Discovery Communications Europe Limited

Directors' report and financial statements for the year ended 31 December 2008

Registered Number 05039068

Discovery Communications Europe Limited

Directors' report and financial statements for the year ended 31 December 2008

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Discovery Communications Europe Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2008.

Principal activities

The company provides factual and lifestyle television channels via cable and satellite throughout the UK, the rest of Europe, the Middle East and Africa.

Business review

The company's audited results for the year are shown on page 10. The results for the company shows a pre-tax loss of £256.1m (2007: loss of £45.4 million) on revenue of £280.4m (2007: £241.6 million). The pre-tax loss includes amortisation of goodwill totalling £69.9m (2007: £69.9m).

The company's 2008 results include the following impairment charges:

- A goodwill impairment charge of £110.5m following an impairment review of the goodwill relating to the 2007 acquisition of the ongoing business of the company's immediate parent undertaking, as detailed in Note 8 to the financial statements; and
- Various investment impairment charges totalling £98.5m, as detailed in Note 10 to the financial statements.

These impairment charges have arisen due to the current economic downturn and its impact on the television advertising market.

The company has net assets of £474.4 million (2007: £714.6 million). No dividend was declared during the year (2007: £nil).

Business environment and future outlook

International television markets vary in their stages of development. Some, notably the UK, are among the more advanced digital multi-channel television markets in the world, while others remain in the analogue environment with varying degrees of investment from operators in expanding channel capacity or converting to digital. The company believes there is future growth in many markets, including Central and Eastern Europe, that are in the early stages of pay TV evolution.

The company's turnover is principally earned from (1) the receipt of subscriber revenue from the delivery of programming pursuant to affiliation agreements with cable network operators, direct-to-home satellite operators and other operators, and (2) advertising sales on our television networks.

The current economic downturn will continue to alter current or prospective advertisers' spending priorities which could adversely impact the company's advertising sales. However, over 50% of the company's turnover is subscriber revenue which is less susceptible to the current economic downturn due to the fixed term and fixed price nature of the related distribution contracts.

In relatively mature markets, such as the UK, the growth dynamic is changing. Increased penetration and distribution are unlikely to drive rapid growth in these markets. Instead, growth is expected in advertising revenue, which is driven by increased audience performance and viewing market share. For example, the company will launch a digital terrestrial channel on the Freeview platform which will not generate subscriber revenue, but is broadly distributed enough to have strong advertising sales potential.

Discovery's strong brands and globally recognised leadership in factual content means that the company is ideally placed to continue the growth in advertising revenue and expanding pay TV markets.

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Directors' report (continued)

Strategy

The company's strategy is to develop sustainable long-term growth at or above the levels our peers achieve through the development of high quality media brands that build consumer viewership, optimise distribution growth and capture advertising revenue. In addition, the company is focused on maximising the overall efficiency and effectiveness of its operations through collaboration and innovation across the regions in which the company operates, and across all television and digital platforms.

In line with this strategy, the company's specific priorities include:

- Maintaining the company's focus on creative excellence in non-fiction programming and expanding the portfolio's brand entitlement by developing compelling content that increases audience growth, builds advertising relationships and supports continued distribution revenue growth on all platforms;

- Undertaking a significant effort to increase the proportion of advertising revenue versus subscriber revenue in all markets. The opportunity reflects the high penetration of the company's network in a maturing environment where it aims to improve long-term future advertising revenue performance through an ongoing investment in infrastructure, product and channel rollout. The company will also review any loss making and underperforming operations and take action to improve their profitability;

- Continuing an expansion programme to launch new channels throughout Europe and the Middle East;

- Launching a channel position on Freeview. The new channel is expected to launch in the third quarter of 2009 and will offer factual, entertainment, lifestyle and kids programming as well as scripted acquisitions; and

- Improving operating efficiencies between the company and its US parent company, including development and promotional collaboration.

In addition to growing distribution and advertising revenue for its branded channels, the company is focused on developing and growing compelling and profitable content experiences on new platforms that are aligned with the company's core branded channels. This will be achieved with the support of the company's US parent company.

As a result, the directors remain confident that the company will improve the level of financial performance for 2009 against 2008.

Post balance sheet event

On 3 October 2009, the company awarded a four year TV advertising sales contract to Sky Media covering the company's portfolio of UK television channels.

Directors' report (continued)

Key performance indicators

Financial key performance indicators:

	2008	2007
Decline in advertising revenue from prior year	(16.0%)	(9.1%)

The continuing decline in advertising revenue is driven by the fall in advertising rates during 2008, particularly in the UK.

Growth in subscriber revenue from prior year	34.3%	2%

The large increase in subscriber revenue is driven by increased subscriber numbers.

Gross profit percentage	60.2%	53.5%

The improvement in gross profit percentage is driven by the continued subscriber revenue growth, whilst maintaining costs of sales at a similar amount to the prior year.

Non-financial key performance indicators:

	2008	2007
Cumulative viewing subscriber numbers for all channels operated by the company	265.8M	221.1m

The majority of the growth in subscriber numbers was within existing geographical markets, although the company also launched channels in new geographical markets during the year.

The Discovery Channel continues to be the main income driving brand in all the countries in which the company operates. The table below gives viewer share information for the significant countries in which the company shows this channel. The percentages shown are the yearly average share of TV viewers within the male 25-39 group which continues to be the company's main target demographic group:

United Kingdom	0.64%	0.76%
Italy	1.10%	0.74%
Poland	1.97%	1.77%
Romania	1.17%	1.39%
Netherlands	3.87%	3.59%
Denmark	3.07%	3.34%
Norway	5.81%	3.23%
Sweden	3.67%	3.65%

The fall in audience share within the United Kingdom was more than offset by increases in the viewers in other countries.

