4086466

RCD1 LIMITED

GROUP REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

RCD1 LIMITED

ANNUAL REPORT

31 December 2006

CONTENTS

RCD1 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

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

BANKERS

Bank of Scotland
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London EC2M 3YB

HSBC
452 Fifth Avenue
New York
NY10018
USA

Bank of Western Australia
108 St Georges Terrace
Perth
WA 6000
Australia

REGISTERED OFFICE

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

RCD1 LIMITED

DIRECTORS' REPORT

For the year ended 31 December 2006

The directors present their report and the audited financial statements of the Group and Company for the year ended 31 December 2006

PRINCIPAL ACTIVITIES

RCD1 Limited is the ultimate holding company of the Northern & Shell group of companies The Company regards its subsidiary, Northern & Shell Network Limited, to be the operational parent of the Group It owns a group of companies principally engaged in newspaper publishing and printing, magazine publishing and television broadcasting During the year the Group, through its subsidiary Northern & Shell Insurance Limited, also commenced some insurance activities

It is the intention of the Group to continue trading in the printing and publishing areas in the foreseeable future The Group is currently reviewing its strategic options with regard to its television activities and is currently pursuing the option of reorganising these businesses under a new holding company with the intention of selling down the majority of its stake as part of a Placing of shares upon a listing of the new company on the Alternative Investment Market

RESULTS AND DIVIDENDS

The Group recorded a profit before taxation of £5 5 million (2005 £4 5 million)

The directors do not recommend the payment of a dividend (2005 £nil)

REVIEW OF THE YEAR AND FUTURE PROSPECTS

The Group responded to the competitive markets it faced in all of its principal publishing and broadcasting activities by increasing its investment in new products, including internationally, during the year Accordingly, the directors consider the underlying performance of the Group to be highly satisfactory Group turnover increased by £9 2 million (2 3%) and operating profit before tax and chairman's emoluments/pension contributions increased by £8 5 million (21 6%) After deducting £40 7 million (2005 £27 3 million) of Chairman's emoluments and pension contributions, incurring continuing start-up operating losses of £19 6 million (2005 £28 3 million) in respect of the American and Australian editions of OK! Magazine, incurring aborted project costs of £1 9 million (2005 £nil) in respect of a planned call centre intended to service the Group and a loss of £2 2 million (2005 £2 1 million) on Happy Magazine now closed (note 29), the Group recorded an operating profit of £7 2 million (2005 £12 1 million)

The Newspaper division's operating profit before tax and chairman's emoluments/pension contributions increased by £0 5 million (1 2%), with continued strong cost control compensating for a reduction in turnover During the year turnover reduced by £13 9 million (4 8%), principally from circulation and advertising revenues This reflected a challenging national newspaper market with increased competition from free sheets and other new information and news mediums Given these conditions, the directors are highly satisfied with the performance of the division and feel that the newspaper division is well placed to both maintain its strong presence in the market and enhance its financial performance in the future

In the magazine publishing area, the major developments comprised the continuing establishment of the United States and Canadian OK! title in the year following its successful launch in August 2005 and the re-launch of the Australian OK! edition as a weekly title during the year Both of these titles have firmly established themselves in their respective markets and the directors are delighted to report that the American edition has in the less than two years since its launch taken a place in the top 10 newsstand revenue earning magazine titles in the USA The directors continue to view these operations as a significant investment offering both financial and strategic benefits to the Group Additionally, the Group currently has 9 international editions of OK! Magazine under license agreements with other publishers, with more expected to launch in 2007 to supplement the wholly owned and operated UK, US and Australian titles 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 division After the year end, the directors made the strategic decision to terminate the publication of Happy Magazine, the Group's shopping magazine

REVIEW OF THE YEAR AND FUTURE PROSPECTS (Continued)

In the television production and broadcasting area, the Group operates in a highly competitive pay TV market, and its turnover and strong operating profit margins fell below those achieved in 2005 Primarily the directors attribute this to the increased competition from free to air telephony based channels, a situation which may prove to be transitory since many of these competitor channels are now attracting regulatory sanctions from OFCOM Given this, the directors are satisfied with the performance of the division Responding to these challenges the Group has continued to focus on the product offering of its television broadcasting activities in the year both in its core specialist market and through the identification of a potentially significant opportunity in another niche broadcasting area, which is expected to commence outputting in the second quarter of 2007 Additionally during the year the division continued its policy of diversifying into the provision of television production services by taking on more third party (non Group) business With these developments and convinced of the benefits to both the division and the Group by the reorganisation of the television businesses (as explained in the Principal Activities note) the directors view the future with confidence

A range of key performance indicators (KPI's) are used to monitor the performance of the operating entities and the Group and their progress towards strategic objectives The principal KPI's vary according to division and include circulation volumes, advertising yields, cost per copies, subscriber and pay per night numbers, contributions 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 £51 5 million at 31 December 2006 (excluding joint venture companies) (2005 £39 3 million) 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 £51 5 million (2005 £39 3 million) were £34 0 million at 31 December 2006 (2005 £31 3 million) The Group's net debt was £29 0 million at 31 December 2006 (2005 £36 0 million)

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

DIRECTORS AND THEIR INTERESTS

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

At the beginning and end of the year, the directors' beneficial interests in the issued ordinary 'B' share capital of Northern & Shell North America Limited, a group undertaking, were

	£1 Ordinary 'B' shares	
	At 1 January 2006	At 31 December 2006
Mr R Sanderson	37,500	37,500
Mr S Myerson	75,000	75,000
Mr M S Ellice	75,000	75,000
Dr P Ashford	37,500	37,500

At the beginning and end of the year, Mr R C Desmond was beneficially interested in the whole of the remaining issued share capital of the Company

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 using various methods including formal briefings and e-mails Consultation with employees or their representatives has continued at all levels, with the aim of ensuring their views are taken into account where decisions are likely to affect their interests This practice is reviewed regularly

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned In the event of members of staff becoming disabled every effort is made to ensure that their employment with the 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 interest rates The Group utilises interest rate swaps with a fixed rate to manage some of its liabilities Other liabilities are managed using floating rate arrangements 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 contributions were made during the year amounting to £868,000 (2005 £854,000) to a charitable trust (see note 30)

There were no political contributions made during the year (2005 £nil)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The directors confirm that suitable accounting policies have been used and applied consistently They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2006 and that applicable accounting standards have been followed

