

# ACCOUNTING POLICIES

## Basis of Accounting

The accounts have been prepared:

(a) under the historical cost convention modified to include the revaluation of certain assets;

(b) in accordance with Section 227 of, and Schedule 4 to, the Companies Act 1985; and

(c) in accordance with applicable accounting standards in the United Kingdom.

## Basis of Consolidation

(a) The Group accounts comprise a consolidation of the accounts of the Company and of all its subsidiaries, together with the Group's share of its interest in its joint ventures and associates.

All major Group undertakings present accounts up to a date within seven days of 30th. Results of subsidiaries acquired or disposed of during the year are incorporated from the effective date of acquisition or up to the date of their disposal.

The net assets of subsidiaries acquired are recorded at their fair values, reflecting their condition at that date, which gives rise to purchased goodwill.

## Changes in Presentation of Financial Information

The Group has changed its accounting policy to reclassify the Group's investment in its own shares within shareholders funds in accordance with UITF Abstract 38. As a consequence, provision is no longer made for the cost of shares formerly purchased to match options, granted under the Company's 1997 Executive Share Option Scheme, in excess of the option exercise price.

As a result of these changes, the prior year primary statements and shareholders' funds have been restated to show the Company's own shares of £27.5 million as a negative reserve, offset by a prior year adjustment to release the provision held and hence to increase revenue reserves by £2.5 million at 28th September, 2003. Group operating profit for the prior year has also been restated, being increased by £0.4 million. The sale of these shares in August resulted in a loss of £3.8 million being taken through shareholders' funds, of which £2.5 million had been charged against operating profits under the previous policy.

Furthermore, the Group's policy in respect of revenue recognition has been amended to reflect the publication in November 2003 of Application Note G to FRS 5 so that the earnings of exhibitions straddling the year end are recognised over the life of the event, where appropriate, and advertising revenues from the business to business careers division's web sites are spread over the term of contract. The effect of this change is that the prior year Group balance sheet has been restated so as to increase net assets by £0.2 million. This change is one of timing only and has no impact on the results of the prior year.

Other than these changes of policy, the accounts have been prepared in accordance with the accounting policies adopted last year. The Group continues to comply with the transitional arrangements for the implementation of FRS 17, Retirement Benefits and, as permitted, to prepare its accounts under SSAP 24 'Accounting for Pension Costs'.

## Goodwill and Other Intangible Assets

(a) Goodwill arising on consolidation in respect of acquisitions, prior to the adoption of FRS 10 on 28th September, 1998, was written off against reserves in the year of acquisition.

On disposal or closure of businesses, goodwill previously written off against reserves is taken through the profit and loss account in arriving at the gain or loss on disposal.

(b) Goodwill arising on consolidation, in respect of acquisitions made since 28th September, 1998, is capitalised and amortised through the profit and loss account over the lower of their useful economic lives and a period of 20 years.

(c) In calculating the goodwill, the total consideration, both actual and deferred, is taken into account. Where the deferred consideration is payable in cash, the liability is discounted to its present value. Where the deferred consideration is contingent and dependant upon future trading performance, an estimate of the present value of the likely consideration payable is made. This contingent deferred consideration is re-assessed annually and corresponding adjustment is made to the goodwill arising on acquisition. The difference between the present value and the total amount payable at a future date gives rise to a finance charge which is charged to the profit and loss account and credited to the liability over the period in which the consideration is deferred. The discount used approximates to market rates.

(d) Impairment reviews of goodwill and other intangible assets are carried out at the end of the first financial year after acquisition and where there is any indication of impairment.

Purchased intangible assets relating to newspaper publishing rights, titles, radio licences and certain other intangible assets are capitalised and amortised through the profit and loss account over the lower of their useful economic lives, if any, and a period of 20 years.

## Foreign Exchange

(a) Assets and liabilities in foreign currencies are translated into sterling at the rates ruling at the balance sheet date. Revenue items are translated at average rates for the year, except where they are covered by forward contracts in which case the forward rate is used. Differences on exchange, arising from the re-translation of the opening net investment in subsidiaries and associates and from the translation of the results of those undertakings at average or forward rates, are dealt with as movements on reserves.

(b) Foreign currency borrowings are matched against net assets (adjusted to include goodwill arising on acquisitions) and the resulting translation differences are dealt with as movements on reserves.

(c) Translation differences on the excess of foreign currency borrowings over matching net assets (adjusted to include goodwill arising on acquisitions) are taken to the profit and loss account.

(d) All other exchange differences are taken to the profit and loss account.

