Registered number: 2797365

# Nickelodeon U.K. Limited

## Annual report and financial statements

## for the year ended 30 September 2014

## Company Information

| | |
|---|---|
| **Directors** | R Bakish (resigned 20 October 2014)<br>P Gazzolo<br>D Lynn<br>S Robson<br>M Winterbottom<br>J Currell (appointed 20 October 2014) |
| **Company secretary** | C J Taylor |
| **Registered number** | 2797365 |
| **Registered office** | 17-29 Hawley Crescent<br>Camden<br>London<br>NW1 8TT |
| **Independent auditors** | PricewaterhouseCoopers LLP<br>Chartered Accountants and Statutory Auditors<br>1 Embankment Place<br>London<br>WC2N 6RH |
| **Bankers** | Barclays Bank<br>7th Floor<br>United Kingdom House<br>180 Oxford Street<br>London<br>W1D 1EA |

## Contents

## Strategic report
## for the year ended 30 September 2014

The directors present their strategic report for the year ended 30 September 2014.

### Principal activity

The principal activity of Nickelodeon U.K. Limited (the "Company") is to operate as one of the leading commercial children's TV networks in the UK and Ireland. Launched in 1993, the Company operates and transmits 7 dedicated award-winning entertainment channels for children aged 2 to 12 years' old: Nickelodeon HD, Nickelodeon, Nickelodeon+1, Nicktoons, Nick Jr., Nick Jr. +1 and Nick Jr. + 2. The Company's revenues arise from advertising impacts, pay TV distribution, consumer products, and digital revenue streams.

The Company's long term objective is to achieve attractive and sustainable rates of growth whilst maintaining margins through organic growth.

### Business review

The results for the Company show a profit on ordinary activities before taxation of £39,111k (2013: £32,701k) and turnover of £80,884k (2013: 73,461k). The Company has net assets of £44,412k (2013: £40,004k). Net cash inflow from operating activities for 2014 was £37,352k (2013: £19,278k). See page 9 for the Profit and loss account, page 10 for the Balance sheet and page 11 for the Cash flow statement. Revenue has grown year on year due to price increases for UK Spot and growth in the VOD market.

The children's TV market in the UK and Ireland is highly competitive. As at 30 September 2014 there were 6 free-to-air children channels and 29 pay TV children channels available in multi-channel homes. In addition, the traditional terrestrial channels ITV and Five broadcast blocks of dedicated children programmes.

Within this competitive environment the Company has had a strong year and has maintained its share of audience viewing at 7%. Further growth is forecasted in 2015. Our success is driven by understanding and super serving our audience. We have differentiated ourselves from our competitors by:

- Securing exclusive content, either through content from our shareholder companies and divisions under their control or third parties, whilst also developing the Company's UK original programming.
- Creating engaging and interactive multi-platform digital environments to deepen children's relationship with our content and brands which includes the successful launch of Nick App in November 2013.
- Maintaining a significant programme of market research to ensure that all content, marketing, digital and channel activity is appealing and appropriate for the audience.
- Engaging staff in experiential activity with children including regular immersion days to ensure that the Company continues its high level of audience focus.
- Conducting Phonics workshop teaching employees how to read phonetically and partnering with local schools with employees volunteeriing in the local schools.
- Working with Livity, a youth marketing agency, on a campaign to improve diversity in the media.

### *Key performance indicators ("KPIs")*

The board monitors progress on the overall corporate strategy and the individual strategic elements by reference to the following KPIs:

| | **Year ended 30 September 2014 £'000** | **Year ended 30 September 2013 £'000** |
|---|---|---|
| Turnover | **80,884** | 73,461 |
| Operating profit | **38,977** | 32,687 |
| Operating margin % | **48%** | 44% |
| Share of children's viewing in cable & satellite homes | **7%** | 7% |
| Share of children's commercial impacts in cable & satellite homes | **12%** | 13% |

### Principal business risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the Company are set out below:

**Business risks**

<u>Competition</u>
The Company's channels compete with other linear television channels (pay and free) for the acquisition of programming, for viewers, for distribution, and for advertising and sponsorship revenue.

