

INDEPENDENT NEWS & MEDIA (UK) LIMITED
(Registered Number: 983376)

ANNUAL REPORT

31 DECEMBER 2003



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INDEPENDENT NEWS & MEDIA (UK) LIMITED

DIRECTORS' REPORT AND ACCOUNTS

YEAR ENDED 31 DECEMBER 2003

DIRECTORS' REPORT

The directors submit their report and the financial statements of the company for the year ended 31 December 2003.

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 of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REVIEW OF THE BUSINESS

The principal activity during the year was investment holding. The company's subsidiaries were engaged in newspaper publishing activities.

The directors do not foresee any significant changes to the business in the forthcoming year.

RESULTS AND DIVIDENDS

Loss on ordinary activities for the year after taxation was £9,662,666 (2002: loss of £17,070,464). The directors do not recommend the payment of a dividend (2002: £Nil).

INDEPENDENT NEWS & MEDIA (UK) LIMITED

DIRECTORS' REPORT AND ACCOUNTS

YEAR ENDED 31 DECEMBER 2003

DIRECTORS' REPORT (continued)

DIRECTORS

The following directors served throughout the year:

L P Healy
B M A Hopkins
J J Parkinson
A J Round
I G Fallon

None of the directors had any beneficial interest in the shares of the company during the year.

The interests of the directors, who are not directors of Independent News & Media PLC, the company's ultimate parent undertaking, in the share options of that company at the beginning (or date of appointment, if later) and end of the year were:

	At 31 December 2002	Granted During Year	Exercised During Year	At 31 December 2003	Weighted Average Exercise Price
A J Round	390,000	-	-	390,000	€2.37

The interests of the other directors, who are also directors of Independent News & Media PLC, in the shares and share options of that company, are disclosed in that company's accounts.

AUDITORS

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the company will be put to the Annual General Meeting.

By order of the Board



**A J Round
Director**

25 October 2004

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

INDEPENDENT NEWS & MEDIA (UK) LIMITED

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the reconciliation of movement in shareholders' funds and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

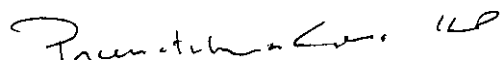
Basis of audit opinion

We conducted our audit in accordance with auditing standards 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 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 of the state of the company's affairs at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
1 Embankment Place
London WC2N 6RH

25 October 2004

INDEPENDENT NEWS & MEDIA (UK) LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2003

	Note	Year ended 31 December 2003 £	Year ended 31 December 2002 £
Administrative expenses		(13,949,837)	(13,218,844)
Exceptional costs	3	(1,420,750)	-
Total administrative expenses		(15,370,587)	(13,218,844)
Other operating income		4,211,337	4,410,516
OPERATING LOSS	2	(11,159,250)	(8,808,328)
Profit on sale of fixed asset investment	3	3,496,682	-
Impairment of fixed assets	3	(786,992)	-
Interest receivable and similar income	5	42,923	47,074
Interest payable and similar charges	5	(11,513,757)	(13,455,120)
Exceptional Finance charges	3	(780,024)	-
Total interest payable and similar charges		(12,293,781)	
(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		(20,700,418)	(22,216,374)
Taxation	6	11,037,752	5,145,910
RETAINED (LOSS) FOR THE YEAR		(9,662,666)	(17,070,464)
ACCUMULATED LOSSES BROUGHT FORWARD		(129,880,779)	(112,810,315)
ACCUMULATED LOSSES CARRIED FORWARD		(139,543,445)	(129,880,779)

The company has no recognised gains or losses other than the loss for the year and therefore no separate statement of total recognised gains and losses has been presented.

The result for the financial year is derived entirely from continuing operations within the United Kingdom.

There is no difference between the results reported above and the results on an unmodified historical cost basis.

The notes on pages 7 to 14 form part of these accounts.