Principal risks and uncertainties

The execution of the company's strategy is subject to a number of risks.

Risks are formally reviewed by management and appropriate processes put in place to monitor and mitigate them. If more than one event occurs, it is possible that the overall effect of such events would compound the possible adverse effects on the company.

The key business risks affecting the company are set out below:

Economic downturn

The company derives substantial revenues form the sale of advertising on its television channels. Expenditures by advertisers tend to be cyclical, reflecting overall economic conditions, as well as budgeting and buying patterns. The current economic conditions and any continuation of these adverse conditions may adversely affect the economic prospects of advertisers and could alter current or prospective advertisers' spending priorities. A decrease in advertising expenditures would likely have an adverse effect on our business.

Political and financial stability

General political and financial stability in our major markets, specifically Eastern Europe and emerging markets, is a pre-requisite of a sustainable market place in which advertisers are willing to invest their marketing resources. With the recent expansion of the European Union, an increasing part of the European business is now within the EU area. Management reviews on a regular basis the financial environment of all territories and provides mitigating actions to limit the impact of any changes on the local operation.

Employees

The company's performance depends largely on its employees in all markets. The resignation of key individuals and the inability to recruit people with the right experience and skills could adversely impact the company's results. To mitigate these issues, the company has introduced programmes and schemes linked to the company's performance that are designed to retain key individuals.

Continued cash-flow support required in Germany

The current business plan for DMAX TV GmbH & Co. KG, a subsidiary of the company, shows that the operation will continue to require sustained financial support for the foreseeable future. Adverse results in the free-to-air service in Germany against plan could impact negatively on the company's financial resources. Management continues to review the required level of liquidity to ensure that it is capable of meeting its ongoing commitments.

Financial risk management

The company's multinational operations and significant debt financing exposes it to a variety of financial risks that include the effects of changes in foreign currency exchange rates, credit risks, liquidity and interest rate risks. The company has in place a risk management programme that seeks to limit the adverse effects on the performance of the company by using foreign currency financial instruments, including debt, and other instruments to fix interest rates.

The central treasury team of Discovery Communications, LLC, the intermediate parent company, has the responsibility of setting risk management policies applied across the global Discovery group. The local Discovery Communications Europe Limited treasury team implements these policies to enable prompt identification of financial risks so that appropriate actions may be taken. The treasury team has a set of guidelines to manage exchange risk, interest risk, credit risk and the use of financial instruments to manage these risks.

Discovery Communications Europe Limited

Financial risk management (continued)

Foreign exchange risk

The company has multinational operations and is exposed to foreign exchange risk, principally with respect to the Euro and US Dollar and to a lesser extent currencies in smaller countries where it incurs local costs. The company finances overseas investments mainly through the use of Euro loan borrowings. The company does not use forward contracts to hedge foreign exchange exposures.

Credit rate risk

The company has no significant concentration of credit risk and follows the Discovery Networks International policy with respect to credit risk associated with trade debtors. Financial instruments, loans and deposits are subject to pre-approval by the parent company and such approval is limited to suitably rated banks and financial institutions.

Liquidity risk

The company actively maintains a mixture of long-term and short-term committed facilities that are designed to ensure that the company has sufficient available funds for operations and planned expansions.

Interest rate risk

The company has both interest bearing assets and interest bearing liabilities. Interest bearing assets include only intercompany loans and cash balances, which earn interest at fixed rates and floating rates. Interest bearing liabilities include only intercompany loans, cash and loan balances which earn interest at fixed and floating rates. The company has a policy of maintaining debt at fixed rates. The directors will revisit the appropriateness of this policy should the company's operations change in size or nature. The company does not use swaps to hedge interest risks

Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the company as a whole. The involvement of employees in the company's performance is encouraged through the company bonus scheme which is partly linked to company performance. Communication with all employees continues through the in-house briefing groups and Discovery intranet.

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Directors' report (continued)

Directors

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

Arthur Bastings
Daniel Brooke (resigned 20 January 2009)
Sahar Elhabashi (appointed 20 January 2009)
Douglas Coblens (resigned 12 July 2007)
Joseph Lasala Jr (appointed 13 August 2008)

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 those 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, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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 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.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Discovery Communications Europe Limited

Directors' report (continued)

Statement of directors' disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. The directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant information and to establish that the company's auditors are aware of that information.

Auditors

PricewaterhouseCoopers LLP have indicated their willingness to serve as auditors for the coming year and a resolution to reappoint PricewaterhouseCoopers LLP as auditors will be proposed at the forthcoming Annual General Meeting.

