

Paramount Pay TV Limited

(Registered number: 03458440)

**Directors' report and financial statements
31 December 2002**



Paramount Pay TV Limited

Directors' report for the year ended 31 December 2002

The directors present their report and audited financial statements for the year ended 31 December 2002.

Principal activity, review of the business, and future developments

The principal activity of the company is the provision of services related to film production. The directors are satisfied with the performance of the company and expect these activities to continue.

Results and dividends

The company's loss for the year amounts to £319,110 (2001 profit: £60,305 (restated)). The directors do not recommend the payment of a dividend (2001: £ nil). The loss for the year has been transferred to reserves.

Directors and their interests

The directors who served during the year, were:

R Affourtit
M O'Sullivan
T Ellis

None of the directors had any interest in the company's share capital or in any transactions entered into by the company during the year which are required to be disclosed in accordance with the Companies Act 1985.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements 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 that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 with 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. 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.

Paramount Pay TV Limited**Directors' report for the year ended 31 December 2002** (continued)

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 14 April 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the next annual general meeting.

By order of the board.

J. Pachonze

Company Secretary

180 Oxford Street
London
W1D 1NN

3 October 2003

Independent auditors' report to the members of Paramount Pay TV Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes.

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 report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the 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 a list of the officers and professional advisers and the directors' report.

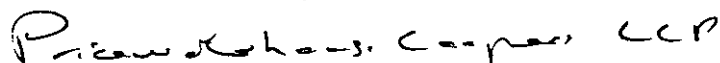
Basis of audit opinion

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 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London

3 October 2003

Paramount Pay TV Limited

Profit and loss account for the year ended 31 December 2002

| | Notes | 2002 £ | 2001 (Restated) £ |
|---|-------|------------------|-------------------------|
| Turnover | 3 | 960,201 | 1,032,396 |
| Cost of sales | | (889,075) | (957,125) |
| Gross profit | | 71,126 | 75,271 |
| Other income / (expense) | | (285,215) | 2,815 |
| Operating (loss)/profit | 4 | (214,089) | 78,086 |
| Interest receivable and similar income | 5 | 35,700 | 11,905 |
| Interest payable and similar charges | 6 | (139,753) | (29,274) |
| (Loss)/profit on ordinary activities before taxation | | (318,142) | 60,717 |
| Taxation on (loss)/profit on ordinary activities | 8 | (968) | (412) |
| Retained (loss)/profit for the year | 14 | (319,110) | 60,305 |

The loss for the year was derived from continuing operations.

There is no difference between the results as reported and their historical cost equivalents.

Paramount Pay TV Limited

Statement of Total Recognised Gains and Losses for the year ended 31 December 2002

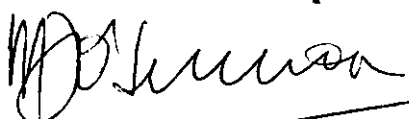
| | 2002 £ | 2001 (Restated) £ |
|--|-----------|-------------------------|
| Retained (loss)/profit for the year | (319,110) | 60,305 |
| Total recognised gains and (losses) for the year | (319,110) | 60,305 |
| Prior period adjustment – FRS 19 | 1,550 | |
| Total recognised losses since last Annual Report | (317,560) | |

Paramount Pay TV Limited

Balance sheet as at 31 December 2002

| | Notes | 2002 £ | 2001 (Restated) £ |
|---|-------|--------------------|-------------------------|
| Fixed assets | | | |
| Tangible assets | 10 | 26,282 | 2,717 |
| | | 26,282 | 2,717 |
| Current assets | | | |
| Debtors | 11 | 4,884,800 | 2,800,337 |
| | | 4,884,800 | 2,800,337 |
| Creditors: amounts falling due within one year | 12 | (4,899,549) | (2,472,411) |
| Net current assets | | (14,749) | 327,926 |
| Net assets | | 11,533 | 330,643 |
| Capital and reserves | | | |
| Called up ordinary share capital | 13 | 1 | 1 |
| Profit and loss account | 14 | 11,532 | 330,642 |
| Equity shareholders' funds | 14 | 11,533 | 330,643 |