INDEPENDENT NEWS & MEDIA (UK) LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2003

	Note	31 December 2003	31 December 2002
		£	£
FIXED ASSETS			
Tangible assets	7	5,523,082	6,805,910
Investments	8	<u>306,932,754</u>	<u>19,114,113</u>
		312,455,836	25,920,023
CURRENTS ASSETS			
Debtors	9	445,031,730	422,233,583
Cash at bank and in hand		<u>2,753,013</u>	<u>46,313</u>
		447,774,743	422,279,896
CREDITORS			
Amounts falling due within one year	10	<u>(475,985,285)</u>	<u>(119,085,254)</u>
NET CURRENT (LIABILITIES) / ASSETS		<u>(28,210,542)</u>	<u>303,194,642</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		284,245,294	329,114,665
CREDITORS			
Amounts falling due after more than one year	11	(93,772,442)	(130,087,647)
Provisions for liabilities and charges	12	<u>(1,108,500)</u>	<u>-</u>
NET ASSETS		<u>189,364,352</u>	<u>199,027,018</u>
CAPITAL AND RESERVES			
Called up share capital	13	328,900,000	328,900,000
Share premium account		7,797	7,797
Profit and loss account		<u>(139,543,445)</u>	<u>(129,880,779)</u>
EQUITY SHAREHOLDERS' FUNDS		<u>189,364,352</u>	<u>199,027,018</u>

Approved by the Board on 25 October 2004.



A J Round - Director

The notes on pages 7 to 14 form part of these accounts.

INDEPENDENT NEWS & MEDIA (UK) LIMITED
RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2003

	52 weeks ended 31 December 2003 £	52 weeks ended 31 December 2002 £
Loss for the financial year	(9,662,666)	(17,070,464)
Share capital issued	<u>-</u>	<u>60,900,000</u>
NET MOVEMENT IN SHAREHOLDERS' FUNDS	(9,662,666)	43,829,536
OPENING SHAREHOLDERS' FUNDS	<u>199,027,018</u>	<u>155,197,482</u>
CLOSING SHAREHOLDERS' FUNDS	<u>189,364,352</u>	<u>199,027,018</u>

The notes on pages 7 to 14 form part of these accounts.

INDEPENDENT NEWS & MEDIA (UK) LIMITED

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 DECEMBER 2003

1 ACCOUNTING POLICIES

(a) Historical cost convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

(b) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation.

Depreciation of tangible fixed assets is calculated on a straight-line basis at rates estimated to write off each asset over its useful life. The annual rates of depreciation used are:

Computer equipment	25%
Office equipment	15%
Motor vehicles	25%
Leasehold premises	over period of the lease

Maintenance and repairs are expensed as incurred.

The carrying value of tangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

(c) Deferred taxation

Deferred taxation is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the accounts to the extent that it is probable that a liability or asset will crystallise in the future.

(d) Investments

Investments are stated at cost less provision for any diminution in value.

(e) Issue costs

The amount of the loan note liability is stated net of issue costs incurred in connection with the placement of the loan notes. These costs are amortised over the life of the loan notes.

(f) Foreign currencies

Transactions designated in foreign currencies are translated at the rate of exchange ruling at the transaction date. Monetary assets and liabilities designated in foreign currencies are re-translated at the rates ruling at the balance sheet date (closing rate). Resulting profits or losses are included in the result for the year.

(g) Pension costs

The company operates a defined contributions scheme. Contributions are charged to the profit and loss account as accrued.

INDEPENDENT NEWS & MEDIA (UK) LIMITED

NOTES TO THE ACCOUNTS (Continued)

2 OPERATING LOSS

The loss is stated after charging	2003 £	2002 £
Wages and salaries	781,074	682,860
Social security costs	120,081	53,975
Pension costs	149,630	83,931
Staff costs	1,050,785	820,766
Foreign exchange loss	7,152,400	5,981,332
Auditors' remuneration - audit fees	20,744	13,000
Depreciation on owned fixed assets	40,331	51,069
Profit on sale of tangible fixed assets	-	472

An element of depreciation is recharged to other UK group companies to reflect their share of the use of certain assets. The recharge during the year was £1,637,531 (2002: £758,607).

Other operating income represents administration costs recharged to other group entities.

