

## 1 BASIS OF PREPARATION

The separate financial statements of the Company are prepared under the historical cost convention, modified to include the revaluation to fair value of certain financial instruments as described below, in accordance with the Companies Act 1985 and UK Generally Accepted Accounting Principles (UK GAAP). The following paragraphs describe the main accounting policies under UK GAAP, which have been applied consistently.

### Profit for the financial year

As permitted by section 230 of the Companies Act 1985, a separate profit and loss account for the Company has not been included in these accounts. The Company's profit after tax for the year, calculated on a UK GAAP basis, was £157.8 million (2006 loss £62.1 million).

## 2 ACCOUNTING POLICIES

### Intangible assets

Impairment reviews of 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.

### Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation. Depreciation is calculated to write down the cost of tangible fixed assets by equal annual instalments over their estimated useful lives as follows:

Plant and equipment	3 to 25 years
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### Foreign exchange

Exchange differences arising on foreign currency borrowings and derivative financial instruments, which are used to provide a hedge against foreign currency investments, are also taken to reserves to the extent that they match exchange differences on the investments to which they relate. Other transactions in foreign currencies are recorded at the rate ruling at the date of the transaction, or at the contracted rate where a related hedging contract exists. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates prevailing on the balance sheet date. All such exchange differences are taken to the profit and loss account.

### Investments

Investments in subsidiaries are stated at cost, less any provision for impairment, where appropriate.

Other investments which are classified as either held for trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gain and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

### Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. 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 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.

### Financial instruments

The Company 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 Company considers its derivative financial instruments to be hedges and matches them with the relevant hedged item.

When 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 bonds are amortised over the estimated life of the bonds.

### Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

### Capital market and bank borrowings

Interest bearing loans and overdrafts are initially measured at fair value (which is equal to cost at inception), and are subsequently measured at amortised costs, using the effective interest rate method, except where they are identified as a hedged item in a fair value hedge. Any difference between the proceeds, net of transaction costs and the settlement or redemption of borrowings is recognised over the term of the borrowing.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to settle on a net basis, or realise the asset and liability simultaneously.

### Financial assets

#### – Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

#### – Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

The Company has no significant long-term trade receivables or trade payables.

## 2 ACCOUNTING POLICIES CONTINUED

### – Available-for-sale investments

Investments and financial assets are recognised and de-recognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the time frame established by the market concerned, and are measured at fair value, including transaction costs.

Investments are classified as either held-for-trading or available-for-sale. Where securities are held-for-trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period. The fair value of listed securities is determined based on quoted market prices, and of unlisted securities on management's estimate of fair value determined by discounting future cash flows to net present value using market interest rates prevailing at the year end.

### – Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, short-term deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

### Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below :

### – Capital market and bank borrowings

Interest bearing loans and overdrafts are initially measured at fair value (which is equal to net proceeds at inception), and are subsequently measured at amortised cost, using the effective interest rate method, except where they are identified as a hedged item in a fair value hedge. Any difference between the proceeds, net of transaction costs and the settlement or redemption of borrowings is recognised over the term of the borrowing.

### – Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### – Derivative financial instruments and hedge accounting

The Company's activities expose it to the financial risks of changes in foreign exchange rates and interest rates.

The use of financial derivatives is governed by the Group's policies, which are set out on pages 33 to 35 of the Financial and Treasury Review and approved by the Board of Directors, which provide written principles on the use of financial derivatives consistent with the Company's risk management strategy. The Company does not use derivative financial instruments for speculative purposes.

Derivative financial instruments measured at fair value at the date the derivatives are entered into and are subsequently re-measured to fair value at each reporting date. The fair value is determined by using market data and the use of established estimation techniques such as discounted cashflow and option valuation models. The Company designates certain derivatives as:

(i) Hedges of the change of fair value of recognised assets and liabilities ("fair value hedges"); or

(ii) Hedges of highly probable forecast transactions ("cash flow hedges").

### FRS 26 Financial instruments: Measurement

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The effective portion of changes in the fair value of derivatives that are designated and qualify as net investment hedges or cash flow hedges are recognised in equity. To qualify for hedge accounting, the hedging relationship must be expected to be effective, be designated and documented at its inception and throughout the life of the hedge relationship.

When the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting, hedge accounting is discontinued. The net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period when the net investment is sold or when the hedged cash flow is no longer expected to occur.

### Fair value hedges

The Company's policy is to use derivative instruments (primarily interest rate swaps) to convert a proportion of its fixed rate debt to floating rates in order to hedge the interest rate risk with changes in fair value of the hedging instrument recognised in the profit and loss account for the period together with the changes in the fair value of the hedged item, to the extent the hedge is effective. The ineffective portion is recognised immediately in the profit and loss account.