## Tangible Fixed Assets

Tangible fixed assets are stated at historical cost less accumulated depreciation, adjusted for revaluations of certain properties at 30th September, 1994.

Specialised buildings, being those constructed specifically for use in the business, are carried at historical cost less accumulated depreciation.

Non-specialised buildings are carried at their frozen 1994 valuations, as permitted by FRS 15, Tangible Fixed Assets, as adjusted for subsequent additions, disposals, depreciation and impairment, if any.

# ACCOUNTING POLICIES

## Continued

Depreciation is calculated to write off the cost of tangible fixed assets by equal annual instalments over their estimated useful lives as follows:

Freehold buildings and long leasehold properties	10 to 50 years
Short leasehold properties	Period of lease
Plant and equipment	3 to 25 years

Depreciation on freehold buildings and leasehold properties is based on cost, or valuation where properties have been re-valued. Freehold land and assets in the course of construction are not depreciated.

### Leased Assets

Where assets are financed by leasing agreements which give rights approximating to ownership, the assets are treated as if they had been purchased. The present value of minimum lease payments payable during the lease term is capitalised as a tangible asset and the corresponding leasing commitment is included in obligations under finance leases. Rentals payable are apportioned between interest, which is charged to the profit and loss account, and capital, which reduces the outstanding commitment.

Rentals payable relating to all other leases are charged to the profit and loss account on a straight line basis over the life of the lease.

### Joint Ventures and Associates

Joint ventures are those entities in which the Group holds a long term interest and which is jointly controlled by the Group and one or more venturers under a contractual arrangement. Joint ventures are accounted for using the gross equity method of accounting.

Associates are those undertakings, other than subsidiaries and joint ventures in which the Group holds a long term participating interest and exerts a significant influence. The Group's share of profits less losses of associates is included in the Group's profit and loss account and the Group's share of their net assets, together with goodwill arising on acquisition, is included in the Group balance sheet.

The basis in which these joint ventures and associates are equity accounted is set out in Note 23.

### Investments

Listed and unlisted investments are held at cost, less any provision for impairment.

Investments in Group undertakings are held by the Company at cost, less any provision for impairment.

### Stocks and Work in Progress

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost of work in progress includes overheads attributable to the cost of production.

### Deferred Taxation

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise, based on current tax rates and on law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Timing differences arising on tax deductible goodwill written off to reserves are recognised. Due to the indefinite nature of these timing differences the Group believes it appropriate to discount the resultant deferred tax assets and liabilities as they arise on businesses expected to be held for the long term. As a consequence, all other deferred tax assets and liabilities are also discounted.

### Pension Costs

The Group has taken advantage of the transitional arrangements of FRS 17, Retirement Benefits, which permit the costs, accruals and prepayments recorded in the accounts to be reported under the requirements of SSAP 24, Accounting for Pension Costs. This is consistent with the basis adopted last year. The cost of providing pensions is calculated using actuarial valuation methods, which reflect the long term costs of providing pensions.

Thus, the amount charged to the profit and loss account is calculated so as to produce a substantially level percentage of the current and future pensionable payroll. Variations from the regular cost so calculated are allocated to the profit and loss account over the average remaining service lives of employees.

The additional disclosures required by FRS 17 are explained in Note 39.

### Financial Instruments

The Group uses various derivative financial instruments to manage its exposure to foreign exchange and interest rate risks. These have included currency swaps, forward foreign currency contracts, interest rate swaps, interest rate caps and interest rate floors. The Group considers its derivative financial instruments to be hedges and matches them with the relevant hedged item. Cash flows relating to these derivative financial transactions are netted against hedged transactions in the Cash flow statement within net cash inflow from operating activities, or returns on investment and servicing of finance, or disclosed within financing, as appropriate.

Where forward foreign exchange contracts or cross currency swaps are used to hedge borrowings, the borrowings hedged are translated at the year end at the exchange rate implicit within the respective derivative. Any exchange differences arising are taken to the profit and loss account to match the accounting treatment of exchange gains or losses on the borrowings. Where forward foreign exchange contracts are used to hedge future revenues or costs, the gain or loss is not recognised until the revenues arise or the costs are incurred.

Payments or receipts on interest rate swaps, caps or floors are accrued with interest payable. The derivatives are not revalued. Arrangement fees on Eurobonds are amortised over the estimated life of the Bonds.

### Own Shares

The Company's own shares, held as treasury shares and at the prior year end within the DMGT Share Trust, are shown as a deduction from shareholders' funds.