To mitigate this risk, we routinely review viewing data and carry out market research to understand our viewer's expectations and whether our content meets them.

<u>Legislation and regulation</u>
The Company may be exposed to changes in legislation and regulation within the children's TV industry. To mitigate this risk, we receive regular updates from Ofcom and other regulatory bodies such as the Advertising Standards Authority (ASA) and Broadcast Committee of Advertising Practice (BCAP) concerning all aspects of broadcasting. We are a member of the Satellite and Cable Broadcasters Group, who represent the multi-channel sector at various industry forums and who assist in responding to Ofcom consultations and coordinating research on behalf of its members, on both generic and specialised issues.

## Strategic report (continued)
## for the year ended 30 September 2014

### Employees

The Company, as a holder of an Ofcom broadcast licence and as an employer of more than twenty people, has an obligation to put in place arrangements for the promotion of training and equal opportunities. The Company's compliance with such obligations is evidenced by the following:

- the Company operates an equal opportunities policy and all staff are shown this on induction.
- the Company has worked with, and offered, career counselling to charities for disadvantaged young people and has worked with them to apply for internships.
- All manager level employees and above are required to attend diversity and employment law training.
- A mentoring programme is in place and is available to all staff.
- the Company has installed new appraisal software that ensures all individuals' development is tracked and assessed.
- Professional qualifications achievement (CPD) is supported where relevant.
- General management development training is provided for all those with managerial responsibility.
- All those to whom the above is relevant are notified of such opportunities and appraisals, and development is duly tracked.

This report was approved by the board and signed on its behalf.

**D Lynn**
**Director**

Date: 09 June 2015

## Directors' report
## for the year ended 30 September 2014

The directors present their report and the audited financial statements of the Company for the year ended 30 September 2014.

### Future developments

Nickelodeon was the number 2 kids' network in 2014, improving its share of viewing in the kids' market. Despite this the declines in total TV viewing has affected absolute audience ratings and Nickelodeon's commercial impacts. Commercial TV declines are expected to continue in 2015 with Nickelodeon mitigating a portion of the declines with targeted increases in share of viewing.

The Nickelodeon UK Licensed consumer products business had growth in 2014 in the Toy, DVD and Electronic categories with the strong performance of Teenage Mutant Ninja Turtles. Further growth is expected in 2015, with the continuing growth of Teenage Mutant Ninja Turtles, the reinvigoration of SpongeBob SquarePants by capitalising on the movie release, the launch of Dora and Friends and Paw Patrol on Nick Jr.

The on Demand (VOD) market has continued to benefit from new market entrants which have driven up the value of VOD rights. There has been a proliferation of second screen viewing, with the increased ability to reach audiences on any device, impacting viewing patterns and revenues from this type of media consumption.

The Company is well placed to deal with the market challenges and benefit from the new VOD opportunities. Improvements to operating efficiencies achieved in prior years continue to drive operational cost savings, allowing scope for investment in content and new developments during the year. The Company continues to benefit from diversified revenue streams including advertising impacts, consumer products, pay TV distribution and new digital revenues.

The programme pipeline continues to be strong with a mix of premiere live-action series, including Henry Danger (from Dan Schneider the creator of hit shows iCarly and Victorious), Nick Ricky Dicky and Dawn, Bella and the Bullfrogs, animation such as Get Blake and Harvey Beaks, and pre-school with Dora and Friends, Blaze, Alvin & the Chipmunks, and Wanda and the Alien. Returning series includes, Sam & Cat, Thundermans, Haunted Hathaways, Sanjay and Craig, Rabbids and Rocket Monkeys, Paw Patrol, Zack and Quack and Lily's Driftwood Bay. Looking to 2016, we have great additions to the live action slate from Dan Schneider, and a new show Game Shakers and 100 Things To Do Before Highschool. Our animation line-up is bolstered by the launch of Pig Goat Banana Cricket and Loud House, and our preschool schedules will continue to grow in strength with the launch of The Day Henry Met and our UK commissions, Digby the Dragon.