On behalf of the board

Arthur Bastings
Managing Director
Discovery
NETWORKS EMEA

Director

14 October 2009

Discovery House
Chiswick Park Building 2
566 Chiswick High Road
W4 5YB

Independent auditors' report to the members of Discovery Communications Europe Limited

We have audited the financial statements of Discovery Communications Europe Limited for the year ended 31 December 2008 which comprise the profit and loss account, the balance sheet and the related notes. 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 financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). 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 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 group's and 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 United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

14 October 2009

Discovery Communications Europe Limited

Profit and loss account for the year ended 31 December 2008

	Note	Total 2008 £'000	Total 2007 £'000
Turnover		**280,359**	**241,633**
Cost of sales		(111,519)	(112,259)
Gross profit		**168,840**	**129,374**
Impairment of goodwill	3	(110,470)	-
Impairment of investments	3	(98,481)	-
Other administrative expenses (after £69,918,000 goodwill amortisation (2007: £69,918,000))		(190,210)	(149,237)
Total administrative expenses		(399,161)	(149,237)
Operating loss	3	**(230,321)**	**(19,863)**
Income from fixed asset investments		-	272
Loss on ordinary activities before interest and taxation		**(230,321)**	**(19,591)**
Interest receivable	5	811	1,133
Interest payable and similar charges	6	(26,623)	(26,941)
Loss on ordinary activities before taxation		**(256,133)**	**(45,399)**
Taxation on loss on ordinary activities	7	(5,941)	(2,339)
Loss on ordinary activities after taxation		**(262,074)**	**(47,738)**

The company has no recognised gains or losses other than those included in the profit and loss account and therefore no separate statement of total recognised gains and losses has been presented.

The results of the company derive from continuing operations.

There are no material differences between the loss on ordinary activities before taxation and the retained loss for the year stated above and their historical cost equivalents.

Discovery Communications Europe Limited

Balance sheet as at 31 December 2008

	Note	2008 £'000	2007 £'000
Fixed assets			
Intangible fixed assets	*8*	450,905	629,264
Tangible fixed assets	*9*	35,621	19,685
Investments	*10*	76,206	126,459
Current assets			
Stock and work in progress	*11*	113,891	103,783
Deferred launch incentives	*12*	56,952	75,848
Debtors	*13*	168,895	166,177
Cash at bank and in hand		8,611	529
Creditors: amounts falling due within one year	*14*	(195,892)	(200,540)
Net current assets		**152,457**	**145,797**
Total assets less current liabilities		**715,189**	**921,205**
Creditors: amounts falling due after more than one year	*15*	(238,965)	(204,906)
Provisions for liabilities and charges	*16*	(1,779)	(1,686)
Net assets		**474,445**	**714,613**
Capital and reserves			
Called up share capital	*17*	767,794	767,794
Other reserves	*18*	22,276	-
Profit and loss account	*18*	(315,625)	(53,181)
Shareholder's funds	*19*	**474,445**	**714,613**

These financial statements were approved by the Board of Directors on 14 October 2009 and were signed on their behalf by:

Arthur Bastings
Managing Director

Director

Discovery Communications Europe Limited

Notes to the financial statements

1 Principal accounting policies

A summary of the principal accounting policies is set out below:

Basis of preparation

The financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards.

Consolidation

The financial statements contain information about Discovery Communications Europe Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under section 228A of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent undertaking, Discovery Communications Inc., a company registered in the USA.

Cash flow statement

The company is a subsidiary undertaking where 90% or more of the voting rights are controlled within Discovery Communications Inc. and is 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 FRS 1 (revised 1996) 'Cash flow statements'.

Goodwill

Acquisitions are accounted for by applying the purchase method of accounting. Following this method, goodwill is initially recognised on consolidation, representing the difference between the fair value of the consideration paid for the acquired business and the fair value of the identifiable assets and liabilities.

Goodwill is stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated to write off the cost on a straight-line basis over the expected useful economic lives of the asset, being 10 years.

Goodwill is tested for impairment based on the recoverable amounts of the cash generating unit to which the goodwill has been allocated at the end of the first full year following the date of acquisition and should a triggering event occur as defined by FRS 11 'Impairment of fixed assets and goodwill'. The recoverable amount is the greater of net selling price, defined as the fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Any impairment identified is recognised immediately in the profit and loss account.

1 Principal accounting policies (continued)

Other intangible fixed assets

Other intangible fixed assets are stated at cost less accumulated amortisation. Amortisation is calculated to write off the cost on a straight-line basis over the expected useful economic life of the assets, which are between 4 and 10 years.

Turnover

Current year turnover represents amounts charged to customers in relation to the provision of cable and satellite television services, net of VAT, and at the fair value of the consideration received or receivable when the product has been delivered and all the company's contractual obligations have been met.

This turnover is recognised as follows:

- Advertising sales revenue is recognised when the advertising is broadcast; and
- Satellite and cable revenue is recognised as the services are provided to the platforms and is based on the number of subscribers taking the Discovery channels, as reported to the company by the platforms, multiplied by the contractual rate per subscriber.

Investments

Investments are stated at cost less provision for impairment, if appropriate, for any permanent diminution in value. Should a triggering event occur as defined by FRS 11 'Impairment of fixed assets and goodwill', investments are tested for impairment based on the recoverable amounts of the cash generating unit to which the investment has been allocated. The recoverable amount is the greater of net selling price, defined as the fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Any impairment identified is recognised immediately in the profit and loss account.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write off the cost on a straight-line basis over the expected useful economic lives of the assets, which are as follows:

Leasehold improvements and office equipment	5-10 years
Computer equipment	3 years
Film and edit equipment	5 years
Transponders	5.5 years

1 Principal accounting policies (continued)

Leased assets

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.

Stock and work in progress

Stock and work in progress comprises acquired and commissioned television programme and dubbing costs.

Programme inventory is stated at the lower of cost and net realisable value incurred up to the balance sheet date after making provision for expenditure on programmes and translations which are unlikely to be transmitted or sold.