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial

STATEMENT OF DIRECTORS' RESPONSIBILITIES (Continued)

statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The directors are also responsible for the maintenance and integrity of the Group's website Uncertainty regarding legal requirements is compounded as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements

DISCLOSURE OF INFORMATION TO AUDITORS

In accordance with Section 234ZA of the Companies Act, in the case of each of the persons who are directors at the time when this report is approved, the following applies

- so far as the director is aware, there is no relevant audit information (that is, information needed by the Group's auditors in connection with preparing their report) of which the Group's auditors are unaware, and
- the director has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information

AUDITORS

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

Approved by the Board and signed on behalf of the Board

Mr R Sanderson
Secretary

Date 26 April 2007

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

RCD1 LIMITED

For the year ended 31 December 2006

We have audited the Group and Parent Company financial statements (the "financial statements") of RCD1 Limited for the year ended 31 December 2006 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes These financial statements have been prepared under the accounting policies set out therein

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

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

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

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the Parent Company's affairs as at 31 December 2006 and of the Group's profit and cash flows for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
Date: 26 April 2007

RCD1 LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2006

Continuing operations	Notes	2006 £000	2005 £000
Turnover (including share of joint ventures)	2	**460,527**	460,124
Less share of joint venture turnover		**(41,987)**	(50,803)
Group turnover		**418,540**	409,321
Cost of sales		**(213,495)**	(208,599)
Gross profit		**205,045**	200,722
Distribution costs		**(26,586)**	(20,687)
Administrative expenses	3	**(174,315)**	(172,070)
Other operating income	4	**3,076**	4,147
Group operating profit before Chairman's emoluments and pension contributions		**47,882**	39,392
- Chairman's emoluments and pension contributions	5(a)	**(40,662)**	(27,280)
Group operating profit	4	**7,220**	12,112
Share of operating loss of joint ventures (after £3 4m (2005 £3 4m) goodwill amortisation)		**2,553**	(3,181)
Total operating profit and profit on ordinary activities before interest and taxation	2/4	**9,773**	8,931
Interest receivable and similar income	6	**1,055**	919
Interest payable and similar charges	7	**(4,409)**	(3,470)
Other financing expenses	27	**(900)**	(1,900)
Profit on ordinary activities before taxation		**5,519**	4,480
Tax on profit on ordinary activities	8	**(3,219)**	(2,452)
Retained profit for the financial year	23	**2,300**	2,028

The notes on pages 13 to 38 form part of these financial statements

RCD1 LIMITED

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	2006 £000	2005 £000
Profit for the financial year			
- Group		**1,134**	3,389
- Joint Ventures		**1,166**	(1,361)
		2,300	2,028
Revaluation reserve – surplus on revaluation of property	11	**2,190**	347
Actuarial (loss)/gain recognised in the pension scheme – excluding Joint Ventures	27	**(24,000)**	15,300
Movement on deferred tax relating to pension liability – excluding Joint Ventures		**7,200**	(4,590)
Actuarial gain/(loss) recognised in the Joint Venture pension scheme		**3,931**	(2,000)
Movement on deferred tax relating to Joint Venture pension liability		**(1,179)**	600
Total (losses)/gains recognised for the year		**(9,558)**	11,685
- Group		**(13,476)**	14,446
- Joint Ventures		**3,918**	(2,761)
Total (losses)/gains recognised for the year		**(9,558)**	11,685

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

RCD1 LIMITED

CONSOLIDATED BALANCE SHEET as at 31 December 2006

	Notes	2006 £000	2005 £000
FIXED ASSETS			
Intangible assets	10	**7,956**	8,527
Tangible assets	11	**82,105**	82,941
Investments	12		
Interests in joint ventures			
Share of gross assets		**25,119**	24,327
Share of gross liabilities		**(27,949)**	(32,746)
Goodwill arising on acquisition		**16,354**	19,723
		13,524	11,304
Other		**85**	85
		13,609	11,389
		103,670	102,857
CURRENT ASSETS			
Stocks	13	**4,206**	6,590
Debtors	14	**50,822**	52,325
Current asset investments	15	**22**	20
Cash at bank and in hand		**16,059**	16,655
		71,109	75,590
CREDITORS: amounts falling due within one year	16	**(83,969)**	(99,285)
NET CURRENT LIABILITIES		**(12,860)**	(23,695)
TOTAL ASSETS LESS CURRENT LIABILITIES		**90,810**	79,162
CREDITORS amounts falling due after more than one year	17	**(39,282)**	(38,284)
PROVISIONS FOR LIABILITIES AND CHARGES	18	**(17,526)**	(9,568)
NET ASSETS excluding pension liability		**34,002**	31,310
PENSION LIABILITY	27	**(51,520)**	(39,270)
NET LIABILITIES including pension liability		**(17,518)**	(7,960)
CAPITAL AND RESERVES			
Called up share capital	22	**110**	110
Profit and loss account	23	**(24,125)**	(12,377)
Other reserves	23	**3,860**	3,860
Revaluation reserve	23	**2,537**	347
Capital redemption reserve	23	**100**	100
TOTAL EQUITY SHAREHOLDERS' DEFICIT	23	**(17,518)**	(7,960)

Approved by the Board of Directors

Mr R C Desmond
Chairman

Date 26 April 2007

RCD1 LIMITED

COMPANY BALANCE SHEET as at 31 December 2006

	Notes	2006 £000	2005 £000
FIXED ASSETS			
Tangible assets	11	**12,261**	10,071
Investments	12	**110**	110
		12,371	10,181
CURRENT ASSETS			
Debtors	14	**22,048**	20,596
CREDITORS. amounts falling due within one year	16	**(23,626)**	(21,986)
NET CURRENT LIABILITIES		**(1,578)**	(1,390)
TOTAL ASSETS LESS CURRENT LIABILITIES		**10,793**	8,791
CREDITORS: amounts falling due after more than one year	17	**(4,368)**	(4,916)
NET ASSETS		**6,425**	3,875
EQUITY CAPITAL AND RESERVES			
Called up share capital	22	**110**	110
Profit and loss account	23	**3,778**	3,418
Revaluation reserve	23	**2,537**	347
TOTAL EQUITY SHAREHOLDERS' FUNDS	23	**6,425**	3,875

