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Nickelodeon UK

(Registered Number 2797365)

Directors' report and financial statements
For the year ended 30 June 2002



Nickelodeon UK

Annual report for the year ended 30 June 2002

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Nickelodeon UK

Directors' Report

The directors present their annual report and the audited financial statements of the company for the year ended 30 June 2002.

Principal activities and business review

The principal activities of the company continue to be the broadcasting of children's television, together with related activities. The directors expect the general level of activity to increase in the future as the company continues to expand.

Results and dividends

The profit after taxation for the year was £5,213,126 (2001: £1,585,000 (restated)).

The directors do not recommend the payment of a dividend (2001 - £nil).

Shareholders

Nickelodeon UK is an unlimited company jointly owned by Nickelodeon Huggings UK Limited (a wholly owned subsidiary of Viacom Inc) and Kidsprog UK Limited (a wholly owned subsidiary of British Sky Broadcasting Group plc).

Directors and their interests

The directors who served during the year are as shown below.

Directors appointed by Kidsprog UK Limited:

R Freudenstein
M Imi
M Goswami
C Stylianou (alternate director to M Goswami)

Directors appointed by Nickelodeon Huggings UK Limited:

JD Dunn
M Bakker
B Hansen
S Guild (appointed 1 February 2002 as alternate director to M Bakker)

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

Subsequent events

The Nicktoons TV channel was launched on 22 July 2002.

On 24 October 2002 a special resolution was approved by the shareholders to convert £11,053,000 of the share premium account into distributable profit and loss reserves, as permitted by the Articles of Association of the Company. The purpose of the resolution was to facilitate an interim dividend payment totalling £8,000,000.

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Directors' Report (continued)

Statement of directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for the period. In preparing those accounts the directors are required:

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

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

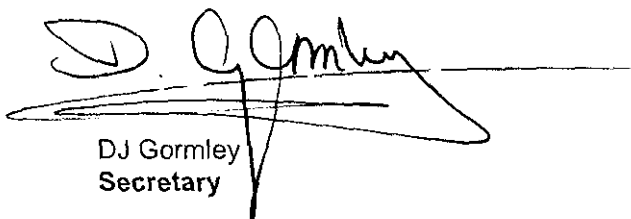
Payment policy

The policy of the company is to agree terms of payment with suppliers prior to entering into a contractual relationship. In the absence of a specific agreement it is the policy of the company to pay suppliers on a monthly basis. Creditor days at 30 June 2002 were 67 days (2001: 33 days).

Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By Order Of The Board



DJ Gormley
Secretary

17 December 2002

Independent auditors' report to the members of Nickelodeon UK

We have audited the financial statements on pages 4 to 16.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This opinion has been prepared for and only for the company's members in accordance with section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

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

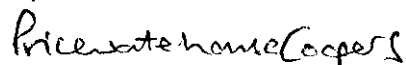
Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 30 June 2002 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

1 Embankment Place

London

WC2N 6RH

17 December 2002

Nickelodeon UK

Profit and loss account For the year ended 30 June 2002

	<i>Note</i>	2002 £'000	2001 £'000 (restated)
Turnover	1(i),2	34,206	29,646
Operating expenses	3	(26,939)	(27,268)
Operating profit		7,267	2,378
Interest receivable and similar income	5	198	124
Interest payable and similar charges	4	(43)	(186)
Profit on ordinary activities before taxation	5	7,422	2,316
Taxation on profit on ordinary activities	7	(2,209)	(731)
Profit for the financial year	16	5,213	1,585

Statement Of Total Recognised Gains And Losses

	2002 £'000	2001 £'000 (restated)
Retained profit for the year	5,213	1,585
Total recognised gains and losses relating to the year	5,213	1,585
Prior period adjustment – FRS 19	597	
Total recognised gains and losses recognised since last Annual Report	5,810	

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 results relate wholly to continuing activities.

