# NORTHERN & SHELL LIMITED
# (FORMERLY NORTHERN & SHELL MEDIA GROUP LIMITED)

## GROUP ANNUAL REPORT & FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2017

**NORTHERN & SHELL LIMITED**

**ANNUAL REPORT**

**For the year ended 31 December 2017**

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## NORTHERN & SHELL LIMITED

## OFFICERS AND PROFESSIONAL ADVISERS

**DIRECTORS**

| | |
|---|---|
| Mr. R.C. Desmond (Chairman) | |
| Mr. R. Sanderson | |
| Mr. M.S. Ellice | |
| Dr. P. Ashford | (Resigned 28 February 2018) |
| Mr. R. Martin | |
| Mr. D. Rancombe | |

**SECRETARY**

Mr. R. Sanderson

**COMPANY NUMBER**

4086466 (England)

**AUDITOR**

KPMG LLP
15 Canada Square
London, E14 5GL
United Kingdom

**BANKERS**

Barclays Bank
27 Soho Square
London, W1D 3QR
United Kingdom

**REGISTERED OFFICE**

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

## NORTHERN & SHELL LIMITED

## STRATEGIC REPORT

## For the year ended 31 December 2017

### PRINCIPAL ACTIVITIES

Northern & Shell Limited is the ultimate holding company of the Northern & Shell group of companies. It owns a group of companies which have principally been engaged in property development, lottery management services, newspaper publishing and printing, magazine publishing, television broadcasting, other investment interests and the exploitation and further development of intellectual property and media assets. In 2016, the Group disposed of its remaining television broadcasting interests (note 23) and after the year end it disposed of its publishing and printing interests (notes 23 and 29).

It is the intention of the Group to continue trading in these areas for the foreseeable future.

### BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The consolidated profit and loss account is set out on page 10.

On 28 February 2018, shortly after the year end, with the sale of its remaining publishing and printing assets to Trinity Mirror plc (now renamed Reach plc), the Group fulfilled its strategic objective to divest of its directly held media businesses in order to focus on areas with potentially higher growth prospects. The sale, which included the Express Newspapers titles, the celebrity magazines and West Ferry Printers, was the culmination of a process that began with the disposal of OK! USA in 2011, followed by the sale of Channel 5 in 2014 and the Portland television business in 2016. With this transaction, the Group has successfully re-orientated its operations to the core activities of property development and lottery management.

In our lottery division, The Health Lottery has, after its sixth full year of operation, been successfully established in Great Britain as a highly visible lottery product with strong brand recognition.

The Health Lottery, through its brand, provides lottery management services for 51 Community Interest Companies (CIC's) covering each region of Great Britain who raise monies for health related causes with a specific brief of addressing health inequalities in their individual localities. In a little over 6 years in excess of £100.0 million has been raised for good causes to date, with donations awarded and distributed through a separate Charity, The Peoples Health Trust (PHT).

To date, grants through the PHT have been made to more than 2,700 local health projects throughout England, Scotland and Wales which has directly aided around 460,000 people. Among Charities that have benefitted are national charities, such as Scope, The Conservation Volunteers and Youth Sport Trust, in addition to many local community projects such as Special Stars Foundation in Hull, Lightburn Elderly Association in South Lanarkshire and The Parent Network in Caerphilly. Organisations interested in, or enquiring about, funding should apply to The Peoples Health Trust, 356 Holloway Road, London, N7 6PA and application forms are available at www.peopleshealthtrust.org.uk/apply-for-funding.

The directors take great pride in the philanthropic work that has been enabled through the efforts and activities of the Health Lottery and the truly positive effects that it has already had on so many people's lives in this country. However, this has been achieved at some considerable cost to the Group, which as at the end of 2017, has accumulated pre tax losses of £155.0 million on a total investment of £181.2 million since acquiring the business. In order to secure a sustainable future for these charitable works it is vital that in the medium term the business is in a position to cease relying on support from the Northern & Shell group and starts to self-finance its operations.

To that end, steady progress was made in the year. Building on solid foundations of the lottery management infrastructure that underpins the business, the Group is actively pursuing projects to develop, manage and provide other services for further new lottery products for its customers. The Group has also publicly declared its intention to bid for the next UK National Lottery licence at the appropriate time. Accordingly, the directors are encouraged by the potential of the lottery management business and view the future with confidence.

In relation to our property interests, work is underway to implement a consented planning scheme on the Group's 15.5 acre site in the London docklands. During the year, with financing from the Group's strong balance sheet, the old printworks and associated buildings were completely demolished and sub-contractors have recently commenced basement works which will run across the site. The directors are pleased with the progress of this exciting and transformational development, which continues to be undertaken in line with the overall development programme.

## BUSINESS REVIEW AND FUTURE DEVELOPMENTS (Continued)

Given the resources of the Group, it's positioning in the various markets in which it operates and the clear strategic focus that underlies its corporate development, the directors are optimistic on the future prospects of the Group's businesses.

Under FRS 102, the Group's financial statements recognise a net pension liability of £24.4 million at 31 December 2017 (2016: £19.1 million), after a net remeasurement loss of £12.0 million (2016: £11.8 million). The directors continue to monitor the pension liability position and are committed to taking steps to reduce this deficit. After the year end, the Group divested of its printing and publishing businesses, which included all of the Group's liabilities for its defined benefit pension schemes (notes 25 and 29). The Group's net assets before a gross pension liability of £29.5 million (2016: £23.0 million) were £367.6 million at 31 December 2017 (2016: £383.4 million).

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

## KEY PERFORMANCE INDICATORS

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, net advertising revenues, share of viewing figures, subscriber and pay per night numbers, lottery draw ticket sales, contribution by title, profitability by business segment, year on year variance analysis and cash flows.

## PRINCIPAL RISKS AND UNCERTAINTIES

The Group's operations expose it to a variety of financial risks that include credit, liquidity, interest rate, foreign exchange and advertising market 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 and current asset investments subject to floating and fixed interest rates. Where appropriate, the Group utilises interest rate swaps with a fixed rate to manage its liabilities. 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.

**Market risk**
The Group actively looks to maintain and improve product quality and customer offerings, which together with established strong customer relationships combine to mitigate advertising market risk.

**Geopolitical risk**

The June 2016 referendum result for the UK to leave the European Union has raised some short-term economic uncertainties, although they have had apparently little demonstrable impact on the Group. In the medium and long term we believe that a free, independent United Kingdom will grow its economy at a faster rate than if the country remained shackled to a sclerotic European Union and that the benefit of this would flow down to the Group and its operations.

On behalf of the Board:

Mr. R. Sanderson
Director

Date: 18 June 2018

**NORTHERN & SHELL LIMITED**

**DIRECTORS' REPORT**

**For the year ended 31 December 2017**

The directors present their report and the audited financial statements of the Group and Company for the year ended 31 December 2017.

## RESULTS AND DIVIDENDS

The Group recorded a loss before tax for the financial year of £5.5 million (2016: £22.7 million), with an operating loss of £4.3 million (2016: £20.8 million), after recording non-recurring overhead costs of £5.7 million (2016: £3.2 million).

The directors do not recommend the payment of a dividend (2016: £nil).

## DIRECTORS

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

## EMPLOYEE INVOLVEMENT

During the year, the Group and Company maintained their practice of keeping employees informed about current activities and progress of the business using various methods including formal briefings, e-mails and a corporate website. 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.

## POLITICAL AND CHARITABLE DONATIONS

Charitable donations were made during the year amounting to £11,000 (2016: £12,000).

Political donations were made during the year amounting to £10,000 (2016: £nil). Political donations were made solely to the Conservative Party.

## DISCLOSURE OF INFORMATION TO AUDITOR

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

## AUDITOR

The auditor, KPMG LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

On behalf of the Board:

Mr. R. Sanderson
Director

Date: 18 June 2018

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

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

### For the year ended 31 December 2017

The directors are responsible for preparing the Strategic Report, the Directors' 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 they have elected to prepare the group and parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company 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;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

15 Canada Square
London
E14 5GL
United Kingdom

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTHERN & SHELL LIMITED

### OPINION

We have audited the financial statements of Northern & Shell Limited ("the company") for the year ended 31 December 2017 which comprise the Group Profit and Loss Account, the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Changes in Equity, the Group Cash Flow Statement and the related notes including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;

- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and

- have been prepared in accordance with the requirements of the Companies Act 2006.

### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### GOING CONCERN

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

### STRATEGIC REPORT AND DIRECTORS' REPORT

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;

- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

## NORTHERN & SHELL LIMITED

### MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

### DIRECTORS' RESPONSIBILITIES

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

### AUDITOR'S RESPONSIBILITIES

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

### THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**Mark Prince (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
*Chartered Accountants*

15 Canada Square
London
United Kingdom
E14 5GL

Date: 18 June 2018

## NORTHERN & SHELL LIMITED

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

### For the year ended 31 December 2017

| | Notes | 2017 £000 | 2016 * £000 |
|---|---|---|---|
| **TURNOVER** | 4 | **223,680** | 209,188 |
| Continuing operations | | **40,337** | 27,783 |
| Discontinued operations | | **183,343** | 181,405 |
| | 6 | **223,680** | 209,188 |
| Cost of sales | 6 | **(72,811)** | (77,980) |
| **GROSS PROFIT** | 6 | **150,869** | 131,208 |
| Distribution costs | 6 | **(13,324)** | (13,438) |
| Administrative expenses | 5/6 | **(142,248)** | (139,371) |
| Other operating income | 6 | **420** | 807 |
| **GROUP OPERATING LOSS** | | **(4,283)** | (20,794) |
| Continuing operations | | **(1,041)** | (11,629) |
| Discontinued operations | | **(3,242)** | (9,165) |
| | 6 | **(4,283)** | (20,794) |
| Share of operating loss of associates | | **(2,483)** | (2,926) |
| Share of operating profit of joint ventures | | **760** | 880 |
| **TOTAL OPERATING LOSS** | 3/7 | **(6,006)** | (22,840) |
| (Loss)/profit on sale of discontinued operations | 23 | **(108)** | 228 |
| Loss on deemed disposal of associate interest | 15 | **(1,010)** | - |
| Other interest receivable and similar income | 9 | **1,662** | 2,625 |
| Interest payable and similar charges | 10 | **(32)** | (2,741) |
| **LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION** | 3 | **(5,494)** | (22,728) |
| Tax on loss on ordinary activities | 11 | **(4,266)** | (1,003) |
| **LOSS FOR THE FINANCIAL YEAR** | | **(9,760)** | (23,731) |
| Loss attributable to: | | | |
| Shareholders of the parent company | | **(9,753)** | (23,731) |
| Non-controlling interest | | **(7)** | - |
| **TOTAL LOSS** | | **(9,760)** | (23,731) |

* Management have taken the decision to re-present the analysis of continuing and discontinued operations in the prior year (note 1).