Programming cost is defined as payments made or due to programme and translation suppliers once the programme is aired or the license period commences. Translation cost is defined as payments made or due to translation suppliers once the programme has been translated.

The costs of produced programming are capitalised and amortised based on the expected realisation of revenues, resulting in an accelerated basis over four years for developed networks (Discovery Channel) and a straight-line basis over a period of three years for developing networks (all other networks). The cost of licensed programming is capitalised and amortised over a term not longer than the length of the license period, based on the expected realisation of revenues, resulting in an accelerated basis for developed networks and a straight-line basis for all other networks.

Prior to 1 January 2008, all produced programming was amortised on a straight-line basis over a period of three years and all licensed programming was amortised on a straight-line basis over a term which varied between three and five years. The adoption of accelerated amortisation for developed networks from 1 January 2008 has resulted in an increase in the loss for the year of £1,072,000.

The costs of translation are capitalised and amortised on a straight line basis over a three year term, based on the expected realisation of revenues

The cost of television programmes and translation rights is recognised in the cost of sales expense line of the profit and loss account. Where programme rights are identified as surplus to the company's requirements, and no gain is anticipated through a disposal of the rights, or where the programming will not be broadcast for any other reason, a charge to the profit and loss account is made.

Payments made upon receipt of commissioned and acquired programming, but in advance of the legal right to broadcast the programmes, are treated as prepayments. Programme rights not yet available for transmission are not included in inventories and are instead disclosed as contractual commitments (see note 21).

1 Principal accounting policies (continued)

Provisions and asset retirement obligations

Provisions are recognised when the company has a present legal or constructive obligation to make a probable transfer of economic benefits as a result of past events. The amounts recognised represent the company's best estimate of the transfer of benefits that will be required to settle the obligation as at the balance sheet date. Provisions are discounted if the effect of the time value of money is material using a market rate adjusted for risks specific to the liability.

The asset retirement obligation represents management's estimate of the fair value amount that will ultimately be incurred to restore the leased space to its original condition. The estimate of the fair value is obtained from a surveyor's report. The asset retirement provision represents the existing asset retirement obligation at its present value. The capitalised asset retirement cost represents the carrying value of the associated long-lived asset at its present value. Depreciation on the asset is recognised on a straight-line basis over its estimated useful economic life.

Financial assets and liabilities

Financial assets and liabilities are initially recognised at fair value plus any directly attributable transaction costs. At each balance sheet date, management assesses whether there is any objective evidence that any financial asset is impaired. Financial assets and liabilities are recognised on the company's balance sheet when the company becomes a party to the contractual provisions of the financial asset or liability. Financial assets are derecognised from the balance sheet when the company's contractual rights to the cash flows expire or the company transfers substantially all the risks and rewards of the financial asset. Financial liabilities are derecognised from the company's balance sheet when the obligation specified in the contract is discharged, cancelled or expires.

Cash and cash equivalents
Cash and cash equivalents include cash in hand and bank accounts.

Loans
Loans are recorded as the proceeds received, net of direct issue costs. Finance charges, including any premium payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the profit and loss account using the effective interest method and are added to the carrying amount of the underlying instrument to which they relate, to the extent that they are not settled in the period in which they arise.

Foreign currencies

Transactions denominated in foreign currencies are translated at the rate of exchange ruling on the day the transaction occurs.

Monetary assets and liabilities denominated in a foreign currency are translated at the rate ruling on the balance sheet date. Non-monetary assets and liabilities are translated at the rate ruling on the date of acquisition.

Exchange differences are taken to the profit and loss account.

Taxation

Current tax is applied to taxable profit at the rates ruling in the relevant country.

1 Principal accounting policies (continued)

Deferred tax

Deferred tax liabilities are recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Deferred tax assets are recognised only to the extent that it is probable that there will be sufficient future taxable profits against which the deferred tax asset may be offset. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date.

Post retirement benefits

The company operates a defined contribution pension scheme. The assets are held separately from those of the company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Related party disclosures

As the company is a wholly owned subsidiary within a group headed by Discovery Communications Inc. whose consolidated accounts are publicly available, the company has taken advantage of the exemptions contained in FRS 8 'Related party disclosures' not to disclose transactions or balances with entities that are part of Discovery Communications Inc.

Share-based compensation

The company employs certain senior staff who are members of the Discovery Communications, Inc. ("DCI") group's various share-based compensation plans. There were three share-based compensation plans in existence during the period.

The company has applied the principles of FRS 20 'Share-based payments' to its share-based compensation plans.

Expenses arising under share-based compensation plans primarily relate to the DCI group long-term incentive plan ("LTIP"). Under the LTIP plan, eligible employees receive cash settled unit awards indexed to the price of Series A common stock of DCI. As the units are indexed to the equity of another entity, the company treats the units similar to a derivative by determining their fair value each reporting period. The company attributes compensation expense for the new awards on a straight-line basis. Once units are fully vested, the company recognises all mark-to-market adjustments to fair value in each period as compensation expense.

The company has applied the provisions of FRS 20 and has recorded all share-based compensation expenses as a component of administrative expenses.

The company has applied the principles of FRS 20 and treats the award of units and stock options, and adjustments to the fair value of units and stock options, as a movement in equity as settlement of units and stock options is made by DCI, the ultimate parent company.

