Turnover	-	10,156
Profit before taxation	-	699
Taxation	-	<u>(238)</u>
<b>Profit after taxation</b>	-	<u>461</u>
<b>Losses recognised in statement of total recognised gains and losses</b>	-	<u>(2,999)</u>
Fixed assets	-	-
Current assets	-	-
Pension surplus	-	-
Liabilities due within one year	-	-
Liabilities due after more than one year	-	-
<b>Net assets</b>	-	-

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**12. FIXED ASSET INVESTMENTS (Continued)**

<b>THE COMPANY</b>	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
<b>Shares in group undertakings</b>		
At 1 January 2010 and 31 December 2010	<u>110</u>	<u>110</u>

The immediate subsidiary undertakings and their percentage holdings are:

	<b>Principal activity</b>	<b>Ordinary shares</b>
Northern & Shell Network Limited	Publishing, printing and broadcasting	100%
Northern & Shell Broadcasting Limited	Television Broadcasting	100%
West Ferry Leasing Limited	Leasing assets	100%

Investments in group undertakings are stated at cost less any provision for permanent diminution in value. A list of the principal subsidiaries and joint ventures is given in note 33.

**13. STOCKS**

	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
Raw materials and consumables	<u>7,100</u>	<u>4,273</u>

**14. PROGRAMME INVENTORY**

	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
Commissioned programmes	26,163	-
Acquired programmes	<u>107,930</u>	<u>-</u>
	<u>134,093</u>	<u>-</u>

**15. DEBTORS**

	<b>The Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
Trade debtors	58,334	29,015
Other debtors	3,345	2,984
Amounts owed by related party	728	1,431
Prepayments and accrued income	20,800	12,115
Deferred tax asset (note 16)	<u>36,165</u>	<u>9,637</u>
	<u>119,372</u>	<u>55,182</u>

	<b>The Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
Amounts owed by group undertakings	<u>189,146</u>	<u>25,686</u>

Amounts owed by group undertakings carry interest at 2.5% above base rate or LIBOR, are unsecured and repayable on demand. Amounts owed by dormant group undertakings, included in amounts owed by group undertakings, are non-interest bearing.

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**16. DEFERRED TAX ASSET**

	<b>£000</b>
At 1 January 2010	(9,637)
Credited to the profit and loss account	<u>(26,528)</u>
At 31 December 2010	<u>(36,165)</u>

The deferred taxation provided in these financial statements is as follows:

	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
<b>Provision for deferred tax including deferred tax on pension liability</b>		
Accelerated capital allowances	(1,081)	129
Other timing differences	<u>(35,084)</u>	<u>(9,766)</u>
Deferred tax excluding that relating to pension liability	(36,165)	(9,637)
Deferred tax on pension liability (note 30)	<u>(19,231)</u>	<u>(24,864)</u>
<b>Total provision for deferred tax – asset</b>	<u>(55,396)</u>	<u>(34,501)</u>
1 January 2010	(34,501)	(15,690)
Deferred tax (credit)/charge in profit and loss account (note 8)	(19,641)	4,572
Acquisition of subsidiary excluding deferred tax on pension asset	-	(8,416)
Acquisition of subsidiary's deferred tax on pension asset	-	141
Deferred tax on the actuarial loss on the pension scheme charged to the statement of total recognised gains and losses	<u>(1,254)</u>	<u>(15,108)</u>
<b>At 31 December 2010</b>	<u>(55,396)</u>	<u>(34,501)</u>

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

**17. CURRENT ASSET INVESTMENTS**

	<b>The Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
Corporate bonds	1	25,904
Quoted investments	392	7,669
Unquoted investments	<u>18</u>	<u>8</u>
	<u>411</u>	<u>33,581</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**18. CREDITORS: amounts falling due within one year**

	<b>The Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
Bank loans and overdrafts (notes 21 and 29)	10,797	7,265
Less: deferred finance charges	(528)	(548)
Trade creditors	105,309	20,505
Other creditors	18,958	4,696
Taxation and social security	8,054	1,392
Obligations under finance leases (note 22)	74	153
Corporation tax	36,234	39,218
Redeemable ordinary 'B' shares	900	900
Accruals and deferred income	60,910	40,591
	<u>240,708</u>	<u>114,172</u>