The notes on pages 17 to 49 form an integral part of these financial statements.

## NORTHERN & SHELL LIMITED

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

### For the year ended 31 December 2017

| | Notes | 2017 £000 | 2016 £000 |
|---|---|---|---|
| Loss for the financial year | | **(9,760)** | (23,731) |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Remeasurement of the net defined benefit pension liability | | **(14,436)** | (14,249) |
| Movement on deferred tax relating to net defined benefit pension liability | | **2,454** | 2,422 |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX** | | **(11,982)** | (11,827) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **(21,742)** | (35,558) |
| Total comprehensive income attributable to: | | | |
| Shareholders of the parent company | | **(21,735)** | (35,558) |
| Non-controlling interest | | **(7)** | - |
| **TOTAL COMPREHENSIVE INCOME** | | **(21,742)** | (35,558) |

The notes on pages 17 to 49 form an integral part of these financial statements.

**NORTHERN & SHELL LIMITED**

**CONSOLIDATED BALANCE SHEET as at 31 December 2017**

| | Notes | 2017 £000 | 2016 £000 |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Intangible assets | 13 | **8,220** | 5,312 |
| Tangible assets | 14 | **56,677** | 62,021 |
| Investments: | 15 | | |
| Interests in joint ventures | | | |
| Share of gross assets | | **1,814** | 1,791 |
| Share of gross liabilities | | **(1,365)** | (1,511) |
| | | **449** | 280 |
| Investments in associates | | **1,715** | 2,459 |
| Other investments | | **404** | 400 |
| | | **2,568** | 3,139 |
| | | **67,465** | 70,472 |
| **CURRENT ASSETS** | | | |
| Stocks | 16 | **58,425** | 48,459 |
| Debtors | 17 | **42,970** | 49,904 |
| Current asset investments | 18 | **171,059** | 234,947 |
| Cash at bank and in hand | | **86,635** | 29,988 |
| | | **359,089** | 363,298 |
| **CREDITORS:** amounts falling due within one year | 20 | **(53,173)** | (48,246) |
| **NET CURRENT ASSETS** | | **305,916** | 315,052 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **373,381** | 385,524 |
| **PROVISIONS FOR LIABILITIES AND CHARGES** | 21 | **(5,819)** | (2,125) |
| **NET ASSETS excluding pension liability** | | **367,562** | 383,399 |
| **PENSION LIABILITY** | 25 | **(29,451)** | (23,005) |
| **NET ASSETS including pension liability** | | **338,111** | 360,394 |
| **CAPITAL AND RESERVES** | | | |
| Called up share capital | 24 | **110** | 110 |
| Other reserves | | **3,860** | 3,860 |
| Profit and loss account | | **334,689** | 356,424 |
| Equity attributable to the parent's shareholders | | **338,659** | 360,394 |
| Non-controlling interest | | **(548)** | - |
| **TOTAL SHAREHOLDERS' FUNDS** | | **338,111** | 360,394 |

The notes on pages 17 to 49 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors and signed on its behalf by:

Mr. R.C. Desmond
Chairman
Date: 18 June 2018

Company registered number: 4086466

## NORTHERN & SHELL LIMITED

## COMPANY BALANCE SHEET as at 31 December 2017

| | Notes | 2017 £000 | 2016 £000 |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Investments | 15 | **262,269** | 241,923 |
| **CURRENT ASSETS** | | | |
| Debtors | 17 | **55,299** | 47,123 |
| Cash at bank and in hand | | **301** | - |
| | | **55,600** | 47,123 |
| **CREDITORS:** amounts falling due within one year | 20 | **(94,545)** | (42,986) |
| **NET CURRENT (LIABILITIES)/ASSETS** | | **(38,945)** | 4,137 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **223,324** | 246,060 |
| **PROVISIONS FOR LIABILITIES AND CHARGES** | 21 | **(3,495)** | - |
| **NET ASSETS** | | **219,829** | 246,060 |
| **CAPITAL AND RESERVES** | | | |
| Called up share capital | 24 | **110** | 110 |
| Profit and loss account | | **219,719** | 245,950 |
| **TOTAL SHAREHOLDERS' FUNDS** | | **219,829** | 246,060 |

The notes on pages 17 to 49 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors and signed on its behalf by:

Mr. R.C. Desmond
Chairman
Date: 18 June 2018

Company registered number: 4086466

## NORTHERN & SHELL LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### For the year ended 31 December 2017

| | Called up Share capital | Other reserves | Profit and loss account | Total shareholder's equity | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 January 2016 | 110 | 3,860 | 391,982 | **395,952** | - | **395,952** |
| Total comprehensive income for the year: | | | | | | |
| Loss for the year | - | - | (23,731) | **(23,731)** | - | **(23,731)** |
| Other comprehensive income | - | - | (11,827) | **(11,827)** | - | **(11,827)** |
| Total comprehensive income for the year | - | - | (35,558) | **(35,558)** | - | **(35,558)** |
| **Balance at 31 December 2016** | **110** | **3,860** | **356,424** | **360,394** | **-** | **360,394** |

| | Called up Share capital | Other reserves | Profit and loss account | Total shareholder's equity | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 January 2017 | 110 | 3,860 | 356,424 | **360,394** | - | **360,394** |
| Total comprehensive income for the year: | | | | | | |
| Loss for the year | - | - | (9,753) | **(9,753)** | (7) | **(9,760)** |
| Other comprehensive income | - | - | (11,982) | **(11,982)** | - | **(11,982)** |
| Total comprehensive income for the year | - | - | (21,735) | **(21,735)** | (7) | **(21,742)** |
| Acquisition of non-controlling interest | - | - | - | - | (541) | **(541)** |
| Total contributions by and distributions to owners | - | - | - | - | (541) | **(541)** |
| **Balance at 31 December 2017** | **110** | **3,860** | **334,689** | **338,659** | **(548)** | **338,111** |

Other reserves represent a merger reserve arising from the reorganisation of Northern & Shell Group Limited, a subsidiary undertaking, on 30 October 2000.

The notes on pages 17 to 49 form an integral part of these financial statements.

## NORTHERN & SHELL LIMITED

## COMPANY STATEMENT OF CHANGES IN EQUITY

### For the year ended 31 December 2017

| | Called up Share capital £000 | Profit and loss account £000 | Total equity £000 |
|---|---|---|---|
| Balance at 1 January 2016 | 110 | 262,926 | 263,036 |
| Total comprehensive income for the year: | | | |
| Loss for the year | - | (16,976) | (16,976) |
| Other comprehensive income | - | - | - |
| Total comprehensive income for the year | - | (16,976) | (16,976) |
| **Balance at 31 December 2016** | **110** | **245,950** | **246,060** |

| | Called up Share capital £000 | Profit and loss account £000 | Total equity £000 |
|---|---|---|---|
| Balance at 1 January 2017 | 110 | 245,950 | 246,060 |
| Total comprehensive income for the year: | | | |
| Loss for the year | - | (26,231) | (26,231) |
| Other comprehensive income | - | - | - |
| Total comprehensive income for the year | - | (26,231) | (26,231) |
| **Balance at 31 December 2017** | **110** | **219,719** | **219,829** |

The notes on pages 17 to 49 form an integral part of these financial statements.

## NORTHERN & SHELL LIMITED

## CONSOLIDATED CASH FLOW STATEMENT

**For the year ended 31 December 2017**

| | 2017 £000 | 2016 £000 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Loss for the financial year | **(9,760)** | (23,731) |
| Adjustments for: | | |
| Amortisation of intangible assets | **1,117** | 1,155 |
| Depreciation of tangible assets | **7,182** | 7,517 |
| Impairment of tangible assets | **597** | - |
| Interest receivable and similar income | **(1,662)** | (2,625) |
| Interest payable and similar charges | **32** | 2,741 |
| Loss on sale of tangible assets | **-** | 2,208 |
| Loss/(profit) on sale of discontinued operations | **108** | (228) |
| Pension cash contributions in excess of pension cost | **(7,990)** | (12,802) |
| Share of loss from associate undertakings | **2,483** | 2,926 |
| Loss on deemed disposal of associate undertaking | **1,010** | - |
| Share of profit from joint ventures | **(760)** | (880) |
| Gain on revaluation of current asset investment | **(11,706)** | (4,205) |
| Taxation | **4,266** | 1,003 |
| Interest received | **1,389** | 2,098 |
| Interest paid | **(1)** | - |
| Increase in stocks | **(9,966)** | (3,038) |
| Decrease/(increase) in debtors | **6,045** | (4,980) |
| Decrease in creditors | **(403)** | (8,124) |
| Increase/(decrease) in provisions | **3,694** | (38) |
| Taxation paid | **(40)** | (5,321) |
| **NET CASH USED IN OPERATING ACTIVITIES** | **(14,365)** | (46,324) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sale of tangible assets | **-** | 4,911 |
| Purchase of tangible assets | **(2,353)** | (1,848) |
| Purchase of intangible assets | **-** | (58) |
| Contributions to associates | **(2,750)** | (500) |
| Acquisition of other investments | **-** | (400) |
| Proceeds on disposal of other investments | **-** | 85 |
| Dividends received | **503** | 818 |
| Proceeds from sale of discontinued operations | **75** | 198 |
| Investment in current asset investments | **(219,911)** | (247,600) |
| Proceeds from current asset investments | **295,505** | 249,548 |
| **NET CASH FROM INVESTING ACTIVITIES** | **71,069** | 5,154 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Purchase of shares in associate undertaking | **(57)** | - |
| **NET CASH FROM FINANCING ACTIVITIES** | **(57)** | - |
| **NET INCREASE/(DECREASE) IN CASH AT BANK AND IN HAND** | **56,647** | (41,170) |
| **CASH AT BANK AND IN HAND AT 1 JANUARY** | **29,988** | 71,158 |
| **CASH AT BANK AND IN HAND AT 31 DECEMBER** | **86,635** | 29,988 |

The notes on pages 17 to 48 form an integral part of these financial statements.

