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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

REC'D S.E.C.
NOV 2 9 2000

FORM 20-F

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: 30 June 2000

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-30364

PROCESSED
DEC 0 7 2000
THOMSON FINANCIAL

NDS Group plc
(Exact name of Registrant as specified in its charter)

England and Wales
(Jurisdiction of incorporation or organization)

One London Road, Staines, Middlesex, TW18 4EX, United Kingdom
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
None	

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Series A ordinary shares of $0.01 each

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.
None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

10,539,126 Series A ordinary shares of $0.01 each
42,001,000 Series B ordinary shares of $0.01 each
42,000,002 deferred shares of £1 each

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark which financial statement item the registrant has elected to follow.

☐ Item 17 ☒ Item 18

CASE NO.
SA CV 03-950 DOC (JTLx)
ECHOSTAR SATELLITE CORP., et al

vs.

NDS GROUP PLC, et al

PLAINTIFF'S EXHIBIT 1065

DATE ______________ IDEN.

DATE ______________ EVID.

BY ______________________
Deputy Clerk

00 09 6847

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INTRODUCTION

As used in this Annual Report, references to the "Company" are to NDS Group plc. References to "NDS", "Group" and the first person plural are to NDS Group plc and its subsidiaries. Unless otherwise indicated, references to our business, operating results and financial condition refer to NDS and its consolidated subsidiaries, excluding the discontinued digital broadcasting business that was disposed of on July 1, 1999.

Unless otherwise indicated, the financial information contained in this Annual Report has been prepared on the basis of generally accepted accounting principles in the United Kingdom ("UK GAAP"). UK GAAP differs in certain material respects from generally accepted accounting principles in the United States ("US GAAP"). The principal differences between UK GAAP and US GAAP are explained in note 27 to the consolidated financial statements: "Summary of differences between United Kingdom and United States generally accepted accounting principles".

References to a year in the Annual Report are, unless otherwise indicated, references to the Company's fiscal year ending 30 June of such year. In this Annual Report, financial and statistical information is, unless otherwise indicated, stated on the basis of such fiscal year.

The use of the symbol "®" throughout this document indicates that the preceding word, words or design is a registered trademark of NDS in the United States (and may also be registered in other territories). Other proprietary trademarks, trade names or service marks used by NDS, which may include registrations in the United States and elsewhere, are sometimes indicated with a "™" symbol in this document. This document also includes trade names and trademarks of companies other than NDS.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 20-F contains certain forward looking statements, including statements about our business, operations and financial condition and various statements contained in Item 1: "Description of Business" and Item 9: "Management's Discussion and Analysis of Financial Condition and Results of Operations". Our actual results could differ materially from such forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements.

In some cases, you can identify forward-looking statements by terminology such as "may", "will", "should", "could", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of such terms or other comparable terminology.

The readers of this document are cautioned that any such forward-looking statements are not guarantees of future performance and include risks and uncertainties. We cannot guarantee future results, levels of activity, performance, or achievements.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

About NDS

NDS Group plc is a public limited company incorporated under the laws of England and Wales. Our principal executive offices are located at One London Road, Staines, Middlesex TW18 4EX, United Kingdom.

We are a leading provider of conditional access systems to digital satellite pay-TV broadcasters and digital cable-TV operators. We are an early leader in the provision of interactive-TV applications as well as data broadcasting systems. We also provide broadcast control software solutions and undertake system integration services for providing turnkey digital pay-television systems.

Conditional access systems are a necessary component of every pay-television system. Our conditional access systems enable our customers to manage and control the distribution of entertainment and information over a variety of media and to protect this content from unauthorised viewing. Our systems allow our customers to charge their subscribers for accessing content through a variety of subscription based pay-television channels and pay-per-view events. The conditional access systems that we provide include software that is installed at the broadcasters' facilities as well as software and smart cards in the set-top boxes, digital television sets and PCs. Our conditional access systems also enable our customers to provide interactive services to their subscribers. These services include electronic program guides, interactive advertising and TV commerce.

