**UKTV New Ventures Limited**

# Directors' report and financial statements

Registered number 4266373

31 December 2007

# Contents

# Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2007

### Principal activity

The principal activity of the Company continued to be to operate cable, satellite and digital terrestrial TV Channels

### Results and business review

UKTV New Ventures Limited (the Company) operates in the multi-channel digital television arena The Company has been in existence since 2000 and started trading in 2001 The market in which it operates is a highly competitive and technologically changing one

The Company provides a range of digital television channels which can be bought via cable, digital terrestrial television or direct-to-home outlets

The aim of the Company is to maximise shareholder wealth, measured as operating profit and cashflow, as well as increase audiences, which is inherently linked to the financial targets

The Company's performance is measured on two main factors audience volume and profitability

| | 31st December 2007 | 31st December 2006 |
|---|---|---|
| Operating profit /(loss) | £2,340k | £(631)k |

The Company made an operating profit for the first time in 2007 This is as a result of improving performance of the channels as they establish themselves in the market

### Principle risks and uncertainties

The major risks for the Company are twofold in the short-to-mid term

1) Competition The Company operates in a highly competitive environment The Company is committed to obtaining the best programming content available in order to retain its strong market share
2) Reliance on key revenue streams The Company's revenues come from two major sources Therefore a shift in market parameters or supplier relations could have a significant impact (positive or negative) on the business Senior management are aware of this and seek to actively identify ways to diversify and lessen the exposure

### Position at year end

The directors are satisfied with the net liability position of the Company at year end and are satisfied it can continue to trade as a going concern

Although the Company has net liabilities, creditors falling due after more than one year comprise loan stock which, under the terms of agreement between the joint venture partners, only falls due for payment out of 'available cash' as defined

The directors of UKTV New Ventures Limited have prepared projections of the Company's funding requirements for twelve months from the date of approval of these financial statements and are satisfied that these fall within the contractual commitment of the joint venture partner

The results for the year ended 31 December 2007 and the financial position of the Company at that date are set out on pages 5 and 6 of the financial statements

**Dividends**

The directors do not recommend the payment of a dividend for the year to 31 December 2007 *(2006 £nil)*

**Directors**

The directors who held office during the year and subsequent to year end were as follows

| | |
|---|---|
| JB Smith | |
| DM Childs | |
| MR Wall | |
| SR Holmes | |
| JD Argyropoulos | (resigned on 15th June 2007) |
| DJ King | (resigned on 6th December 2007) |
| K Burns-Rivington | (resigned on 29th June 2007) |
| RM Mackenzie | (appointed on 3rd September 2007) |
| JA Webb | (appointed on 29th June 2007, resigned on 3rd September 2007) |
| N Chugani | (appointed on 6th December 2007) |
| JV Lloyd-Jones | (appointed as Alternate Director to SR Holmes on 14th March 2008) |

**Political and charitable contributions**

The Company did not make any political or charitable contributions during the year

**Disclosure of information to auditors**

The directors who held office at the date of approval of the Directors Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all steps that they ought to have taken as director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

**Auditors**

Pursuant to a shareholders' resolution, the Company is not obliged to reappoint its auditors annually and KPMG LLP will therefore continue in the office

By order of the board

**GE James**
*Secretary*

160 Great Portland Street
London
W1W 5QA

2008

## Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to 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 judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

## Independent auditors' report to the members of UKTV New Ventures Limited

We have audited the financial statements of UKTV New Ventures Limited for the year ended 31st December 2007 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 other transactions 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 audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG LLP

**KPMG LLP**
*Chartered Accountants*
*Registered Auditor*

28 October 2008

8 Salisbury Square
London
EC4Y 8BB

## Profit and loss account

*for the year ended 31 December 2007*

| | *Note* | **2007** **£'000** | 2006 £'000 |
|---|---|---|---|
| **Turnover** | *1,2* | **30,313** | 25,038 |
| Cost of sales | | **(18,578)** | (16,669) |
| **Gross profit** | | **11,735** | 8,369 |
| Distribution costs | | **(7,999)** | (7,548) |
| Administration expenses | | **(1,396)** | (1,452) |
| **Operating profit/(loss)** | | **2,340** | (631) |
| Interest receivable and similar income | *3* | **20** | 9 |
| Interest payable and similar charges | *4* | **(2,804)** | (2,220) |
| **Loss on ordinary activities before taxation** | *5* | **(444)** | (2,842) |
| Tax on loss on ordinary activities | *8* | **-** | (2,158) |
| **Loss for the financial year** | | **(444)** | (5,000) |