The financial statements on pages 4 to 15 were approved by the board of directors on 3 October 2003 and were signed on its behalf by:


 M O'Sullivan
 Director

Paramount Pay TV Limited

Notes to the financial statements for the year ended 31 December 2002

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

a) Basis of preparation

The financial statements have been 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 charge on loss on ordinary activities by £1,093 (2001: £412) and to decrease loss for the financial period by £1,093 in 2002 (2001: £412), consequently the deferred tax asset decreased by £1,093 in 2002 (2001: increased by £412).

c) Turnover

Turnover consists of service fees billed exclusive of VAT, but inclusive of intra-group transactions.

d) Foreign currencies

Assets and liabilities denominated in foreign currencies are expressed in sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are expressed in sterling at the average rates ruling during the month of the transaction. The resulting profits or losses are dealt with in the profit and loss account.

e) Pension benefits

Employees of the company are members of a group defined benefit pension scheme (see Note 17). The assets of the scheme are held separately from those of the company in independently administered funds. The scheme operates on a pre-funded basis, and the policy is to contribute variable amounts, based on actuarial advice, to achieve a 100% funding level on a projected salary basis. The company has adopted Financial Reporting Standard 17 'Retirements Benefits' (FRS 17). Although the Plan is a defined benefit arrangement, it is a multi-employer scheme for which it has not been possible to identify the underlying assets and liabilities attributable to each participating company, as defined in FRS 17 and therefore has been accounted for as a defined contribution plan. Contributions to the scheme are charged to the profit and loss account so as to spread the regular cost of pensions over the remaining service lives of the employees.

Paramount Pay TV Limited

Notes to the financial statements for the year ended 31 December 2002

f) Taxation

Corporation tax payable is provided on taxable profits at the current tax rate.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in future have occurred at the balance sheet date.

Deferred tax assets are regarded as recoverable and recognised in the financial statements when, on the basis of available evidence, it is more likely than not that there will be suitable taxable profits from which the future reversal of the timing differences can be deducted. The recoverability of tax losses is assessed by reference to forecasts, which have been prepared and approved by the board. The deferred tax assets and liabilities are not discounted.

g) Tangible fixed assets

The cost of tangible fixed assets is written off in equal annual instalments over their expected useful lives as follows:

| | |
|-----------------------------------|----------|
| Equipment, furniture and fittings | 10 years |
|-----------------------------------|----------|

h) Leases

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

2 Cash flow statement and related party disclosures

The company is a subsidiary undertaking where 90% or more of the voting rights are controlled within the Viacom Inc. group and its financial statements are included in the consolidated financial statements of that group, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996). The company is also exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the Viacom Inc group or investees of that group (see note 18).

3 Turnover

Turnover consists of service fees billed exclusive of VAT, but inclusive of intra-group transactions. All turnover is generated in the United Kingdom.

Paramount Pay TV Limited

Notes to the financial statements for the year ended 31 December 2002

4 Operating (loss)/profit

| | 2002 £ | 2001 £ |
|---|-----------|-----------|
| Operating (loss)/profit is stated after charging/(crediting): | | |
| Depreciation of tangible fixed assets | 4,346 | 1,252 |
| Foreign exchange (gains)/loss | 285,268 | (2,686) |
| Operating lease rentals | 19,582 | 13,644 |
| Auditors' remuneration – audit services | 3,663 | 8,325 |

5 Interest receivable and similar income

| | 2002 £ | 2001 £ |
|---|-----------|-----------|
| Interest receivable from group undertakings | 35,700 | 11,905 |

6 Interest payable and similar charges

| | 2002 £ | 2001 £ |
|--|-----------|-----------|
| Interest payable to group undertakings | 139,753 | 29,274 |

7 Employee information

Staff costs during the year were as follows:

| | 2002 £ | 2001 £ |
|--------------------------|-----------|-----------|
| Wages and salaries | 452,033 | 409,078 |
| Social security costs | 56,338 | 50,330 |
| Pensions costs (note 17) | 53,396 | 41,715 |
| | 561,767 | 501,123 |

The average number of employees during the year was 4 (2001: 5); all employees being engaged in production and related services.