## 1. PRINCIPAL ACCOUNTING POLICIES

These Group and Parent Company financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

### 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 2006 and applicable accounting standards. The principal accounting policies are set out below.

### *b) Going Concern*

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 3 to 5.

The directors believe that the Group is well placed to manage its business risk successfully. The directors made enquiries of, and considered the Group's performance against its plans and objectives and satisfied themselves that the Group is performing as expected.

The Company and its subsidiaries are seen as significant market participants in their industries and the directors feel that they are well placed to build on their established activities and broader media interests to take advantage of improved market conditions and new opportunities as they arise.

The directors have also considered the Company's ability to provide ongoing support to those subsidiaries which may require it, and have concluded that the Company has sufficient resources to provide the support required by those subsidiaries.

The directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in the preparation of accounts.

### c) Basis of consolidation

The consolidated profit and loss account and other comprehensive income, balance sheet 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 and associates, from the date of acquisition and until the date of disposal. Intra-group sales, profits/(losses) and balances are eliminated fully on consolidation.

The Parent Company is included in the consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the Parent Company financial statements have been applied:

- The reconciliation of the number of shares outstanding from the beginning to the end of the period has not been included a second time; and
- No separate Parent Company Cash Flow Statement with related notes is included.

### d) Revenue recognition

Turnover represents the invoiced amount of goods dispatched and services provided (stated net of value added tax, or other applicable sales taxes and net of trade discounts). Turnover generated from publishing activities is recognised on release of the newspaper or magazine issue to which it relates.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

## 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Television subscription revenue is recognised evenly over the period of the subscription and pay per view revenue is recognised in the period in which the broadcast occurs.

Lottery turnover represents the gross amount receivable for lottery management services and money transfer and money handling services (stated net of value added tax or other applicable sales taxes). Turnover is recognised when the lottery draw to which the services relate has taken place.

Revenues are recognised from barter transactions involving advertising exchanged for services and are measured with reference to the fair value of the advertising provided.

Turnover and profit in respect to the sale of property is recognised on legal completion.

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

### e) 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 and associated 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 and 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 average rate of exchange during the year. 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.

### f) Intangible fixed assets

#### i. Trademarks

Trademarks comprise the cost of registering trademarks. These are amortised over 10 years, which is considered to be the useful economic life of the trademarks.

#### ii. 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 Express Newspapers in 2000, The Health Lottery group in 2011 and Tepilo Limited in 2017 is being amortised over its estimated economic life of 10 years in accordance with FRS 102.

Goodwill arising on joint venture and associate acquisitions is being amortised over its estimated useful economic life of 10 years.

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.

## 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

On the subsequent disposal or termination of a business acquired since 1 January 1998, the profit or loss on disposal or termination is calculated after charging/(crediting) the unamortised amount of any related goodwill/(negative goodwill).

### iii. Programming rights

Programming rights are stated at cost less accumulated amortisation. The cost of the programming rights represents the purchase cost together with any incidental costs of acquisition.

Amortisation is provided on all programming rights to write off the cost of each asset, less any residual value, over its expected useful life of 4 years. Amortisation is charged to the profit and loss account at 25% on the date of first transmission in the first year, then evenly over 3 years. The Group reviews its amortisation policy regularly to take account of changes to transmission of programming and the rights assigned. Where the Group transmits programming, which is owned by a third party, the charge is written off to the profit and loss account over the period that the charge relates to.

### g) Tangible fixed assets

Freehold investment properties are stated at their open market value at the balance sheet date. Investment properties are revalued annually and the aggregate surplus or deficit is transferred to 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 2006, 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 |
| Freehold land | No depreciation |
| 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 |

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.

### h) Fixed asset investments

Interests in subsidiaries, associates and jointly controlled entities are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

Entities in which the Group has a long term interest and shares control under a contractual arrangement are classified as jointly controlled entities. 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)

An associate is an entity, being neither a subsidiary nor a joint venture, in which the Group holds a long term interest and where the Group has significant influence. The Group considers that it has significant influence where it has the power to participate in the financial and operating decisions of the associate. An investment in an associate is accounted for under the equity method from the date on which it falls within the definition of an associate. On acquisition of the investment any difference between the cost of acquisition and the investor's share of the equity of the associate is described as goodwill. The Group's share of the profits and losses of the associate are disclosed separately in the Group's profit and loss account.

### i) Impairment of fixed assets

At each reporting period end date, the Group and Parent Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group and Parent Company estimate the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### j) 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.

Work in progress stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Costs comprise land and development costs including direct materials and, where applicable, subcontractor labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition.

At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss. Reversals of impairment losses are also recognised in profit or loss.

### k) Cash and liquid resources

Cash at bank and in hand are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

### l) Financial instruments

The Group and Parent Company have elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

## 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments are recognised in the Group and Parent Company's balance sheets when the Group or Parent Company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

*Basic financial assets*
Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

*Other financial assets*
Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Current asset investments are liquid resources which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying value or traded in an active market. Liquid resources comprise cash, equities, managed funds, corporate bonds and government securities. Current asset investments are stated at the lower of cost and net realisable value.

*Impairment of financial assets*
Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

*Derecognition of financial assets*
Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

*Classification of financial liabilities*
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group or company after deducting all of its liabilities.

*Basic financial liabilities*
Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

## 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

*Derecognition of financial liabilities*
Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

### m) 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 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.

### n) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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 Directors.

Deferred tax assets and liabilities are not discounted and are calculated at the standard rate of corporation tax in the UK substantively enacted at the balance sheet date of 17% (2016: 17%).

## 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

### n) Provisions

Provisions are recognised when the Group or Company has a legal or constructive present obligation as a result of a past event, it is probable that the Group or Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation. Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value, the unwinding of the discount is recognised as a finance cost in profit or loss in the period in which it arises.

Where the Parent Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company treats the guarantee contract as a contingent liability in its individual financial statements until such time as it becomes probable that the company will be required to make a payment under the guarantee.

### o) Employee benefits

Defined benefit plans:

The Group participates in three defined benefit schemes, the Express Newspapers 1988 Pension Fund, the Express Newspapers Senior Management Pension Fund and the West Ferry Printers Pension Scheme. Both the Express Newspapers Schemes and the West Ferry Printers Scheme were closed to future accrual with effect from 31 December 2008 and 28 February 2010 respectively.

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Group determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability/(asset) taking account of changes arising as a result of contributions and benefit payments.

The discount rate is the yield at the balance sheet date based on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the Group's obligations. A valuation is performed tri-annually by a qualified actuary using the projected unit valuation method. The Group recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in the profit and loss account.

Remeasurement of the net defined benefit liability/(asset) is recognised in other comprehensive income in the period in which it occurs.

Defined contribution plans:

Pension costs relating to defined contribution schemes are the amount of contributions payable for the year and are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

## 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

### p) 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.

### q) Discontinued operations

Discontinued operations are components of the group that have been disposed of at the date of signing the accounts and previously represented a separate major line of business or geographical area of operation or were subsidiaries acquired exclusively with a view to resale.

When an operation is classified as a discontinued operation, the comparative in the profit and loss account is restated as if the operation has been discontinued from the start of the comparative period.

Discontinued operations are also disclosed by financial caption for the current and comparative periods in note 6.

### r) Re-presentation of prior period balances

Management have taken the decision to re-present the segmental analysis (note 3) and continuing and discontinued operations (note 6) disclosures in the prior year. The change follows the sale of the Group's publishing and printing assets (note 29).

## 2. JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group and Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

The directors consider the judgement associated with these financial statements to be over the carrying value of investments, deferred tax assets and the valuation of retirement benefit obligations. There is significant judgement involved in determining the assumptions, including discount rate, inflation rates and mortality assumptions underlying the valuation of the liabilities of the pension schemes. The assumptions are disclosed in note 25.

## 3. SEGMENTAL ANALYSIS

The Group's turnover and loss before taxation arise principally from its publishing and printing, lottery management, broadcasting, property development and other investment activities. The Group's broadcasting activities were discontinued on 1 April 2016 (note 23) and after the year end, the Group disposed of its publishing and printing activities (note 29).

The Group's turnover, losses before taxation and net assets are principally attributable to activities in the United Kingdom.