Approved by the Board of Directors

Mr R C Desmond
Chairman

Date 26 April 2007

RCD1 LIMITED

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	Notes	2006 £000	2005 £000
Net cash inflow from continuing operating activities	24	**14,201**	1,864
Dividends received from joint ventures		**1,698**	2,597
Returns on investments and servicing of finance			
Interest received		**889**	919
Interest paid		**(4,111)**	(2,665)
Issue costs of new bank loan		**-**	(210)
Interest element of finance lease rentals		**(41)**	(31)
Loan to joint venture		**-**	(25)
Net cash outflow from returns on investments and servicing of finance		**(3,263)**	(2,012)
Taxation		**(238)**	(214)
Capital expenditure			
Payments to acquire tangible fixed assets		**(7,163)**	(11,839)
Receipts from disposal of tangible fixed assets		**26**	161
Net cash outflow for capital expenditure		**(7,137)**	(11,678)
Net cash inflow/(outflow) before use of liquid resources and financing		**5,261**	(9,443)
Management of liquid resources		**(7)**	(12)
Financing			
Loan from joint venture		**-**	250
Joint venture loan repaid		**(250)**	-
External loan repayments		**(14,546)**	(10,492)
External loan		**9,500**	17,295
Capital element of finance lease rentals		**(104)**	(153)
Net cash (outflow)/inflow from financing		**(5,400)**	6,900
Decrease in net cash	25/26	**(146)**	(2,555)

RCD1 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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 1985 and applicable accounting standards The principal accounting policies are set out below Certain comparative balances have been reclassified to conform with the current year presentation

(b) Basis of consolidation

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

(c) Revenue recognition

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

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

(d) Foreign currencies

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

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

Foreign operations which are conducted through a foreign branch or 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 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

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) 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 1985, 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
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

Assets in the course of construction are held on the balance sheet but depreciation is not charged until the assets are brought into use

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

(f) 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

(g) 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

(h) 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 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

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Intangible fixed assets (continued)

Goodwill

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

(i) 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

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

(j) Leases

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

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

Rental costs under operating leases are charged to the profit and loss account as 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

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

(k) Fixed asset investments

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

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

(l) 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

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) 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 30% (2005 30%)

(n) 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

(o) Insurance premiums and claims

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

Claims incurred comprise claims and related expenses paid in the year

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

2 SEGMENTAL ANALYSIS

The Group's turnover and profit before taxation arise solely from its publishing, broadcasting and printing activities The Group's turnover also includes income from its insurance activities which commenced during the year

The Group's turnover, profit 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 from printing activities in the United Kingdom and from publishing activities in the Republic of Ireland Included in total operating profit and profit before taxation is an amount in respect of aborted project costs During the year, the directors made the strategic decision to terminate plans for a call centre which was to provide services across the whole Group The operations are not material to the Group and the directors do not consider it necessary to treat it as a discontinued operation in the profit and loss account

	2006 £000	2005 £000
Turnover (including share of Joint Ventures)		
Publishing and printing – excluding US	**364,546**	370,599
Publishing – US	**16,067**	4,658
Publishing and printing – joint ventures	**41,987**	49,570
Broadcasting	**31,593**	34,064
Broadcasting – joint ventures	**-**	1,233
Insurance	**6,334**	-
	460,527	460,124
Group operating profit/(loss) before Chairman's emoluments/pension contributions – including Joint Ventures		
Publishing and printing – excluding US	**54,359**	53,492
Publishing – US	**(16,549)**	(27,485)
Publishing and printing – joint ventures	**2,545**	(889)
Broadcasting	**11,377**	12,680
Broadcasting – joint ventures	**8**	(2,292)
Insurance	**(106)**	-
Aborted project costs	**(1,903)**	-
Property Investment	**704**	705
	50,435	36,211
Group – excluding Joint Ventures	**47,882**	39,392
Joint Ventures	**2,553**	(3,181)
	50,435	36,211
Chairman's emoluments and pension contributions	**(40,662)**	(27,280)
Total operating profit.	**9,773**	8,931
Profit/(loss) before taxation:		
Publishing and printing – excluding US	**9,099**	25,893
Publishing – US	**(16,616)**	(27,480)
Publishing and printing – joint ventures	**2,707**	(3,563)
Broadcasting	**11,840**	11,657
Broadcasting – joint ventures	**8**	(2,477)
Insurance	**(91)**	-
Aborted project costs	**(1,901)**	-
Property Investment	**473**	450
	5,519	4,480

2. SEGMENTAL ANALYSIS (Continued)

Net operating assets/(liabilities) (including pension deficit).	2006 £000	2005 £000
Publishing and printing – excluding US	(13,327)	15,363
Publishing – US	(8,183)	(11,659)
Publishing and printing – joint ventures	13,487	11,273
Broadcasting	1,119	1,565
Broadcasting – joint ventures	37	31
Insurance	(91)	-
Aborted project costs	(1,097)	-
Property Investment	11,604	9,528
	3,549	26,101

Reconciliation of net operating assets to net liabilities

	2006 £000	2005 £000
Net operating assets	3,549	26,101
Investments	107	105
Corporation tax	(8,269)	(7,967)
Deferred tax – asset	14,114	7,761
Net borrowings	(27,019)	(33,960)
	(17,518)	(7,960)

3. ADMINISTRATIVE EXPENSES

	2006 £000	2005 £000
Chairman's emoluments and pension contributions (note 5a)	40,662	27,280
Other administrative expenses	133,653	144,790
	174,315	172,070

4. GROUP OPERATING PROFIT	2006 £000	2005 £000
Operating profit is stated after charging/(crediting):		
Services provided by the Group's auditor and associated firms		
During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor at costs as detailed below		
Audit services		
Fees payable to the Company's auditor for the audit of the Company and consolidated accounts	**29**	38
Other services		
Fees payable to the Company's auditor and its associates for the audit of associates to the Company pursuant to legislation	**381**	383
Other services provided pursuant to such legislation	**82**	-
Other services relating to taxation	**852**	590
All other services	**238**	255
Depreciation – owned assets	**7,184**	6,759
Depreciation – leased assets	**2,315**	2,302
Amortisation of trademarks	**4**	4
Amortisation of goodwill – acquisitions	**567**	567
Amortisation of goodwill – joint ventures	**3,369**	3,369
Loss/(profit) on disposal of fixed assets	**1,216**	(126)
Operating lease rentals – plant and machinery	**386**	337
Operating lease rentals – other	**7,769**	6,341
Operating lease rental income	**(2,017)**	(1,998)
Foreign exchange (gain)/loss	**(2,939)**	1,291
Other operating income:		
Operating lease rentals – other income	**(1,074)**	(1,140)
Sale of share of intellectual property	**(2,000)**	(3,000)
Investment income	**(2)**	(7)