### Dividends

The following dividends were paid in 2014:

- A dividend of £46,154 per ordinary share, amounting to £12m was paid in December 2013.
- A dividend of £19,231 per ordinary share, amounting to £5m was paid in March 2014.
- A dividend of £19,231 per ordinary share, amounting to £5m was paid in July 2014.
- A dividend of £15,385 per ordinary share, amounting to £4m was paid in September 2014.

The following dividends were paid in 2013:

- A dividend of £46,154 per ordinary share, amounting to £12m was paid in December 2012.
- A dividend of £19,231 per ordinary share, amounting to £5m was paid in March 2013.
- A dividend of £11,538 per ordinary share, amounting to £3m was paid in July 2013.
- A dividend of £3,846 per ordinary share, amounting to £1m was paid in September 2013.

In December 2014, the company paid a dividend of £50,000 per ordinary share, amounting to £13m. In March 2015, the company paid a dividend of £26,923 per ordinary share amounting to £7m.

## Charitable donations

During the year, donations totalling £500 (2013: £4,050) were made to children's charitable organisations.

## Directors

The directors who served the Company during the year and up to the date of signing these financial statements were:

R Bakish (resigned 20 October 2014)
P Gazzolo
D Lynn
S Robson
M Winterbottom

J Currell was appointed a director on 20 October 2014.

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

## Financial risk management

The Company's operations also expose it to a number of financial risks, including credit risk, liquidity risk and foreign exchange risk.

Credit risk
The Company's major customers include wholly owned subsidiaries of British Sky Broadcasting Group plc, which owns Kidsprog Limited, a 40% shareholder in the Company, and wholly owned subsidiaries of the ultimate controlling party. The Company has not implemented credit checks on these customers.

Liquidity risk
The Company's customer profile is such that late payments and defaults may reduce the funds available for operations and planned acquisitions. However, the risk is reduced as the Company's major customers include wholly owned subsidiaries of British Sky Broadcasting Group plc, which owns Kidsprog Limited, a 40% shareholder in the Company, and wholly owned subsidiaries of the ultimate controlling party.

Foreign exchange risk
To the extent that the Company enters into transactions in currencies other than Pound Sterling, there is exposure to movements in exchange rates. The Company does not currently participate in cross-currency hedging.

## Directors' report
## for the year ended 30 September 2014

### Statement of directors' responsibilities

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 the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Statement of disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. A resolution concerning the reappointment of PricewaterhouseCoopers LLP will be proposed at the board meeting.

This report and the financial statements on pages 9 to 24 were approved by the board and signed on its behalf.

**D Lynn**
Director

Date: 09 June 2015

# Independent auditors' report to the members of Nickelodeon U.K. Limited

## Report on the financial statements

### Our opinion

In our opinion, Nickelodeon U.K. Limited's financial statements (the 'financial statements'):

- give a true and fair view of the state of the Company's affairs as at 30 September 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### What we have audited

Nickelodeon U.K. Limited's financial statements comprise:

- the Balance sheet as at 30 September 2014;
- the Profit and loss account for the year then ended;
- the Cash flow statement for the year then ended;
- the Reconciliation of net cash flow to movement in net funds; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates they have made assumptions and considered future events.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Other matters on which we are required to report by exception

### Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## Independent auditors' report to the members of Nickelodeon U.K. Limited (continued)

### Responsibilities for the financial statement and the audit

### Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Directors' report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Sam Tomlinson

Samuel Tomlinson (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

Date: 9/6/2015

## Profit and loss account
## for the year ended 30 September 2014

| | Note | 2014<br>£000 | 2013<br>£000 |
|---|---|---|---|
| **Turnover** | 1,2 | 80,884 | 73,461 |
| Cost of sales | | (36,602) | (35,694) |
| **Gross profit** | | 44,282 | 37,767 |
| Administrative expenses | | (5,305) | (5,080) |
| **Operating profit** | 3 | 38,977 | 32,687 |
| Profit on disposal of investments | | 135 | - |
| Interest receivable and similar income | 5 | - | 14 |
| Interest payable and similar charges | 6 | (1) | - |
| **Profit on ordinary activities before taxation** | | 39,111 | 32,701 |
| Tax on profit on ordinary activities | 7 | (8,703) | (7,686) |
| **Profit for the financial year** | 18 | 30,408 | 25,015 |

The results relate wholly to continuing activities.