Segmental analysis is presented after elimination of intra-group sales, profits/(losses) and balances.

| | P&P (D) 2017 £000 | B – O (D) 2017 £000 | INS (D) 2017 £000 | LM 2017 £000 | P & O 2017 £000 | TOTAL 2017 £000 |
|---|---|---|---|---|---|---|
| **TURNOVER** | | | | | | |
| Turnover gross | 192,400 | - | - | 26,551 | 13,845 | **232,796** |
| Inter-segment sales | (9,057) | - | - | - | (59) | **(9,116)** |
| Third party sales | 183,343 | - | - | 26,551 | 13,786 | **223,680** |
| **OPERATING (LOSS)/PROFIT** | **7,799**** | **-**** | **-**** | **(20,546)** | **6,741** | **(6,006)** |
| Loss on sale of discontinued operations (note 23) | - | (108) | - | - | - | **(108)** |
| Loss on deemed disposal of associate interest | - | - | - | - | (1,010) | **(1,010)** |
| | **7,799** | **(108)** | **-** | **(20,546)** | **5,731** | **(7,124)** |
| Common costs – net interest receivable | | | | | | **1,630** |
| Loss on ordinary activities before taxation | | | | | | **(5,494)** |

| | P&P (D) 2016 * £000 | B – O (D) 2016 * £000 | INS (D) 2016 * £000 | LM 2016 £000 | P & O 2016 £000 | TOTAL 2016 £000 |
|---|---|---|---|---|---|---|
| **TURNOVER** | | | | | | |
| Turnover gross | 189,250 | 1,396 | - | 26,737 | 1,104 | **218,487** |
| Inter-segment sales | (9,198) | (43) | - | - | (58) | **(9,299)** |
| Third party sales | 180,052 | 1,353 | - | 26,737 | 1,046 | **209,188** |
| **OPERATING (LOSS)/PROFIT** | **1,757**** | **146**** | **(11)**** | **(23,768)** | **(964)** | **(22,840)** |
| Profit on sale of discontinued operations (note 23) | - | 228 | - | - | - | **228** |
| | **1,757*** | **374** | **(11)** | **(23,768)** | **(964)** | **(22,612)** |
| Common costs – net interest payable | | | | | | **(116)** |
| Loss on ordinary activities before taxation | | | | | | **(22,728)** |

## 3. SEGMENTAL ANALYSIS (Continued)

The common costs are the sum of other interest receivable and similar income of £1.7 million (2016: £2.6 million) and interest payable and similar charges of £32,000 (2016: £2.7 million).

* Management have taken the decision to re-present the segmental analysis in the prior year (note 1).

**The difference between discontinued operating profit/(loss) as stated above and the operating loss shown in note 6 is as follows:

| | 2017<br>£000 | 2016 *<br>£000 |
|---|---|---|
| Segmental operating profit - P&P (D) | **7,799** | 1,757 |
| Segmental operating profit - B - O (D) | **-** | 146 |
| Segmental operating profit/(loss) - INS (D) | **-** | (11) |
| | **7,799** | 1,892 |
| Inter-segment transactions | **(10,281)** | (10,177) |
| Share of operating profit of joint ventures | **(760)** | (880) |
| Operating loss per analysis of discontinued operations (note 6) | **(3,242)** | (9,165) |

The abbreviations used above relate to the following segments:

| | |
|---|---|
| P&P (D) | Publishing and printing (discontinued) |
| B - O (D) | Broadcasting – other (discontinued) |
| INS (D) | Insurance (discontinued) |
| LM | Lottery management |
| P & O | Property development and other |

| **Net operating assets (including pension deficit)** | 2017<br>£000 | 2016 *<br>£000 |
|---|---|---|
| Publishing and printing (discontinued) | **82,075** | 69,529 |
| Insurance (discontinued) | **-** | (4) |
| Lottery management | **(145,581)** | (123,796) |
| Property development and other | **126,490** | 130,042 |
| | **62,984** | 75,770 |
| **Reconciliation of net operating assets to net assets** | | |
| Net operating assets | **62,984** | 75,770 |
| Investments (note 15) | **2,568** | 3,139 |
| Corporation tax (note 20) | **(2,734)** | (2,736) |
| Deferred tax – asset (note 19) | **17,599** | 19,286 |
| Current asset investments (including cash balances held on deposit – note 18) | **171,059** | 234,947 |
| Cash at bank and in hand | **86,635** | 29,988 |
| | **338,111** | 360,394 |

## 4. TURNOVER

An analysis of turnover by class of business is as follows:

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Provision of services | **61,257** | 60,104 |
| Sale of goods | **138,875** | 138,594 |
| Royalties | **3,135** | 2,825 |
| Commission | **3,179** | 3,203 |
| Rental income | **3,143** | 3,656 |
| Dividend income | **1,164** | - |
| Net gain from current asset investments | **11,706** | - |
| Other income | **1,221** | 806 |
| Total Group Turnover | **223,680** | 209,188 |

## 5. ADMINISTRATIVE EXPENSES

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Chairman's emoluments and pension contributions | **284** | 339 |
| Other administrative expenses | **141,964** | 139,032 |
| | **142,248** | 139,371 |

## 6. ANALYSIS OF CONTINUING AND DISCONTINUED OPERATIONS

| | 2017 Continuing Operations £000 | 2017 Discontinued Operations £000 | 2017 Total £000 | 2016 * Continuing Operations £000 | 2016 * Discontinued Operations £000 | 2016 Total £000 |
|---|---|---|---|---|---|---|
| Group turnover | 40,337 | 183,343 | **223,680** | 27,783 | 181,405 | **209,188** |
| Cost of sales | (26) | (72,785) | **(72,811)** | - | (77,980) | **(77,980)** |
| Gross profit | 40,311 | 110,558 | **150,869** | 27,783 | 103,425 | **131,208** |
| Distribution costs | - | (13,324) | **(13,324)** | - | (13,438) | **(13,438)** |
| Administrative expenses | (41,352) | (100,896) | **(142,248)** | (39,412) | (99,959) | **(139,371)** |
| Other operating income | - | 420 | **420** | - | 807 | **807** |
| Group operating loss | (1,041) | (3,242) | **(4,283)** | (11,629) | (9,165) | **(20,794)** |

* Management have taken the decision to re-present the analysis of continuing and discontinued operations in the prior year (note 1).

## 7. NOTES TO THE PROFIT AND LOSS ACCOUNT

| | 2017 £000 | 2016 £000 |
|---|---|---|
| **Loss on ordinary activities before tax is stated after charging/(crediting):** | | |
| Depreciation – owned assets (note 14) | **7,182** | 7,517 |
| Impairment losses on tangible fixed assets (note 14) | **597** | - |
| Amortisation of programming rights (note 13) | **-** | 38 |
| Amortisation of goodwill – acquisitions (note 13) | **1,117** | 1,117 |
| Amortisation of goodwill – associates | **479** | 524 |
| Impairment of investment in associates | **-** | 958 |
| Loss on disposal of fixed assets | **-** | 2,208 |
| Gain on revaluation - current asset investments (note 18) | **-** | (4,205) |
| Redundancy costs | **317** | 992 |
| Operating lease rentals – other | **303** | 664 |
| Operating lease rentals – land and buildings | **8,930** | 8,968 |
| Operating lease rentals – other income | **(2,522)** | (3,139) |
| Foreign exchange loss | **2** | 46 |

**Services provided by the Group's auditor and associated firms**

During the year, the Group (including its overseas subsidiaries) obtained the following services from KPMG LLP, at costs as detailed below:

| | 2017 £000 | 2016 £000 |
|---|---|---|
| **Audit services** | | |
| Fees payable to the Company's auditor for the audit of the Company and consolidated accounts | **30** | 27 |
| **Other services** | | |
| Fees payable to the Company's auditor and its associates for the audit of associates to the Company pursuant to legislation | **319** | 336 |
| Other services provided pursuant to such legislation | **63** | 141 |
| Transaction services | **344** | - |

## 8. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

### (a) Directors

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Emoluments | **1,562** | 1,745 |
| Company contributions to money purchase pension schemes | **25** | 21 |
| | **1,587** | 1,766 |

Pension benefits are accruing to three directors under money purchase pension schemes (2016: four directors).

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

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Emoluments | **327** | 339 |
| Company contributions to money purchase pension schemes | **8** | - |
| | **335** | 339 |

### (b) Staff costs (including directors)

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Wages and salaries | **44,430** | 42,869 |
| Social security costs | **4,987** | 4,828 |
| Contributions to defined contribution plans | **1,399** | 1,380 |
| Expenses related to defined benefit plans (net of other income) (note 25) | **1,118** | 2,065 |
| | **51,934** | 51,142 |

| Average number of people employed by activity: | 2017 Number | 2016 Number |
|---|---|---|
| Production | **454** | 437 |
| Selling and distribution | **101** | 103 |
| Administration | **137** | 146 |
| | **692** | 686 |

## 9. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Bank and term deposit interest receivable | **1,173** | 2,427 |
| Other interest receivable | **489** | 198 |
| | **1,662** | 2,625 |

## 10. INTEREST PAYABLE AND SIMILAR CHARGES

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Other interest payable | **32** | 2,741 |

## 11. TAXATION ON LOSS ON ORDINARY ACTIVITIES

| | 2017 £000 | 2016 £000 |
|---|---|---|
| **Current tax** | | |
| UK corporation tax on loss for the year at 19.25% (2016: 20.0%) | **38** | 16 |
| Foreign taxes suffered | **38** | 20 |
| Double taxation relief on loss on ordinary activities | **(38)** | (16) |
| Share of Joint Venture taxation | **87** | 101 |
| Total current tax expense | **125** | 121 |
| **Deferred tax** | | |
| Origination and reversal of timing differences (accelerated capital allowances and other) | **2,732** | (4,442) |
| Adjustments in respect of previous periods | **51** | 2,932 |
| Total deferred tax expense/(income) excluding deferred tax on pension liability (note 19) | **2,783** | (1,510) |
| Deferred tax on pension liability – recognised in profit and loss account | **1,358** | 2,392 |
| Deferred tax on pension liability – recognised in other comprehensive income | **(2,454)** | (2,422) |
| Total deferred tax expense/(income) (note 19) | **1,687** | (1,540) |
| Tax on loss on ordinary activities | **1,812** | (1,419) |