Audit fees for the Company are borne by subsidiary undertakings

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

(a) Directors

	2006 £000	2005 £000
Emoluments	**2,019**	2,850
Company contributions to money purchase pension schemes	**40,070**	26,074
	42,089	28,924

Pension benefits are accruing to five directors under money purchase pension schemes (2005 five directors)

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

Highest paid director	2006 £000	2005 £000
Emoluments	**662**	1,276
Company contributions to money purchase pension schemes	**40,000**	26,004
	40,662	27,280

(b) Staff costs (Including directors)

	2006 £000	2005 £000
Wages and salaries	**56,796**	55,209
Social security costs	**6,007**	5,883
Pension costs	**38,368**	26,440
	101,171	87,532

Pension costs include an FRS 17 pension credit of £5 0 million (2005 £1 4 million credit)

Average number of people employed by activity

	2006 Number	2005 Number
Production	**815**	823
Selling and distribution	**155**	160
Administration	**277**	256
	1,247	1,239

6 INTEREST RECEIVABLE AND SIMILAR INCOME

	2006 £000	2005 £000
Bank deposit interest	**720**	717
Other interest receivable	**169**	202
Joint venture interest receivable	**166**	-
	1,055	919

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2006 £000	2005 £000
Bank loans and overdrafts	**3,218**	2,756
Finance leases	**41**	31
Amortisation of financing charges	**159**	134
Other interest payable	**987**	167
Joint venture interest payable	**4**	382
	4,409	3,470

8 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2006 £000	2005 £000
Current tax:		
UK corporation tax on profit for the year at 30% (2005 30%)	545	4,883
Adjustment in respect of previous periods	266	1,437
Foreign taxes suffered	270	226
Double taxation relief	(258)	(101)
Share of joint venture taxation	1,549	(2,202)
Total current tax charge	2,372	4,243
Deferred tax:		
Origination and reversal of timing differences (Accelerated capital allowances and other)	(1,775)	(443)
Adjustment in respect of previous periods	672	(1,558)
Total deferred tax credit excluding deferred tax credit on pension liability (note 18)	(1,103)	(2,001)
Pension cost relief in excess of pension cost charge	1,950	210
Total deferred tax charge/(credit)	847	(1,791)
Tax on profit on ordinary activities	3,219	2,452

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 30% (2005 30%) The differences are explained below

	2006 £000	2005 £000
Profit on ordinary activities before tax	5,519	4,480
Profit on ordinary activities multiplied by standard rate in the UK 30% (30%)	1,656	1,344
Effects of		
Expenses not deductible for tax purposes	1,100	281
Excess of depreciation over capital allowances and other timing differences	(175)	233
Adjustments in respect of previous periods	266	1,437
Utilisation of prior year tax losses	(600)	(900)
Profits subject to lower level of overseas tax	(1,907)	(431)
Non tax deductible goodwill amortisation and other permanent differences	1,181	1,181
Deferred tax assets not recognised	851	1,098
Current tax charge for the year	2,372	4,243

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

Subsequent to the year end, the Chancellor announced that the full rate of corporation tax will be reduced from 30% to 28% with effect from 1 April 2008, amongst other tax changes The expected impact of these changes is explained in note 29

9 PROFIT OF COMPANY

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented as part of these financial statements The Company's profit for the year amounted to £360,000 (2005 £315,000)

10. INTANGIBLE ASSETS

	Trademarks £000	Goodwill £000	Total £000
THE GROUP			
Cost			
At 1 January 2006	158	11,347	11,505
Additions	-	-	-
At 31 December 2006	**158**	**11,347**	**11,505**
Amortisation			
At 1 January 2006	115	2,863	2,978
Charge for year	4	567	571
At 31 December 2006	**119**	**3,430**	**3,549**
Net book amounts			
At 31 December 2006	**39**	**7,917**	**7,956**
At 31 December 2005	43	8,484	8,527

11. TANGIBLE ASSETS

THE GROUP	Freehold Land & Buildings £000	Short Leasehold Land & Buildings £000	Motor Vehicles, Plant & Machinery £000	Fixtures, Fittings & Office Equipment £000	Construction in progress £000	Total £000
Cost/ valuation						
At 1 January 2006	10,071	58,189	112,534	19,105	-	199,899
Additions	-	2,129	1,812	655	3,119	7,715
Disposals	-	-	(129)	(298)	(1,234)	(1,661)
Revaluation	2,190	-	-	-	-	2,190
At 31 December 2006	**12,261**	**60,318**	**114,217**	**19,462**	**1,885**	**208,143**
Depreciation						
At 1 January 2006	-	15,817	85,724	15,417	-	116,958
Charge for the year	-	2,081	6,646	772	-	9,499
Disposals	-	-	(129)	(290)	-	(419)
At 31 December 2006	-	**17,898**	**92,241**	**15,899**	-	**126,038**
Net book amounts						
At 31 December 2006	**12,261**	**42,420**	**21,976**	**3,563**	**1,885**	**82,105**
At 31 December 2005	10,071	42,372	26,810	3,688	-	82,941

Freehold land & buildings represents an investment property from which the Group derives rental income, which was previously recorded at open market valuation of £10 1 million The property was valued at £12 3 million by Peter Galan & Company, a qualified chartered surveyor, as at 31 December 2006 on the basis of open market value At 31 December 2006 the property is stated at the open market valuation of £12 3 million The historical cost of the investment property is £10 5 million If the investment property was depreciated the accumulated depreciation at 31 December 2006 would be £4 0 million (2005 £3 7 million) The net book value at 31 December 2006 would be £6 5 million (2005 £6 8 million)

Motor vehicles, plant & machinery, fixtures & fittings and office equipment include assets acquired under finance leases in respect of which, as at 31 December 2006, the net book value was £7 8 million (2005 £10 1 million) after charging £2 3 million (2005 £2 3 million) depreciation for the year