There is no difference between the profit on ordinary activities before taxation and the profit for the financial year stated above, and their historical cost equivalents.

The Company has no recognised gains and losses other than the profits reported above and therefore no separate statement of recognised gains and losses has been prepared.

The notes on pages 12 to 24 form part of these financial statements.

**Nickelodeon U.K. Limited**
**Registered number: 2797365**

## Balance sheet
## as at 30 September 2014

| | Note | £000 | 2014 £000 | £000 | 2013 £000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | 9 | | 801 | | 1,274 |
| Tangible assets | 10 | | 604 | | 701 |
| Investments | 11 | | - | | 4 |
| | | | 1,405 | | 1,979 |
| **Current assets** | | | | | |
| Stocks | 12 | 26,328 | | 28,170 | |
| Debtors | 13 | 27,376 | | 25,133 | |
| Cash at bank and in hand | | 8,796 | | 5,463 | |
| | | 62,500 | | 58,766 | |
| **Creditors:** amounts falling due within one year | 14 | (19,398) | | (20,125) | |
| **Net current assets** | | | 43,102 | | 38,641 |
| **Total assets less current liabilities** | | | 44,507 | | 40,620 |
| **Creditors:** amounts falling due after more than one year | 15 | | (95) | | (616) |
| **Net assets** | | | 44,412 | | 40,004 |
| **Capital and reserves** | | | | | |
| Called up share capital | 17 | | - | | - |
| Share premium account | 18 | | 4,778 | | 4,778 |
| Profit and loss account | 18 | | 39,634 | | 35,226 |
| **Total shareholders' funds** | 19 | | 44,412 | | 40,004 |

The financial statements on pages 9 to 24 were approved and authorised for issue by the board and were signed on its behalf by:

**D Lynn**
Director

**S Robson**
Director

Date: 09 June 2015

The notes on pages 12 to 24 form part of these financial statements.

## Cash flow statement
## for the year ended 30 September 2014

| | Note | 2014 £000 | 2013 £000 |
|---|---|---|---|
| Net cash flow from operating activities | 23 | 37,352 | 19,278 |
| Returns on investments and servicing of finance | 24 | (1) | 14 |
| Taxation | | (8,083) | (8,314) |
| Capital expenditure and financial investment | 24 | 65 | (685) |
| Equity dividends paid | | (26,000) | (21,000) |
| **Increase/(decrease) in cash in the year** | | 3,333 | (10,707) |

## Reconciliation of net cash flow to movement in net funds
## for the year ended 30 September 2014

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Increase/(decrease) in cash in the year | 3,333 | (10,707) |
| **Movement in net debt in the year** | 3,333 | (10,707) |
| Net funds at 1 October 2013 | 5,463 | 16,170 |
| **Net funds at 30 September 2014** | 8,796 | 5,463 |

The notes on pages 12 to 24 form part of these financial statements.

## 1. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the current and preceding year, is set out below:

### 1.1 Basis of preparation of financial statements

These financial statements are prepared on the 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 in the UK.

### 1.2 Tangible assets and depreciation

Tangible assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of tangible assets, less their estimated residual value, over their expected useful lives on the following bases:

| | | |
|---|---|---|
| Leasehold improvements | - | 25% |
| Equipment, fixtures and fittings | - | 25-50% |
| Channel management system | - | 20% |

Assets under construction are not depreciated.

These rates are calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its estimated useful life.

### 1.3 Intangible assets

The intangible asset is comprised of a purchased library of programme rights. The intangible asset is capitalised at cost and amortised on a straight line basis over 10 years. This is considered by management to be the useful economic life of the library based on the programmes within the library.