3 EXCEPTIONAL COSTS

The loss on ordinary activities before taxation is stated after charging:	2003 £	2002 £
Onerous property lease	(1,420,750)	-
Impairment of fixed assets	(786,992)	-
Profit on sale of fixed asset investments	3,496,682	-
Finance costs	(780,024)	-
	508,916	-

Exceptional administrative expenses have been incurred relating to provisions against an onerous lease contract on property which has been vacated.

Impairment of fixed assets relates to the net book value of fixed assets within the property vacated.

Profit on sale of fixed asset investments relates to the profit on disposal of the company's investment in Lusomundo Media, SGPS, SA – see note 8.

Exceptional finance costs were incurred in the year relating to the restructuring of the Group banking facility.

INDEPENDENT NEWS & MEDIA (UK) LIMITED

NOTES TO THE ACCOUNTS (Continued)

4 DIRECTORS' EMOLUMENTS

Directors' emoluments consist of:	2003 £	2002 £
Aggregate emoluments	523,641	319,917
Pension contributions	<u>86,746</u>	<u>64,068</u>
	<u>610,387</u>	<u>383,965</u>

Pension contributions are made by the company on behalf of the two directors, who are remunerated by the company, into the directors' personal pension plans.

The total amount of emoluments to the highest paid director was £338,141 (2002: £177,502) and company contributions paid into the director's personal pension plan were £68,578 (2002: £45,880).

Full details of the emoluments paid to those directors who are not remunerated by Independent News & Media (UK) Limited can be found in the financial statements of Independent News & Media PLC.

5 INTEREST

	2003 £	2002 £
Interest receivable and similar income	<u>42,923</u>	<u>47,074</u>
Interest payable and similar charges		
- group undertakings	6,954,352	6,954,352
- bank loans and overdrafts wholly repayable within five years	<u>4,559,405</u>	<u>6,500,768</u>
	<u>11,513,757</u>	<u>13,455,120</u>

6 TAXATION

(a) Analysis of credit for the period

	2003 £	2002 £
Current Tax		
Group relief surrendered at 30%	(14,757,752)	(3,036,390)
Adjustment in respect of prior years	<u>3,720,000</u>	<u>(2,109,520)</u>
Total current tax	<u>(11,037,752)</u>	<u>(5,145,910)</u>
Tax credit on loss on ordinary activities	<u>(11,037,752)</u>	<u>(5,145,910)</u>

The company expects to surrender the benefit of tax losses of £49,192,501 (2002: £10,121,300) to another group company for consideration of £14,757,752 (2002: £3,036,390).

INDEPENDENT NEWS & MEDIA (UK) LIMITED

NOTES TO THE ACCOUNTS (Continued)

6 TAXATION (continued)

(b) Factors affecting the tax charge for the period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2003 £	2002 £
(Loss) on ordinary activities before tax	<u>(20,700,418)</u>	<u>(22,163,374)</u>
(Loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	(6,210,125)	(6,649,012)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	354,909	717,002
Capital allowances in excess of depreciation	(158,902)	(187,996)
Losses not utilised in the period	-	3,083,616
Utilisation of losses brought forward	(8,730,108)	-
Adjustments to tax charge in respect of previous periods	<u>3,720,000</u>	<u>(2,109,520)</u>
Current tax credit for the period	<u>(14,757,752)</u>	<u>(5,145,910)</u>

Both the current and total tax credit on the loss before tax will continue to be affected by the generation and surrender of tax losses.

(c) Deferred Tax

No deferred tax was recognised at 31 December 2003, (31 December 2002: nil) on the basis that there is insufficient evidence of suitable taxable profits against which the tax losses can be offset against and from which the future reversal of the underlying timing difference can be deducted.

Total potential deferred tax asset is analysed as follows:

	2003 £	2002 £
Accelerated capital allowances	485,589	276,189
Short term timing differences	-	32,625
Tax losses carried forward	<u>-</u>	<u>5,010,108</u>
	<u>485,589</u>	<u>5,318,922</u>

The gross potential deferred tax asset is measured on a non-discounted basis at the current corporation tax rate of 30% (2002: 30%).