Total tax analysed as:

| | 2017 Current Tax £000 | 2017 Deferred Tax £000 | 2017 Total Tax £000 | 2016 Current Tax £000 | 2016 Deferred Tax £000 | 2016 Total Tax £000 |
|---|---|---|---|---|---|---|
| Recognised in profit and loss account | 125 | 4,141 | 4,266 | 121 | 882 | 1,003 |
| Recognised in other comprehensive income | - | (2,454) | (2,454) | - | (2,422) | (2,422) |
| Total tax | 125 | 1,687 | 1,812 | 121 | (1,540) | (1,419) |

## 11. TAXATION ON LOSS ON ORDINARY ACTIVITIES (Continued)

The tax assessed for the year differs from the rate of 19.25% (2016: 20.0%) and the differences are explained below:

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Loss on ordinary activities before tax | **(5,494)** | (22,728) |
| Loss on ordinary activities multiplied by the rate of 19.25% (2016: 20.0%) | **(1,058)** | (4,546) |
| Effects of: | | |
| Net effect of expenses not deductible for tax and income not subject to tax | **1,801** | 829 |
| Excess of depreciation over capital allowances and other timing differences | **95** | 144 |
| Adjustments in respect of previous periods | **51** | 2,932 |
| Profits subject to lower level of overseas tax | **(59)** | (75) |
| Non tax deductible goodwill amortisation and other permanent differences | **307** | 328 |
| Deferred tax assets not recognised | **3,649** | 6,310 |
| Deferred tax assets recognised on transfer of fixed assets to stock | **-** | (5,323) |
| Impact of tax rate changes | **(520)** | 404 |
| Total tax expense included in profit or loss | **4,266** | 1,003 |

A reduction in the UK Corporation Tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015. An additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Group's future current tax charge accordingly. The deferred tax asset at 31 December 2017 has been calculated based on these rates.

Factors that may affect future tax charges:

Based on current capital investment plans, the Group expects capital allowances to exceed depreciation in future years. The deferred tax asset not recognised relates to unutilised trading losses realised during the year.

The Group has tax losses of £202.1 million (2016: £191.9 million) available to carry forward against future profits. Whilst the Group expects to be able to benefit from tax losses carried forward, a deferred tax asset has only been recognised in respect of £34.0 million (2016: £45.1 million) of the available losses as future benefit is not certain.

## 12. PROFIT OF THE COMPANY

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. The Company's loss for the year amounted to £26.2 million (2016: £17.0 million), after a provision against amounts owed by group companies of £22.9 million (2016: £1.5 million), a charge for impairment losses of £nil (2016: £14.7 million) (note 15) and a loss on disposal of fixed asset investments of £nil (2016: £310,000).

## 13. INTANGIBLE ASSETS

| THE GROUP | Goodwill £000 |
|---|---|
| Cost: | |
| At 1 January 2017 | 41,443 |
| Additions | 4,025 |
| **At 31 December 2017** | **45,468** |
| Amortisation: | |
| At 1 January 2017 | 36,131 |
| Charge for the year | 1,117 |
| **At 31 December 2017** | **37,248** |
| Net book amounts: | |
| **At 31 December 2017** | **8,220** |
| At 31 December 2016 | 5,312 |

## 14. TANGIBLE ASSETS

| | Land and Buildings £000 | Motor Vehicles, Plant and Machinery £000 | Fixtures, Fittings and Office Equipment £000 | Total £000 |
|---|---|---|---|---|
| **THE GROUP** | | | | |
| Cost/valuation: | | | | |
| At 1 January 2017 | 72,500 | 82,646 | 30,810 | 185,956 |
| Additions | 598 | 279 | 1,558 | 2,435 |
| Disposals | - | (109) | - | (109) |
| **At 31 December 2017** | **73,098** | **82,816** | **32,368** | **188,282** |
| *Depreciation:* | | | | |
| At 1 January 2017 | 42,931 | 55,477 | 25,527 | 123,935 |
| Charge for the year | 2,570 | 1,942 | 2,670 | 7,182 |
| Impairment losses | - | - | 597 | 597 |
| Disposals | - | (109) | - | (109) |
| **At 31 December 2017** | **45,501** | **57,310** | **28,794** | **131,605** |
| Net book amounts: | | | | |
| **At 31 December 2017** | **27,597** | **25,506** | **3,574** | **56,677** |
| At 31 December 2016 | 29,569 | 27,169 | 5,283 | 62,021 |

Land and buildings includes the following assets at net book value as at 31 December 2017:

- freehold land and buildings £nil (2016: £nil).
- *short leasehold buildings £27.6 million* (2016: £29.6 *million*).

As at 31 December 2017, the net book value of assets acquired under finance leases was £nil (2016: £nil). Capitalised interest included in the net book value of fixed assets was £nil (2016: £nil).

**THE COMPANY**

The tangible fixed assets of the Company at 31 December 2017 amount to £nil (2016: £nil).

## 15. FIXED ASSET INVESTMENTS

| THE GROUP | 2017 £000 | 2016 £000 |
|---|---|---|
| **Interest in joint ventures** | | |
| At 1 January - net assets | 280 | 318 |
| - goodwill (gross) | 9,856 | 9,856 |
| | 10,136 | 10,174 |
| Share of profit | 672 | 780 |
| Movement in profit and loss reserves | (503) | (818) |
| | 169 | (38) |
| At 31 December - net assets | 449 | 280 |
| - goodwill (gross) | 9,856 | 9,856 |
| | 10,305 | 10,136 |
| **Aggregate amortisation of goodwill** | | |
| At 1 January | (9,856) | (9,856) |
| Charge for the year | - | - |
| At 31 December | (9,856) | (9,856) |
| **Net book amount at 31 December** | | |
| Net assets | 449 | 280 |
| Goodwill | - | - |
| | 449 | 280 |
| ***Interest in associate undertakings*** | 1,715 | 2,459 |
| **Other fixed asset investment** | 404 | 400 |
| **Total fixed asset investments** | 2,568 | 3,139 |

| | 2017 £000 | 2016 £000 |
|---|---|---|
| **Summary of Joint Venture net assets** | | |
| Share of fixed assets | 195 | 216 |
| Share of current assets | 1,619 | 1,575 |
| **Share of gross assets** | 1,814 | 1,791 |
| Share of liabilities | | |
| Due within one year | (1,365) | (1,511) |
| **Share of gross liabilities** | (1,365) | (1,511) |
| **Net assets** | 449 | 280 |

For the year ended 31 December 2017, the joint ventures do not exceed the 15% and 25% thresholds of gross assets, gross liabilities, turnover or, on a three-year average, operating result of the investing group under FRS 102. Therefore, the Group's share of its principal joint venture has not been disclosed.

**15. FIXED ASSET INVESTMENTS (Continued)**

At 31 December 2017, the Group held interests in the following joint ventures:

| Company Name | Class of shares | Holding (%) | Country of incorporation | Principal Activity |
|---|---|---|---|---|
| Independent Star Limited | Ordinary | 50 | Republic of Ireland | Publishing |
| Iberian Ediciones Limited * | Ordinary | 50 | United Kingdom | Publishing |

* Denotes operates a branch in Spain. The company is currently in voluntary liquidation.

At 31 December 2017, the Group held interests in the following associate undertakings:

| Company Name | Class of shares | Holding (%) | Country of incorporation | Principal Activity |
|---|---|---|---|---|
| OpenRent Limited | Ordinary | 26 | United Kingdom | Online lettings agency |
| My Single Friend Limited | Ordinary | 40 | United Kingdom | Online dating |
| Friction Free Shaving Limited | A1 Preferred | 26 | United Kingdom | Subscription shaving |

OpenRent Limited is incorporated in the United Kingdom, with a registered office at 30-34 New Bridge Street, London, EC4V 6BJ. The Group's shareholding in OpenRent Limited was diluted from 30.0% to 25.5% at the Balance Sheet date, following the company's issue of preference shares during the year. There were no changes in the class of shares held during the year.

My Single Friend Limited is incorporated in the United Kingdom, with a registered office at 34 Anyards Road, Cobham, Surrey, KT11 2LA. There were no changes in the ownership or class of shares held during the year.

Friction Free Shaving Limited is incorporated in the United Kingdom, with a registered office at 11 Heritage Park Hayes Way, Cannock, WS11 7LT. During the year, the Group subscribed for 44,532 A1 Preferred shares in the capital of the company, representing a shareholding of 25.94% (2016: 0.0%) at the Balance Sheet date.

| | OpenRent Limited | My Single Friend Limited | Friction Free Shaving Limited | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Share of profit/(loss) for the year | (192) | - | (59) | **(251)** |

During the year, Northern & Shell Ventures Limited, a subsidiary undertaking, subscribed for 1,500,000 preference shares of £1 each in the capital of Tepilo Limited for a total consideration of £1.5 million. The preference shares rank pari passu in all respects with the ordinary shares save for the preference shares have priority capital rights but do not have any voting rights or rights to receive a dividend distribution.

On 21 December 2017, Northern & Shell Ventures Limited disposed of its 39.0% shareholding in Tepilo Limited for a consideration of 38,366 ordinary shares in Tepilo Holdings Limited, a subsidiary undertaking. As at 31 December 2017, Tepilo Holdings Limited held 100% of the shareholding in Tepilo Limited, representing an indirect shareholding for the Group of 87.8%. Accordingly, Tepilo Holdings Limited and Tepilo Limited are accounted for as subsidiary undertakings as at the Balance Sheet date. The Group's disposal of its 39.0% shareholding in Tepilo Limited represents a loss on deemed disposal of associate interest of £1.0 million.

The Group also subscribed for 44,532 A1 preferred shares of £28.07 each in the capital of Friction Free Shaving Limited, for a total consideration of £1.3 million. The A1 Preferred shares rank pari passu in all respects with the ordinary shares, save for the A1 Preferred shares have priority capital rights.