In 1989 we pioneered the use of smart cards as an inexpensive, easily replaceable conditional access security device for pay-television. A smart card is a plastic card, the size of a credit card, carrying an embedded computer chip that implements the secure management and delivery of decryption keys necessary to descramble content and enable and disable access according to whether the subscriber is authorised to receive a particular service. The smart card receives instructions as to whether to enable, disable, upgrade or downgrade a subscriber's subscription package via the data stream sent to the set-top box within the broadcast signal. Furthermore the embedded chip can be used for storing information about the demographic profile, the recent transactions, credit information and the personal details of a particular subscriber that can be used to facilitate interactive services and targeted advertising.

Smart cards allow broadcasters to separate the implementation of conditional access services from the set-top box. Previously, conditional access systems were only available as a built-in feature from manufacturers of set-top boxes. This separation allows broadcasters to introduce new features and services by issuing new smart cards or by downloading new security software to the smart-card without requiring replacement of all of the subscribers' set-top boxes. Moreover, the wide availability of set-top boxes designed according to industry standards and utilizing smart cards for implementing proprietary conditional access technology, offers the broadcaster the ability to reduce significantly the total costs of deploying a digital pay-TV system, due to the low unit costs associated with mass produced set-top boxes.

Our software systems assist broadcasters both in their basic operations and in the development and implementation of enhanced-TV and interactive-TV services from which broadcasters can derive additional revenues. Enhanced-TV services allow a broadcaster or content provider to augment their TV programming material with concurrently broadcasted data and information services related to the programme material. Our systems enable broadcasters offering enhanced-TV applications to integrate multiple sources of programming media and content, including the Internet, in a single programming event and to monitor the way that this rich-media content is viewed by the individual subscriber. Interactive-TV services allow the viewer to interact directly with the programming content by allowing him to choose the specific item of programming he may want to view at a certain time and giving him the ability to participate directly from his home in quizzes and games, or purchase items directly related to the programme that he is currently viewing. Interactive-TV moreover enables the broadcaster to target advertising based on the specific demographic profile of a particular group of viewers and give them the ability to purchase the advertised products or services directly using their television sets.

Our products also include broadcast control software systems that perform various functions necessary for managing and operating a digital television broadcasting facility. Our products support a variety of broadcasting media, including analog and digital satellite television, digital cable television, digital terrestrial television, the Internet and other digital broadband media. We complement our product offerings with a wide range of services, including consulting, broadcast system design and integration, support and maintenance and, in some cases, on-site operation and management of our customers' conditional access systems.

Since the commencement of operations in 1989, we have concentrated on providing systems and software to major broadcasters and cable-TV operators worldwide. Our customers include leading broadcasters such as DIRECTV in the US, the world's largest digital satellite pay-TV broadcaster, and British Sky Broadcasting Group plc ("BSkyB") in the UK, one of the largest digital pay-TV broadcasters in Europe, as well as a number of broadcasters in Latin America, in Europe and in the Asia-Pacific region. On the basis of the number of consumer homes worldwide where our conditional access technology has been deployed and the number of smart cards that we have shipped, we believe that we are the leading supplier of conditional access systems for digital pay-television systems. We estimate that our customers' systems provide services to over 40% of the world's digital pay-TV subscriber base. In addition, over 45 manufacturers of consumer electronic devices, including television set-top boxes, have incorporated our technology in over 250 products.

How Our Conditional Access Systems Operate

Our conditional access systems consist of:

- software components that are installed on dedicated server systems at the broadcaster's head-end and are responsible for interfacing with the broadcaster's subscriber management system, back-office and billing systems and playout and transmission management systems;
- software components and applications that are integrated into the viewer's set-top box or integrated into a digital television, that are responsible for decrypting the broadcasters' signals as well as enabling the provision of basic functions used in conjunction with interactive services; and
- a removable, credit card-sized smart card which is inserted into each viewer's set-top box or digital television and contains an embedded computer chip that generates the code words that are used by the set-top box to unscramble the broadcasters' signals, and which also maintains billing information and information for the identification of the individual viewer.