Discovery Communications Europe Limited

Notes to the financial statements (continued)

2 Geographical analysis of turnover, operating loss and net assets

	Turnover		Operating loss		Net assets	
	2008	2007	2008	2007	2008	2007
	£'000	£'000	£'000	£'000	£'000	£'000
UK and Ireland	98,282	111,993	6,104	16,244	47,508	88,097
Rest of Europe	167,200	118,035	(59,556)	29,790	(14,156)	6,181
Rest of World	14,877	11,605	3,519	4,021	(7,783)	(8,929)
	280,359	241,633	(49,933)	50,055	25,569	85,349
Goodwill and related amortisation/impairment	-	-	(180,388)	(69,918)	448,876	629,264
	280,359	**241,633**	**(230,321)**	**(19,863)**	**474,445**	**714,613**

The geographical analysis above is based on the country in which the television channel producing the income is shown.

The directors consider that the company has only one business class.

3 Operating loss

Operating loss is stated after charging:	**2008**	**2007**
	£'000	**£'000**
Services provided by the company's auditor:		
Fees payable for audit services	348	278
Fees payable for other services	16	-
Operating lease charges – land and buildings	2,245	2,245
Operating lease charges – other	18,794	17,560
Depreciation of tangible fixed assets – owned assets	4,463	4,342
Depreciation of tangible fixed assets – under finance leases	4,244	1,380
Loss on disposal of tangible fixed assets	194	-
Amortisation of programming inventory	60,517	52,923
Amortisation of intangible fixed assets	70,335	69,918
Impairment of goodwill (see below)	110,470	-
Impairment of investments (see below)	98,481	-

Exceptional items

Administrative expenses include a goodwill impairment charge of £110,470,000 (see note 8) and investment impairment charges totalling £98,481,000 (see note 10).

Discovery Communications Europe Limited

Notes to the financial statements (continued)

4 Employees and directors

Staff costs for the year	**2008 £'000**	**2007 £'000**
Wages and salaries	31,167	25,755
Social security costs	3,631	2,703
Defined contribution pension costs	1,291	1,216
(Benefit)/cost of employee share-based compensation plan (see note 22)	(370)	2,215
	35,719	**31,889**

Average monthly number of people (including executive directors) employed by the company	**2008**	**2007**
Programming and research	153	145
Broadcast and operations	104	95
Sales and marketing	66	62
Administration	128	113
	451	**415**

Directors	**2008 £'000**	**2007 £'000**
Aggregate emoluments	1,087	1,293
Aggregate amounts receivable under share-based compensation plans	(35)	473
Aggregate compensation paid for loss of office	-	135
Company contributions to money purchase pension schemes	64	66
	1,116	**1,967**

Two directors (2007: nil) have retirement benefits accruing under money purchase pension schemes.

Highest paid director	**2008 £'000**	**2007 £'000**
Aggregate emoluments and benefits under share-based compensation plans	667	948
Company contributions to money purchase pension schemes	41	22
	708	**970**

5 Interest receivable

	2008 £'000	**2007 £'000**
Interest receivable on intercompany loans	775	849
Interest receivable on bank and other deposits	36	284
	811	**1,133**

Discovery Communications Europe Limited

Notes to the financial statements (continued)

6 Interest payable and similar charges

	2008 £'000	2007 £'000
Interest payable on intercompany loans	23,126	20,623
Interest payable on bank loans	1,909	5,920
Interest payable on finance leases	1,588	398
	26,623	**26,941**

7 Taxation on loss on ordinary activities

	2008 £'000	2007 £'000
Analysis of tax charge in the period:		
UK corporation tax on losses of the period	5,833	3,606
Adjustment in respect of prior periods	1,867	(88)
Current tax charge	**7,700**	**3,518**
Deferred tax credit		
Origination and reversal of timing differences	(1,759)	(1,231)
Tax rate adjustment	-	52
Total deferred tax credit	**(1,759)**	**(1,179)**
Tax charge on loss on ordinary activities	**5,941**	**2,339**

Factors affecting the current tax charge for the period:

	2008 £'000	2007 £'000
Loss on ordinary activities before tax	**(256,133)**	**(45,399)**
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 28.5% (2007: 30%)	(72,998)	(13,620)
Effects of:		
Expenses not deductible for tax purposes	80,463	25,128
Losses of subsidiary partnership	(3,667)	(7,034)
Depreciation in excess of capital allowances	1,851	181
Other timing differences	1	-
Adjustments to tax charge in respect of prior periods	1,867	(88)
Foreign tax credits not utilised	183	-
Utilisation of brought forward losses	-	(1,049)
Current tax charge for the period	**7,700**	**3,518**

Discovery Communications Europe Limited

Notes to the financial statements (continued)

8 Intangible fixed assets

	Goodwill £'000	Other intangible fixed assets £'000	Total £'000
Cost			
At 1 January 2008	699,182	-	699,182
Additions	-	2,446	2,446
At 31 December 2008	**699,182**	**2,446**	**701,628**
Accumulated amortisation			
At 1 January 2008	69,918	-	69,918
Charge in the year	69,918	417	70,335
Impairment charge	110,470	-	110,470
At 31 December 2008	**250,306**	**417**	**250,723**
Net book value			
At 31 December 2008	**448,876**	**2,029**	**450,905**
At 31 December 2007	**629,264**	**-**	**629,264**

Impairment charge

The impairment charge of £110,470,000 relates to the goodwill which arose on the 2007 acquisition of the ongoing business of Discovery Communications Europe, the company's immediate parent undertaking. This charge resulted from an impairment review carried out at the end of the first full year following the date of acquisition, as required by FRS 10 "Goodwill and intangible assets".