All turnover and operating profit/(loss) arose from continuing operations

There is no difference between the results on a historical cost basis and those shown in the profit and loss account

There were no recognised gains and losses other than that recognised in the profit and loss account Accordingly, no statement of total recognised gains and losses has been prepared

## Balance sheet

*at 31 December 2007*

| | Note | 2007 | | 2006 | |
|---|---|---|---|---|---|
| | | **£'000** | **£'000** | £'000 | £'000 |
| **Current assets** | | | | | |
| Programming Stock | *9* | **4,580** | | 4,187 | |
| Debtors | *10* | **8,613** | | 7,373 | |
| | | **13,193** | | 11,560 | |
| **Creditors** amounts falling due within one year | *11* | **(6,661)** | | (7,062) | |
| **Net current assets** | | | **6,532** | | 4,498 |
| **Creditors** amounts falling due after more than one year | *12* | | **(36,550)** | | (34,072) |
| **Net liabilities** | | | **(30,018)** | | (29,574) |
| **Capital and reserves** | | | | | |
| Called up share capital | *13* | | **1** | | 1 |
| Profit and loss account | *14* | | **(30,019)** | | (29,575) |
| **Shareholders' deficit** | *15* | | **(30,018)** | | (29,574) |

The notes on pages 8-15 form part of these financial statements

These financial statements were approved by the board of directors on 23rd October 2008 and were signed on its behalf by

**J Lloyd-Jones**
*Director*

## Cash flow statement

*for the year ended 31 December 2007*

| | Note | | 2007 £'000 | | 2006 £'000 |
|---|---|---|---|---|---|
| **Net cash inflow/(outflow) from operating activities** | *16* | | **306** | | (2,366) |
| **Returns on investments and servicing of finance** | | | | | |
| Interest received | | | **20** | | 9 |
| Interest paid | | | **(1,899)** | | (1,983) |
| **Net cash outflow before financing** | | | **(1,573)** | | (4,340) |
| **Financing** | | | | | |
| Issue of variable rate loan stock | *17* | **1,573** | | 4,340 | |
| **Net cash inflow from financing** | | | **1,573** | | 4,340 |
| **Movement in cash in the year** | | | **-** | | - |

## Reconciliation of net cash flow to movement in net debt

*for the year ended 31 December 2007*

| | Note | 2007 £'000 | 2006 £'000 |
|---|---|---|---|
| **Movement in cash in the year** | | **-** | - |
| Cash inflow from movement in debt | | **(1,573)** | (4,340) |
| **Movement in net debt in the year** | | **(1,573)** | (4,340) |
| **Net debt at the beginning of year** | | **(32,422)** | (28,082) |
| **Net debt at the end of the year** | *17* | **(33,995)** | (32,422) |

# Notes

*(forming part of the financial statements)*

## 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below

### *Basis of preparation*

The financial statements have been prepared in accordance with applicable Accounting Standards and under the historical cost accounting rules

### *Going concern*

The financial statements have been prepared on a going concern basis, which the directors believe to be appropriate The Company has net liabilities and is dependent for its working capital on the support of one of its joint venture partners, Flextech Broadband Limited

Under the terms of the agreement between the two joint venture partners Flextech Broadband Limited is contractually committed to provide further funding to UKTV New Ventures Limited up to an agreed limit and to not demand repayment of funding already made available The directors of UKTV New Ventures Limited have prepared projections of the Company's funding requirements for the period ending 12 months from the date of the approval of these financial statements and are satisfied that these fall within the contractual commitment of the joint venture partner

### *Turnover*

Turnover represents net advertising and subscription revenue from cable and satellite operators and fees for related services All turnover is stated net of valued added tax and is recognised on delivery

### *Foreign currencies*

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

### *Taxation*

The charge for taxation is based on the profit or loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

### *Programming stock*

Programming stock is stated at the lower of cost, being purchase price, and net realisable value Programming stock is the amount payable under licence agreements on agreed purchases and is written off on a straight line basis over the number of transmissions

## Notes (continued)

*Leases*

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease' The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter Future instalments under such leases, net of finance charges, are included within creditors Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease

### 2 Segmental Reporting

The Company's operations are all considered to fall into a single class of business, namely the operation of general entertainment TV channels which broadcast via cable and satellite, and accordingly no segmental analysis of operating profit or net assets is shown In both the current and prior years, 100% of turnover was generated by operations in the United Kingdom