	<b>The Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
Bank loans (note 21)	8,297	786
Less: deferred finance charges	(327)	-
Amounts owed with respect to group relief	452	439
Amounts owed to group undertakings	130,159	26,593
Accruals and deferred income	625	191
Other creditors	-	12
	<u>139,206</u>	<u>28,021</u>

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

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

	<b>The Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
Bank loans (notes 21 and 29)	84,949	58,664
Obligations under finance leases (note 22)	-	74
Other creditors	22,627	123
Trade creditors	36,396	-
	<u>143,972</u>	<u>58,861</u>

	<b>The Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
Bank loan (note 21)	<u>53,949</u>	<u>2,249</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**20. PROVISIONS FOR LIABILITIES AND CHARGES**

	<b>Insurance Claims provision £000</b>	<b>Other provisions £000</b>	<b>Total £000</b>
<b>The Group</b>			
At 1 January 2010	13,891	4,363	18,254
Charged to the profit and loss account	-	4,721	4,721
	<hr/>	<hr/>	<hr/>
At 31 December 2010	<b>13,891</b>	<b>9,084</b>	<b>22,975</b>

The insurance claims provision relates to the potential costs arising from claims that could be made against Northern & Shell Insurance Limited, a group company, resulting from insurance contracts written by that company. No claims have been made to date and, should they arise, any claims are likely to take several years to resolve. Whilst the ultimate cost, if any, of settling the potential claims is uncertain, the company has taken legal and professional advice and considers that a provision of £13.9 million is appropriate.

Other provisions of £9.1 million relate to the provision for onerous rental commitments of £7.5 million (2009: £3.5 million) at the main business premises, Number 10 Lower Thames Street, and other provisions of £1.2 million (2009: £nil) and £0.4 million (2009: £0.9 million disclosed within creditors: amounts falling due within one year) at other business premises 22 Long Acre and 4 Selsdon Way London, respectively. These provisions are expected to be utilised during the periods to 31 December 2016, 31 December 2012 and 31 December 2012 respectively.

**21. BANK LOAN OBLIGATIONS**

	<b>The Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
The Group's bank loan obligations are due:		
Within one year	<b>10,797</b>	7,265
In more than one year but not more than two years	<b>11,305</b>	7,253
In more than two years but not more than five years	<b>73,644</b>	24,412
In more than five years	-	26,999
	<hr/>	<hr/>
Less: deferred finance charges	<b>95,746</b>	65,929
	<b>(528)</b>	(548)
	<hr/>	<hr/>
	<b>95,218</b>	<b>65,381</b>

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**21. BANK LOAN OBLIGATIONS (Continued)**

During the year, the Group repaid a bank loan of £26.9 million and entered into a new bank loan of £60.0 million. Bank loans are guaranteed by the Group (note 31). Included in bank loans is a loan of £60.0 million which carries interest at LIBOR plus 1.4%, £30.0 million of which is repayable in six monthly installments over four years, with a final bullet repayment of £30.0 million; also included is a £33.5 million loan, which carries interest at LIBOR plus 2.0%. The £33.5 million loan is split into £13.5 million and £20.0 million tranches, loan A and loan B. Loan A is repayable in six monthly installments over five years. Loan B is repayable over the same period, however, it is repaid with an annual 30% excess cash flow sweep payment and a final bullet repayment after loan A has been repaid in full. The balance of £2.2 million is secured on the investment property held by the Group, is repayable over four years and carries interest at the Natwest bank base rate plus 1.0%.

The Group has entered into certain interest rate swap arrangements. The £60.0 million loan is fixed at a blended rate of 3.2% plus 1.4%, the £13.5 million loan A is fixed at a rate of 3.07% plus 2.0% and the £20.0 million loan B is fixed at a rate of 5.86% plus 2.0%. Arrangements are also in place for a top up amount of £5.0 million for loan B to be fixed at 4.33% plus 2.0%, commencing 18 July 2011.

