NGC Network (UK) Limited

Financial statements for the year ended 31 December 2000
together with directors' and auditors' reports

Registered number 3324932

Shareholders and advisers

For the year ended 31 December 2000

Shareholders

NGC Network UK Limited is a UK based limited company owned equally by the following:

NGTV International Limited ("NGTV")	50% equity
International General Electric (USA) ("IGC")	50% equity

Address

Aquis Court
31 Fishpool Street
St. Albans
Hertfordshire
AL3 4RF

Auditors

Arthur Andersen
180 Strand
London
WC2R 1BL

Directors' report

For the year ended 31 December 2000

The directors present their annual report on the affairs of the company, together with the financial statements and auditors' report for the year ended 31 December 2000.

Principal activities

The company is a joint venture between NGTV International Limited ('NGTV') and International General Electric (USA) ('IGE') formed for the purpose of holding an investment in NGC-UK Partnership ('National Geographic UK', 'the Partnership'). The company is a non-operating entity which invest funds received from its shareholders into its investment in the Partnership in accordance with the Partnership funding requirements. The Partnership operates and transmits the documentary programme channel, the National Geographic Channel.

Business review

The loss for the year is show on page 6.

Results and proposed dividend

The directors do not recommend the payment of a dividend.

Directors and directors' interests

The directors who held office during the year and subsequently, were as follows:

T Kelly
S Borke
R Allen
A Lack
D Zaslav
R Burgess

None of the directors who held office at the end of the financial year had any interest in the shares of the company.

Aquis Court
31 Fishpool Street
St. Albans
Hertfordshire
AL3 4RF

By order of the board

Susan Borke

~~R Burgess~~ S. Borke
Director

21 June 2002

Statement of directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- to state whether applicable 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 maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ANDERSEN

To the Shareholders of NGC Network UK Limited:

We have audited the financial statements of NGC Network UK Limited for the year ended 31 December 2000 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the statement of cash flows, the note of historical cost profit and loss, the statement of accounting policies and the related notes numbered 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom 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.

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

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of opinion

We conducted our audit in accordance with United Kingdom 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 circumstances of the company, consistently applied and adequately disclosed.

We planned 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. However, the evidence available to us was limited in relation to the comparatives in the current year's financial statements which are derived from the financial statements for the year ended 31 December 1999 and the associated accounting records. In our report on those financial statements we stated that the evidence available to us was limited in respect of a journal entry to reduce administrative expenses for that year by £315,000 to reconcile the underlying accounting records to the retained loss reported in the financial statements at 31 December 1998. In particular, there had been a change in management since the preparation of the 1998 financial statements and no analyses were available to support the finalisation of the 1998 financial statements. In those circumstances there were no satisfactory audit procedures that we could adopt to confirm that the adjustment to administrative expenses in 1999 would have had a consequential effect on either another 1999 profit and loss account caption or the retained loss brought forward into 1999. Consequently, our opinion on the financial statements for the year ended 31 December 1999 was qualified because

Basis of opinion (continued)

of this limitation in audit scope. Accordingly the amounts shown within the profit and loss account for the year ended 31 December 1999 may not be comparable with the figures for the current period.

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 22 of the accounts concerning the uncertainty as to the continuation of the provision of finance and services (e.g. programming and transponder space) to NGC – UK Partnership by its joint venture partners, including the company's shareholders. In view of the significance of this uncertainty we consider that it should b e drawn to your attention but our opinion is not qualified in this respect.

Qualified opinion arising from limitation in audit evidence about comparatives

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2000 and of its loss and cash flows for the year then ended and, except for any adjustments to the comparatives which might have been found to be necessary had we been able to obtain sufficient evidence concerning the journal entry to reduce administrative expenses in 1999 referred to above, have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

180 Strand
London
WC2R 1BL

June 2002

Profit and loss account

For the year ended 31 December 2000

	Notes	Year ended *31 December* 2000 £'000	Year ended *31 December* 1999 £'000
Turnover	2	10,333	6,271
Cost of sales		(7,223)	(6,572)
Gross loss		3,110	(301)
Operating expenses, net	3	(3,988)	(3,293)
Operating loss		(878)	(3,594)
Interest receivable	4	123	-
Interest payable	5	(385)	(288)
Loss on ordinary activities before taxation	6	(1,140)	(3,882)
Retained loss brought forward	14	(11,224)	(7,342)
Retained loss carried forward	14	(12,364)	(11,224)

All activities relate to continuing operations.