In 2016, Northern & Shell Ventures Limited subscribed for 500,000 preference shares of £1 each in the capital of Tepilo Limited, for a total consideration of £500,000. The preference shares rank pari passu in all respects with the ordinary shares save for the preference shares have priority capital rights but do not have any voting rights or rights to receive a dividend distribution. Northern & Shell Ventures Limited also subscribed for 2.0 million D ordinary shares of £0.20 each in the capital of Hochanda Limited, for a total consideration of £400,000. The investment has been recognised within other investments.

## 15. FIXED ASSET INVESTMENTS (Continued)

| THE COMPANY | 2017 £000 | 2016 £000 |
|---|---|---|
| **Shares in group undertakings** | | |
| Cost: | | |
| At 1 January | **257,030** | 257,040 |
| Additions | **20,346** | 300 |
| Disposals | - | (310) |
| At 31 December | **277,376** | 257,030 |
| Provision for impairment: | | |
| At 1 January | **15,107** | 400 |
| Impairment losses | - | 14,707 |
| At 31 December | **15,107** | 15,107 |
| Net book amounts: | | |
| **At 31 December** | **262,269** | 241,923 |

On 25 May 2017, 100 ordinary shares of £1.00 each, comprising the entire issued share capital of Northern & Shell Ventures Limited, were transferred from Northern & Shell Network Limited, a subsidiary undertaking at the Balance Sheet date, to the Company at fair value for a consideration of £18.4 million. On the same date, the Company also acquired 1 ordinary share of £1.00 each, comprising the entire issued share capital of LTS Rentals Limited, from Express Newspapers, a subsidiary undertaking at the Balance Sheet date, at fair value for a consideration of £1.8 million, and acquired 1 ordinary share of £1.00 each, comprising the entire issued share capital LTS Contractors Limited, from Express Newspapers, a subsidiary undertaking at the Balance Sheet date, at fair value for a consideration of £107,000.

On 29 June 2016, Northern & Shell (Jersey) Limited was dissolved. As at this date, the company had no assets and no liabilities.

In 2016, Northern & Shell Luxembourg S.a.r.l., a subsidiary undertaking, issued to the Company 300,000 ordinary shares of £1 each in the capital of the company, for a total consideration of £300,000. Subsequently, on 1 July 2016, Northern & Shell Luxembourg S.a.r.l. and its subsidiary, Northern & Shell Property Luxembourg S.a.r.l., were liquidated. The remaining assets held by Northern & Shell Luxembourg S.a.r.l. as at this date were distributed to the Company, as its immediate parent undertaking, a total of £26,000. The Company recognised a loss on disposal of the investment of £310,000.

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

Impairment testing:

The Company's policy is to carry out annual reviews of its investments. Based on operating results for the subsidiary undertakings, future forecasts and their net assets, the directors consider that the investments' carrying amount exceeded the recoverable amount by £nil (2016: £14.7 million) and consequently has been written down by this amount. The impairment loss has been recognised within administrative expenses in the profit and loss account (note 12).

The recoverable amount of investments has been assessed with reference to its value in use which is calculated as the net present value of future cash flows using a post-tax discount rate of 8% (2016: 8%) as well as a terminal growth rate of 0% which the directors consider to be representative of the Group and the market in which it operates.

## 15. FIXED ASSET INVESTMENTS (Continued)

At 31 December 2017, the Company held interests in the following subsidiary undertakings:

| Company Name | Class of shares | Holding (%) | Country of incorporation | Principal Activity |
|---|---|---|---|---|
| Northern & Shell Network Limited ** | Ordinary | 100 | United Kingdom | Holding company |
| Northern & Shell Plc ** | Ordinary | 100 | United Kingdom | Publishing |
| Northern & Shell Media Limited ** | Ordinary | 100 | United Kingdom | Holding company |
| Northern & Shell Worldwide Limited ** | Ordinary | 100 | United Kingdom | Intellectual property exploitation |
| Northern & Shell Leasing Limited ** | Ordinary | 100 | United Kingdom | Non-trading |
| Northern & Shell Titles Limited ** | Ordinary | 100 | United Kingdom | Holding of trademarks |
| Northern and Shell Finance Limited ** | Ordinary | 100 | United Kingdom | Treasury |
| Northern & Shell Digital Limited ** | Ordinary | 100 | United Kingdom | Dormant |
| Northern & Shell Ventures Limited | Ordinary | 100 | United Kingdom | Media assets exploitation |
| Northern & Shell Media Holdings Limited ** | Ordinary | 100 | United Kingdom | Holding company |
| Broughton Printers Limited ** | Ordinary | 100 | United Kingdom | Non-trading |
| OK! Magazine Holdings Limited ** | Ordinary | 100 | United Kingdom | Dormant |
| Express Newspapers ** | Ordinary | 100 | United Kingdom | Publishing |
| Express Printers Manchester Limited ** | Ordinary | 100 | United Kingdom | Dormant |
| LTS Contractors Limited | Ordinary | 100 | United Kingdom | Dormant |
| LTS Rentals Limited | Ordinary | 100 | United Kingdom | Letting of office space |
| West Ferry Printers Limited ** | Ordinary | 100 | United Kingdom | Printing |
| West Ferry Leasing Limited ** | Ordinary | 100 | United Kingdom | Leasing assets |
| West Ferry Printers Pension Scheme Trustees Limited ** | Ordinary | 100 | United Kingdom | Dormant |
| Beaverbrook Newspapers Limited ** | Ordinary | 100 | United Kingdom | Dormant |
| Blackfriars Leasing Limited ** | Ordinary | 100 | United Kingdom | Dormant |
| Daily Star Limited ** | Ordinary | 100 | United Kingdom | Dormant |
| Express Property Management Limited ** | Ordinary | 100 | United Kingdom | Dormant |
| Express Newspapers Pension Trustees Limited ** | Ordinary | 100 | United Kingdom | Dormant |
| Daily Express Limited ** | Ordinary | 100 | United Kingdom | Dormant |
| Express Newspapers Properties Limited ** | Ordinary | 100 | United Kingdom | Dormant |
| Sunday Express Limited ** | Ordinary | 100 | United Kingdom | Dormant |
| United Magazines Publishing Services Limited ** | Ordinary | 100 | United Kingdom | Dormant |
| Scottish Express Newspapers Limited ** | Ordinary | 100 | United Kingdom | Dormant |
| Northern & Shell North America Limited * / ** | Ordinary | 100 | United Kingdom | Publishing |
| Northern & Shell Marketing LLC ** | Ordinary | 100 | United States of America | Publishing |
| Northern & Shell Distribution Limited ** | Ordinary | 100 | United Kingdom | Magazine distributor |
| Northern & Shell Magazines Limited ** | Ordinary | 100 | United Kingdom | Publishing |
| The Green Magazine Company Limited ** | Ordinary | 100 | United Kingdom | Dormant |
| Sightline Publications Limited ** | Ordinary | 100 | United Kingdom | Dormant |
| The Northern & Shell Tower Management Services Limited ** | Ordinary | 100 | United Kingdom | Dormant |
| Burginhall 677 Limited ** | Ordinary | 100 | United Kingdom | Dormant |
| Export Magazine Distributors Limited ** | Ordinary | 100 | United Kingdom | Dormant |
| Tower Magazines Limited ** | Ordinary | 100 | United Kingdom | Dormant |

## 15. FIXED ASSET INVESTMENTS (Continued)

At 31 December 2017, the Company held interests in the following subsidiary undertakings (continued):

| Company Name | Class of shares | Holding (%) | Country of incorporation | Principal Activity |
|---|---|---|---|---|
| Northern & Shell Videos Limited ** | Ordinary | 100 | United Kingdom | Dormant |
| OK Magazines Limited ** | Ordinary | 100 | United Kingdom | Dormant |
| OK Magazines Trading Co Limited ** | Ordinary | 100 | United Kingdom | Dormant |
| Northern & Shell Properties Limited | Ordinary | 100 | United Kingdom | Holding company |
| Westferry Developments Limited | Ordinary | 100 | United Kingdom | Property development |
| Northern & Shell Broadcasting (CI) Limited | Ordinary | 100 | Jersey | Holding company |
| Northern & Shell Enterprises Limited | Ordinary | 100 | United Kingdom | Holding company |
| Northern & Shell Engineering Services Limited | Ordinary | 100 | United Kingdom | Dormant |
| Northern & Shell Music Limited | Ordinary | 100 | United Kingdom | Dormant |
| Northern & Shell Text Limited | Ordinary | 100 | United Kingdom | Dormant |
| 5 Direct Limited | Ordinary | 100 | United Kingdom | Dormant |
| Portland Media Group Limited | Ordinary | 100 | United Kingdom | Holding company |
| Portland Media Group UK Limited | Ordinary | 100 | United Kingdom | Holding company |
| NS Jersey Finance Limited | Ordinary | 100 | United Kingdom | Holding company |
| Northern & Shell Services Limited | Ordinary | 100 | United Kingdom | Service Company |
| Sorse Distribution Limited | Ordinary | 100 | United Kingdom | Online distribution |
| Northern & Shell Group Limited | Ordinary | 100 | United Kingdom | Holding company |
| Nasnet Online Limited | Ordinary | 100 | Jersey | Non-trading |
| Northern & Shell Financing No. 2 Limited | Ordinary | 100 | United Kingdom | Dormant |
| Northern & Shell Investments Limited | Ordinary | 100 | Isle of Man | Holding of investments |
| Northern & Shell Health Limited | Ordinary | 100 | United Kingdom | Holding company |
| The Health Lottery Limited | Ordinary | 100 | United Kingdom | Lottery management services |
| Health Lottery ELM Limited | Ordinary | 100 | United Kingdom | Lottery management services |
| Health Lottery Financial Limited | Ordinary | 100 | United Kingdom | Money handling and money transfer services |
| Health Lottery Trustee Company Limited | Ordinary | 100 | United Kingdom | Dormant |
| Tepilo Limited | Ordinary | 88 | United Kingdom | Online estate agency |
| Tepilo Limited | Preference | 88 | United Kingdom | Online estate agency |
| Tepilo Holdings Limited | Ordinary | 88 | United Kingdom | Online estate agency |

* Denotes operates a branch in the United States of America, of which the principal trade and assets were disposed during 2011; and

** Denotes the company was sold to Trinity Mirror plc on 28 February 2018 (note 29).

All of the above companies are consolidated within the Group's financial statements.