There are four basic components of a conditional access system that are located at the broadcaster's head-end:

- the entitlement management message generator;
- the entitlement control message generator;
- the security server; and
- the return path manager.

At the broadcaster's head-end, the subscriber management system maintains a database of information regarding the programming that each subscriber is authorised to view based on their subscription package. The entitlement management generator processes information regarding subscribers' viewing entitlements from the subscriber management system and transmits that entitlement information as part of the broadcast transmission to the subscribers' smart cards.

Systems in the broadcaster's head-end also generate information that describes the programmes currently being transmitted. The entitlement control message generator processes this information and transmits that information as part of the broadcast transmission to the subscribers' smart cards.

The security server at the broadcaster's head-end generates the codes which are used by the broadcaster's transmission equipment to encrypt the programme material. The encrypted programme material and the programme and subscriber entitlement information are combined into a single transmission stream using technology commonly referred to as multiplexing. This transmission stream is then transmitted to subscribers.

In the subscriber's home, the conditional access software in the subscriber's set-top box or digital television set passes the encrypted programme material of the transmission stream to the sub-system in the set-top box or digital television set responsible for decrypting. In parallel the conditional access software in the subscribers' set-top box or digital television set passes the programme and subscriber entitlement information to the smart card. The information is processed by the smart card which records any updates to the subscriber's viewing entitlement. The electronic programme guide software application in the set-top box or digital television set processes the programme information contained in the transmission stream and provides an on-screen listing of programmes available to the subscriber.

When a subscriber tunes to a programme, the programme information is checked against the subscriber's viewing entitlements. If the subscriber is entitled to view the programme, the smart card generates the codes necessary to decrypt the content and permit the subscriber to view the programme. If the subscriber decides to watch a pay-per-view programme, the smart card generates the viewing entitlement and the purchase is securely recorded on the smart card. Periodically, the set-top box or digital television set automatically calls the conditional access system at the broadcaster's head-end using the subscriber's telephone line. The set-top box or digital television set downloads the stored pay-per-view purchase information to the return path manager component of the conditional access system at the broadcaster's head-end which reformats the information and then sends the reformatted information to the broadcaster's subscriber management system to charge the subscriber as part of the broadcaster's billing cycle.

Products and Services

We offer products and services in three main areas:

- conditional access systems and services;
- enhanced-TV and interactive-TV applications and services; and
- head-end and network infrastructure software and services including systems for data broadcasting over broadband networks.

Conditional Access Systems and Services

We receive revenues from our conditional access systems from a combination of:

- licence and ongoing maintenance fees from broadcasters for head-end conditional access systems;
- fees from broadcasters for the design and adaptation of our conditional access systems to meet such broadcaster's specific requirements;
- the sale of smart cards;
- the periodic replacement by our customers of their subscribers' smart cards;
- ongoing service fees from broadcasters on a per subscriber basis;
- upfront integration fees from set-top box manufacturers for the use of our conditional access and other technology; and
- subsequent royalties from set-top box manufacturers based upon the number of set-top box manufactured or sold.

We negotiate individual agreements with each of our conditional access customers. Generally, our customers pay us a fixed monthly fee per active subscriber for smart cards under these agreements. These fees depend on the number of smart cards the customer requires and the level of responsibility the customer assumes for the costs involved in the replacement of their subscribers' smart cards. These fees may be reduced if the customer agrees to bear some or all of the costs involved in the periodic replacement of smart cards. Our main conditional access products are:

VideoCrypt™

Our first product was *VideoCrypt*, an analog conditional access system developed jointly with Thomson Consumer Electronics and first used for BSkyB's analog broadcasting service in 1989. This system was the first conditional access system designed to use a removable smart card in the subscriber's set-top box as the actual security device. Today, in view of the current transition of BSkyB to digital transmission, we do not expect the *VideoCrypt* product family to generate significant future revenues. BSkyB has stated that it aims to have completed the transition of its analog subscribers to Sky Digital by 30 June 2001. Currently less than 1 million subscribers out of the 20 million that are using our conditional access products are still utilizing *VideoCrypt*.