There were no recognised gains or losses in either year other than those included within the profit and loss account.

The accompanying notes are an integral part of the profit and loss account.

Balance sheet

31 December 2000

	Notes	2000 £'000	1999 £'000
Fixed assets			
Tangible assets	7	150	182
Investments	8	228	228
		378	410
Current assets			
Stock	9	3,120	2,934
Debtors	10	7,126	1,852
Cash at bank and in hand		2,361	656
		12,607	5,442
Creditors: amounts falling due within one year	11	(22,449)	(14,981)
Net current liabilities		(9,842)	(9,539)
Total assets less current liabilities		(9,464)	(9,129)
Net liabilities		(9,464)	(9,129)
Capital and reserves			
Called up share capital	13	2,900	2,095
Profit and loss account	14	(12,364)	(11,224)
Equity shareholders' deficit	15	(9,464)	(9,129)

Approved and signed on behalf of the board:

R. Burgess
Director

~~T. Kelly~~ S. Borke
Director

21 June 2002

The accompanying notes are an integral part of this balance sheet.

Cash flow statement

For the year ended 31 December 2000

	Note	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Net cash outflow from operating activities	19	(2,364)	(4,222)
Returns on investment and servicing of finance			
Interest received/(paid)		123	(16)
Capital expenditure and financial investment			
Payments to acquire fixed assets		(77)	(93)
Net cash outflow before financing		(2,318)	(3,836)
Financing			
Payments for shares to be issued		805	858
Loans received from shareholders		3,218	3,434
Increase in cash during the year	20	1,705	(39)

The accompanying notes are an integral part of this cash flow statement.

Notes to the financial statements

For the year ended 31 December 2000

1 Accounting policies

The principal accounting policies, all of which have been applied consistently throughout the year, are as follows:

a) Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable financial reporting and accounting standards.

In accordance with Financial Reporting Standard 9 "Associates and Joint Ventures" ("FRS 9"), the company's share of the income, expenditure, assets, liabilities and cash flows of NGC UK Partnership has been included in the financial statements of the company on a line by line basis.

At 31 December 1998, the accounting records of National Geographic UK did not provide sufficient detail to allow the company's share of assets and liabilities to be extracted on a line by line basis. Consequently, the company's share of the total net assets of National Geographic UK was treated as a current asset in the 1998 accounts. Whilst the current management of National Geographic UK have been able to identify certain balances within that figure, it has not been possible to distinguish the different elements of working capital as at 31 December 1998 and therefore the movement in working capital in the year ended 31 December 1999 has been aggregated in the 1999 statement of cash flows. Therefore, these comparative figures are not on the same basis as the current year.

b) Stocks

Stocks consist of television programme rights, stated at cost less accumulated amortisation. Programme rights, and the related liability, are recorded at cost when the programmes are available for transmission. Provisions are made for any programme rights which are excess requirement or which will not be shown for any reason.

Programme rights are amortised on a straight line basis over three years or the term of the licence period, whichever is the shorter. 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, authorised and contracted for, in note 16. Programme payments made in advance of the company having ability to transmit the related programmes are treated as prepayments.

c) Taxation

Corporation tax payable is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date. Deferred tax is provided using the liability method on all timing differences only to the extent they are expected to reverse in the future without being replaced.

d) Foreign currency

Trading activities 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 foreign exchange contract or other hedging instrument. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end or, if hedged, at the appropriate hedged rate.

1 Accounting policies (continued)

e) Turnover

Turnover, which excludes value added tax, represents the invoiced value of advertising and pay channel subscriptions, advertising revenue is shown net of agency fees.

f) Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation, and provision for impairment. Depreciation is provided on all fixed assets at 33%.

g) Fixed asset investments

Fixed asset investments are held at cost less provision for impairment.

2 Segmental information

Whilst deriving from one class of business, the company's turnover can be analysed as follows:

	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Subscriber Income	6,763	4,900
Advertising	2,101	704
Other	1,469	667
	10,333	6,271

All turnover originates in the UK.

Turnover by destination:

	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
UK	5,985	3,709
Continental Europe	2,879	1,895
Other	1,469	667
	10,333	6,271

£1,032,000 (1999 – £802,000) of advertising revenue was collected by British Sky Broadcasting Limited ("BSkyB"). BSkyB have charged sales commission on advertising revenue of £207,000 (1999 – £98,000). Sales commission is included in cost of sales.