## 16. STOCKS

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Raw materials and consumables | **1,451** | 1,818 |
| Work in progress | **56,974** | 46,641 |
| | **58,425** | 48,459 |

Movements in work in progress:

| | 2017 £000 |
|---|---|
| At 1 January | 46,641 |
| Additions | 10,333 |
| **At 31 December** | **56,974** |

On 4 August 2016, S106 planning consent was granted in relation to land owned by Westferry Developments Limited, a subsidiary undertaking, at West Ferry Printworks, 235 Westferry Road, London E14 8NX. The directors consider that from this date the company has moved into the development phase of the project. Accordingly, as at that date the land and building asset was transferred from tangible fixed assets into stock, at its carrying value of £43.7 million.

## 17. DEBTORS

| | The Group | |
|---|---|---|
| | 2017 £000 | 2016 £000 |
| Trade debtors | **10,586** | 15,262 |
| Other debtors | **3,593** | 4,482 |
| Amounts owed by related parties | **-** | 2,369 |
| Prepayments and accrued income | **11,192** | 8,505 |
| Deferred tax asset (note 19) | **17,599** | 19,286 |
| | **42,970** | 49,904 |

| | The Company | |
|---|---|---|
| | 2017 £000 | 2016 £000 |
| Trade debtors | **73** | - |
| Amounts owed by group undertakings | **54,776** | 46,929 |
| Amounts owed by group undertakings with respect to group relief | **149** | 170 |
| Other debtors | **67** | 24 |
| Prepayments and accrued income | **234** | - |
| | **55,299** | 47,123 |

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 group undertakings with respect to group relief are non-interest bearing, unsecured and repayable on demand.

## 18. CURRENT ASSET INVESTMENTS

| | The Group 2017 £000 | The Group 2016 £000 |
|---|---|---|
| Bonds | **5,744** | 5,268 |
| Listed investments | **141,967** | 36,851 |
| Unlisted investments | **10,848** | 5,228 |
| Cash on deposit | **12,500** | 187,600 |
| | **171,059** | 234,947 |

The Group holds a mixed portfolio of current asset investments with maturities of one year or less. These investments include equities, diversified growth funds, corporate bonds and cash balances held on deposit with financial institutions. The cash balances are held for maturities of between three months and one year and in accordance with the requirements of FRS 102 have been presented under current asset investments.

The Group intends to hold the investments until maturity, at which time the proceeds will either be converted into cash or used for new investments.

The market value of current asset investments is:

| | The Group 2017 £000 | The Group 2016 £000 |
|---|---|---|
| At 1 January | **234,947** | 232,690 |
| Additions | **219,911** | 247,600 |
| Disposals | **(295,505)** | (249,548) |
| Gain on revaluation (note 7) | **11,706** | 4,205 |
| At 31 December | **171,059** | 234,947 |

## 19. DEFERRED TAX ASSET

| | £000 |
|---|---|
| At 1 January 2017 | **19,286** |
| Charged to the profit and loss account (note 11) | **(4,141)** |
| Recognised in other comprehensive income (note 11) | **2,454** |
| At 31 December 2017 | **17,599** |

The deferred taxation recognised in these financial statements is as follows:

| | 2017 £000 | 2016 £000 |
|---|---|---|
| **Deferred tax recognised including deferred tax on pension liability** | | |
| Accelerated capital allowances | **8,248** | 2,302 |
| Other timing differences | **(1,432)** | 5,403 |
| Losses | **5,776** | 7,670 |
| Deferred tax excluding that relating to pension liability | **12,592** | 15,375 |
| Deferred tax on pension liability (note 25) | **5,007** | 3,911 |
| **Total deferred tax asset recognised** | **17,599** | 19,286 |
| 1 January | **19,286** | 18,026 |
| Sale of discontinued operations (note 23) | **-** | (280) |
| Deferred tax expense in profit and loss account (note 11) | **(4,141)** | (882) |
| Deferred tax on the actuarial loss on the pension scheme charged to other comprehensive income | **2,454** | 2,422 |
| **At 31 December** | **17,599** | 19,286 |

Based on current capital investment plans, the Group expects capital allowances to exceed depreciation in future years. Deferred tax is measured on a non-discounted basis at the rates and laws substantively enacted at the balance sheet date.

## 20. CREDITORS: amounts falling due within one year

| | 2017<br>£000 | 2016<br>£000 |
|---|---|---|
| Trade creditors | **11,210** | 10,088 |
| Other creditors | **6,511** | 5,669 |
| Taxation and social security | **2,031** | 2,226 |
| Corporation tax | **2,734** | 2,736 |
| Redeemable ordinary 'B' shares | - | 900 |
| Accruals and deferred income | **30,687** | 26,627 |
| | **53,173** | 48,246 |

| | The Company<br>2017<br>£000 | <br>2016<br>£000 |
|---|---|---|
| Amounts owed to group undertakings | **93,915** | 42,986 |
| Other creditors | **264** | - |
| Taxation and social security | **40** | - |
| Accruals and deferred income | **326** | - |
| | **94,545** | 42,986 |

Amounts owed to group undertakings carry interest at 2.0% above base rate, are unsecured and repayable on demand.

## 21. PROVISIONS FOR LIABILITIES AND CHARGES

| | 2017<br>£000 |
|---|---|
| **The Group** | |
| At 1 January | 2,125 |
| Charged to the profit and loss account | 4,180 |
| Utilised or released during the year | (486) |
| **At 31 December** | **5,819** |

Provisions of £5.8 million relate to the provision for onerous rental commitments of £2.1 million (2016: £1.3 million) at the main business premises, Number 10 Lower Thames Street, and other provisions of £3.5 million (2016: £195,000) and £185,000 (2016: £671,000) at other business premises 4 Selsdon Way, London and 1155 Avenue of the Americas, New York, respectively. The remaining provisions are expected to be utilised during the period to 31 December 2022.

| | 2017<br>£000 |
|---|---|
| **The Company** | |
| At 1 January | - |
| Charged to the profit and loss account | 3,495 |
| **At 31 December** | **3,495** |

Provisions of £3.5 million relate to the provision for onerous rental and property related commitments of 3.5 million (2016: £nil) at Selsdon Way, London. The remaining provisions are expected to be utilised during the period to 31 December 2022.

## 22. OPERATING LEASE COMMITMENTS

At 31 December 2017, the Group had total commitments under non-cancellable operating leases as follows:-

| | 2017<br>£000 | 2016<br>£000 |
|---|---|---|
| Within one year | **9,512** | 10,478 |
| Between two and five years | **39,969** | 39,505 |
| More than five years | **120,482** | 130,497 |
| | **169,963** | 180,480 |

## 23. DISPOSALS

### Sale of discontinued operations

On 1 April 2016, the Group sold its entire shareholding in Portland UK Holdings Limited, a subsidiary undertaking, to Neon X Limited, as part of a management buyout.

The consideration is contingent on the performance of Portland UK Holdings Limited and its subsidiaries in the period to 31 December 2018, the outcome of which is uncertain. In 2016, sales proceeds of £352,000 and a profit on sale of discontinued operations of £228,000 were recorded.

At the Balance Sheet date, the profit on sale of discontinued operations was recalculated to include the actual performance in the year, together with the expected performance of Portland UK Holdings Limited and its subsidiaries in the year ending 31 December 2018. The directors have made the decision to recognise a reduction in the estimated sales proceeds of £108,000, meaning the total profit on sale of discontinued operations of £228,000 was revised to £120,000.

After the year end, the Group divested of its publishing and printing assets with the sale of its entire shareholding in Northern & Shell Network Limited, a subsidiary undertaking, to Trinity Mirror plc (note 29).

## 24. SHARE CAPITAL

| | The Group & Company | | | |
|---|---|---|---|---|
| | Authorised | | Allotted and Fully Paid | |
| | 2017 £000 | 2016 £000 | 2017 £000 | 2016 £000 |
| 110,000 Ordinary shares of £1 each | **110** | 110 | **110** | 110 |

## 25. PENSION SCHEMES

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 2015. The latest full actuarial valuation of the West Ferry Printers Pension Fund was carried out as at 31 December 2014. The results below have been updated by a qualified independent actuary using the projected unit valuation method. Both the Express Newspapers schemes and the West Ferry Printers scheme were closed to future accruals with effect from 31 December 2008 and 28 February 2010 respectively. The Group currently has an agreed recovery plan in respect of the shortfall in funding and has paid £10.4 million (2016: £10.3 million) into the 1988 Pension Fund, £563,000 (2016: £559,000) into the Senior Management Pension Fund and £2.8 million (2016: £2.8 million) into the West Ferry Printers Pension Fund during the year. All three Funds are defined benefit schemes. The Group expects to contribute £44.1 million towards the deficit in its defined benefit plans in the next financial year, including special contributions of £32.9 million and £8.8 million to be paid by Express Newspapers and West Ferry Printers Limited respectively, which were contingent on the sale of Northern & Shell Network Limited (note 29).

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 £1.4 million (2016: £1.4 million). At 31 December 2017, contributions of £117,000 were outstanding (2016: £116,000). These have been paid in full after the year end.

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

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Discount rate | 2.60% | 2.80% | 3.80% |
| Rate of LPI increase in pensions in payment | 3.10%-3.20% | 3.20%-3.30% | 3.00%-3.20% |
| Inflation assumption | 2.10% | 2.20% | 2.00% |

The mortality assumptions used in the calculation at 31 December 2017 were:

Express Newspapers 1988 Fund mortality:
"SAPS Series 2" base tables with year of birth projections and future improvements from a central year of 2007 in line with the CMI 2016 model and a long term rate of improvement of 1.25% per annum.