After the year end, following discussions with the bank the Group re-negotiated its £33.5 million bank loan facility (see note 35).

**THE COMPANY**

The Company's bank loan obligations of £62.2 million (2009: £3.0 million), of which £8.3 million is due within one year (2009: £786,000), and £53.9 million is after more than one year (2009: £2.2 million), is subject to the terms and conditions set out in respect of the £60.0 million and £2.2 million Group bank loans above.

**22. OBLIGATIONS UNDER FINANCE LEASES**

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

	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
Within one year	74	153
Within two to five years	-	74
	<hr/>	<hr/>
	<b>74</b>	<b>227</b>
	<hr/>	<hr/>

**23. OPERATING LEASE COMMITMENTS**

At 31 December 2010, the Group was committed to making the following annual payments in respect of operating leases which expire:

	<b>Land and Buildings</b>		<b>Other</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Within one year	7	51	599	7
Two to five years	1,342	132	64,927	442
After five years	11,069	11,022	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>12,418</b>	<b>11,205</b>	<b>65,526</b>	<b>449</b>
	<hr/>	<hr/>	<hr/>	<hr/>

Other operating lease commitments include amounts payable for transmission and distribution services.

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**24. ACQUISITIONS**

On 23 July 2010, the Group acquired 100% of the ordinary share capital in Northern & Shell Broadcasting (CI) Limited (formerly CLT UFA Holdings Limited), the parent company of the Channel 5 group, for a total consideration of £99.1 million, comprising £1 for the share capital and £99.1 million for the settlement of group loans. The resulting goodwill of £24.8 million was capitalised and will be written off over 20 years, in line with the Group's accounting policy for acquisitions.

Details of the net book value and fair value of the company's net assets/(liabilities) at acquisition date are set out below. At 31 December 2010, the company was 100% owned by the Group and accordingly has been accounted for as a subsidiary undertaking.

	<b>Book value at 23 July 2010 £000</b>	<b>Fair value revaluation £000</b>	<b>Fair value at 23 July 2010 £000</b>
<b>Fixed assets</b>			
Intangible fixed assets	32,243	(775)	31,468
Tangible fixed assets	12,296	(2,965)	9,331
Investments	22	-	22
<b>Current assets</b>			
Stock	187,868	(33,961)	153,907
Debtors	47,353	-	47,353
Cash	346	-	346
<b>Total assets</b>	<hr/> 280,128 <hr/>	<hr/> (37,701) <hr/>	<hr/> 242,427 <hr/>
<b>Creditors</b>	<hr/> (267,208) <hr/>	<hr/> - <hr/>	<hr/> (267,208) <hr/>
<b>Net assets</b>	<hr/> 12,920 <hr/>	<hr/> (37,701) <hr/>	<hr/> (24,781) <hr/>
<b>Goodwill (note 10)</b>			<hr/> 24,781 <hr/>

The acquired undertaking made a profit of £23.3 million from the beginning of its financial year to the date of acquisition, comprised as follows. In its previous financial year, commencing on 1 January 2009, the loss was £34.7 million.

	<b>1 January to 23 July 2010 £000</b>
Turnover	154,086
Cost of sales	(169,596)
Administrative expenses	(22,721)
Exceptional items (loan waiver from parent company)	<hr/> 64,511 <hr/>
Operating profit	26,280
Interest payable and similar charges	(3,859)
Tax	904
Profit for the period	<hr/> 23,325 <hr/>

During the year, the acquired undertaking contributed £33.2 million to the Group's net operating cash flows, paid £1.1 million in respect of net returns on investments and servicing of finance, paid £nil in respect of tax and utilised £5.8 million for capital expenditure.