### 3 Interest receivable and similar income

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Interest on bank deposits | 20 | 9 |
| | 20 | 9 |

### 4 Interest payable and similar charges

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Interest on variable rate loan stock | 2,804 | 2,220 |

### 5 Loss on ordinary activities before taxation

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| ***Loss on ordinary activities before taxation is stated after charging:*** | | |
| Auditors' remuneration | | |
| Audit of these financial statements | 18 | 16 |
| Amortisation of programming inventory | 10,452 | 9,472 |
| Operating lease rentals in respect of plant and machinery | 2,093 | 2,103 |

Operating lease rentals are incurred by other group companies and subsequently recharged to UKTV New Ventures Limited

# Notes (continued)

## 6 Staff numbers and costs

There were no persons employed directly by the company (excluding directors) during the year *(2006 £nil)* Staff costs are incurred by UK Channel Management Limited and recharged to companies within the UKTV group of companies These costs are disclosed in the financial statements for UK Channel Management Limited, which are available from Companies House

## 7 Remuneration of directors

The directors did not receive any remuneration from the company during the year *(2006 £nil)* as their services provided to the company are incidental to their duties to joint venture parents

## 8 Taxation

**Analysis of charge in year:**

| | **2007 £'000** | 2006 £'000 |
|---|---|---|
| *UK corporation tax* | | |
| Current tax on profit for the year | - | - |
| *Deferred tax* | | |
| Write-off of deferred tax asset | - | 2,158 |
| Total deferred tax | - | 2,158 |
| Tax charge on loss on ordinary activities | - | 2,158 |

The current tax for the period is higher *(2006 higher)* than the standard rate of corporation tax in the UK of 30% *(2006 30%)* The differences are explained below

**Current tax reconciliation**

| | **2007 £000** | 2006 £000 |
|---|---|---|
| Loss on ordinary activities before taxation | **444** | 2,842 |
| Tax on loss for the year at 30% (2006 30%) | **133** | 853 |
| Effects of | | |
| Tax losses not utilised in the year | **(133)** | (853) |
| Current tax | - | - |

**Deferred tax asset**

| | **2007 £'000** | 2006 £'000 |
|---|---|---|
| Balance at beginning of the year | - | 2,158 |
| Amounts written off in the year | - | (2,158) |
| Balance at year end | - | - |

## Notes (continued)

### 8 Taxation (continued)

**Deferred Tax** (continued)

As at 31 December 2007, the company estimates that it has £31 7 million *(2006 £31 3 million)* of tax losses available to relieve against future profits

**Factors that may affect future tax charges**

The corporation tax rate applicable to the company will reduce from 30% to 28% from 1 April 2008

### 9 Programming stock

| | **2007** | 2006 |
|---|---|---|
| | **£'000** | £'000 |
| Licence fees | **4,580** | 4,187 |

### 10 Debtors

| | **2007** | 2006 |
|---|---|---|
| **Amounts falling due within one year** | **£'000** | £'000 |
| Amounts owed by joint venture parent *(note 18)* | **2,973** | 2,477 |
| Amounts owed by fellow joint venture undertakings *(note 18)* | **2,368** | 431 |
| Prepayments and accrued income | **3,272** | 4,465 |
| | **8,613** | 7,373 |

### 11 Creditors: amounts falling due within one year

| | **2007** | 2006 |
|---|---|---|
| | **£'000** | £'000 |
| Trade creditors | **1,966** | 2,982 |
| Amounts owed to joint venture parent *(note 18)* | **1,708** | 1,369 |
| Amounts owed to fellow joint venture undertakings *(note 18)* | **-** | 534 |
| Accruals and deferred income | **2,987** | 2,177 |
| | **6,661** | 7,062 |

# Notes (continued)

## 12 Creditors: amounts falling due after more than one year

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Variable rate unsecured loan stock *(note 18)* | 33,995 | 32,422 |
| Capitalised interest on variable rate unsecured loan stock *(note 18)* | 2,555 | 1,650 |
| | 36,550 | 34,072 |

The variable rate loan stock is repayable out of "available cash" in accordance with the terms of the Shareholders' Agreement between the Company and the shareholders Interest is payable at 2% above the six month London Interbank Offered Rate for sterling deposits, as published in the Financial Times