In accordance with FRS 11 "Impairment of fixed assets and goodwill", the goodwill was tested for impairment based on the recoverable amounts of the cash generating units to which the goodwill was allocated. The recoverable amount was taken to be the value in use, determined by discounting the estimated future cash flows to their present value using a pre-tax discount rate of 12.2%.

Discovery Communications Europe Limited

Notes to the financial statements (continued)

9 Tangible fixed assets

	Asset retirement obligation £'000	Leasehold improvements and office equipment £'000	Computer equipment £'000	Film and edit equipment £'000	Transponders £'000	Total £'000
Cost						
At 1 January 2008	1,437	12,997	10,323	9,211	-	33,968
Additions	-	531	339	2,965	21,001	24,836
Disposals	-	-	(201)	-	-	(201)
At 31 December 2008	**1,437**	**13,528**	**10,461**	**12,176**	**21,001**	**58,603**
Accumulated depreciation						
At 1 January 2008	433	4,276	6,191	3,383	-	14,283
Charge in the year	152	1,792	1,989	1,910	2,864	8,707
On disposals	-	-	(8)	-	-	(8)
At 31 December 2008	**585**	**6,068**	**8,172**	**5,293**	**2,864**	**(22,982)**
Net book value						
At 31 December 2008	**852**	**7,460**	**2,289**	**6,883**	**18,137**	**35,621**
At 31 December 2007	1,004	8,721	4,132	5,828	-	19,685

The asset retirement obligation represents the future cost of removing the leasehold improvements installed in the Chiswick Park property.

Assets held under finance leases, capitalised and included in tangible fixed assets:

	2008 £'000	2007 £'000
Cost	29,282	8,281
Accumulated depreciation	(7,235)	(2,991)
Net book value	**22,047**	**5,290**

10 Investments

	Investments £'000
Cost	
At 1 January 2008	126,459
Additions – capital contributions	48,228
Impairment charges (see below)	(98,481)
At 31 December 2008	**76,206**

The impairment charges relate to the following investments of the company:

	£'000
Discovery Beteiligungs GmbH & Co. KG	91,932
DNE Music Publishing Limited	1,839
Antenna Audio Limited	4,710
	98,481

The impairment charges relating to Discovery Beteilgings GmbH & Co. KG and DNE Music Publishing Limited were determined by reference to a present value calculation which discounted the estimated future cash flows to their present value using a pre-tax discount rate of 14.1%.

The impairment charge relating to Antenna Audio Limited was determined by reference to a present value calculation which discounted the estimated future cash flows to their present value using a pre-tax discount rate of 16.7%.

Details of the company's directly owned subsidiaries

Name	Country of registration	Nature of business	Class and proportion of nominal value of issued shares held
DNE Music Publishing Limited	UK	Holding company	Ordinary shares – 100%
Antenna Audio Limited	UK	Audio tours provider	Ordinary shares – 100%
Discovery Communications Nordic A/S	Denmark	TV broadcaster	Ordinary shares – 100%
Discovery Content Verwaltungs GmbH	Germany	Management company	Ordinary shares – 99%
Discovery Beteiligungs GmbH & Co. KG	Germany	Holding company	Ordinary shares – 98.02%

Details of the company's indirectly owned subsidiaries

Name	Country of registration	Nature of business	Class and proportion of nominal value of issued shares held
DMAX Verwaltungsgesellschaft GmbH	Germany	Management company	Ordinary shares – 100%

Discovery Communications Europe Limited

Notes to the financial statements (continued)

10 Investments (continued)

Details of the company's joint ventures

Name	Country of registration	Nature of business	Class and proportion of nominal value of issued shares held
Discovery TVN Limited	UK	TV Broadcaster	Ordinary shares – 50%

For the subsidiaries of the company which are considered material by the directors, the following additional information is shown for the year to 31 December 2008, as extracted from unaudited management accounts:

	Net assets/(liabilities) 2008 £'000	Profit/(loss) for the year 2008 £'000
Antenna Audio Limited	13,559	907
Discovery Communications Nordic A/S	3,915	2,319
DMAX TV Das Metropolen Programm GmbH & Co. KG	(27,967)	(7,054)

11 Stock and work in progress

	2008 £'000	2007 £'000
Work in progress	3,842	4,227
Programme inventory	110,049	99,556
	113,891	**103,783**

Stock and work in progress includes £57,010,000 (2007: £57,849,000) due after one year.

12 Deferred launch incentives

	2008 £'000	2007 £'000
Deferred launch incentives	56,952	75,848
	56,952	**75,848**

Included in deferred launch incentives is £38,056,000 (2007: £56,892,000) to be amortised in more than one year.

13 Debtors

	2008 £'000	2007 £'000
Trade debtors	41,234	30,561
Taxation, VAT and social security	6,320	4,377
Loan to fellow group undertakings	8,400	8,417
Owed by fellow group undertakings	73,232	86,034
Prepayments and accrued income	36,345	32,887
Deferred tax	2,938	1,179
Other debtors	426	2,722
	168,895	**166,177**

The loan due from a fellow group undertaking is unsecured, accrues interest on a compound basis quarterly at 8% and is repayable on 31 July 2016.

Amounts owed by fellow group undertakings are unsecured, interest free and have no fixed date of repayment.

Other debtors include £403,000 (2007: £2,614,000) falling due after more than one year.

