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

ANNUAL REPORT

31 DECEMBER 2008

INDEPENDENT NEWS & MEDIA (UK) LIMITED

DIRECTORS' REPORT AND ACCOUNTS

YEAR ENDED 31 DECEMBER 2008

DIRECTORS' REPORT

The directors submit their report and the financial statements of the company for the year ended 31 December 2008.

The directors' report has been prepared in accordance with the special provisions relating to small companies within Part VII of the Companies Act 1985.

PRINCIPAL ACTIVITY AND 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 £186,606k (2007: loss of £5,504k). The directors do not recommend the payment of a dividend (2007: £Nil).

Independent News & Media PLC, the ultimate parent undertaking, has confirmed that it will provide the finance necessary to enable the Company to continue to trade for a period of at least one year from the date of approval of these financial statements.

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the period, the Company made charitable donations of £250,000 (2007: £250,000), principally to charities associated with the newspapers and their employees. The Company made no political donations (2007:£ nil).

DIRECTORS

The following directors served throughout the year:

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

DIRECTORS' REPORT (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and 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.

In the case of each of the persons who are directors at the time when the report is approved, the following applies:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that they ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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

A J Round
Director

27 July 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

INDEPENDENT NEWS & MEDIA (UK) LIMITED

We have audited the financial statements of Independent News & Media (UK) Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet, 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 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its loss 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

INDEPENDENT NEWS & MEDIA (UK) LIMITED (CONTINUED)

Emphasis of Matter - going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Directors' confidence in the Company's ability to continue as a going concern. The matters explained in note 1 indicate the existence of a material uncertainty which may cast significant doubt about this ability. The financial statements do not include any adjustments that would be necessary if the company were unable to continue as a going concern.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

27 July 2009

INDEPENDENT NEWS & MEDIA (UK) LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2008

	Note	**Year ended 31 December 2008 £'000**	**Year ended 31 December 2007 £'000**
Administrative expenses		(8,443)	(7,956)
Other operating income		4,319	4,076
Operating loss before exceptional items		(4,124)	(3,880)
Exceptional items	3	(181,829)	(951)
OPERATING LOSS		(185,953)	(4,831)
Interest receivable and similar income	5	1	3
Interest payable and similar charges	5	(654)	(676)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(186,606)	(5,504)
Taxation	6	-	-
RETAINED LOSS FOR THE YEAR		(186,606)	(5,504)
ACCUMULATED LOSSES BROUGHT FORWARD		(176,205)	(170,701)
ACCUMULATED LOSSES CARRIED FORWARD		(362,811)	(176,205)

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

The notes on pages 7 to 15 form part of these accounts.

INDEPENDENT NEWS & MEDIA (UK) LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2008

	Note	31 December 2008		31 December 2007	
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Tangible assets	7		3		2,860
Investments	8		131,878		306,933
			131,881		309,793
CURRENT ASSETS					
Debtors	9	87,429		160,965	
		87,429		160,965	
CREDITORS					
Amounts falling due within one year	10	(249,011)		(318,055)	
NET CURRENT LIABILITIES			(161,582)		(157,090)
TOTAL ASSETS LESS CURRENT LIABILITIES			(29,701)		152,703
CREDITORS					
Provisions for liabilities and charges	11		(4,202)		-
NET ASSETS / (LIABILITIES)			(33,903)		152,703
CAPITAL AND RESERVES					
Called up share capital	13		328,900		328,900
Share premium account			8		8
Profit and loss account			(362,811)		(176,205)
EQUITY SHAREHOLDERS' FUNDS / (DEFICIT)	12		(33,903)		152,703

Approved by the Board on 17 July 2009

A J Round

A J Round – Director

The notes on pages 7 to 15 form part of these accounts.

1. ACCOUNTING POLICIES

(a) Historical cost convention

The accounts are prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards.

(b) Basis of preparation and Liquidity

The financial statements are prepared on the going concern basis under the assumption that the company's ultimate parent company (the Group) will continue to provide financial support to the company to enable it to meet its liabilities as they fall due, for the foreseeable future. The ultimate parent company has committed to this. However as a result of the current difficult credit markets, the Group has been unable to raise new debt to fund the maturity of the €200million 5.75% bond ('Bonds') which were due to mature on 18 May 2009. The Group does not have sufficient headroom under its existing facilities in order to meet this maturity and service its debt obligations.

In addition the Group's banking facilities contain certain covenant tests relating to Net Debt to EBITDA and EBITDA to Net Interest. Failure of a covenant test would render the facilities in default and repayable on demand at the option of the lenders if an amendment or waiver is not granted by the lenders in advance. The Group reports on these covenants to the eight banks within the Group's bank group (the 'Banks') bi-annually as part of the facility agreements. While the Group was compliant with its banking covenants as at 31 December 2008, the covenants were due to be retested again as at 30 June 2009 and 31 December 2009. The Group remains both profitable and cash generative but, given the continued difficult trading conditions within which the Group is currently operating, there is now a strong likelihood of a breach of the financial covenants within the Group's borrowing facilities during 2009 if an amendment or waiver is not granted by the lenders in advance.