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

- Short leasehold land and buildings - gross asset cost of £19 0 million (2005 £19 0 million) and accumulated depreciation of £9 0 million (2005 £8 5 million) Motor vehicles, plant and machinery - gross cost of £57 8 million (2005 £57 8 million) and accumulated depreciation of £49 9 million (2005 £48 0 million)

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

- Short leasehold land and buildings - £0 8 million (2005 £0 9 million)

- Motor vehicles, plant and machinery - £0 4 million (2005 £0 5 million)

THE COMPANY

The tangible fixed assets of the company at 31 December 2006 amount to £12 3 million (2005 £10 1 million) and consist entirely of the investment property referred to above

12. FIXED ASSET INVESTMENTS

THE GROUP

	2006 £000	2005 £000
Interest in joint ventures		
At 1 January - net liabilities	**(8,419)**	(7,549)
- goodwill (gross)	**33,691**	33,691
	25,272	26,142
Share of profits/(losses) retained	**5,589**	(870)
At 31 December - net liabilities	**(2,830)**	(8,419)
- goodwill (gross)	**33,691**	33,691
	30,861	25,272
Aggregate amortisation of goodwill		
At 1 January	**(13,968)**	(10,599)
Charge for the period	**(3,369)**	(3,369)
At 31 December	**(17,337)**	(13,968)
Net book amount at 31 December		
Net liabilities	**(2,830)**	(8,419)
Goodwill	**16,354**	19,723
	13,524	11,304
Other fixed asset investment	**85**	85
Total fixed asset investments	**13,609**	11,389

Interests in joint ventures principally comprise

- 50% of the equity share capital of West Ferry Printers Limited, a newspaper printing company
- 50% of the equity share capital of Independent Star Limited, a newspaper publisher registered in the Republic of Ireland, the principal activity of which is the publishing of 'The Star' newspaper in that country
- 50% of the equity share capital of Express Shopping Channel, a broadcasting and television production company The company terminated broadcasting in 2005

12. FIXED ASSET INVESTMENTS (Continued)

Details of significant investments in Joint Venture Companies

	2006 £000	2005 £000
Summary of Joint Venture net assets		
Share of fixed assets	**11,872**	15,007
Share of current assets	**13,247**	9,320
Share of gross assets	**25,119**	24,327
Share of liabilities		
Due within one year	**(4,883)**	(4,756)
Due after one year	**(23,066)**	(27,990)
Share of gross liabilities	**(27,949)**	(32,746)
Net liabilities	**(2,830)**	(8,419)

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

	2006 £000	2005 £000
West Ferry Printers Limited		
Turnover	**27,269**	35,843
Profit/(loss) before taxation	**4,106**	(438)
Taxation	**(1,341)**	124
Profit/(loss) after taxation	**2,765**	(314)
Gains/(losses) recognised in statement of total recognised gains and losses	**2,752**	(1,400)
Fixed assets	**11,680**	14,812
Current assets	**10,381**	6,218
Liabilities due within one year	**(2,446)**	(2,053)
Liabilities due after more than one year	**(23,000)**	(27,879)
Net liabilities	**(3,385)**	(8,902)

THE COMPANY	2006 £000	2005 £000
Shares in group undertakings		
At 1 January 2006 and 31 December 2006	**110**	110

The immediate subsidiary undertaking and its percentage holding is

	Principal activity	**Ordinary shares**
Northern & Shell Network Limited	Publishing, printing and broadcasting	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 31

13 STOCKS

	The Group	
	2006 £000	2005 £000
Raw materials and consumables	3,781	5,966
Finished goods and goods for resale	425	624
	4,206	6,590

14. DEBTORS

	The Group	
	2006 £000	2005 £000
Trade debtors	33,449	32,428
Other debtors	5,596	6,881
Loan to joint venture company	2,025	2,025
Prepayments and accrued income	9,752	10,991
	50,822	52,325

	The Company	
Amounts falling due within one year	2006 £000	2005 £000
Amounts owed by group undertakings	22,048	20,596
	22,048	20,596

Amounts owed by group undertakings carry interest between 2 0% and 2 5% above base rate, are unsecured and repayable on demand Amounts owed by dormant group undertakings, included in amounts owed by group undertakings, are non-interest bearing The loan to a joint venture company carries interest of 2 5% above LIBOR, is unsecured and repayable on demand

15. CURRENT ASSET INVESTMENTS

	The Group	
	2006 £000	2005 £000
Quoted investments	14	19
Unquoted investments	8	1
	22	20

16. CREDITORS· amounts falling due within one year

	The Group	
	2006	2005
	£000	£000
Bank loans and overdrafts (note 19 and note 26)	**6,590**	14,509
Less deferred finance charges	**(477)**	(554)
Amounts owed with respect to consortium relief	**4,264**	4,077
Loans from joint venture	**-**	250
Other amounts owed to joint ventures	**1,328**	1,924
Trade creditors	**26,746**	30,967
Other creditors	**3,629**	4,809
Taxation and social security	**1,617**	1,395
Obligations under finance leases (note 20)	**179**	153
Corporation tax	**8,269**	7,966
Redeemable ordinary 'B' shares	**900**	900
Accruals and deferred income	**30,924**	32,889
	83,969	99,285

	The Company	
	2006	2005
	£000	£000
Bank loans (note 19)	**545**	536
Amounts owed with respect to group relief	**459**	345
Amounts owed to group undertakings	**22,424**	20,907
Accruals and deferred income	**198**	198
	23,626	21,986

Amounts owed to group undertakings carry interest between 2 0% and 2 5% above base rate, are unsecured and repayable on demand Amounts owed with respect to group relief are non interest bearing Amounts owed to joint ventures carry interest between 2 0% and 2 5% above base rate, are unsecured and repayable on demand

17 CREDITORS. amounts falling due after more than one year

	The Group	
	2006	2005
	£000	£000
Bank loans (note 19 and 26)	**38,409**	37,752
Obligations under finance leases (note 20)	**402**	532
Accruals and deferred income	**471**	-
	39,282	38,284

	The Company	
	2006	2005
	£000	£000
Bank loan (note 19 and 26)	**4,368**	4,916

18. PROVISION FOR LIABILITIES AND CHARGES

	Deferred Tax – excluding deferred tax on pension liability £000	Insurance Claims provision £000	Other provisions £000	Total £000
The Group				
At 1 January 2006	9,069	-	499	9,568
(Credited)/charged to the profit and loss account	(1,103)	6,320	3,240	8,457
Utilised during the year	-	-	(499)	(499)
At 31 December 2006	**7,966**	**6,320**	**3,240**	**17,526**