Deferred tax	2008 £'000	2007 £'000
Accelerated capital allowances	2,365	63
Other timing differences	573	658
Carried forward tax losses	-	458
Total deferred tax asset	**2,938**	**1,179**
1 January 2008	1,179	-
Deferred tax credit in profit and loss account (note 7)	1,759	1,179
31 December 2008	**2,938**	**1,179**

14 Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Bank loan and overdraft	-	51,931
Trade creditors	1,767	5,694
Taxation and social security	283	1,276
Amounts due to fellow group undertakings	98,724	41,309
Loans due to fellow group undertakings	59,906	59,906
Finance leases	5,285	1,339
Accruals and deferred income	29,927	39,085
	195,892	**200,540**

Amounts due to fellow group undertakings are unsecured, interest free and repayable on demand.

Loans due to fellow group undertakings consist of £59,906,000 accruing interest at LIBOR + 3% and is repayable with 90 days notice by either party.

15 Creditors: amounts falling due after more than one year

	2008 £'000	2007 £'000
Loans due to fellow group undertakings	218,069	194,911
Finance leases	16,367	4,342
Accruals and deferred income	4,529	5,653
	238,965	**204,906**

Loans due to fellow group undertakings include the following unsecured loans:

- £117,500,000 accruing interest on a compound basis at 8% and is repayable on 31 December 2016;
- £56,539,000 accruing interest on a compound basis at 8.25% and is repayable on 31 December 2016;
- £6,814,000 accruing interest at 8% and is repayable on 31 July 2016;
- £6,877,000 accruing interest at EURIBOR + 2% and is repayable on 29 December 2010; and
- £16,076,000 accruing interest at EURIBOR + 2% and is repayable on 31 August 2010.

Notes to the financial statements (continued)

15 Creditors: amounts falling due after more than one year (continued)

Finance leases

Future minimum payments under finance leases are as follows:

	2008 £'000	2007 £'000
Within one year	6,980	1,694
In more than one year, but not less than five years	18,778	4,800
Total gross payments	25,758	6,494
Less finance charges included above	(4,106)	(813)
	21,652	**5,681**

16 Provisions for liabilities and charges

	2008 £'000	2007 £'000
At 1 January	1,686	1,591
Charge to the profit and loss account	93	95
At 31 December	**1,779**	**1,686**

This provision represents an asset retirement obligation in relation to the future cost of removing leasehold improvements installed in the Chiswick Park property.

17 Called up share capital

	2008 £	2007 £
Authorised		
1,500,000,000 (2007: 1,500,000,000) ordinary shares of £1 each	**1,500,000,000**	**1,500,000,000**
Allotted, called up and fully paid		
767,793,940 (2007: 767,793,940) ordinary shares of £1 each	**767,793,940**	**767,793,940**

On 31 January 2009, 37,389,666 ordinary shares of £1 each were issued at par.

Discovery Communications Europe Limited

Notes to the financial statements (continued)

18 Reserves

	Other reserves 2008 £'000	Other reserves 2007 £'000	Profit and loss reserve 2008 £'000	Profit and loss reserve 2007 £'000
At 1 January	-	-	(53,181)	(7,658)
Loss for the year	-	-	(262,074)	(47,738)
Capital contribution	22,276	-	-	-
Adjustment in respect of long term incentive plan	-	-	(370)	2,215
At 31 December	**22,276**	**-**	**(315,625)**	**(53,181)**

The adjustment in respect of the long term incentive plan is a result of units settled by the intermediate parent company during the year and a fair value adjustment of the outstanding units to be settled by the intermediate parent company.

19 Reconciliation of movement in shareholder's funds

	2008 £'000	2007 £'000
Opening shareholder's funds	714,613	92,342
Net proceeds of issue of £1 ordinary shares	-	667,794
Capital contribution	22,276	-
Loss for the year	(262,074)	(47,738)
Adjustment in respect of long term incentive plan	(370)	2,215
Closing shareholder's funds	**474,445**	**714,613**

20 Operating leases

At 31 December 2008, the company had annual commitments in the next year under non-cancellable operating leases for land and buildings expiring as follows:

	Land and buildings 2008 £'000	Other 2008 £'000	Land and buildings 2007 £'000	Other 2007 £'000
Operating leases which expire:				
Within one year	-	4,334	-	4,729
Within two to five years	-	15,977	-	15,781
In more than 5 years	2,245	-	2,429	291
	2,245	**20,311**	**2,429**	**20,801**

21 Other commitments

At 31 December 2008, the company had other contractual commitments as follows:

	2008 £'000	2007 £'000
Programming commitments	35,572	6,148
Transmission services	142,100	-
	177,672	**6,148**

Transmission services consist of long-term transmission agreements payable over a number of years as part of the normal course of business.

22 Share-based compensation

The company employs certain senior staff who are members of the Discovery Communications, Inc. ("DCI") group's various share-based compensation plans. There were three share-based compensation plans in existence during the period.

Long term incentive plan ("LTIP")

These awards, which are cash-settled, consist of a number of units which represent an equivalent number of shares of Series A common stock of DCI and have a base price which is determined based on the stock price of DCI.

Prior to 17 September 2008, the LTIP units were indexed to the value of Discovery Holding Company, Inc.'s Series A common stock. Following the change in the company's ultimate parent company on 18 September 2008, the LTIP units were converted and are now indexed to the share price of DCI's Series A common stock.

Each year 25% of the units awarded will expire and the employees will receive a cash payment for the increase in value.