### 1.4 Taxation

Corporation tax payable is provided on taxable profits at the current rate. Deferred taxation is provided using the liability method at the rates ruling at the year end.

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 have occurred at that date that will result in an obligation to pay more tax, or a right to pay less tax, with the following exemption.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the year in which timing differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

## 1. Accounting policies (continued)

### 1.5 Stocks (TV programme rights)

TV programme rights are stated at the lower of cost less accumulated amortisation, and recoverable amount. Provisions are made for any programme rights which are surplus to the Company's requirements or which will not be shown for any other reason. Direct costs of own productions are included within the cost of programme rights. Acquired TV programme rights and the related liability are recorded at cost when the programmes are available for transmission.

Acquired programme rights are amortised on one of two bases:

- the usage basis, which amortises the programme cost over the allowed number of plays, or
- the time basis, which amortises the programme cost over the period of the licence, not exceeding a useful economic life of five years.

Where unlimited plays are available, the time basis is used. Where there are a limited number of plays available, the basis used is the one that results in the higher amortisation charge.

Programme costs for own productions are amortised on a straight-line basis, whether within the financial year of first transmission, or on a straight line basis over five years.

Contractual obligations for programme rights not yet available for transmission are not included in the cost of TV programme rights but are disclosed under financial commitments in note 22.

Programme payments made in advance of the Company having availability to transmit the related programmes are treated as prepayments.

### 1.6 Foreign currencies

Transactions denominated in foreign currencies are recorded in Pounds Sterling at the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated into Pounds Sterling at the rates of exchange prevailing at that date. Non-monetary assets are translated at historical rates. Exchange differences are recognised in the Profit and loss account.

### 1.7 Pension costs

The Company provides pensions to eligible employees through the BSkyB pension plan, which is a defined contribution plan. The assets of the plan are held independently to BSkyB Group plc.

The amount charged to the Profit and loss account is based on the contribution payable for the year.

### 1.8 Leases

The rental costs arising from operating leases are charged to the Profit and loss account in the year in which they are incurred, on a straight line basis.

### 1.9 Turnover

Turnover, which excludes value added tax, represents the invoiced and accrued value of advertising impacts, pay channel subscriptions and consumer product revenues, which are recognised on performance of service, together with consumer products revenues which are recognised on a standard sales royalty basis.

## 1. Accounting policies (continued)

### 1.10 Investments

Investments held as fixed assets are shown at cost less provision for impairment.

## 2. Segmental information

All of the Company's turnover arose in the UK and Eire.

The disclosure of segmental information would in the opinion of the directors, be seriously prejudicial to the interests of the Company as it would allow competitors to see highly sensitive information. Consequently these disclosures have not been made.

## 3. Operating profit

The operating profit is stated after charging/(crediting):

| | 2014<br>£000 | 2013<br>£000 |
|---|---|---|
| Amortisation - intangible assets | 473 | 478 |
| Depreciation of tangible assets: | | |
| - owned by the Company | 171 | 305 |
| Auditors' remuneration | 47 | 45 |
| Operating lease rentals: | | |
| - plant and machinery | 2,115 | 2,053 |
| - land and buildings | 497 | 399 |
| Net foreign currency losses | 22 | 352 |
| Profit on disposal of intangible assets | - | (4) |
| Amortisation of programme rights | 12,619 | 11,488 |
| Staff costs (note 4) | 4,986 | 5,239 |

## 4. Staff costs

Particulars of employees, including executive directors, are as shown below:

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Wages and salaries | 4,321 | 4,411 |
| Social security costs | 391 | 529 |
| Other pension costs | 274 | 299 |
| | 4,986 | 5,239 |

None of the directors received any remuneration in respect of their qualifying services to the Company during the year (2013: £nil). The directors' salaries are borne by the Company's shareholder companies.