Express Newspapers Senior Management Fund mortality:
"S2PA" base tables with year of birth projections and future improvements from a central year of 2007 in line with the CMI 2016 model and a long term rate of improvement of 1.25% per annum.

West Ferry Printers Fund mortality:
"S2NA" base tables with year of birth projections and future improvements from a central year of 2007 in line with the CMI 2016 model and a long term rate of improvement of 1.25% per annum.

**25. PENSION SCHEMES (Continued)**

The fair values of the assets presented below reflect the aggregated assets of the Express Newspapers 1988 Pension Fund, the Express Newspapers Senior Management Pension Fund and the West Ferry Printers Pension Fund.

The fair value of the assets in the schemes and the expected rates of return at 31 December were:

| | Fair value at 2017 £000 | Fair value at 2016 £000 |
|---|---|---|
| Equities | **188,886** | 207,948 |
| Gilts | **43,046** | 84,096 |
| Corporate bonds | **33,111** | 15,950 |
| Other | **440,864** | 444,906 |
| Total market value of assets | **705,907** | 752,900 |
| Present value of scheme liabilities | **(724,842)** | (770,585) |
| Deficit in the schemes | **(18,935)** | (17,685) |
| Irrecoverable surplus | **(10,516)** | (5,320) |
| Deficit in the schemes after irrecoverable surplus | **(29,451)** | (23,005) |
| Related deferred tax asset (note 19) | **5,007** | 3,911 |
| Net pension liability | **(24,444)** | (19,094) |

The pension schemes do not hold any ordinary shares issued or property occupied by Express Newspapers or West Ferry Printers Limited.

| | 2017 £000 | 2016 £000 |
|---|---|---|
| The actual return on assets over the period was: | | |
| Return on assets | **17,826** | 103,173 |

## 25. PENSION SCHEMES (Continued)

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

| **Operating profit** | **2017 £000** | **2016 £000** |
|---|---|---|
| Expenses paid | **2,101** | 1,925 |
| Settlements | **5,893** | - |
| Net interest on the net defined benefit liability | **527** | 619 |
| Total expense | **8,521** | 2,544 |

The expense is recognised in the following line items in the profit and loss account:

| | **2017 £000** | **2016 £000** |
|---|---|---|
| Administrative expenses | **8,521** | 2,544 |

Remeasurement of the net defined benefit liability to be shown in the statement of other comprehensive income:

| | **2017 £000** | **2016 £000** |
|---|---|---|
| Actuarial losses on the liabilities | **(6,783)** | (100,862) |
| Return on assets (excluding interest income) | **(2,645)** | 78,068 |
| Impact of surplus restrictions | **188** | 558 |
| Change in irrecoverable surplus | **(5,196)** | 7,987 |
| Total remeasurement of the net defined benefit liability | **(14,436)** | (14,249) |

The total remeasurement loss of the net defined benefit liability to be shown in other comprehensive income of £14.4 million (2016: £14.2 million) relates to an actuarial loss on liabilities of £6.8 million, a return on assets (excluding interest income) loss of £2.6 million, an impact of surplus restrictions of £188,000, less £5.2 million for the change in irrecoverable surplus.

**25. PENSION SCHEMES (Continued)**

**Movements in defined benefit obligation during the year:**

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Defined benefit obligation | **(724,842)** | (770,585) |
| Plan assets | **705,907** | 752,900 |
| Net pension liability | **(18,935)** | (17,685) |
| Irrecoverable surplus | **(10,516)** | (5,320) |
| Net pension liability after irrecoverable surplus | **(29,451)** | (23,005) |

**Movements in present value of the defined benefit obligation:**

| | 2017 £000 | 2016 £000 |
|---|---|---|
| At 1 January | **770,585** | 679,673 |
| Settlements | **(36,980)** | - |
| Interest expense | **20,810** | 25,166 |
| Remeasurement: actuarial loss | **6,783** | 100,862 |
| Benefits paid | **(36,356)** | (35,116) |
| At 31 December | **724,842** | 770,585 |

**Movements in fair value of the scheme assets:**

| | 2017 £000 | 2016 £000 |
|---|---|---|
| At 1 January | **752,900** | 671,422 |
| Settlements | **(42,873)** | - |
| Interest income on scheme assets | **20,471** | 25,105 |
| Remeasurement: return on assets (excluding interest income) | **(2,645)** | 78,068 |
| Contributions by employers | **16,450** | 15,315 |
| Net income | **61** | 31 |
| Benefits paid | **(36,356)** | (35,116) |
| Expenses paid | **(2,101)** | (1,925) |
| At 31 December | **705,907** | 752,900 |

The deficit at the end of the year of £29.5 million (2016: £23.0 million) is after an irrecoverable surplus of £10.5 million (2016: £5.3 million). The deficit includes a remeasurement loss of £14.4 million (2016: £14.2 million) and is after recognising the impact of surplus restrictions of £118,000 (2016: £558,000) and allowance for the change in irrecoverable surplus of £5.2 million loss (2016: £8.0 million gain). The movements in defined benefit obligation and fair value of the scheme assets are before the irrecoverable surplus.

## 26. GUARANTEES AND CONTINGENT LIABILITIES

At 31 December 2017, a group undertaking, Northern & Shell North America Limited, held in place a bank guarantee. The bank, subject to the terms of the guarantee but otherwise unconditionally, undertakes to pay to the landlord of the Company's former business premises on demand a sum or sums to an amount not exceeding USD \$1.6 million (sterling equivalent at 31 December 2017: £1.2 million) (2016: \$2.5 million). The guarantee amortises on a reducing balance basis over the term of the lease and shall be reduced to USD \$1.6 million following the ninth year of the lease. The bank's liabilities have also been jointly guaranteed by the Company. The bank's liabilities cease and are determined on 31 August 2018.

In 2014, Westferry Developments Limited, a subsidiary undertaking, acquired freehold interest in property for the total sum of £18.1 million, included in stock (note 16). Under the terms of the acquisition deed, further amounts may become due payable to the seller, a third party. Accordingly, as at 31 December 2017, Westferry Developments Limited held in place a bank guarantee. The bank, subject to the terms of the guarantee but otherwise unconditionally, undertakes to pay to the seller on demand any sum or sums due under the terms of the guarantee to an amount not exceeding £719,000. Westferry Developments Limited has also pledged certain assets as security for the bank guarantee facility.

In 2015, Health Lottery ELM Limited, a subsidiary undertaking, entered into contracts for the provision of advertising and production services. Under the terms of the contracts, the company is committed to a minimum annual media spend of £21.8 million and a minimum annual production spend of £5.4 million for the periods ending 31 December 2018 and 30 September 2018 respectively (note 27). The Company, irrevocably and unconditionally guarantees Health Lottery ELM Limited's obligations under the agreements.

## 27. COMMITMENTS

In 2015, Health Lottery ELM Limited, a subsidiary undertaking, entered into contracts for the provision of advertising and production services. Under the terms of the contracts, the company is committed to a minimum annual media spend of £21.8 million and a minimum annual production spend of £5.4 million for the periods ending 31 December 2018 and 30 September 2018 respectively (note 26).

## 28. RELATED PARTY TRANSACTIONS

Badger Property Partners LLP, of which Mr. R.C. Desmond is a member, owns the Number 10 Lower Thames Street property which is the head office of the Northern & Shell group. The Number 10 Lower Thames Street property is leased to Express Newspapers, a subsidiary undertaking, for a period of 20 years from 10 October 2013, for an annual rental of £6.9 million and with a rent review every 5 years. The charge for the year was £6.9 million (2016: £6.9 million). No amounts were due to Badger Property Partners LLP as at 31 December 2017 (2016: £nil). After the year end, the lease was transferred from Express Newspapers to the Company.

During the year, Northern & Shell Ventures Limited, a subsidiary undertaking, provided media services to its associate undertakings and other investments and as at 31 December, was committed to provide further media services as follows:

| | **Media Services** | | **Commitment** | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **£000** | **£000** | **£000** | **£000** |
| OpenRent Limited | **-** | - | **355** | 355 |
| My Single Friend Limited | **338** | 480 | **597** | 935 |
| Hochanda Limited | **98** | 101 | **201** | 299 |
| Friction Free Shaving Limited | **409** | - | **341** | - |
| | **845** | 581 | **1,494** | 1,589 |

In 2016, Northern and Shell Finance Limited, a subsidiary undertaking, entered into a loan facility agreement with Tepilo Limited. The loan facility was for an initial amount of £2.5 million, charges interest at 15% and is repayable by February 2018. During the year, the loan facility was increased to £4.0 million and is repayable by February 2019. Amounts outstanding are included in debtors within amounts owed to related parties (note 17).

On 21 December 2017, Northern & Shell Ventures Limited disposed of its 39.0% shareholding in Tepilo Limited for a consideration of 38,366 ordinary shares in Tepilo Holdings Limited, a subsidiary undertaking. As at 31 December 2017, Tepilo Holdings Limited held 100% of the shareholding in Tepilo Limited, representing an indirect shareholding for the Group of 87.8%.

The Company has taken advantage of the exemption available under FRS 102 from disclosing transactions with other group undertakings that form part of the wholly owned Group.

## 29. EVENTS AFTER THE REPORTING DATE

On 28 February 2018, the Group divested of its publishing and printing assets with the sale of its entire shareholding in Northern & Shell Network Limited, a subsidiary undertaking, to Trinity Mirror plc (now renamed Reach plc) for a total consideration of £126.7 million (note 15).

## 30. ULTIMATE CONTROLLING PARTY

The ultimate controlling party is Richard Desmond, the Chairman of the Company.