2 Segmental information (continued)

£549,000 of advertising revenue was collected by NGC Netherlands BV, who have charged sales commission on advertising revenue of £175,000. Sales commission is included in cost of sales.

£459,000 (1999 – £306,000) was recharged to NGC Israel Partnership in respect of programming transmission, marketing and administration costs. This amount is included in other income.

3 Operating expenses, net

	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Marketing costs	1,199	1,481
Administrative expenses	2,789	1,812
	3,988	3,293

4 Interest receivable and similar income

	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Bank interest receivable	123	-

5 Interest payable and similar expenses

	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Bank interest payable	-	16
Interest payable on senior loan	385	272
	385	288

6 Loss on ordinary activity before taxation

No director received remuneration during the year in respect of their services to the company. The company employs no staff. A charge is made by British Sky Broadcasting Limited ("BSkyB") for the cost of staff provided in the operation of the Channel. This cost of £1,041,000 (1999 – £937,000) is included within administrative expenses.

Audit fees for the year were £45,000 (1999 – £40,000). No other fees were paid to the auditors. Depreciation charges for the year were £109,000 (1999 – £111,000).

7 Fixed Assets

	Year ended 31 December 2000 £'000
Cost	
At 1 January 2000	293
Additions	77
At 31 December 2000	370
Depreciation	
At 1 January 2000	111
Depreciation during the year	109
At 31 December 2000	220
Net book value	
At 31 December 2000	150
At 31 December 1999	182

8 Fixed asset investments

The company has one share, being 50% of the issued share capital, in NGC Overseas Limited, a company incorporated in England and Wales. Its principal activity is the operation and transmission of the National Geographic Channel in Australia

Through its 50% interest in National Geographic UK partnership, the company also has an interest in NGC Network Australia Pty Ltd, incorporated in Australia, all of the 1,000,012 issued shares of which are owned by National Geographic UK.

	31 December 2000 £'000	31 December 1999 £'000
Cost at 31 December 2000	228	228
Amounts written off	-	-
Net book value at 31 December 2000	228	228

9 Stocks

	31 December 2000 £'000	31 December 1999 £'000
Television programme rights	3,120	2,934

At least 33 per cent of the existing television programme rights at 31 December 2000 will be amortised within one year.

10 Debtors

	31 December 2000 £'000	31 December 1999 £'000
Accrued income due from BSkyB	385	406
Accrued income - other	487	263
Trade debtors due from BSkyB	2,404	9
Trade debtors – other	680	207
VAT	107	209
Prepayments and other debtors	1	3
Amounts due from NGC Netherlands BV	546	198
Amounts due from NGC Australia	636	327
Amounts due from NGC Israel Partnership	765	230
Amounts due from NGCI	1,115	-
	7,126	1,852

All balances with related parties are repayable on demand and are non interest bearing.

11 Creditors: Amounts falling due within one year

	31 December 2000 £'000	31 December 1999 £'000
Programme creditors	1,415	1,070
Shareholder loans (see note 12)	11,601	8,382
Other creditors and accruals	9,433	5,529
	22,449	14,981

11 Creditors: Amounts falling due within one year (continued)

Within the creditors listed above the related party transactions include:

	31 December 2000 £'000	31 December 1999 £'000
Programme creditors		
Due to NGCI	1,415	1,070
Other creditors and accruals		
Amounts due to International General Electric (USA) Limited	1,198	395
Amounts due to subsidiary undertaking	-	57
Amounts due to NGCI	3,291	2,791
Amounts due to BSkyB	3,416	1,434
	9,320	5,747

All balances with related parties are repayable on demand and are non interest bearing.

12 Shareholder loans

	31 December 2000 £'000	31 December 1999 £'000
Shareholder loans comprise the following:		
Senior loan IGE	4,835	3,494
Subordinated loan IGE	3,383	2,444
Subordinated loan NGTV	3,383	2,444
	11,601	8,382

The subordinated loans are non interest bearing. The senior loans incurs interest at 9%, interest compounds annually.

The loans are unsecured and have no fixed repayment date.