The Group has entered into a standstill agreement with the holders of the Bonds and the Banks for the period to 27 August 2009, during which period neither the holders of the Bonds nor the Banks can take any action to enforce any claim for any payment.

The Group has appointed advisers to advise it in relation to its refinancing requirements and the Group has entered into constructive discussions with an ad-hoc committee of the holders of the Bonds (the 'Bondholders'), its Banks and the two major shareholders, in relation to the Group's proposal to reschedule maturities on the Bonds and Bank debt and agree covenant amendments and the provision of working capital facilities. However there can be no certainty that these discussions with the Bondholders, the Banks and the two major shareholders will be successfully concluded or that banking facilities will continue to be available to the Group on commercially acceptable terms.

Given the current economic circumstances and the difficulties in raising finance, the Directors have had detailed and ongoing discussions as a Board and have been kept up to date on the discussions by the Group's Board of Directors. Although the Group's Board of Directors remain confident of a satisfactory outcome, they have concluded that the combination and timing of these circumstances is not entirely within their control, and accordingly the Directors have concluded these circumstances indicate the existence of a material uncertainty which may cast significant doubt on the Group's and company's ability to continue as a going concern. If this is the case the company may be unable to continue to realize assets and discharge liabilities in the normal course of business.

However discussions to date with the Group's Bondholders, Banks and two major shareholders have indicated a willingness to seek agreement and the Directors remain confident that an agreement will be reached with them which is acceptable to the Group. Consequently having made due enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the company has and will have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements and these financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

(c) 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.

(d) Deferred taxation

Deferred tax is recognised in respect of 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. Timing differences are differences between the company's taxable profit and its results as stated in the financial statements, that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. A net deferred tax asset is only recognised when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on the sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Amounts relating to deferred taxation are undiscounted.

(e) Investments

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

(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 incurred.

2 OPERATING LOSS

The loss is stated after charging (crediting):	2008 £'000	2007 £'000
Wages and salaries	1,623	1,214
Social security costs	210	207
Pension costs	328	321
Staff costs	2,161	1,742
Foreign exchange loss	11	-
Auditors' remuneration – audit fees	58	45
Depreciation on owned fixed assets (net of recharge to other UK group companies)	12	17
Release of vacant property provision	-	(216)

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 £460,775 (2007: £1,066,457).

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

3 EXCEPTIONAL ITEMS

	2008 £'000	2007 £'000
Impairment of assets	2,572	775
Restructuring	-	176
Onerous contracts	4,202	-
Impairment of investments	175,055	-
	181,829	951

Impairment of fixed assets relate to the writing off of assets no longer required by the UK group of companies due to the planned relocation of the company to shared offices in 2009.

Onerous contracts relate to the provision made for the current office lease due to the planned relocation.

Impairment of investments relate to the company's investments in subsidiaries, Belfast Telegraph Newspapers Limited and Independent News & Media Limited (see Note 8).

4 DIRECTORS' EMOLUMENTS

Directors' emoluments consist of:	2008 £'000	2007 £'000
Aggregate emoluments	1,131	778
Pension contribution to money purchase schemes	404	275
	1,535	1,053

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 £720,849 (2007: £392,894) and company contributions paid into the director's personal pension plan were £369,187 (2007: £243,229).

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

	2008 £'000	2007 £'000
Interest receivable and similar income	1	3
Interest payable and similar charges		
- group undertakings	630	630
- bank loans and overdrafts wholly repayable within five years	24	46
	654	676

6 TAXATION

(a) Analysis of credit for the period

	2008 £'000	2007 £'000
Current Tax		
Adjustment in respect of prior years	-	-
Tax charge on loss on ordinary activities	-	-

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.

The standard rate of Corporation Tax in the UK changed from 30% to 28% with effect 1 April 2008. Accordingly the company's profits for this accounting period are taxed at an effective rate of 28.5% and will be taxed at 28% in the future.

6 TAXATION (continued)

(b) Factors affecting the tax charge for the period

The tax assessed for the period is lower than (2007: lower than) the standard rate of corporation tax in the UK (28%). The differences are explained below:

	2008 £'000	2007 £'000
Loss on ordinary activities before tax	(186,606)	(5,504)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 28.5% (2007:30%)	(53,183)	(1,651)
Effects of:		
Expenses not deductible for tax purposes	50,755	406
Depreciation in excess of capital allowances	874	42
Other timing differences	-	(17)
Losses not utilised in the period	1,488	981
Tax charge on imputed interest income	66	107
Adjustments to tax charge in respect of previous periods imputed interest income	-	132
Current tax charge for the period	-	-

(c) Deferred Tax

No deferred tax was recognised at 31 December 2008 (31 December 2007: 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:

	2008 £'000	2007 £'000
Accelerated capital allowances	456	34
Short term timing differences	1,205	34
Tax losses carried forward	7,193	7,457
	8,854	7,525

The potential deferred tax asset is measured on a non-discounted basis at the current corporation tax rate of 28% (2007: 28%).