The average monthly number of employees, including the directors, during the year was as follows:

| | 2014 No. | 2013 No. |
|---|---|---|
| Programming | 31 | 27 |
| Technical | 1 | 7 |
| Marketing | 14 | 18 |
| Administration | 41 | 41 |
| | 87 | 93 |

## 5. Interest receivable and similar income

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Bank interest receivable | - | 14 |

## 6. Interest payable and similar charges

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Other interest payable | 1 | - |

## 7. Tax on profit on ordinary activities

| | 2014 £000 | 2013 £000 |
|---|---|---|
| **Analysis of tax charge in the year** | | |
| **Current tax** (see note below) | | |
| UK corporation tax charge on profit for the year | 8,817 | 7,762 |
| Adjustments in respect of prior periods | (114) | (117) |
| **Total current tax** | 8,703 | 7,645 |
| **Deferred tax** (see note 16) | | |
| Origination and reversal of timing differences | - | 41 |
| **Tax on profit on ordinary activities** | 8,703 | 7,686 |

### Factors affecting tax charge for the year

The tax assessed for the year is higher than (2013 - lower than) the standard rate of corporation tax in the UK of 22.00% (2013 - 23.50%). The differences are explained below:

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Profit on ordinary activities before tax | 39,111 | 32,701 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 22.00% (2013 - 23.50%) | 8,604 | 7,685 |
| **Effects of:** | | |
| Expenses not deductible for tax purposes, other than goodwill amortisation and impairment | 232 | 77 |
| Depreciation in excess of capital allowances | (19) | - |
| Adjustments to tax charge in respect of prior periods | (114) | (117) |
| **Current tax charge for the year** (see note above) | 8,703 | 7,645 |

### Factors that may affect future tax charges

The standard rate of corporation tax in the UK changed from 23% to 21% with effect from 1 April 2014. Accordingly, the Company's profits are taxed at an effective rate of 22%. A further reduction to 20% effective from 1 April 2015 was enacted by Parliament on 2 July 2013 and accordingly deferred tax closing balances have been calculated at a rate of 20%.

## 8. Dividends

| | 2014 £000 | 2013 £000 |
|---|---|---|
| **Dividends declared and paid during the year:** | | |
| Interim dividend paid of £46,154 (2013: £46,154) per 1p 'A and B' ordinary share | 12,000 | 12,000 |
| Interim dividend paid of £19,231 (2013: £19,231) per 1p 'A and B' ordinary share | 5,000 | 5,000 |
| Interim dividend paid of £19,231 (2013: £11,538) per 1p 'A and B' ordinary share | 5,000 | 3,000 |
| Final dividend paid of £15,385 (2013: £3,846) per 1p 'A and B' ordinary share | 4,000 | 1,000 |
| | 26,000 | 21,000 |

## 9. Intangible assets

| | Acquired programme library £000 |
|---|---|
| **Cost** | |
| At 1 October 2013 and 30 September 2014 | 4,778 |
| **Accumulated amortisation** | |
| At 1 October 2013 | 3,504 |
| Charge for the year | 473 |
| At 30 September 2014 | 3,977 |
| **Net book value** | |
| At 30 September 2014 | 801 |
| At 30 September 2013 | 1,274 |

## 10. Tangible assets

| | Leasehold improve-ments £000 | Equipment, fixtures & fittings £000 | Channel management system £000 | Assets under construction £000 | Total £000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 October 2013 | 263 | 779 | 392 | - | 1,434 |
| Additions | - | 4 | 3 | 67 | 74 |
| Disposals | (2) | - | - | - | (2) |
| At 30 September 2014 | 261 | 783 | 395 | 67 | 1,506 |
| **Accumulated depreciation** | | | | | |
| At 1 October 2013 | 25 | 316 | 392 | - | 733 |
| Charge for the year | 27 | 141 | 3 | - | 171 |
| On disposals | (2) | - | - | - | (2) |
| At 30 September 2014 | 50 | 457 | 395 | - | 902 |
| **Net book value** | | | | | |
| At 30 September 2014 | 211 | 326 | - | 67 | 604 |
| At 30 September 2013 | 238 | 463 | - | - | 701 |

## 11. Investments

| | Unlisted investments £000 |
|---|---|
| **Cost or valuation** | |
| At 1 October 2013 | 4 |
| Disposals | (4) |
| At 30 September 2014 | - |
| **Net book value** | |
| At 30 September 2014 | - |
| At 30 September 2013 | 4 |

## 12. Stocks

| | 2014 £000 | 2013 £000 |
|---|---|---|
| TV programme rights | 26,328 | 27,090 |
| Own products | - | 1,080 |
| | 26,328 | 28,170 |

Included within stocks is £23,243k expected to be utilised after one year (2013: £17,437k).