VideoGuard®

We first supplied our *VideoGuard* conditional access system for digital broadcasting services to DIRECTV in connection with its launch in the US in 1994. The *VideoGuard* family of products is compatible with all internationally accepted digital television transmission standards. Over 45 consumer electronics vendors worldwide have integrated the *VideoGuard* technology in their set-top boxes. These include among others RCA/Thomson, Sony, Philips, Zenith, Pace, Matsushita, Samsung and Hitachi.

VideoGuard's standard features include efficient over-the-air subscription entitlements, support for multiple service providers and the ability for the broadcaster to establish a database of its subscribers' individual profiles and viewing preferences. *VideoGuard* also offers numerous programme packaging features which allow content providers to group programming material in a number of different subscription services targeted to the viewing preferences of specific groups of viewers, flexible pricing of services in tiers and video-on-demand events. Moreover, it supports different modes of pay-per-view operation, including:

- order-ahead pay-per-view, which permits a subscriber to order a pay-per-view event from the operator prior to its transmission by calling the operator's subscriber management centre; and
- impulse pay-per-view, which permits a subscriber to order pay-per-view programming directly from the electronic programme guide for instantaneous viewing without requiring an immediate call back to the broadcaster's subscriber management service centre.

All pay-per-view options support different pricing for different subscriber groups, multiple currencies and programming offered on a promotional basis, known as "token support". *VideoGuard* also permits the blackout of programming on the basis of various criteria, including geographical location of subscribers and subscriber group demographics. To assist parents' ability to control their children's viewing, *VideoGuard* includes parental rating and impulse pay-per-view spending limit restrictions under password control.

The *VideoGuard* family includes the following products:

- Large, customised versions of *VideoGuard* supporting many millions of subscribers per system are used by major broadcasters, including DIRECTV, BSkyB, NetSat Serviços Ltda. ("NetSat") and Innova S. de R.L. de C.V. ("Innova"). It provides unique features for each broadcaster, including multicurrency impulse pay-per-view, and sophisticated interfaces to subscriber management and traffic control systems;
- *NDS Broadcaster* is a system designed for medium-sized broadcasters with less than one million subscribers. It includes standard *VideoGuard* conditional access software and optional compression hardware and subscriber management systems. *NDS Broadcaster* is currently in use in cable and satellite systems around the world;
- *NDS Director* is a complete broadcasting head-end system for secure broadcaster-to-broadcaster and business-to-business transmissions. *NDS Director* consists of broadcasting equipment and PC-based control software, including *VideoGuard*. *NDS Director* can support up to 50,000 receivers with up to 64 channels;
- *Open VideoGuard* is a standalone conditional access system, designed for broadcasters that are integrating their own systems. *Open VideoGuard* conditional access software plugs directly into a broadcaster's systems and integrates with equipment purchased from third party vendors; and
- *VideoGuard.IP* is a conditional access system currently under development, for addressing secure, high-speed delivery of video, data and e-commerce over broadband IP Networks including the Internet and telephone lines using the ADSL technology. It is designed for datacasters, content aggregators, multicast service operators and corporations.

In addition, we are developing a next generation conditional access system targeted at the medium-sized broadcaster. This system is a further development of the *Open VideoGuard* system optimized for ease of operation that is based on Windows NT platforms instead of the UNIX servers which most broadcasting systems currently use. This new system will be fully integrated with both our interactive applications and set-top box large storage applications, including *Value@TV* and *XTV*.