7 TANGIBLE FIXED ASSETS

	Office equipment £'000	Long leasehold premises £'000	Motor vehicles £'000	Total £'000
Cost				
1 January 2008	5,642	5,737	127	11,506
Additions	68	110	-	178
Disposals	(3,650)	(753)	(63)	(4,466)
31 December 2008	2,060	5,094	64	7,218
Depreciation and impairment				
1 January 2008	5,139	3,396	111	8,646
Charge for the year	571	2,451	13	3,035
Disposals	(3,650)	(753)	(63)	(4,466)
31 December 2008	2,060	5,094	61	7,215
Net book amount				
31 December 2008	-	-	3	3
31 December 2007	503	2,341	16	2,860

An impairment charge of £2,572k has been recognised at the year end as a result of the planned relocation of the company to shared offices in 2009.

8 INVESTMENTS

	Shares in group undertakings £'000	Loans to group undertakings £'000	Total £'000
Cost			
At 1 January 2008 & 31 December 2008	362,590	21,500	384,090
Provision for impairment			
At 1 January 2008	(55,657)	(21,500)	(77,157)
Charge for the year	(175,055)	-	(175,055)
At 31 December 2008	(230,712)	(21,500)	(252,212)
Net book amount			
At 31 December 2008	131,878	-	131,878
At 31 December 2007	306,933	-	306,933

Following the poor trading in 2008, a carrying value review of investments was undertaken on a value in use basis, assessing whether the carrying value of investments was supported by the net present value of future cash flows derived from those assets. A discount rate of 11% and a long term growth rate of 1.9% was used. The review indicated an impairment of £175,055k which has been booked in the current year.

8 INVESTMENTS (continued)

The company's main subsidiaries (which are all registered and operating in England) at 31 December 2008 were as follows:

Subsidiaries	Business	Percentage of nominal value of ordinary shares
Independent News and Media Ltd	Newspaper Publishing	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)	Dormant	100%
LAM Enterprises Ltd	Non trading	100%
Independent Educational Publishing Ltd *	Investment	100%
Independent Digital (UK) Ltd *	Non trading	100%
Newspread (UK) 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)

	2008 £'000	2007 £'000
Amounts owed by group undertakings	86,080	159,841
Other debtors	817	288
Prepayments and accrued income	532	836
	87,429	160,965

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

10 CREDITORS (amounts falling due within one year)

	2008 £'000	2007 £'000
Bank overdraft	2,041	3,016
Amounts owed to group undertakings	243,460	313,091
Other creditors (including taxation and social security)	505	708
Accruals and deferred income	3,005	1,240
	249,011	318,055

Included in amounts owed to group undertakings is a loan of £10,500,000 at 6% repayable on demand owed to Independent News and Media Ltd.
All other amounts owed to group undertakings are non-interest bearing, unsecured and repayable on demand.

11 PROVISIONS FOR LIABILITIES AND CHARGES

	£'000
1 January 2008	-
Onerous contracts – charged to the profit and loss account	4,202
31 December 2008	4,202

A provision has been set up at the end of 2008 relating to an onerous contract on office space at Independent House, 191 Marsh Wall, London as the company is relocating to shared office accommodation in Kensington in 2009. The provision is for 2 years rent, rates and ancillary costs relating to the current lease. The onerous lease provision is expected to be fully utilised by 2015.

12 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	£'000
Opening Shareholders' Funds at 1 January 2008	152,703
Loss for the year	(186,606)
Closing Shareholders' Deficit at 31 December 2008	(33,903)

13 CALLED UP SHARE CAPITAL

	Authorised		Allotted and Fully Paid	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Ordinary shares of £1 each	328,899	328,899	328,899	328,899
Management shares of £1 each	1	1	1	1
	328,900	328,900	328,900	328,900

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

14 EMPLOYEES

The average number of staff employed by the company during the year was 8 (2007 : 10).

15 CONTINGENT LIABILITIES

The company has guaranteed the bank advances of its parent company and certain subsidiary undertakings to a maximum of €695,000,000 (2007: €440,000,000) 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 and 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 immediate parent company is Independent Communications (International) Limited.

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.

Independent News & Media PLC is the parent undertaking of the smallest and largest group to consolidate these financial statements. A copy of those accounts can be obtained from Independent House, 2023 Bianconi Avenue, Citywest Business Campus, Naas Road, Dublin 24, Ireland.