The addition during the year of £6 3 million to 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 £6 3 million is appropriate

Included in other provisions is an addition in the year of £3 2 million which relates to the provision for onerous rental commitments at the main business premises, Number 10 Lower Thames Street This provision is expected to be utilised during the period to 31 December 2011

The deferred taxation provided in these financial statements is as follows

	2006 £000	2005 £000
Provision for deferred tax including deferred tax on pension liability		
Accelerated capital allowances	**7,759**	6,769
Other timing differences	**207**	2,300
Deferred tax excluding that relating to pension liability	**7,966**	9,069
Deferred tax on pension liability (note 27)	**(22,080)**	(16,830)
Total provision for deferred tax – asset	**(14,114)**	(7,761)
1 January 2006	**(7,761)**	
Deferred tax charge in profit and loss account (note 8)	**847**	
Deferred tax on the actuarial loss on the pension scheme charged to the statement of total recognised gains and losses	**(7,200)**	
At 31 December 2006	**(14,114)**	

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

19 BANK LOAN OBLIGATIONS

	The Group	
	2006	2005
	£000	£000
The group's bank loan obligations are due		
Within 1 year	**6,526**	13,995
In more than 1 year but not more than 2 years	**6,536**	5,970
In more than 2 years but not more than 5 years	**16,794**	18,097
In more than 5 years	**15,079**	13,685
	44,935	51,747
Less deferred finance charges	**(477)**	(554)
	44,458	51,193

Bank loans are secured over the assets of the Group Included in bank loans is a loan of £27 8 million, which carries interest at LIBOR plus 1 0% and is repayable in quarterly instalments over ten years, and a US $24 0 million loan (sterling equivalent at 31 December 2006 £12 2 million), which carries interest at LIBOR plus a maximum margin of 1 15% and is repayable in six monthly instalments over four years The balance of £4 9 million is secured on the investment property held by the Group, is repayable over nine years and carries interest at the NatWest bank base rate plus 1 0%

THE COMPANY

The Company's bank loan obligations of £4 9 million (2005 £5 4 million), of which £545,000 is due within one year (2005 £536,000), and £4 4 million is after more than one year (2005 £4 9 million), is subject to the terms and conditions set out in respect of the £4 9 million group bank loan above

20. OBLIGATIONS UNDER FINANCE LEASES

The Group is subject to finance lease obligations which are due

	2006	2005
	£000	£000
Within one year	**179**	153
Within two to five years	**402**	532
	581	685

21. OPERATING LEASE COMMITMENTS

At 31 December 2006 the Group was committed to making the following annual payments in respect of operating leases which expire

	Land and Buildings		Other	
	2006	2005	2006	2005
	£000	£000	£000	£000
Within one year	**2**	4	**8**	8
Two to five years	**492**	405	**341**	329
After five years	**8,447**	6,199	**-**	-
	8,941	6,608	**349**	337

22 SHARE CAPITAL

	The Group & Company			
	Authorised		Allotted and Fully Paid	
	2006 £000	2005 £000	2006 £000	2005 £000
Ordinary shares of £1 each	**110**	110	**110**	110

23. SHAREHOLDERS' DEFICIT

a) Reserves

	The Group			
	Capital redemption reserve £000	Other reserve £000	Revaluation reserve £000	Profit & loss £000
At 1 January 2006	100	3,860	347	(12,377)
Surplus on revaluation of property	-	-	2,190	-
Retained profit for the year	-	-	-	2,300
Actuarial loss on pension scheme - excluding Joint Ventures (note 27)	-	-	-	(24,000)
Movement on deferred tax relating to pension scheme - excluding Joint Ventures (note 18)	-	-	-	7,200
Actuarial gain on Joint Venture pension scheme	-	-	-	3,931
Movement on deferred tax relating to Joint Venture pension scheme	-	-	-	(1,179)
At 31 December 2006	**100**	**3,860**	**2,537**	**(24,125)**

Reserves

	The Company	
	Revaluation reserve £000	Profit & loss £000
At 1 January 2006	347	3,418
Retained profit for the year	-	360
Surplus on revaluation of property	2,190	-
At 31 December 2006	**2,537**	**3,778**

23. SHAREHOLDERS' DEFICIT (continued)

b) Reconciliation of movements in shareholders' deficit

	The Group 2006 £000	2005 £000
Profit for the year	**2,300**	2,028
Surplus on revaluation of property	**2,190**	347
Actuarial (loss)/gain on pension scheme – excluding Joint Ventures (note 27)	**(24,000)**	15,300
Movement on deferred tax relating to pension scheme – excluding Joint Ventures (note 18)	**7,200**	(4,590)
Actuarial gain on Joint Venture pension scheme (23 a)	**3,931**	(2,000)
Movement on deferred tax relating to Joint Venture pension scheme (23 a)	**(1,179)**	600
Net (reduction in)/addition to shareholders' funds	**(9,558)**	11,685
Opening shareholders' deficit	**(7,960)**	(19,645)
Closing shareholders' deficit	**(17,518)**	(7,960)

	The Company 2006 £000	2005 £000
Profit for the year	**360**	315
Surplus on revaluation of property	**2,190**	347
Net addition to shareholders' funds	**2,550**	662
Opening shareholders' funds	**3,875**	3,213
Closing shareholders' funds	**6,425**	3,875

24 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW

	2006 £000	2005 £000
Operating profit	**7,220**	12,112
Depreciation charge	**9,499**	9,061
Amortisation of intangible assets	**571**	571
Loss/(profit) on sale of tangible assets	**1,216**	(126)
Decrease/(increase) in stocks	**2,384**	(3,551)
Decrease/(increase) in debtors	**1,503**	(2,414)
Decrease in creditors	**(6,915)**	(12,111)
Difference between pension costs and cash contributions	**(7,400)**	(2,600)
Increase/(decrease) in provisions	**9,061**	(369)
Other non-cash changes	**(2,938)**	1,291
Net cash inflow from continuing operating activities	**14,201**	1,864