Paramount Pay TV Limited

Notes to the financial statements for the year ended 31 December 2002

8 Taxation on (loss)/profit on ordinary activities

The tax charge based on the (loss)/profit on ordinary activities comprises:

| | 2002 £ | 2001 (Restated) £ |
|---|--------------|-------------------------|
| Current Tax | | |
| UK Corporation Tax on (loss)/profits of the year at 30% (2001: 30%) | - | - |
| Adjustment in respect of previous periods | (125) | - |
| Total current tax | (125) | - |
| Deferred Tax | | |
| Origination and reversal of timing differences | 1,093 | 412 |
| Total deferred tax | 1,093 | 412 |
| Taxation on (loss)/profit on ordinary activities | 968 | 412 |

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

| | 2002 £ | 2001 (Restated) £ |
|--|-----------|-------------------------|
| (Loss)/profit on ordinary activities before tax | (318,142) | 60,717 |
| (Loss)/profit on ordinary activity multiplied by standard UK rate, 30% (2001: 30%) | (95,443) | 18,215 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 2,986 | 5,608 |
| Accelerated capital allowances less than depreciation | (1,093) | (412) |
| Utilisation of group losses | 93,550 | (23,411) |
| Current tax charge for the year | - | - |

The company expects to be able to claim capital allowances in excess of 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.

Paramount Pay TV Limited

Notes to the financial statements for the year ended 31 December 2002

8 Taxation on (loss)/profit on ordinary activities (continued)

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

| | 2002 £ | 2001 (Restated) £ |
|----------------------------------|--------------|-------------------------|
| Accelerated capital allowances | 1,093 | 412 |
| Total deferred tax charge | 1,093 | 412 |

9 Directors' emoluments

| | 2002 £ | 2001 £ |
|-----------------------|----------------|----------------|
| Remuneration | 167,200 | 176,735 |
| Pension contributions | 44,105 | 31,878 |
| | 211,305 | 208,613 |

One (2001: one) director is accruing benefits under a defined benefits scheme. There are no Long Term Incentive Schemes for directors. Two (2001: none) directors were granted stock options on 30 January 2003, but no (2001: none) directors exercised share options in the ultimate parent undertaking during the year.

10 Tangible fixed assets

| | Equipment Furniture and Fittings £ |
|----------------------------|---|
| Cost | |
| At 1 January 2002 | 4,360 |
| Additions | 27,911 |
| At 31 December 2002 | 32,271 |
| Depreciation | |
| At 1 January 2002 | 1,643 |
| Charge for the year | 4,346 |
| At 31 December 2002 | 5,989 |
| Net book value: | |
| At 31 December 2002 | 26,282 |
| At 31 December 2001 | 2,717 |

Paramount Pay TV Limited

Notes to the financial statements for the year ended 31 December 2002

11 Debtors

| | 2002 £ | 2001 (Restated) £ |
|------------------------------------|------------------|-------------------------|
| Trade debtors | 169,568 | 298,404 |
| Deferred tax asset (Note 16) | 457 | 1,550 |
| Amounts owed by group undertakings | 4,666,753 | 2,402,447 |
| Other debtors | 48,022 | 97,936 |
| | 4,884,800 | 2,800,337 |

12 Creditors: amounts falling due within one year

| | 2002 £ | 2001 £ |
|-----------------------------------|------------------|------------------|
| Amounts due to group undertakings | 4,862,849 | 2,418,417 |
| Taxation and social security | 16,397 | 18,439 |
| Accruals and deferred income | 20,303 | 35,555 |
| | 4,899,549 | 2,472,411 |