### Cash flow hedges

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the profit and loss account. The Company's policy with respect to hedging the foreign currency risk of a firm commitment is to designate it as a cash flow hedge. If a hedged firm commitment or forecast transaction results in the recognition of a non-financial asset or liability, then, at the time that the asset or liability is recognised, the associated gains and losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the profit and loss account in the same period in which the hedged item affects the profit and loss account.

### Share-based payments

The Company operates the Group's LTIP and other Group share-based payment schemes, details of which can be found in note 39 of the Group's Report and Accounts. The Company has followed the guidance set out in UITF 44 where the Company issues shares in relation to share options granted to Directors and employees for services rendered to the Company's subsidiaries. The Company records an additional investment in its subsidiaries by way of a capital contribution when issuing shares in relation to these share option schemes. No prior period adjustment has been recorded as the amounts involved are not material.

### 3 EMPLOYEES

	2007 Number	2006 Number
Average number of persons employed by the Company by activity including Directors:	11	11

	2007 £m	2006 £m
Total staff costs comprised:		
Wages and salaries	5.4	4.5
Share-based payments	2.1	1.6
Social security costs	0.6	0.3
Pension costs	0.3	0.5
	<b>8.4</b>	<b>6.9</b>

### 4 INTANGIBLE ASSETS

	Trade marks £m
Cost	
At beginning and end of year	<b>146.0</b>
Accumulated amortisation	
At beginning of year	11.9
Charge for the year	7.2
At end of year	<b>19.1</b>
Net book value – 2006	134.1
Net book value – 2007	<b>126.9</b>

Trademarks are amortised over the lower of their useful economic life, which is no more than 20 years.

### 5 TANGIBLE ASSETS

	Plant and equipment £m
Cost	
At beginning and end of year	<b>0.8</b>
Accumulated depreciation	
At beginning of year	–
Charge for the year	0.2
At end of year	<b>0.2</b>
Net book value – 2006	0.8
Net book value – 2007	<b>0.6</b>

6 INVESTMENTS IN GROUP UNDERTAKINGS (AS LISTED ON PAGES 131 TO 135)

	Cost £m	Provision £m	Net book value £m
At beginning of year	1,672.4	(1.7)	1,670.7
Additions	190.4	–	190.4
At end of year	<b>1,862.8</b>	<b>(1.7)</b>	<b>1,861.1</b>

Additions include £2.7 million recorded as a capital contribution to the Company's subsidiaries on issuance of shares to employees of the Company's subsidiaries.

7 OTHER INVESTMENTS

	£m
Cost or valuation	
At beginning of year	1.0
Exchange adjustment	0.1
At end of year	<b>1.1</b>

Other investments comprise non-current equity investments which are held as available-for-sale. They are recorded at fair value and are analysed as follows:

	2007 £m	2006 £m
Unlisted		
JEGI Internet Economy Partners, L.P.	1.1	1.0

The Company owns a 23% share of the partnership capital.

8 DEBTORS

	2007 £m	2006 £m
Amounts falling due within one year		
Trade debtors	2.9	–
Amounts owed by Group undertakings	88.6	–
Prepayments and accrued income	1.5	1.2
Corporation tax	67.1	59.4
Derivative financial assets	12.3	22.8
Other debtors	–	1.0
	<b>172.4</b>	<b>84.4</b>

The Company's corporation tax debtor represents amounts due from subsidiaries for Group relief and payments made to UK HM Revenue and Customs on account of the 2006 liability.

9 CASH AND CASH EQUIVALENTS

	2007 £m	2006 £m
Cash and cash equivalents	0.1	1.5

10 CREDITORS DUE WITHIN ONE YEAR

	2007 £m	2006 £m
Bank overdrafts	2.7	–
Loan notes	2.8	3.2
Interest payable	32.9	30.3
Amounts owing to Group undertakings	112.3	203.2
Accruals and deferred income	2.2	1.0
Derivative financial liabilities	0.6	2.3
	<b>153.5</b>	<b>240.0</b>

Loan notes attract interest at approximately LIBID to LIBID minus 1% and were issued as part of the consideration for various acquisitions. The loan notes are repayable at the option of the loan note holder.