Non-cash changes comprise foreign exchange (gains)/losses

25 RECONCILIATION OF NET CASH FLOW TO MOVEMENTS IN NET DEBT

	2006 £000	2005 £000
Net debt at 1 January	**(35,967)**	(26,614)
Decrease in cash in the period	**(146)**	(2,555)
Cash outflow from finance lease payments	**104**	153
Loan finance received	**(9,500)**	(17,295)
Finance charges paid	**-**	210
Loan finance repaid	**14,546**	10,492
Loan repaid to joint venture	**250**	-
Loan from joint venture	**-**	(250)
Other non cash changes	**1,684**	(120)
Liquid resources	**7**	12
Net debt at 31 December	**(29,022)**	(35,967)

26 ANALYSIS OF CHANGES IN NET DEBT

	1 January £000	Cash flow £000	Non cash £000	Exchange movements £000	31 December £000
Cash in hand and at bank	16,655	(596)	-		**16,059**
Overdrafts excluding short term loan	(514)	450	-		**(64)**
	16,141	(146)	-		**15,995**
Finance leases	(685)	104	-		**(581)**
Loan finance due within 1 year	(13,691)	14,103	(6,600)	139	**(6,049)**
Loan finance due after 1 year	(37,752)	(8,807)	6,529	1,621	**(38,409)**
Liquid resources	20	7	(5)	-	**22**
Net debt	(35,967)	5,261	(76)	1,760	**(29,022)**

27 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 2006 The results below have been updated by a qualified independent actuary using the projected unit valuation method The Group currently makes contributions at 6% of the Contribution Earnings Both Funds are defined benefit schemes

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 £708,000 (2005 £623,000) At 31 December 2006 contributions of £62,000 were outstanding (2005 £53,000) These have been paid in full after the year end

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

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

	2006	**2005**	**2004**
Discount rate	5 20%	4 90%	5 30%
Rate of increase in salaries	3 20%	3 10%	3 75%
Rate of LPI increase in pensions in payment	3 10%	3 00%	3 00%
Inflation assumption	2 80%	2 70%	2 80%

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

The 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 2006	**Fair value at 2006 £000**	**Long – term rate of return expected at 2005**	**Fair value at 2005 £000**	**Long – term rate of return expected at 2004**	**Fair value at 2004 £000**
Equities	8 25%	144,900	7 75%	114,000	7 75%	109,300
Gilts	4 50%	62,900	4 00%	153,000	4 80%	139,700
Corporate bonds	5 20%	142,200	4 90%	102,300	5 30%	89,100
Other	5 00%	14,500	4 50%	5,700	4 75%	8,100
Total market value of assets		364,500		375,000		346,200
Present value of scheme liabilities		(438,100)		(431,100)		(418,300)
Deficit in the schemes		(73,600)		(56,100)		(72,100)
Related deferred tax asset		22,080		16,830		21,630
Net pension liability under FRS 17		(51,520)		(39,270)		(50,470)

27. PENSION SCHEMES (continued)

FRS 17 Disclosure (continued)

Details of experience gains and losses for the year ended 31 December 2006

History of experience gains and losses	2006	2005	2004	2003	2002
Difference between the expected and actual					
Rate of return on assets	(£11 4m)	£26 5m	£11 7m	£11 6m	£38 9m
Percentage of scheme assets	(3 1)%	7 1%	3 4%	3 5%	(12 1)%
Experience (loss)/gain on scheme liabilities	(£25 9m)	£2 0m	(£28 6m)	(£0 9m)	£6 1m
Percentage of the present value of the scheme liabilities	(5 9)%	0 5%	(6 8)%	(0 2)%	1 8%
Total amount recognised in STRGL	(£24 0m)	£15 3m	(£19 4m)	(£5 7m)	(£29 9m)
Percentage of the present value of the scheme liabilities	(5 5)%	3 5%	(4 6)%	(1 5)%	(8 7)%

The following amounts have been recorded in the consolidated profit and loss account for both schemes as at 31 December 2006

Operating profit	2006 £000	2005 £000
Current service cost	**3,300**	3,300
Past service cost/(credit)	**200**	(4,700)
Settlement gains	**(8,500)**	-
Total operating credit	**(5,000)**	(1,400)

Other finance income/(expenses)	2006 £000	2005 £000
Expected return on assets	**19,600**	19,800
Interest cost	**(20,500)**	(21,700)
Total net return	**(900)**	(1,900)

Movement in deficit during the year	2006 £000	2005 £000
Deficit at start of year	**(56,100)**	(72,100)
Current service cost	**(3,300)**	(3,300)
Past service (cost)/credit	**(200)**	4,700
Settlement gains	**8,500**	-
Employer contributions	**2,400**	1,200
Other financing expenses	**(900)**	(1,900)
Actuarial (loss)/gain	**(24,000)**	15,300
Deficit at end of the year	**(73,600)**	(56,100)

Statement of total recognised gains and losses	2006 £000	2005 £000
Actual return less expected return on scheme assets	**(11,400)**	26,500
Experience (losses)/gains on scheme liabilities	**(25,900)**	2,000
Change in actuarial assumptions	**13,300**	(13,200)
Actuarial (loss)/gain	**(24,000)**	15,300

28. GUARANTEES AND CONTINGENT LIABILITIES

At 31 December 2006, bank loans and overdrafts have been jointly and severally guaranteed by the Company and certain subsidiaries At 31 December 2006 the maximum liabilities which could arise under these credit arrangements was £44 9 million (2005 £51 7 million) The shares of the subsidiary companies are pledged as security for these arrangements After the year end, these arrangements were amended (note 29)

During the year a group company, Northern & Shell Pacific Limited, also entered into certain bank guarantees The bank, subject to the terms of the guarantee but otherwise unconditionally, undertakes to pay a media buyer on demand any sums to an amount not exceeding AUD $2 million (sterling equivalent at 31 December 2006 £805,000) and to pay to the landlord of the company's business premises on demand any sum or sums to an amount not exceeding AUD $188,000 (sterling equivalent at 31 December 2006 £76,000) The bank's liabilities have also been jointly guaranteed by the Company's subsidiary, Northern & Shell Network Limited The bank's liabilities cease and are determined on 6 October 2007 and 18 July 2016, respectively

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 18)

At 31 December 2006, certain claims in the normal course of business were pending against the Company and Group and certain tax computations were still subject to agreement with the relevant taxation authorities Although there is uncertainty regarding the final outcome of these matters, the directors believe, based on professional advice received, that adequate provision has been made in the financial statements for anticipated liabilities and the probable ultimate resolution of such matters will not have a material effect on the financial statements of the Company and Group