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**25. SHARE CAPITAL**

	The Group & Company			
	Authorised		Allotted and Fully Paid	
	2010 £000	2009 £000	2010 £000	2009 £000
110,000 Ordinary shares of £1 each	<u>110</u>	110	<u>110</u>	110

**26. RESERVES AND SHAREHOLDERS' FUNDS**

**a) Reserves**

	Other reserves	The Group Revaluation reserve	Profit & loss
	£000	£000	£000
At 1 January 2010	3,860	(2,975)	13,233
Deficit on revaluation of property	-	(229)	-
Profit for the year	-	-	52,510
Actuarial loss on pension scheme - excluding Joint Ventures (note 30)	-	-	(4,645)
Movement on deferred tax relating to pension scheme - excluding Joint Ventures	-	-	1,254
	<u>3,860</u>	<u>(3,204)</u>	<u>62,352</u>
At 31 December 2010			

	The Company Revaluation reserve	Profit & loss
	£000	£000
At 1 January 2010	(2,975)	5,140
Profit for the year	-	575
Deficit on revaluation of property	(229)	-
	<u>(3,204)</u>	<u>5,715</u>
At 31 December 2010		

The deficit on the revaluation reserve has arisen due to, in the opinion of the directors', a non permanent diminution in value of the investment property disclosed within note 11, in line with SSAP 19.

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**26. RESERVES AND SHAREHOLDERS' FUNDS (Continued)**

<b>b) Reconciliation of movements in shareholders' funds</b>	<b>The Group</b>	
	<b>2010 £000</b>	<b>2009 £000</b>
Profit/(loss) for the year	52,510	(3,725)
Deficit on revaluation of property	(229)	(1,513)
Actuarial loss on pension scheme – excluding Joint Ventures (note 30)	(4,645)	(53,958)
Movement on deferred tax relating to pension scheme – excluding Joint Ventures	1,254	15,108
Actuarial loss on Joint Venture pension scheme	-	(4,165)
Movement on deferred tax relating to Joint Venture pension scheme	-	1,166
Net exchange differences on the retranslation of net investments and related borrowings	-	(293)
	<hr/>	<hr/>
Net increase/(decrease) to shareholders' funds	48,890	(47,380)
Opening shareholders' funds	14,228	61,608
	<hr/>	<hr/>
Closing shareholders' funds	63,118	14,228

	<b>The Company</b>	
	<b>2010 £000</b>	<b>2009 £000</b>
Profit for the year	575	291
Deficit on revaluation of property	(229)	(1,513)
Net increase/(decrease) in shareholders' funds	346	(1,222)
	<hr/>	<hr/>
Opening shareholders' funds	2,275	3,497
	<hr/>	<hr/>
Closing shareholders' funds	2,621	2,275

**27. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW**

	<b>2010 £000</b>	<b>2009 £000</b>
Operating profit	35,486	15,180
Depreciation charge	10,679	10,032
Amortisation of intangible assets	8,715	3,116
(Profit)/loss on sale of tangible assets	(3)	129
Loss on sale of intangible assets	-	10
(Increase)/decrease in stocks	(2,827)	5,620
Decrease in debtors	29,505	8,505
Increase/(decrease) in creditors	17,870	(5,245)
Difference between pension costs and cash contributions	(23,213)	(9,902)
Increase in provisions	4,721	1,879
	<hr/>	<hr/>
Net cash inflow from operating activities	80,933	29,324

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**28. RECONCILIATION OF NET CASH FLOW TO MOVEMENTS IN NET FUNDS**

	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
Net funds at 1 January	38,697	51,745
Increase in cash in the year	19,630	48,636
Cash acquired with subsidiary	346	-
Cash outflow from finance lease payments	153	146
Loan acquired with subsidiary	(99,122)	-
New finance leases	-	(147)
Loan finance received	(60,000)	-
Loan finance repaid	129,305	6,994
Other non cash changes	-	570
Exchange movements	-	(1,451)
Cash inflow from liquid resources	<u>(33,170)</u>	<u>(67,796)</u>
Net (deficit)/funds at 31 December	<u>(4,161)</u>	<u>38,697</u>