Security of Our Conditional Access Systems.

The security of our customers' broadcast information and programming material is a primary concern both for the protection of the broadcasters' revenue streams and also for our reputation as a provider of conditional access systems. We maintain a pro-active security policy designed to protect the broadcaster's revenue stream and to increase the length of time the current version of a broadcaster's smart cards remain in service. There have been in the past, and we expect that there will continue to be, instances of unauthorised viewing or smart card piracy affecting broadcasters using conditional access systems, including those developed by us. A number of individuals and organizations are engaged in the business of selling, or attempting to sell, unauthorised viewing devices, including counterfeit cards. Other devices have the ability to upgrade the access permitted by genuine smart cards and to reactivate genuine smart cards that have previously been disabled by the broadcaster. Because we use a unique smart card chip design developed by us for each of our large customers, if one of our large customers' systems suffers a security failure, such failure may not affect our other large customers. Furthermore, our conditional access systems support a multitude of countermeasures that can be activated by the broadcaster to disable any counterfeit smartcards that may be in circulation at any given time.

We refine and update our technologies on a continuing basis in order to protect against and counteract unauthorised viewing. Our strategy relating to the prevention of unauthorised viewing relies upon a number of elements:

- Smart cards are designed and manufactured under strict security conditions based on proprietary designs and the supply of genuine smart cards is continually monitored and controlled;
- We have undertaken extensive efforts to prevent the reverse engineering of our smart cards and we have incorporated proprietary chips not obtainable by third parties;
- In conjunction with broadcasters, we periodically implement electronic over-the-air countermeasures, consisting of signals transmitted by broadcasters that alter valid smart cards in a manner which then renders counterfeit smart cards obsolete;
- From time to time, our broadcasting customers undertake the replacement of their subscribers' smart cards in order to upgrade security or to provide support for enhanced functionality. We use these periodic replacements as an opportunity to implement more sophisticated security technologies in the new generation of smart cards; and
- We monitor signal theft activity, and work with broadcasters and law enforcement officials to detect and prosecute instances of unauthorised viewing and signal theft.

Smart Card Processing and Distribution.

We currently procure, process, test and distribute smart cards from two facilities, one in the UK and one in the US, which together are capable of processing up to 40 million cards per year. In fiscal 2000 we distributed approximately 12.8 million smart cards.

In order to maintain flexibility in the smart card procurement process and to improve our ability to meet customer requirements, we have contracted with multiple suppliers for some smart card components. With regard to the supply of integrated circuits, we generally negotiate with multiple sources and contract with a sole source supplier to provide a particular generation of smart card chip for each broadcasting customer for the lifetime of the smart card generation, which may be as long as several years. We believe that a long-term contract with a sole supplier for each smart card generation provides a higher level of system security than other available alternatives.

Interactive Applications and Services

The ability of viewers to interact with content creates opportunities for broadcasters to generate revenues by offering value-added services, including shopping-at-home and the mass customisation of content based upon viewers preferences. These applications require functions to be executed both at the broadcaster's head-end and the subscriber's set-top box, as well as the capability to execute secure transactions between the subscriber and the broadcaster. Our digital conditional access systems provide this fundamental capability. We have recently developed a range of software products that use our conditional access systems capabilities for implementing interactive-TV applications. We generate revenues from these products by a combination of one-time licensing fees for the head-end components and royalties and on-going per subscriber fees for the software components that are integrated in the viewers set-top boxes. Moreover we provide design, development and application customisation services. Our interactive-TV product offerings include:

Electronic Programme Guides

An electronic programme guide is an on-screen guide to the programmes and services available to subscribers. The electronic programme guide is a software application which runs inside the digital set-top box and is controlled by the use of a remote control unit. It allows a subscriber to view programme schedule information, store favourite channels, adjust set-top box settings and, in some applications, purchase current and future pay-per-view events.