29 POST BALANCE SHEET EVENTS

In March 2007, the directors made the strategic decision to terminate the publication of Happy Magazine, the Group's shopping magazine

On 21 March 2007, the Chancellor announced that the full rate of corporation tax will be reduced from 30% to 28% with effect from 1 April 2008, amongst other tax changes If implemented, the impact of these changes is expected to decrease the Group's overall deferred tax asset at 31 December 2006 by approximately £1 9 million

On 18 April 2007, the bank loans were restructured and the US $24 0 million loan was repaid in full (note 19) As a result, the arrangements in place for guarantees as at 31 December 2006 were superseded and the bank loans are now jointly and severally guaranteed by two subsidiary companies, with the shares of the other subsidiary companies no longer pledged as a security for the arrangements (note 28)

30. RELATED PARTY TRANSACTIONS

The Group, through its subsidiary company Express Newspapers, participates in a joint venture under which it holds a 50% shareholding in the company West Ferry Printers Limited, where the remaining shares are owned by Telegraph Group Limited The purpose of the joint venture is the provision of printing facilities to both Express Newspapers and Telegraph Group Limited and certain third parties In the year ended 31 December 2006, West Ferry Printers Limited provided Express Newspapers with printing which was included in the turnover of the year ended 31 December 2006 at £15 3 million (2005 £16 5 million) At 31 December 2006, £1 3 million was payable in respect of that printing (2005 £1 9 million) by the Group to West Ferry Printers Limited

It was agreed by the shareholders of West Ferry Printers Limited that they could borrow, in equal amounts, some of the surplus cash of the company The loan incurs interest of base rate plus 1 0% and there are no fixed repayment terms The balance payable by Express Newspapers was £nil as at 31 December 2006 (2005. £250,000)

The Group, through its subsidiary company Northern & Shell Network Limited, participates in a joint venture with N Brown Group Plc under which it holds a 50% shareholding in the company, Express Shopping Channel Limited As at 31 December 2006, the loan amount owed to the Group was £2 0 million (2005 £2 0 million) The loan incurs interest of base rate plus 2 5% and there are no fixed repayment terms Loan interest due in respect of this loan at 31 December 2006 amounted to £174,000 (2005 £174,000) As at 31 December 2006, the company also owed the Group £1 9 million (2005 £2 1 million) These amounts are included in 'trade

29 RELATED PARTY TRANSACTIONS (Continued)

debtors' and 'other debtors' respectively In 2005 the joint venture company terminated its broadcasting activities During the year, Express Shopping Channel Limited sold plant and machinery of £nil (2005 £100,000) to the Group Tax losses incurred by Express Shopping Channel Limited will be surrendered to Group companies in accordance with the Consortium Relief provisions and will be paid for At 31 December 2006, the Group owed £4 3 million (2005 £4 1 million) to the company in respect of these tax losses This amount is included within Creditors 'amounts owed with respect to group relief and consortium relief' Express Shopping Channel Limited ceased to trade on 30 November 2005

During the year, the Group entered into a loan with Mr R C Desmond for £35 0 million, incurring interest at LIBOR plus a margin of 2 0% The whole of the loan and interest of £983,000 was repaid in full to Mr R C Desmond in the year At 31 December 2006, the Group owed £nil (2005 £nil) in relation to Mr R C Desmond's emoluments and pension contributions for 2006

During the year, the Group made contributions of £588,000 (2005 £731,000) to a charitable trust, of which Mr R C Desmond is a trustee At the year end there were no balances due to or from the charitable trust

Badger Property Partners LLP, of which Mr R C Desmond is a partner, owns the 10 Lower Thames Street property which is the head office of the Northern & Shell Network group The 10 Lower Thames Street property is let to Express Newspapers on a 20 year lease from 1 January 2004 for an annual rental of £7 6 million (2005 £5 5 million), with a rent review every 5 years During the year, a deed of variation was agreed to increase the annual rent to this amount The directors received independent advice from a qualified chartered surveyor recommending a change as this would limit future rent increases The lease is drawn up in line with current market terms with the rent payable being in line with rents achieved in relation to other similar properties in the area The charge for the year was £6 4 million (2005 £5 5 million) No amounts were due to Badger Property Partners LLP as at 31 December 2006 (2005 £nil)

During the year, Mr R C Desmond paid insurance premiums of £6 3 million (2005 £nil) to a subsidiary company, Northern & Shell Insurance Limited The purpose of the premiums was to insure against personal risks and liabilities The Group is committed to taking steps to mitigate the risks and liabilities, however, the amount of the potential liabilities is uncertain

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

31. PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

Principal subsidiaries and percentage holding

Company Name	Principal Activity	% Shareholding
Northern & Shell Network Limited	Principal holding company	100%
Northern & Shell Group Limited	Holding company	100%
Portland Media Group Limited	Holding company	100%
Northern & Shell Finance Limited	Treasury	100%
Express Newspapers	Publishing	100%
Broughton Printers Limited	Printing	100%
Northern & Shell Distribution Limited	Magazine distributor	100%
Northern & Shell plc	Publishing	100%
Portland Enterprises Limited	Television production	100%
Portland Enterprises (CI) Limited	Television broadcasting	100%
RHF Productions Limited	Television broadcasting	100%
Northern & Shell Magazines Limited	Publishing	100%
Northern & Shell North America Limited *	Publishing	100%
Northern & Shell Pacific Limted **	Publishing	100%
Northern & Shell Insurance Limited	Insurance	100%
Northern & Shell Luxembourg SARL	Finance	100%

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

30 PRINCIPAL SUBSIDIARIES AND JOINT VENTURES (Continued)

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 Australia

All of the above companies are consolidated within the group accounts

Joint Ventures	Incorporated in	Principal activity	Stake	Nominal value of allotted share
West Ferry Printers Limited	United Kingdom	Printing	50%	£50 ordinary shares
Independent Star Limited	Republic of Ireland	Publishing	50%	€635 'E' ordinary shares
Express Shopping Channel	United Kingdom	Broadcasting	50%	£449 ordinary shares

32. CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure authorised and contracted for but not provided in the accounts amounted to £10 0 million (2005 £1 4 million) relating to the purchase of plant and machinery