**29. ANALYSIS OF CHANGES IN NET FUNDS/(DEFICIT)**

	<b>1 January</b>	<b>Cash</b>	<b>Non</b>	<b>Acquisition</b>	<b>31</b>
	<b>£000</b>	<b>flow</b>	<b>cash</b>	<b>£000</b>	<b>December</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cash in hand and at bank	71,272	19,630	-	346	91,248
Finance leases	(227)	153	-	-	(74)
Loan finance due within one year	(7,265)	98,090	(2,500)	(99,122)	(10,797)
Loan finance due after one year	(58,664)	(28,785)	2,500	-	(84,949)
	<u>(66,156)</u>	<u>69,458</u>	<u>-</u>	<u>(99,122)</u>	<u>(95,820)</u>
Liquid resources	33,581	(33,170)	-	-	411
Net funds/(deficit)	38,697	55,918	-	(98,776)	(4,161)

**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2010****30. PENSION SCHEMES****FRS17 Disclosure**

The latest full actuarial valuations of the Express Newspapers 1988 Pension Fund and the Express Newspapers Senior Management Pension Fund were carried out as at 5 April 2009. The latest full actuarial valuation of the West Ferry Printers Pension Fund was carried out as at 31 December 2008. The results below have been updated by a qualified independent actuary using the projected unit valuation method. Both the Express Newspaper schemes and the West Ferry Printers scheme were closed to future accruals with effect from 31 December 2008 and 28 February 2010 respectively. The Group currently has an agreed recovery plan in respect of the shortfall in funding and has paid £7.8 million (2009: £7.0 million) into the 1988 Pension Fund during the year, £453,000 (2009: £312,000) into the Senior Management Pension Fund and £1.8 million (2009: £1.1 million) into the West Ferry Printers Pension Fund. All three Funds are defined benefit schemes. The Group expects to contribute £12.2 million towards the deficit in its defined benefit plans in the next financial year.

The Group also participates in a defined contribution scheme for its employees. Contributions are charged to the profit and loss account to reflect amounts payable under the scheme. The charge for the year was £2.0 million (2009: £1.6 million). At 31 December 2010, contributions of £204,000 were outstanding (2009: £125,000). These have been paid in full after the year end.

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

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Discount rate	5.50%	5.90%	6.50%
Rate of increase in salaries*	N/A	3.50%/N/A	N/A
Rate of LPI increase in pensions in payment	3.30%-3.60%	3.50%-3.70%	3.20%
Inflation assumption	2.50%	3.50%	2.60%

\* Applicable to West Ferry Printers Scheme only

The mortality assumptions used in the calculation at 31 December 2010 were:

Express Newspapers 1988 Fund mortality:

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

Express Newspapers Senior Management Fund mortality:

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

West Ferry Printers Fund mortality:

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

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**30. PENSION SCHEMES (Continued)**

**FRS17 Disclosure (continued)**

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

The fair value of the assets in the schemes and the expected rates of return at 31 December were:

	Long – term rate of return expected at 2010*	Fair value at 2010 £000	Long – term rate of return expected at 2009	Fair value at 2009 £000	Long – term rate of return expected at 2008	Fair value at 2008 £000
Equities	6.27%	92,398	6.74%	71,500	7.80%	63,500
Gilts	6.27%	100,101	6.74%	104,500	3.80%	19,400
Corporate bonds	6.27%	92,411	6.74%	92,800	6.50%	171,900
Other	6.27%	229,340	6.74%	206,900	3.80%	46,900
Total market value of assets		<u>514,250</u>		<u>475,700</u>		<u>301,700</u>
Present value of scheme liabilities		<u>(585,477)</u>		<u>(564,500)</u>		<u>(344,700)</u>
Deficit in the schemes		<u>(71,227)</u>		<u>(88,800)</u>		<u>(43,000)</u>
Related deferred tax asset		<u>19,231</u>		<u>24,864</u>		<u>12,040</u>
Net pension liability under FRS17		<u>(51,996)</u>		<u>(63,936)</u>		<u>(30,960)</u>

\* The overall long term expected rate of return on the Scheme's assets at 31 December 2010 was 6.27%.