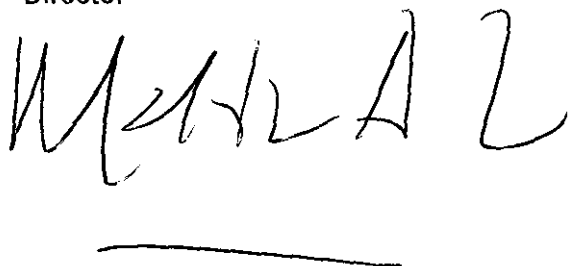
Nickelodeon UK

Balance sheet as at 30 June 2002

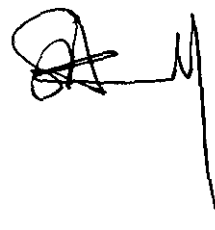
	Note	2002 £'000	2001 £'000 (restated)
Fixed assets			
Tangible assets	8	2,234	2,353
Current assets			
Stocks	9	11,010	11,403
Debtors	10	3,545	7,379
Cash at bank and in hand		10,897	3,283
		25,452	22,065
Creditors: amounts falling due within one year	11	(14,594)	(14,333)
Net current assets		10,858	7,732
Total assets less current liabilities		13,092	10,085
Creditors: amounts falling due after more than one year	12	(143)	(2,349)
Net assets		12,949	7,736
Capital and reserves			
Called up share capital	14	-	-
Share premium	16	11,054	11,054
Profit and loss account	16	1,895	(3,318)
Equity shareholders' funds	15	12,949	7,736

The financial statements on pages 4 to 16 were approved by the board of directors on 17 December 2002 and were signed on its behalf by:

M Imi
Director



S Guild
Director



Nickelodeon UK

Cash flow statement for the year ended 30 June 2002

	<i>Note</i>	2002 £'000	2001 £'000
Net cash inflow from operating activities	18	11,453	4,546
Returns on investments and servicing of finance			
Interest received		198	124
Interest paid		(43)	(186)
Net cash inflow/(outflow) from returns on investments and servicing of finance		155	(62)
Taxation			
UK corporation tax paid		(1,071)	-
Net cash outflow from taxation		(1,071)	-
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(872)	(677)
Net cash outflow from capital expenditure and financial investment		(872)	(677)
Financing			
Repayment of shareholders' loans		(2,051)	(1,000)
Net cash outflow from financing		(2,051)	(1,000)
Increase in cash	19,20	7,614	2,807

Nickelodeon UK

Notes to the financial statements for the year ended 30 June 2002

1 Principal accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, except as referred to in note 1(b), are set out below:

(a) Basis of accounting

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

(b) Change in accounting policy

In November and December 2000 respectively, the Accounting Standard Board issued FRS 17 'Retirement Benefits' and FRS 19 'Deferred Tax'. The Company has adopted FRS 17 and FRS 19 in these financial statements. FRS 17 has had no impact, however the adoption of FRS 19 represents a change in accounting policy, and the comparative figures have been restated accordingly.

The effect of the change in accounting policy to adopt FRS 19 was to increase tax on profit on ordinary activities by £284,000 (2001: £731,000) and to decrease profit for the financial year by £284,000 (2001:£731,000).

(c) Fixed assets

Fixed assets are shown at cost less accumulated depreciation.

Depreciation is provided on all fixed assets at 25% per annum except for computers, on which the rate is 50%. 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.

(d) Stocks

Television programme rights are stated at cost less accumulated amortisation. Provisions are made for any programme rights which are excess 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 television programme rights and the related liability are recorded at cost when the programmes are available for transmission.

Programme rights are amortised over one of two bases: the usage basis, which amortises the programme cost over the allowed number of plays, and the time basis, which amortises the programme cost over the period of the licence, not exceeding a period of five years. Where unlimited plays are available, the time basis is used. Where there are a limited number of plays available, the higher of the time basis and the usage basis is used. Programme costs for own productions are amortised on a straight-line basis over a period between three and five years.

Contractual obligations for programme rights not yet available for transmission are not included in the cost of television programme rights but are disclosed under financial commitments contracted for, in note 17.