11 CREDITORS DUE AFTER MORE THAN ONE YEAR

	2007 £m	2006 £m
7.5% Bonds 2013	299.1	300.6
5.75% Bonds 2018	173.1	173.6
10% Bonds 2021	168.5	179.7
6.375% Bonds 2027	197.8	–
Bank loans	67.6	38.8
Derivative financial liabilities	8.1	–
	<b>914.2</b>	<b>692.7</b>

The nominal values of the bonds are as follows

	2007 £m	2006 £m
7.5% Bonds 2013	300.0	300.0
5.75% Bond 2018	175.0	175.0
10% Bonds 2021	156.4	165.0
6.375% Bonds 2027	200.0	–
	<b>831.4</b>	<b>640.0</b>

The Company's bonds have been adjusted from their nominal values to offset the premia paid on settlement or redemption, direct issue costs and discounts. The issue costs, premia and discounts are being amortised over the expected lives of the bonds using the effective interest method. The unamortised issue costs amount to £3.7 million (2006 £3.2 million) and the unamortised premia amounts to £16.2 million (2006 £19.4 million).

Details of the fair value of the Company's bonds are set out in note 31 on page 106 of the Group's financial statements. The book value of the Company's other borrowings equates to fair value.

11 CREDITORS DUE AFTER MORE THAN ONE YEAR CONTINUED

The Company's bank loans are denominated in US dollars and Sterling. The interest rates on these borrowings ranged as follows:

	2007 High %	2007 Low %	2006 High %	2006 Low %
Sterling	7.30	4.23	5.61	4.72
US dollar	6.23	5.32	4.23	4.07

The maturity profile of the Company's borrowings is as follows:

	Overdrafts £m	Bank loans £m	Bonds £m	Loan notes £m	Total £m
<b>2007</b>					
Within one year	2.7	–	–	2.8	5.5
Between one and two years	–	–	–	–	–
Between two and five years	–	67.6	–	–	67.6
Over five years	–	–	838.5	–	838.5
	–	67.6	838.5	–	906.1
	2.7	67.6	838.5	2.8	911.6
<b>2006</b>					
Within one year	–	–	–	3.2	3.2
Between one and two years	–	–	–	–	–
Between two and five years	–	38.8	–	–	38.8
Over five years	–	–	653.9	–	653.9
	–	38.8	653.9	–	692.7
	–	38.8	653.9	3.2	695.9

12 PROVISIONS FOR LIABILITIES AND CHARGES

	Note	2007 £m	2006 £m
Deferred taxation	13	0.2	0.2
Other provisions		1.1	1.5
		1.3	1.7

13 DEFERRED TAXATION

	2007 £m	2006 £m
Other timing differences	0.2	0.2

### 13 DEFERRED TAXATION CONTINUED

Movements on the provision for deferred taxation were as follows:

	2007 £m	2006 £m
At beginning of year	0.2	–
LTIP charge	0.1	0.1
Net (credit)/charge to profit and loss account	(0.1)	0.1
At end of year	0.2	0.2

### 14 RESERVES

	2007 £m	2006 £m
<b>Share premium account</b>		
At beginning of year	9.7	8.3
Issued on shares	2.7	1.4
At end of year	12.4	9.7

#### Shares held in treasury

	2007 £m	2006 £m
At beginning of year	(63.1)	(40.0)
Additions	(32.8)	(32.4)
Own shares released on vesting of share options	4.9	9.3
Own shares cancelled	46.6	–
At end of year	(44.4)	(63.1)

The Company's investment in its own shares is classified within shareholders' funds as Shares held in treasury. At 30th September, 2007 this investment comprised the cost of 6,353,906 'A' Ordinary Non-Voting shares (2006 9,692,016 shares). The market value of these shares at 30th September, 2007 was £40.0 million (2006 £58.8 million). The treasury shares are considered to be a realised loss for the purposes of calculating distributable reserves.

### 15 CAPITAL REDEMPTION RESERVE

	2007 £m
At beginning of year	–
On cancellation of ordinary shares	0.8
At end of year	0.8

#### 16 PROFIT AND LOSS ACCOUNT

	2007 £m
At beginning of year	961.3
Net profit for the year	211.0
Dividends paid	(53.2)
On cancellation of ordinary shares	(46.6)
Other movements on share option schemes	2.5
At end of year	<b>1,075.0</b>
Total reserves – 2006	907.8
Total reserves – 2007	<b>1,043.8</b>

The Company estimates that £596.1 million of the Company's profit and loss account reserve is not distributable (2006 £596.1 million).

#### 17 CONTINGENT LIABILITIES

At 30th September, 2007 the Company had guaranteed borrowing facilities of subsidiaries under which £82.9 million (2006 £144.1 million) were outstanding. The Company had also guaranteed a subsidiary's interest rate derivatives with a principal value of £186.9 million (2006 £353.6 million) and letters of credit of £5.7 million (2006 £6.6 million).

#### 18 CONTROLLING PARTY

The Company's ultimate controlling party is the Viscount Rothermere, the Company's Chairman. Transactions relating to the remuneration and shareholdings of the Viscount Rothermere are given in the Remuneration Report.