Upon voluntary termination of employment, the group distributes 75% of the intrinsic value of the participant's vested units; participants must return a General Release within 45 days of their termination date which requires them to comply with post-employment obligations for one year in order to receive remaining benefits. The remaining 25% is paid once the General Release is completed and returned.

The fair value of LTIP units issued has been determined using the Black-Scholes option-pricing model. The weighted average assumptions used in this option-pricing model were as follows:

Weighted average assumptions for the year ended 31 December	**2008**	**2007**
Risk-free interest rate	0.58%	3.20%
Expected term (years)	1.51	1.80
Expected volatility	51.95%	26.42%
Dividend yield	0%	0%

Notes to the financial statements (continued)

22 Share-based compensation (continued)

The weighted average fair value of LTIP units outstanding is £1.40 at 31 December 2008 (2007: £4.38). The total accrued fair value of LTIP units outstanding under the plan is £1,164,000 at 31 December 2008 (2007: £3,855,000). Any liability associated with the LTIP is that of DCI, the ultimate parent company.

The benefit recognised by the company in 2008, relating to the compensation expense and changes in valuation assumptions, amounted to £510,000 (2007: expense of £2,215,000).

The following table, which assumes the conversion to indexing to DCI Series A common stock occurred on 1 January 2008, summarises LTIP unit activity for the year ended 31 December 2008:

	Units	Weighted Average Grant Price
Outstanding at 1 January 2008	1,020,254	£9.30
Units transferred to/from other group companies	29,349	£10.91
Units granted	287,967	£10.85
Units exercised	(390,383)	£8.69
Units cancelled / redeemed	(114,331)	£10.36
Outstanding at 31 December 2008	**832,856**	**£13.72**
Vested at 31 December 2008	**-**	**-**

Stock appreciation rights ("SARs")

SARs are granted with exercise prices equal to the fair market value at the date of the grant. SARs entitle the recipient to receive a payment in cash equal to the excess value of the stock over the base price specified in the grant. The SAR grants issued in 2008 consist of two separate vesting tranches with the first tranche vesting 100% on 15 March 2009 and the second tranche vesting 100% on 15 March 2010. The first tranche expires one year after vesting. All SARs in the second tranche are automatically exercised on 15 March 2010. Upon vesting, grantees may exercise the SARs included in the first tranche at any time prior to 15 March 2010.

The fair value of the SARs issued has been determined using the Black-Scholes option-pricing model. The weighted average assumptions used in this option-pricing model were as follows:

Weighted average assumptions for the year ended 31 December	**2008**
Risk-free interest rate	0.37%
Expected term (years)	1.20
Expected volatility	39.89%
Dividend yield	0%

The weighted average fair value of SARs outstanding is £1.59 at 31 December 2008. The total accrued fair value of SARs outstanding under the plan is £465,000 at 31 December 2008. Any liability associated with SARs is that of DCI, the ultimate parent company.

22 Share-based compensation (continued)

The expense recognised by the company in 2008, relating to the compensation expense and changes in valuation assumptions, amounted to £129,000.

The following table summarises SAR activity for the year ended 31 December 2008:

	Units	Weighted Average Grant Price
Outstanding at 1 January 2008	-	-
Units granted	292,603	£7.59
Outstanding at 31 December 2008	**292,603**	**£9.68**
Vested at 31 December 2008	**-**	**-**

Stock options

Stock options are granted with exercise prices equal to, or in excess of, the fair market value at the date of the grant. These stock options vest 25% per year, beginning one year after the grant date, and expire after seven to ten years. Certain stock option awards provide for accelerated vesting upon an election to retire pursuant to the DCI group incentive plans or after reaching a specified age and years of service.

The fair value of the stock options issued has been determined using the Black-Scholes option-pricing model. The weighted average assumptions used in this option-pricing model were as follows:

Weighted average assumptions for the year ended 31 December	**2008**
Risk-free interest rate	2.52%
Expected term (years)	5.00
Expected volatility	47.36%
Dividend yield	0%

The weighted average fair value of the stock options outstanding is £3.75 at 31 December 2008. The total accrued fair value of stock options outstanding under the plan is £316,000 at 31 December 2008. Any liability associated with the stock options is that of DCI, the ultimate parent company.

The expense recognised by the company in 2008, relating to the compensation expense and changes in valuation assumptions, amounted to £11,000 (2007: £nil).

22 Share-based compensation (continued)

The following table summarises stock options activity for the year ended 31 December 2008:

	Units	Weighted Average Grant Price
Outstanding at 1 January 2008	-	-
Units granted	84,250	£7.22
Outstanding at 31 December 2008	**84,250**	**£9.21**
Vested at 31 December 2008	**-**	**-**

Share-based compensation (benefit)/expense

Compensation (benefit)/expense recognised for share-based compensation plans is as follows:

	2008 £'000	2007 £'000
Long term incentive plan (benefit)/expense	(510)	2,215
Stock appreciation rights	129	-
Stock options	11	-
	(370)	**2,215**

23 Post balance sheet event

On 3 October 2009, the company awarded a four year TV advertising sales contract to Sky Media covering the company's portfolio of UK television channels.

24 Ultimate parent company

The directors consider the ultimate parent company to be Discovery Communications, Inc., incorporated in the USA, which is the largest undertaking consolidate the accounts for the company. Copies of the Discovery Communications, Inc. accounts can be obtained from their registered office at One Discovery Place, Silver Spring, MD 20910, USA.