INDEPENDENT NEWS & MEDIA (UK) LIMITED

NOTES TO THE ACCOUNTS (Continued)

7 TANGIBLE FIXED ASSETS

	Office equipment £	Short leasehold premises £	Long leasehold premises £	Motor vehicles £	Total £
Cost					
1 January 2003	3,369,379	191,598	4,969,330	77,865	8,608,172
Additions	79,087	-	315,947	-	395,034
31 December 2003	<u>3,448,466</u>	<u>191,598</u>	<u>5,285,277</u>	<u>77,865</u>	<u>9,003,206</u>
Depreciation					
1 January 2003	964,090	166,476	634,177	37,519	1,802,262
Charge for the year	599,652	11,165	1,047,579	19,466	1,677,862
31 December 2003	<u>1,563,742</u>	<u>177,641</u>	<u>1,681,756</u>	<u>56,985</u>	<u>3,480,124</u>
Net book amount					
31 December 2003	<u>1,884,724</u>	<u>13,957</u>	<u>3,603,521</u>	<u>20,880</u>	<u>5,523,082</u>
31 December 2002	<u>2,405,289</u>	<u>25,122</u>	<u>4,335,153</u>	<u>40,346</u>	<u>6,805,910</u>

8 INVESTMENTS

	Shares in group undertakings £	Loans to group undertakings £	Other Investments £	Total £
Cost				
At 1 January 2003	52,089,896	21,500,000	12,181,459	85,771,355
Additions	300,000,100	-	-	300,000,100
Disposals	<u>-</u>	<u>-</u>	<u>(12,181,459)</u>	<u>(12,181,459)</u>
At 31 December 2003	<u>352,089,996</u>	<u>21,500,000</u>	<u>-</u>	<u>373,589,996</u>
Provision				
At 1 January 2003	(45,157,242)	(21,500,000)	-	(66,657,242)
Movements in the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2003	<u>(45,157,242)</u>	<u>(21,500,000)</u>	<u>-</u>	<u>(66,657,242)</u>
Net book amount				
At 31 December 2003	<u>306,932,754</u>	<u>-</u>	<u>-</u>	<u>306,932,754</u>
At 31 December 2002	<u>6,932,654</u>	<u>-</u>	<u>12,181,459</u>	<u>19,114,113</u>

The company disposed of its' investment in Lusomundo Media, SGPS, SA for a profit of £3,496,682 in September 2003.

The company acquired 100% of the share capital of Belfast Telegraph Newspapers Ltd from TIH Belfast, a fellow subsidiary for £300 million in June 2003.

INDEPENDENT NEWS & MEDIA (UK) LIMITED

NOTES TO THE ACCOUNTS (Continued)

8 INVESTMENTS (continued)

The company subscribed for 100% of the issued share capital of a new subsidiary Independent News & Media (Investments) Ltd in December 2003.

The company's main subsidiaries (which are all registered and operating in England) at 31 December 2003 were as follows:

Subsidiaries	Business	Percentage of nominal value of ordinary shares
Independent News and Media Ltd	Newspaper Publication	100%
Independent Magazines (UK) Ltd*	Investment	100%
Independent Newspapers (Regionals) Ltd	Investment	100%
Independent Newspapers (Publishing) Ltd*	Investment	100%
The Perfect Poster Company Ltd*	Investment	100%
Stantonmill Limited*	Investment	100%
Independent Newspapers (Finance) PLC*	Investment	100%
Independent News & Media (Northern Ireland) Ltd*	Investment	100%
Belfast Telegraph Newspapers Ltd*	Investment	100%
TIH (Belfast)	Investment	100%
LAM Enterprises Ltd	Investment	100%
Independent Educational Publishing Ltd *	Investment	100%
Independent Digital (UK) Ltd *	New Media	100%
Independent News & Media (Investments) Ltd*	Investment	100%

*Direct Holdings

The directors are of the opinion that the values of the investments in subsidiaries and in other investments are not less than their book values.