13 Share capital

| | 2002 £ | 2001 £ |
|--------------------------------|-----------|-----------|
| Authorised | | |
| 100 ordinary shares at £1 each | 100 | 100 |
| Allotted and fully paid | | |
| 1 ordinary shares at £1 each | 1 | 1 |

Paramount Pay TV Limited

Notes to the financial statements for the year ended 31 December 2002

14 Reconciliation of movements in shareholders' funds

| | 2002 £ | 2001 (Restated) £ |
|--|-----------|-------------------------|
| (Loss)/profit for the year | (319,110) | 60,305 |
| Net (loss)/profit to shareholders' funds | (319,110) | 60,305 |
| Opening shareholders' funds as previously reported | 329,093 | - |
| Prior period adjustment – FRS 19 | 1,550 | - |
| Opening shareholders' funds as restated | 330,643 | 270,338 |
| Closing shareholders' funds | 11,533 | 330,643 |

| | Share Capital £ | Profit and Loss Account £ | Total Equity Shareholders' Deficit £ |
|--|-----------------------|---------------------------------|---|
| At 1 January 2002 as previously reported | 1 | 329,092 | 329,093 |
| Prior period adjustment – FRS 19 | - | 1,550 | 1,550 |
| At 1 January 2002 as restated | 1 | 330,642 | 330,643 |
| Retained loss for the year | - | (319,110) | (319,110) |
| At 31 December 2002 | 1 | 11,532 | 11,533 |

15 Financial commitments

At 31 December, the company had commitments under non-cancellable operating leases to make payments as follows:

| | Total £ |
|---|---------------|
| Other assets expiring: | |
| Next years' charge | 19,582 |
| Within two to five years (part of the lease is not fixed) | 28,939 |
| | 48,521 |

Paramount Pay TV Limited

Notes to the financial statements for the year ended 31 December 2002

16 Deferred Taxation

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

| | 2002 £ | 2001 (Restated) £ |
|--|-----------|-------------------------|
| Accelerated capital allowances | (457) | (1,550) |
| Total deferred tax asset | (457) | (1,550) |
| Deferred tax asset: | | |
| At 1 January 2002 as previously reported | - | |
| Prior year adjustment – FRS 19 | (1,550) | |
| At 1 January 2002 as restated | (1,550) | |
| Utilised against profit for the year | 1,093 | |
| At 31 December 2002 | (457) | |

17 Pension costs

The company participates in a multi employer, group defined benefit pension plan, the Viacom UK Defined Benefit Plan ("the Plan") along with other employers in the group, and the directors have decided to early adopt Financial Reporting Standard 17 'Retirement Benefits'. Although the Plan is a defined benefit arrangement, it is a multi-employer scheme for which it has not been possible to identify the underlying assets and liabilities attributable to each participating company largely due to the significant number of deferred members. Therefore the pension cost recognised in the profit and loss account for this Plan represents the contributions payable by the company to the Plan for the year, amounting to £ 53,396 (2001: £ 41,715). At 31 December 2002 there were no outstanding contributions. The Plan is the only such scheme that the company participates in, there are no specific defined benefit scheme for directors.

Details of the Scheme, including particulars of the most recent valuation performed by independent qualified actuaries as at 31 December 2002 can be found in the Annual Report of Viacom UK Limited (the company's intermediate parent undertaking) for the year ended 31 December 2002.

Paramount Pay TV Limited

Notes to the financial statements for the year ended 31 December 2002

18 Ultimate parent undertaking

The ultimate parent undertaking of the company is Viacom, Inc., incorporated in the state of Delaware in the USA. The ultimate controlling party of the company is National Amusements Inc., the parent undertaking of Viacom, Inc.

The largest and smallest group for which consolidated financial statements are drawn up and of which the company is a member is Viacom Inc., incorporated in the state of Delaware in the United States of America.

The consolidated financial statements of this companies can be obtained from 1515 Broadway, New York 10036.