13 Called up share capital

	31 December 2000 £'000	31 December 1999 £'000
Authorised		
Equity: 3,000,000 Ordinary shares of £1 each	2,000	2,000
Allotted, called up and fully paid		
Equity: 482,002 (1999 – 482,002) Ordinary shares of £1 each	482	482
Shares to be issued		
Equity: 2,418,000 (1999 – 1,613,000) Ordinary shares of £1 each	2,418	1,613
	2,900	2,095

Shares to be issued relate to financing provided by the two shareholders for which share certificates have yet to be issued. All shares will be issued at par value. During the year the shareholders paid £805,000 (1999 – £858,000) for which shares have yet to be issued.

14 Reserves

	Profit and loss account £'000
At 1 January 2000	(11,224)
Retained loss for the year	(1,140)
At 31 December 2000	(12,364)

15 Reconciliation of movement in equity shareholders' deficit

	2000 £'000	1999 £'000
Opening shareholders' deficit	(9,129)	(6,105)
Shares issued during the year	-	-
Shares to be issued	805	858
Retained loss for the year	(1,140)	(3,882)
Closing shareholders' deficit	(9,464)	(9,129)

16 Guarantees and other financial commitments

	31 December 2000 £'000	31 December 1999 £'000
Programme commitments, contracted for and authorised	1,302	1,405

All of the above commitments are payable in US dollars. At 31 December 2000, these commitments have been translated at the year end rate of $1.4935 (1999 – $1.6395).

17 Transactions with related parties and major shareholders

National Geographic UK, the partnership in which the company has a 50% interest, conducts business transactions on a normal commercial basis with and receives a number of services from related parties.

BskyB and National Geographic Channels International ('NGCI') a business partnership between Fox NBC Inc and National Geographic Television, provided National Geographic UK with the following services during the year:

	BSkyB Year ended 31 December 2000 £'000	BSkyB Year ended 31 December 2000 £'000	BSkyB Year ended 31 December 1999 £'000	NGCI Year ended 31 December 1999 £'000
Transmission costs	2,420	-	2,189	-
Administrative expenses	1,612	-	1,234	-
Programming and related costs	532	587	485	831
Marketing costs	428	234	404	120
`Total	4,992	821	4,312	951

In addition to the above NGCI provided all programming rights to the company. During the year £2,164,000 (1999 – £1,920,000) programming rights were supplied and became available for broadcasting.

18 Shareholders

The company is equally owned by NGTV International Limited ("NGTV") and International General Electric (USA) ("IGE").

19 Reconciliation of operating loss to net cash outflow from operating activities

	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000 (see note 1a)
Operating loss	(878)	(3,594)
Depreciation	109	111
Increase in stock	(186)	-
Increase in debtors	(5,274)	-
Increase in creditors	3,865	-
Increase in net working capital (see note 1a)	-	(739)
Net cash outflow from operating activities	(2,364)	(4,222)

20 Analysis of changes in net debt

	As at 1 January 2000 £'000	Cash flow £'000	As at 31 December 2000 £'000
Cash at bank and in hand	656	1,705	2,361
Loans received from partners	(8,382)	(3,219)	(11,601)
Net debt	(7,726)	(1,514)	(9,240)

	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Increase/(decrease) in cash in the year	1,705	(39)
Cash inflow from increase in financing	(3,219)	(4,292)
Change in net debt resulting from cash flows	(1,514)	(4,331)
Net debt at 1 January 2000	(7,726)	(3,395)
Net debt at 31 December 2000	(9,240)	(7,726)

21 Contingent liability

The company has a contingent liability as a result of its investment in NGC UK Partnership.

22 Financing arrangements

The company's balance sheet at 31 December 2000 shows net liabilities of £9,464,000 (1999 – £9,129,000). The partners of NGC – UK Partnership are currently providing both the services (e.g. programming and transponder space) and the working capital finance required by the partnership, all on an "as required" basis, without requiring payment of amounts due in these respects. The partners have reached an understanding to continue this but they have not formally agreed to fund the partnership over the twelve months from the date of signing these accounts. The directors have drawn up these accounts by incorporating the results and financial position of NGC – UK Partnership on a going concern basis on the assumption that the current position continues.

The directors of National Broadcasting Company, Inc. and National Geographic Society have confirmed that neither those entities nor companies within those groups will demand repayment of any intercompany balances owed by NGC Network (UK) Ltd. except to the extend that such payments can be made while NGC Network (UK) Ltd. continues to settle its liabilities as they fall due.

Accordingly, the financial statements have been prepared on the basis that the company will continue as a going concern.

23 Controlling party

The company is owed in equal proportions by National Broadcasting Company Inc. and National Geographic Society. The directors do not consider that either one is the ultimate controlling party.