Under Section 228 of the Companies Act the company is exempt from the obligation to prepare group accounts, as the company is a wholly owned subsidiary of Independent News and Media PLC, and is included in the consolidated financial statements of that company, a company incorporated in the Republic of Ireland (see Note 17).

9 DEBTORS (amounts falling due within one year)

	2003 £	2002 £
Amounts owed by group undertakings	444,858,314	421,350,863
Amounts owed by group associated undertakings	250,773	250,773
Other debtors	203,147	11,920
Prepayments and accrued income	3,429,496	620,027
	<u>448,741,730</u>	<u>422,233,583</u>

Amounts owed by group undertakings are non-interest bearing, unsecured and repayable on demand.

INDEPENDENT NEWS & MEDIA (UK) LIMITED

NOTES TO THE ACCOUNTS (Continued)

10 CREDITORS (amounts falling due within one year)

	2003 £	2002 £
Bank loans and overdrafts	318,087	23,942,108
Amounts owed to group undertakings	471,976,382	92,645,162
Other creditors (including taxation and social security)	172,285	127,166
Accruals and deferred income	3,518,531	2,370,818
	<u>475,985,285</u>	<u>119,085,254</u>

Amounts owed to group undertakings are non-interest bearing, unsecured and repayable on demand.

11 CREDITORS (amounts falling due after more than one year)

	2003 £	2002 £
Amounts owed to group undertakings	62,092,442	62,092,442
Loans (falling due between one and two years)	2,596,722	20,823,814
Loans (falling due after two and within five years)	29,083,278	47,171,391
	<u>93,772,442</u>	<u>130,087,647</u>

On 21 June 2000 an amount of £62,092,442 was loaned from Independent Newspapers (Finance) PLC, a fellow subsidiary. The amount is unsecured, bears interest at 11.20% per annum and is repayable on 21 June 2005.

12 PROVISION FOR LIABILITIES AND CHARGES

	£
Cost	
1 January 2003	-
Charge for the year	1,420,750
Utilised	<u>(312,250)</u>
31 December 2003	<u>1,108,500</u>

The provisions relates to a rental property that is no longer utilised by the company, to the rental value until the first lease break.

13 CALLED UP SHARE CAPITAL

	2003 £	Authorised 2002 £	Allotted and Fully Paid 2003 £	2002 £
Ordinary shares of £1 each	328,899,500	328,899,500	328,899,500	328,899,500
Management shares of £1 each	500	500	500	500
	<u>328,900,000</u>	<u>328,900,000</u>	<u>328,900,000</u>	<u>328,900,000</u>

All shares enjoy equal voting rights and rights to dividends. All shares also have equal rights on the winding up of the company.

INDEPENDENT NEWS & MEDIA (UK) LIMITED

NOTES TO THE ACCOUNTS (Continued)

14 EMPLOYEES

The average number of staff employed by the company during the year was 6 (2002 : 4).

Employees at 31 December	2003	2002
Administration	<u>6</u>	<u>4</u>
Total	<u>6</u>	<u>4</u>

15 CONTINGENT LIABILITIES

The company has guaranteed the bank advances of its parent company and certain subsidiary undertakings to a maximum of €305,000,000 in conjunction with other group companies.

16 CASH FLOW STATEMENT

The company is exempt from producing a cash flow statement under Financial Reporting Standard 1 as it is wholly owned by a parent undertaking established under the law of a member state of the European Community. The parent undertaking prepares consolidated financial statements, including a consolidated cash flow statement, which includes all subsidiary undertakings. These financial statements are drawn up in accordance with companies legislation promulgated within the Republic of Ireland.

17 ULTIMATE HOLDING COMPANY AND RELATED PARTY TRANSACTIONS

The ultimate holding company is Independent News & Media PLC, a company incorporated in the Republic of Ireland.

As permitted by paragraph 3(c) of FRS8 - Related Party Disclosures, transactions with other entities in the group are not disclosed. There are no other related party transactions.

The only consolidated accounts produced that include the results of the company are those of Independent News & Media PLC. A copy of those accounts can be obtained from Independent House, 2023 Bianconi Avenue, Citywest Business Campus, Naas Road, Dublin 24, Ireland.