## 13. Debtors

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Trade debtors | 2,351 | 3,957 |
| Amounts owed by group undertakings | 14,887 | 15,041 |
| Other debtors | - | 27 |
| Prepayments and accrued income | 9,959 | 5,929 |
| Deferred tax asset (see note 16) | 179 | 179 |
| | 27,376 | 25,133 |

The amounts due from shareholder group companies are interest free, unsecured and repayable on demand.

## 14. Creditors:
## Amounts falling due within one year

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Trade creditors | 176 | 150 |
| Amounts owed to group undertakings | 10,234 | 10,715 |
| Corporation tax | 4,292 | 3,672 |
| Other taxation and social security | 571 | 670 |
| Programme creditors | 669 | 1,472 |
| Other creditors | 53 | 187 |
| Accruals and deferred income | 3,403 | 3,259 |
| | 19,398 | 20,125 |

The amounts owed to group undertakings are interest free, unsecured and repayable on demand.

## 15. Creditors: Amounts falling due after more than one year

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Amounts owed to group undertakings | - | 440 |
| Other creditors | 95 | 176 |
| | 95 | 616 |

The amounts owed to group undertakings are interest free, unsecured and repayable in line with the contractual terms.

## 16. Deferred taxation

| | 2014 £000 | 2013 £000 |
|---|---|---|
| At beginning of year | 179 | 220 |
| Debited to the profit and loss account (note 7) | - | (41) |
| At end of year | 179 | 179 |

The deferred tax asset is made up as follows:

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Accelerated capital allowances | 179 | 173 |
| Other short term timing differences | - | 6 |
| | 179 | 179 |

There is no unrecognised deferred tax asset (2013: £nil).

## 17. Called up share capital

| | 2014 £ | 2013 £ |
|---|---|---|
| **Authorised** | | |
| 1,000,000 (2013: 1,000,000) Ordinary A shares of £0.01 each | 10,000 | 10,000 |
| 1,000,000 (2013: 1,000,000) Ordinary B shares of £0.01 each | 10,000 | 10,000 |
| | 20,000 | 20,000 |
| **Allotted, called up and fully paid** | | |
| 156 (2013: 156) Ordinary A shares of £0.01 each | 2 | 2 |
| 104 (2013: 104) Ordinary B shares of £0.01 each | 1 | 1 |
| | 3 | 3 |

'A' ordinary shares are held (indirectly) by Viacom Inc.
'B' ordinary shares are held (indirectly) by British Sky Broadcasting Group plc.

## 18. Reserves

| | Share premium account £000 | Profit and loss account £000 |
|---|---|---|
| At 1 October 2013 | 4,778 | 35,226 |
| Profit for the financial year | - | 30,408 |
| Dividends: Equity capital | - | (26,000) |
| At 30 September 2014 | 4,778 | 39,634 |

## 19. Reconciliation of movements in shareholders' funds

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Opening shareholders' funds | 40,004 | 35,989 |
| Profit for the financial year | 30,408 | 25,015 |
| Dividends | (26,000) | (21,000) |
| Closing shareholders' funds | 44,412 | 40,004 |

## 20. Pension obligations

The Company provides pensions to eligible employees through the BSkyB pension plan, which is a defined contribution plan. The Company's pension cost for the year was £274k (2013: £299k). Included in amounts owed to group undertakings is £137k (2013: £164k) in respect of contributions payable to the scheme.