Details of history scheme assets, obligations and experience adjustments:

	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
<b>Balance Sheet</b>					
Present value of scheme liabilities	(585,477)	(564,500)	(344,700)	(419,000)	(438,100)
Fair value of scheme assets	514,250	475,700	301,700	351,800	364,500
Deficit on the scheme	<u>(71,227)</u>	<u>(88,800)</u>	<u>(43,000)</u>	<u>(67,200)</u>	<u>(73,600)</u>
<b>Experience adjustments</b>					
Experience adjustments arising on scheme liabilities	(42,083)	(85,536)	73,300	20,100	(12,600)
Experience item as percentage of scheme liabilities	(7.2)%	(15.2)%	21.3%	4.8%	(2.9)%
Experience adjustments arising on scheme assets	37,438	31,578	(56,900)	(15,300)	(11,400)
Experience item as percentage of scheme assets	7.3%	6.6%	(18.9)%	(4.4)%	(3.1)%
Cumulative actuarial loss shown in the STRGL	<u>(65,503)</u>	<u>(60,858)</u>	<u>(6,900)</u>	<u>(23,300)</u>	<u>(28,100)</u>

The total amount recognised in the statement of total recognised gains and losses in respect of the actuarial loss is £4.6 million (2009: £54.0 million loss).

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**30. PENSION SCHEMES (Continued)**

**FRS17 Disclosure (continued)**

The following amounts have been recorded in the consolidated profit and loss account for both schemes as at 31 December 2010:

<b>Operating profit</b>	<b>2010 £000</b>	<b>2009 £000</b>
Current service cost	1,303	1,489
Past service credit	(11,618)	-
Curtailment/settlement gains	-	(92)
<b>Total operating (credit)/charge</b>	<b>(10,315)</b>	<b>1,397</b>

The (credit)/expense is recognised in the following line items in the profit and loss account:

	<b>2010 £000</b>	<b>2009 £000</b>
Administrative expenses	(10,315)	1,397

<b>Other finance income/(expenses)</b>	<b>2010 £000</b>	<b>2009 £000</b>
Expected return on assets	31,067	23,863
Interest cost	(32,062)	(26,111)
<b>Total net return</b>	<b>(995)</b>	<b>(2,248)</b>

<b>Movement in deficit during the year</b>	<b>2010 £000</b>	<b>2009 £000</b>
Deficit at start of year	(88,800)	(43,000)
Acquisition of pension scheme in year	-	504
Current service cost	(1,303)	(1,489)
Past service credit	11,618	-
Settlement gains	-	92
Employer contributions	12,898	11,299
Other financing expenses	(995)	(2,248)
Actuarial loss	(4,645)	(53,958)
<b>Deficit at end of the year</b>	<b>(71,227)</b>	<b>(88,800)</b>

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

	<b>2010 £000</b>	<b>2009 £000</b>
Liabilities at 1 January	564,500	344,700
Acquisition of pension scheme in year	-	140,569
Current service cost	1,303	1,489
Past service credit	(11,618)	-
Interest cost	32,062	26,111
Contributions by scheme participants	66	601
Actuarial loss	42,083	85,536
Benefits paid	(42,919)	(34,414)
Curtailments	-	(92)
<b>Liabilities at 31 December</b>	<b>585,477</b>	<b>564,500</b>

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**30. PENSION SCHEMES (Continued)**

**FRS17 Disclosure (continued)**

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

	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
Fair value of scheme assets at 1 January	475,700	301,700
Acquisition of pension scheme in year	-	141,073
Expected return on scheme assets	31,067	23,863
Actuarial gain	37,438	31,578
Contributions by employers	10,902	9,674
Contributions by plan participants	66	601
Miscellaneous contributions	1,996	964
Age related rebates received	-	661
Benefits paid	<u>(42,919)</u>	<u>(34,414)</u>
Fair value of scheme assets at 31 December	<u>514,250</u>	<u>475,700</u>

**31. GUARANTEES AND CONTINGENT LIABILITIES**

As at 31 December 2010, the £60.0 million bank loan was jointly and severally guaranteed by the Company and certain subsidiary companies, and the £33.5 million loan was guaranteed by certain subsidiary companies (note 21). The investment property of the Company is pledged as security for the £2.2 million Natwest loan. At 31 December 2010, the maximum liabilities that could arise under these credit arrangements, was £95.7 million (2009: £65.9 million).