We have developed several electronic programme guides for our customers, either by ourselves or in co-operation with user interface design specialists, including a graphically driven electronic programme guide designed specifically for a multi-lingual environment. We implemented BSkyB's digital electronic programme guide which provides access to both television broadcasts and to interactive services. We have also developed advanced electronic programme guides that can support non-Latin alphabets, such as Hebrew and Chinese. Our electronic programme guides currently operate with *NDS Core*, Microsoft MSTV Basic and OpenTV set-top box operating systems.

Value@TV™

Value@TV is our suite of software tools that can be used to develop interactive applications which work together with our conditional access systems to enhance the interactive services offered by our customers. *Value@TV* allows our customers' subscribers to execute transactions off-line because transaction information is stored on the subscriber's smart card for later transmission to the broadcaster over the telephone line.

We also offer our customers specific interactive applications based on our *Value@TV* technology. For example, we have supplied BSkyB with the Sky SportsActive application, which was launched in August 1999 and allows viewers to watch a sporting event while selecting from multiple camera angles, watching replays on demand and downloading statistics about that sporting event in graphic or text forms. Sky SportsActive has won the Royal Television Society's award for innovative use of technology. The same technology is now being used for cricket, rugby and snooker and can be adapted to any other major sport. In addition, we have developed a system for QVC The Shopping Channel UK that allows its viewers to purchase an item by pressing a button on the remote control while the product is being promoted on the channel the viewer is watching, or selecting from a directory of products published on the QVC web site. Further applications are being developed under contracts with Discovery, Flextech and Music Choice.

XTV™

We have developed a technology called *XTV* which extends the television viewing experience by integrating mass-storage devices such as hard drives in next generation digital set-top boxes. *XTV* uses "meta-data" (data about data) embedded in the video stream to provide services and functionality that are not readily available in other products that focus only in managing the hard disk that is integrated in the set-top box or digital TV. Meta-data allows broadcasters and operators to enhance their content offerings by offering their viewers advanced features such as locating highlights of a programme, advanced content directories and automatic intelligent recording. The *XTV* software in the set-top box uses a viewer profile to search for programmes of special interest to the subscriber. The *XTV* software automatically scans electronic programme guides and selects programmes that are subsequently recorded on the hard disk, which is integrated into the set-top box. These stored programmes can then be viewed by the subscriber at his or her convenience.

We have an agreement with Pace Microtechnology plc to develop jointly *XTV*-enabled set-top boxes for BSkyB's new integrated Personal Television Recorder. It is anticipated that this will incorporate a 40 gigabyte hard disk, which will allow the storage in digital format of up to 30 hours of TV programming, that can provide equivalent functionality to that of a top of the range video recorder although it is also coupled with the high quality associated with digital broadcasting and incorporates a number of advanced features:

The *XTV*-enabled set-top boxes and head-end systems are tightly integrated with our conditional access system, ensuring that the stored content in the viewer's set-top box is not copied or further distributed without the explicit permission of the broadcaster or content owner.

We have also entered into an agreement with Liberate Technologies to make *XTV* a standard component of the Liberate TV Platform software for set-top boxes with hard disks. As part of the agreement, Liberate is anticipated to pre-enable various consumer electronic manufacturers' set-top boxes with their TV Platform software and our *Open VideoGuard* conditional access technology. This will allow consumer electronics manufacturers to offer broadcasters a pre-integrated solution for providing advanced TV services.

Interactive Advertisements iADs™

We are developing application software that will reside in the set-top box and allow the viewer to respond instantaneously to advertising. For example, viewers will be able to obtain more information or purchase the product advertised on the television or receive loyalty coupons issued by the advertiser.