## 13 Called up share capital

| | 2007 £ | 2006 £ |
|---|---|---|
| ***Authorised, allotted and fully paid*** | | |
| 500 'A' ordinary shares of £1 each | 500 | 500 |
| 500 'B' ordinary shares of £1 each | 500 | 500 |
| | 1,000 | 1,000 |

## 14 Reserves

| | Profit and loss account £'000 |
|---|---|
| At beginning of year | (29,575) |
| *Loss for the year* | (444) |
| **At end of year** | **(30,019)** |

## 15 Reconciliation of movement in equity shareholders' deficit

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Opening equity shareholders deficit | (29,574) | (24,574) |
| Loss for the financial period | (444) | (5,000) |
| **Closing equity shareholders' deficit** | **(30,018)** | (29,574) |

# Notes (continued)

## 16 Reconciliation of operating profit/(loss) to net cash outflow from operating activities

| | **2007** | 2006 |
|---|---|---|
| | **£'000** | £'000 |
| Operating profit/ (loss) | **2,340** | (631) |
| Increase in programme inventory | **(393)** | (1,287) |
| Increase in debtors | **(2,008)** | (1,684) |
| Increase in creditors | **367** | 1,236 |
| **Net cash inflow/(outflow) from operating activities** | **306** | (2,366) |

## 17 Analysis of changes in net debt

| | At beginning of year | Cash flows | **At 31 December 2007** |
|---|---|---|---|
| Debt due after more than one year | | | |
| Variable rate unsecured loan stock | (32,422) | (1,573) | **(33,995)** |
| **Total** | (32,422) | (1,573) | **(33,995)** |

# Notes (continued)

## 18 Related party transactions

Cost of sales purchases from BBC Worldwide Limited relate to BBC archive programming and channel management costs
Income from Virgin Media Group companies relates to advertising revenues and cable subscription revenues
Cost of sales purchases from Virgin Media Television Limited relate to advertising sales charges Administration costs from Virgin Media Television Limited relate to general overheads and building costs, including rent and rates The name Virgin Media Television Limited changed from Flextech Television Limited on 16th February 2007

| | **2007** | 2006 |
|---|---|---|
| | **£'000** | £'000 |
| Income from Virgin Media Group companies | **24,442** | 19,676 |
| Cost of sales purchases from BBC Worldwide Limited | **(5,401)** | (2,615) |
| Cost of sales purchases from Virgin Media Television Limited | **(1,192)** | (980) |
| Administration expense purchases from Virgin Media Television Limited | **(732)** | (684) |
| Interest charged on variable rate loan stock due to Flextech Broadband Limited | **(2,804)** | (2,220) |
| Interest paid on variable rate loan stock due to Flextech Broadband Limited | **(1,899)** | (1,982) |
| Issue of variable rate loan stock by Flextech Broadband Limited | **1,573** | 4,340 |

Balances outstanding at the year end in respect of related parties are as follows

| | **2007** | 2006 |
|---|---|---|
| | **£'000** | £'000 |
| Amounts owed to Flextech Broadband Limited | | |
| Variable rate unsecured loan stock | **(33,995)** | (32,422) |
| Capitalised interest on variable rate unsecured loan stock | **(2,555)** | (1,650) |
| Amounts owed to Virgin Media Television Limited | **(1,708)** | (1,369) |
| Amounts owed by Virgin Media Television Limited | **2,973** | 2,477 |
| Amounts owed to fellow joint venture companies | **-** | (534) |
| Amounts owed by fellow joint venture companies | **2,368** | 431 |

## 19 Commitments

Annual commitments under non-cancellable operating leases are as follows

| | **2007** | 2006 |
|---|---|---|
| | **£'000** | £'000 |
| *Operating leases which expire* | | |
| In less than one year | **2,149** | - |
| In two to five years | **-** | 1,158 |
| After more than five years | **-** | 926 |
| | **2,149** | 2,084 |

## Notes (continued)

### 20 Ultimate parent company

At 31st December 2007, the joint venture partners of UK New Ventures Limited were BBC Worldwide Limited (a wholly owned subsidiary of the BBC) and Flextech Broadband Limited (a wholly owned subsidiary of Virgin Media Inc, a company incorporated in the state of Delaware, United States of America) each holding 50% respectively

The accounts of both of these companies are available to the public and may be obtained from the following addresses

The Company Secretary
Virgin Media
160 Great Portland Street
London
W1W 5QA

BBC Trust
35 Marylebone High Street
London
W1U 4AA