At 31 December 2010, a group company, Northern & Shell North America Limited, held in place a bank guarantee. The bank, subject to the terms of the guarantee but otherwise unconditionally, undertakes to pay to the landlord of the company's business premises on demand any sum or sums to an amount not exceeding USD \$4.9 million (sterling equivalent at 31 December 2010: £3.1million) (2009: \$5.0 million). The guarantee amortises on a reducing balance basis over the term of the lease and shall be reduced to USD \$1.6 million following the ninth year of the lease. The bank's liabilities have also been jointly guaranteed by the Company. The bank's liabilities cease and are determined on 31 August 2018.

The Group, through its subsidiary company Northern & Shell Insurance Limited, provides against any potential insurance claims. No claims have been made to date and, should they arise, any claims are likely to take several years to resolve (note 20).

At 31 December 2010, certain claims in the normal course of business were pending against the Company and certain subsidiaries and certain tax computations were still subject to agreement with the relevant taxation authorities. Although there is uncertainty regarding the final outcome of these matters, the directors believe, based on professional advice received, that adequate provision has been made in the financial statements for anticipated liabilities and the probable ultimate resolution of such matters will not have a material effect on the financial statements of the Group.

**32. RELATED PARTY TRANSACTIONS**

During 2009 the Group, through its subsidiary company Express Newspapers, participated in a joint venture under which it held a 50% shareholding in the company West Ferry Printers Limited, where the remaining shares were owned by Telegraph Media Group Limited. The purpose of the joint venture was the provision of printing facilities to both Express Newspapers and Telegraph Media Group Limited and to certain third parties. On 19 June 2009, Express Newspapers purchased the remaining 50% ordinary share capital in West Ferry Printers Limited. For the period ended 18 June 2009 West Ferry Printers Limited provided Express Newspapers with printing which was included in turnover in the year ended 31 December 2009 at £9.5 million.

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**32. RELATED PARTY TRANSACTIONS (Continued)**

During the year the Group, through its subsidiary companies Northern & Shell Plc, Northern & Shell Worldwide Limited and Northern & Shell North America Limited charged certain joint venture companies for license fees and picture recharges. An amount of £1.0 million (2009: £953,000) was charged to Northern & Shell Pacific Limited, £nil (2009: £59,000) was charged to Iberian Ediciones Limited and £273,000 (2009: £341,000) charged to OK! Verlag GmbH & Co.KG. The Group also provided funding to support the ongoing operations of these companies. At 31 December 2010, Northern & Shell Pacific Limited owed the Group £752,000 (2009: £1.5 million), Iberian Ediciones Limited owed the Group £nil (2009: £598,000) and OK! Verlag GmbH & Co.KG owed the Group £4.3 million (2009: £3.9 million).

Management fees were charged by Northern & Shell Plc to Northern & Shell North America for central overhead recharges. An amount of £1.2 million (2009: £1.2 million) was charged during the year. Northern & Shell North America also paid royalty fees of £2.4 million (2009: £2.5 million) to Northern & Shell Worldwide during the year. At 31 December 2010, Northern & Shell North America owed group undertakings £134.4 million (2009: £119.3 million) and amounts owed by group undertakings were £6.3 million (2009: £6.1 million). Group joint venture companies also owed £nil (2009: £nil).

During the year, the Group made contributions of £364,000 (2009: £nil) to a charitable trust, of which Mr. R.C. Desmond is a trustee. At the year end, there were no balances due to or from the charitable trust.