## 21. Operating lease commitments

At 30 September 2014 the Company had annual commitments under non-cancellable operating leases as follows:

| | 2014<br>£000 | 2013<br>£000 |
|---|---|---|
| **Expiry date:** | | |
| Between 2 and 5 years | 2,532 | 1,787 |

## 22. Programme rights and other commitments

Programme right commitments are as follows:

| | 2014<br>£000 | 2013<br>£000 |
|---|---|---|
| Contracted, but not provided for: | 1,853 | 1,016 |
| Other commitments: | 767 | 648 |

The programming commitments are payable in either GBP or USD and relate up to and including August 2017.

Other commitments are shareholder, trademark and cross promotional fees in either GBP or USD.

## 23. Net cash flow from operating activities

| | 2014<br>£000 | 2013<br>£000 |
|---|---|---|
| Operating profit | 38,977 | 32,687 |
| Amortisation of intangible fixed assets | 473 | 478 |
| Depreciation of tangible fixed assets | 171 | 305 |
| Increase in stocks | (10,777) | (13,087) |
| Amortisation of programming rights | 12,619 | 11,488 |
| Increase in debtors | (2,397) | (1,720) |
| Decrease/(increase) in amounts owed by group undertakings | 154 | (3,163) |
| Decrease in creditors | (947) | (2,447) |
| Decrease in amounts owed to group undertakings | (921) | (5,263) |
| **Net cash inflow from operating activities** | 37,352 | 19,278 |

## 24. Analysis of cash flows for headings netted in cash flow statement

| | 2014 £000 | 2013 £000 |
|---|---|---|
| **Returns on investments and servicing of finance** | | |
| Interest received | - | 14 |
| Interest paid | (1) | - |
| **Net cash (outflow)/inflow from returns on investments and servicing of finance** | (1) | 14 |

| | 2014 £000 | 2013 £000 |
|---|---|---|
| **Capital expenditure and financial investment** | | |
| Purchase of tangible fixed assets | (74) | (764) |
| Sale of tangible fixed assets | - | 79 |
| Sale of unlisted and other investments | 139 | - |
| **Net cash inflow/(outflow) from capital expenditure** | 65 | (685) |

## 25. Analysis of changes in net funds

| | 1 October 2013 £000 | Cash flow £000 | 30 September 2014 £000 |
|---|---|---|---|
| Cash at bank and in hand | 5,463 | 3,333 | 8,796 |
| **Net funds** | 5,463 | 3,333 | 8,796 |

## 26. Related party transactions

The Company conducts business transactions on a normal commercial basis with, and receives a number of services from, shareholder companies or members of their groups.

Services provided by wholly owned subsidiaries of British Sky Broadcasting Group Plc include providing promotional services for a cost of £224k (2013: £281k). The Company also received revenue of £16,493k (2013: £18,023k) in respect of direct to home subscriptions. The Company paid £952k (2013: £945k) for leasing a digital transponder and four uplink costs, interactive services, the lease of IT lines, and other sundry costs. At 30 September 2014, the outstanding payables balance was £197k (2013: £390k), and there was an outstanding receivables balance of £2,646k (2013: £5,520k).

Services provided by the Viacom group of companies include: acting as the selling agent for airtime and consumer product revenues with a value of £42,516k (2013: £37,051k). The Company also paid Viacom group £3,047k (2013: £1,703k) for rent, technology and office support at Hawley Crescent, £423k (2013: £418k) as a trademark and on-line licence fee and £5,900k (2013: £5,231k) for the provision of marketing services, including sales commissions. At 30 September 2014, the outstanding payables balance was £7,765k (2013: £10,801k), and the outstanding receivables balance was £12,087k (2013: £9,521k).

## 27. Ultimate parent undertaking and controlling party

The directors consider the ultimate controlling party to be National Amusements Inc., a company incorporated in the United States of America.

The parent company that heads up the largest and smallest group of undertakings for which consolidated statements are prepared is Viacom Inc. Copies of Viacom's Inc's consolidated financial statements can be obtained from the company secretary at 1515 Broadway, New York, NY 10036.