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

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Notes to the financial statements for the year ended 30 June 2002 (continued)

1 Principal accounting policies (continued)

(e) 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 tax is provided in full on all timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

(f) Foreign currency

Transactions denominated in foreign currencies are recorded in sterling at actual exchange rates as of the date of the transaction, or at the contracted rate if the transaction is covered by a forward exchange contract or other hedging instruments. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date, or if hedged, at the appropriate hedged rate.

(g) Pension costs

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

The amount charged to the profit and loss account is based on the contributions payable for the year.

(h) 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.

(i) Turnover

Turnover, which excludes value added tax, represents the invoiced value of advertising, pay channel subscriptions and other revenues.

2 Segmental information

All of the company's turnover arose in the United Kingdom from its principal and related activities.

Nickelodeon UK

Notes to the financial statements for the year ended 30 June 2002 (continued)

3 Operating expenses

	2002 £'000	2001 £'000
Cost of sales	17,116	19,551
Administrative expenses	9,823	7,717
	26,939	27,268

4 Interest payable and similar charges

	2002 £'000	2001 £'000
Shareholder loan interest	43	186

5 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2002 £'000	2001 £'000
Bank interest receivable	198	124
Depreciation of tangible fixed assets	991	1,096
Net foreign currency losses	190	662
Operating lease rentals		
- plant and machinery	458	2,059
- exit payment for analogue transponder	-	1,762
- other	496	448
Bad debt provision (see below)	715	-
Auditors' remuneration – audit fees	24	23

The bad debt provision relates to amounts owed by ITV Digital, which went into administration during 2002.

6 Staff costs

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

	2002 £'000	2001 £'000
Wages and salaries	3,983	3,594
Social security costs	400	347
Other pension costs	169	129
	4,552	4,070

None of the directors received any remuneration in respect of their qualifying services to the company in the year (2001 - £nil).

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Notes to the financial statements for the year ended 30 June 2002 (continued)

6 Staff costs (continued)

The average monthly number of persons employed by the company during the year was as follows:

	2002 Number	2001 Number
Programming	38	39
Technical	30	29
Marketing	13	13
Administration	27	28
	108	109

7 Taxation

	2002 £'000	2001 £'000 (restated)
Current Tax:		
UK corporation tax on profit for the year at 30% (2001: 30%)	1,925	-
Adjustment in respect of previous periods	-	-
Total current tax	1,925	-
Deferred Tax:		
Origination and reversal of timing differences	284	731
Adjustments in respect of prior periods	-	-
Total deferred tax	284	731
Tax on profit on ordinary activities	2,209	731

The tax assessed for the year varied from the amount computed by applying the standard rate of corporation tax in the UK (30%) to the profit on ordinary activities before tax. The differences were attributed to the following factors:

	2002 £'000	2001 £'000
Profit on ordinary activities before tax	7,422	2,316
Profit on ordinary activities multiplied by standard rate in the UK - 30% (2001:30%)	2,228	695
Effects of:		
Expenses not deductible for tax purposes	14	22
Accelerated capital allowances less than depreciation	31	77
Utilisation of tax losses	(378)	(743)
Other short term timing differences	30	(51)
Current tax charge for the year	1,925	-

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Notes to the financial statements for the year ended 30 June 2002 (continued)

7 Taxation (continued)

Factors that may affect future tax charges:

The company has now used all brought forward tax losses, which have significantly reduced tax payments in recent years. Based on current depreciation policy the company expects to be able to claim capital allowances that are less than depreciation in future years.