Badger Property Partners LLP, of which Mr. R.C. Desmond is a member, owns the Number 10 Lower Thames Street property which is the head office of the Northern & Shell Media Group Limited Group. The Number 10 Lower Thames Street property is let to Express Newspapers on a 20 year lease from 1 January 2004 for an annual rental of £8.2 million (2009: £8.2 million), with a rent review every 5 years. The charge for the year was £8.2 million (2009: £8.2 million). No amounts were due to Badger Property Partners LLP as at 31 December 2010 (2009: £nil).

During the year, Mr. R.C. Desmond paid insurance premiums of £nil (2009: £1.3 million) to a subsidiary company, Northern & Shell Insurance Limited. The purpose of the premiums was to insure against personal risks and liabilities. The Group is committed to taking steps to mitigate the risks and liabilities, however, the amount of the potential liabilities is uncertain.

Mr. R.C. Desmond also paid £nil (2009: £12.0 million) to a subsidiary company, Express Newspapers, in respect of a Chairman's incentive arrangement.

The Company has taken advantage of the exemption available under FRS 8 from disclosing transactions with other group companies that form part of the wholly owned group.

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2010**

**33. PRINCIPAL SUBSIDIARIES AND JOINT VENTURES**

Principal subsidiaries and percentage holding:

<b>Company Name</b>	<b>Principal Activity</b>	<b>% Shareholding</b>
Northern & Shell Network Limited	Holding company	100%
Northern & Shell Group Limited	Holding company	100%
Northern & Shell Broadcasting Limited	Holding company	100%
Channel 5 Television Group Limited	Television broadcasting	100%
Channel 5 Broadcasting Limited	Television broadcasting	100%
Northern & Shell Broadcasting (CI) Limited	Holding company	100%
West Ferry Leasing Limited	Leasing assets	100%
Portland Media Group Limited	Holding company	100%
Northern & Shell Finance Limited	Treasury	100%
Express Newspapers	Publishing	100%
Broughton Printers Limited	Printing	100%
Northern & Shell Distribution Limited	Magazine distributor	100%
Northern & Shell Plc	Publishing	100%
Portland Enterprises Limited	Television production	100%
Portland Enterprises (CI) Limited	Television broadcasting	100%
RHF Productions Limited	Television broadcasting	100%
Northern & Shell Magazines Limited	Publishing	100%
Northern & Shell North America Limited *	Publishing	100%
Northern & Shell Insurance Limited	Insurance	100%
Northern & Shell Luxembourg SARL	Finance	100%
Northern & Shell Worldwide Limited**	Intellectual property exploitation	100%
West Ferry Printers Limited	Printing	100%

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

\* Denotes operates a branch in the United States of America.

\*\* Denotes operates a branch in Luxembourg.

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

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

\*\*\* Denotes operates a branch in Australia.

\*\*\*\* Denotes operates a branch in Spain. During the year, the company entered into voluntary liquidation.

**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2010****34. COMMITMENTS**

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

	<b>2010</b> <b>£000</b>	<b>2009</b> <b>£000</b>
Programme inventory	291,475	-
Other	<u>77,000</u>	<u>35,000</u>
	<u>368,475</u>	<u>35,000</u>

Other commitments include £40.9 million in respect of the purchase of printing facilities due for completion by 2012 and USD \$56.5 million (sterling equivalent at 31 December 2010: £36.1 million) in respect of the purchase of a corporate aircraft (2009: £35.0 million) due for delivery in 2017. To date USD \$3.0 million has been paid with no further payments due until 2011. In the event that the Group decided not to take delivery of the aircraft, the Group would incur liquidated damages of USD \$1.5 million, with the remaining balance of any payments previously made returned to the Group.

**35. POST BALANCE SHEET EVENT**

After the year end, following discussions with the bank in respect of the £33.5 million bank loan facility, the Group settled the interest rate swap arrangements, with a payment of £2.7 million made by the Group to the bank, and prepaid £2.3 million of the outstanding facility. The remaining facility was assigned to a related undertaking by the bank.

**36. ULTIMATE CONTROLLING PARTY**

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