NDS Core Set-Top Box Operating System Software

We supply certain broadcasters with our *NDS Core*, a low cost, entry-level operating system for digital set-top boxes, which includes a simple electronic programme guide. *NDS Core* has recently been enhanced to support the display of Internet web content using the widely accepted HTML page description language on television sets. Furthermore it has been enhanced to support complex character sets like Chinese. *NDS Core* has been installed in over 1.5 million set-top boxes and is compatible with a number of set-top boxes from various manufacturers, including Pace, Philips, Advanced Digital Broadcast Limited and NTC. It supports digital satellite, cable and terrestrial set-top box variants. In our research and development facility in Beijing we are developing together with our Chinese partners a special version of our *NDS Core* software for addressing the specific requirements of the Chinese markets.

During fiscal 2000 we entered into a strategic alliance with Microsoft, Inc. under which *NDS Core* has been licensed to Microsoft and is being enhanced through a joint development program. According to the agreement, it is anticipated that Microsoft will market *NDS Core* as a part of the Microsoft family of set top box operating systems under the name MSTV Basic.

Head-end Management Systems Software and Services

We provide a range of software products and services which assist broadcasters in their adoption and implementation of digital broadcasting systems. We license these products for one-time licence fees that may vary, depending on the customer's scale and complexity. In addition, we provide system design, customisation and systems integration services for which we charge either a fixed price fee or on a time and materials basis. We also provide ongoing support and maintenance services for these products. Our products in this business area include among others:

StreamServer™

StreamServer is the central system that co-ordinates the information flow and exchange between the various systems at the broadcaster's facilities, including the subscriber management system, the programming play-out systems and the conditional access systems. It also manages the broadcaster's multiplexes - the combination of a number of a programming channels into a single digital transmission stream. *StreamServer* incorporates unique proprietary technology that continuously allocates bandwidth among the various television channels of a multiplex, in order to maximise the efficiency in which the broadcaster's bandwidth is used.

We can also link together various *StreamServer* systems located at different sites, to support the concurrent distribution of content from different origination points. For example, linked *StreamServer* systems can integrate national programming generated at one location with programming generated at several regional locations into a single multiplexed transmission stream. This eliminates the costs associated with the relaying of programming to a single central transmission site.

Service Information Generator

In digital transmission systems, the transmitted signal contains programming and service information which is transmitted to the subscriber's set-top box and used for generating the electronic programme guide's pages. Our service information generator software is located at the broadcaster's head-end facilities and is integrated with the broadcaster's programming control systems to generate programming and service information for transmission. This information is continually updated and reflects any last-minute programming changes. This data is then used by the electronic programme guide application in the subscriber's set-top box to provide up-to-date programme listings to the viewer.

DBN and MediaStorm™

DBN is a data broadcasting system designed to enable the high-speed distribution of data and other information to personal computers by large digital satellite broadcasters. This system provides our customers with opportunities to derive additional revenues by providing various multimedia services, such as sports and news magazines as well as Internet access services, to their subscribers utilizing their existing transmission infrastructure. Subscribers are able to receive television programming and data on personal computers equipped with a dedicated *DBN* PC card and enabled with a conditional access smart card. Subscribers select and purchase the information they wish to access by using a computer application that acts as an electronic programme guide.

MediaStorm is specifically targeted to applications in the business-to-business market. It operates together with the *NDS Director* system. *MediaStorm* has a simpler content management system than *DBN*. The *MediaStorm* user interface is identical to that of *DBN*, enabling a broadcaster, as its subscriber base grows, to migrate smoothly from *MediaStorm* to *DBN* without requiring any change in the end-user's PC hardware or software.

StreamShaper™

Our *StreamShaper* video translation software uses advanced video transformation and information technologies for allowing broadcasters to distribute their programming material to subscribers using high speed digital telephone lines utilising a technology called ADSL. ADSL is a technology for facilitating the distribution of high-speed data services, including video, over digital telephone lines. *StreamShaper* reduces the bit-rate of the video to suit the local telephone operators' bandwidth limits. *StreamShaper* also allows a content provider to optimise the amount of bandwidth used by a channel to match local transmission conditions.