Deferred tax is measured on a non discounted basis at the tax rate which is expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

The deferred tax charge was mainly as a result of the tax effect of timing differences as follows:

	2002 £'000	2001 £'000
Tax losses	378	743
Excess capital allowances	(61)	(63)
Other timing differences	(33)	51
Total deferred tax charge	284	731

8 Tangible fixed assets

	Leasehold improvements £'000	Equipment, fixtures and fittings £'000	Total £'000
Cost			
At 1 July 2001	1,489	7,281	8,770
Additions	194	678	872
At 30 June 2002	1,683	7,959	9,642
Depreciation			
At 1 July 2001	801	5,616	6,417
Charge for the year	256	735	991
At 30 June 2002	1,057	6,351	7,408
Net book value			
At 30 June 2002	626	1,608	2,234
At 30 June 2001	688	1,665	2,353

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Notes to the financial statements for the year ended 30 June 2002 (continued)

9 Stocks

	2002 £'000	2001 £'000
Acquired television programme rights	9,431	8,996
Own productions	1,563	2,348
Other stock	16	59
	11,010	11,403

10 Debtors: amounts falling due within one year

	2002 £'000	2001 £'000 (restated)
Trade debtors	867	1,496
Deferred tax asset (note 13)	313	597
Amounts due from shareholder group companies	97	1,355
Other debtors	18	9
Prepayments and accrued income	2,250	3,922
	3,545	7,379

11 Creditors: amounts falling due within one year

	2002 £'000	2001 £'000
Trade creditors	505	37
Programme creditors	2,753	1,980
Amounts due to shareholder group companies	5,915	6,105
Corporation tax creditor	854	-
VAT creditor	511	345
Taxation and social security	264	382
Other creditors	475	186
Accruals and deferred income	3,317	5,298
	14,594	14,333

12 Creditors: amounts falling due after more than one year

	2002 £'000	2001 £'000
Shareholder loans	-	2,051
Programme creditors	143	298
	143	2,349

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Notes to the financial statements for the year ended 30 June 2002 (continued)

13 Deferred taxation

The elements of deferred taxation provided for in the financial statements are as follows:

	2002 £'000	2001 £'000 (restated)
Accelerated capital allowances	(171)	(110)
Other short term timing differences	(142)	(109)
Unrelieved tax losses carried forward	-	(378)
Total deferred tax (asset)	(313)	(597)

Deferred tax (asset)	2002 £'000
At 1 July 2001 as previously reported	-
Prior year adjustment – FRS 19	(597)
At 1 July 2001 as restated	(597)
Profit and loss account charge	284
At 30 June 2002	(313)

There is no unrecognised deferred tax.

14 Called up share capital

	2002 £	2001 £
Authorised		
1,000,000 'A' ordinary shares of 1p each	10,000	10,000
1,000,000 'B' ordinary shares of 1p each	10,000	10,000
	20,000	20,000
Allotted, called up and fully paid		
104 'A' ordinary shares of 1p each	1	1
104 'B' ordinary shares of 1p each	1	1
	2	2

'A' ordinary shares are held (indirectly) by Viacom Inc.

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

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Notes to the financial statements for the year ended 30 June 2002 (continued)

15 Reconciliation of movements in equity shareholders' funds

	2002 £'000	2001 £'000 (restated)
Profit for the year	5,213	1,585
Net addition to shareholders' funds	5,213	1,585
Opening shareholders' funds as previously reported	7,139	-
Prior period adjustment – FRS 19	597	-
Opening shareholders' funds as restated	7,736	6,151
Closing shareholders' funds	12,949	7,736

16 Reserves

	Share premium account £'000	Profit and loss account £'000
1 July 2001 as previously reported	11,054	(3,915)
Prior period adjustment – FRS 19	-	597
1 July 2001 as restated	11,054	(3,318)
Retained profit for the year	-	5,213
At 30 June 2002	11,054	1,895

On 24 October 2002 a special resolution was approved by the shareholders to convert £11,053,000 of the share premium account into distributable profit and loss reserves, as permitted by the Articles of Association of the Company. The purpose of the resolution was to facilitate an interim dividend payment totalling £8,000,000.

17 Guarantees and other financial commitments

(a) Programme right commitments

	2002 £'000	2001 £'000
Programme right commitments are as follows:		
Contracted, but not provided for	5,436	2,942

The commitments are payable in US dollars and are for periods up to December 2007. At 30 June 2002, the US dollar amounts have been translated at the weighted average contractual exchange rate of \$1.4030: £1 (2001- \$1.4077: £1).

Nickelodeon UK

Notes to the financial statements for the year ended 30 June 2002 (continued)

17 Guarantees and other financial commitments (continued)

(b) Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows:

	2002		2001	
	Land and Buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
Operating leases which expire				
- within 2-5 years	-	352	-	340
- after 5 years	485	245	485	305
	485	597	485	645

(c) Forward currency contracts

The company has entered into a number of forward exchange contracts to buy U.S. dollars to hedge the effect of exchange rate fluctuations on future U.S. dollar programme right payments in 2002 and 2003.

At 30 June 2002, the forward exchange commitments amounted to \$9,331,000 (2001: \$10,162,000) equivalent to £6,651,000 (2001: £7,219,000) at the contract rates.

18 Reconciliation of operating profit to net cash inflow from operating activities

	2002 £'000	2001 £'000
Operating profit	7,267	2,378
Depreciation charge	991	1,096
Amortisation of programme rights	8,804	7,728
(Increase) in stocks	(8,411)	(10,382)
Decrease/(increase) in debtors	3,551	709
(Decrease)/Increase in creditors	(749)	3,017
Net cash inflow from operating activities	11,453	4,546

19 Analysis of net funds

	1 July 2001 £'000	Cashflow £'000	30 June 2002 £'000
Cash at bank and in hand	3,283	7,614	10,897
Shareholder loans	(2,051)	2,051	-
Net funds	1,232	9,665	10,897

Nickelodeon UK

Notes to the financial statements for the year ended 30 June 2002 (continued)

20 Reconciliation of net cash flow to movement in net funds

	2002 £'000	2001 £'000
Increase in cash in the year	7,614	2,807
Repayment of shareholder loans	2,051	1,000
Movement in net funds in the year	9,665	3,807
Net funds at beginning of year	1,232	(2,575)
Net funds at end of year	10,897	1,232

21 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 the BSkyB Group of companies include acting as the selling agent for airtime with a value of £Nil (2001 - £4,918,000) and providing promotional services for a cost of £343,000 (2001 - £343,000). The company also received revenue of £ 15,822,000 (2001 - £13,357,000) in respect of direct to home subscriptions. The company paid £277,000 for leasing a digital transponder (2001: £340,000), £116,000 (2001 - £141,000) for the provision of administrative services and £Nil (2001 - £696,000) for the provision of marketing services, including sales commissions, by the BSkyB Group. At 30 June 2002, the outstanding payables balance was £1,132,000 (2001: £618,000), and there was an outstanding receivables balance of £68,000 (2001: £nil).

Services provided by the Viacom group of companies include: acting as the selling agent for airtime with a value of £9,866,000 (2001 - £4,142,000); leasing an analogue transponder at a cost of £Nil (2001 - £3,207,000) and a digital transponder at a cost of £158,000 (2001 - £225,000) plus uplink, maintenance and compression costs of £24,000 (2001 - £80,000). The company also paid the Viacom group £801,000 (2001 - £336,000) as a trademark and on-line licence fee, and £1,433,000 (2001 - £563,000) for the provision of marketing services, including sales commissions. At 30 June 2002, the outstanding payables balance was £605,000 (2001: £385,000), and the outstanding receivables balance was £Nil (2001: £1,071,000).

During the year, the company entered into new contracts for programming from the Viacom group of companies at a cost of \$6,129,000 (2001 - \$4,951,000). At 30 June 2002, the outstanding payables balance was £4,178,000 (2001: £5,102,000)

The company shared certain management, technical and administrative services with the Paramount Channel, a fellow group company ultimately owned by BSkyB and Viacom. In 2002 a total of £75,000 (2001 - £1,768,000) was recharged to the Paramount Channel. The company also received £207,000 (2001 - £137,000) from the Paramount Channel for the use of the company's fixed assets and other facilities. This latter amount is included within turnover. At 30 June 2002, the outstanding receivables balance was £29,000 (2001: £284,000).