Provider™

Provider is a subscriber management system which manages the authorisation and billing systems of pay-television and other services related to the broadcaster's subscribers and maintains a detailed subscriber data base. *Provider* is integrated with our conditional access systems and can be integrated with conditional access systems provided by other companies. *Provider* enables the broadcaster to manage a number of critical tasks which include:

- the creation, storage and updating of each subscriber record, including services purchased and financial and pay-per-view event history;
- automated billing and payment collection;
- debt control and analysis;
- the creation of management reports; and
- communication with the card production facility to coordinate the issuance of cards to new subscribers and card replacements.

Furthermore, *Provider* communicates with the conditional access system to effect on-line disabling of cards and the broadcasting of messages to change subscribers viewing entitlements.

Synamedia™

Synamedia is our broadband architecture and product family for providing cost effective and secure broadband access to digital content through ADSL. By means of the ADSL technology, telephone operators are seeking to provide a further opportunity to broadcasters for distributing digital content to their subscribers. To use ADSL technology, a subscriber needs to connect a specially designed set-top box to the ADSL telephone line at home in order to be able to receive high speed digital content including television programming, video on demand, music and high speed access to the Internet. The key aspects of our *Synamedia* architecture are:

- Popular content, such as the ten most popular movies, is stored in servers close to the consumer's home and need to be distributed only over the local network, increasing the bandwidth efficiency of the overall system;

- Niche content, such as specialist programmes or web sites, is stored in one or more central servers and distributed on demand;

- By combining broadcast and point-to-point transmission mechanisms, *Synamedia* allows communication companies to increase the effective capacity of their existing infrastructure in a cost effective way.

We are working with a number of technology partners. We expect *Synamedia* to be marketed to companies or organizations that distribute digital content to a large number of people. Such companies could include: .

- Internet service providers and portals, who can use *Synamedia* to offer multimedia content, TV programming, commercials and interactive broadcasts securely through one integrated network;

- Telecommunications companies and broadband service operators, who can offer subscription TV and video-on-demand services alongside their more traditional high speed Internet access by using our *Synamedia* technology;

- Satellite and terrestrial broadcasters, who could rebroadcast and repackage services and offer secure broadcast and video-on-demand services into the home alongside high speed Internet and telephone services; and

- Cable operators without national coverage, who could use *Synamedia* to fill geographical gaps to provide a nationwide service.

System Design, Integration and Other Services

We provide consulting, system design, integration, and maintenance and support services to digital broadcasters. System integration includes both the selection of appropriate vendors and the integration of various components, including those of third party manufacturers, into a single operational broadcast system. Our consulting services include business consulting and technical assistance, as well as security design for interactive and other advanced services. Once our customers' systems are operational we offer them after-sale services including ongoing support and maintenance.

In addition, we develop specific product enhancements which we make available to our customers in the form of software upgrades. Most of our major customers, generally receive custom upgrades based on their specific feature requirements. Smaller customers regularly receive upgrades only if they enter into support and maintenance contracts with us.

Technology

We have developed core competencies in advanced technologies that are incorporated in a number of our products and systems. These proprietary technologies address specific needs of our customers and help us establish and maintain a competitive advantage. These technologies include:

High security encryption algorithms

Algorithms are mathematical procedures implemented in software that are used to accomplish a specific function such as encrypting or decrypting data, messages or video signals by means of secret keys and code words. Our security research team in Israel has developed a number of proprietary high-security encryption algorithms. The algorithms are used in our conditional access related products, including for pay-television data broadcasting to PCs and broadband Internet protocol networks. The proprietary nature of our algorithms and the lack of any publicly available specifications or documentation regarding their operation make them particularly resistant to attacks. We have optimized these algorithms in order to minimize the computing resources they require, allowing us to implement them on our smart cards and avoid utilizing any computing resources of the set-top box.

Custom-designed smart card chips

Our chip design team has developed a number of proprietary extensions to the chips that we integrate into our smart cards. These extensions are manufactured on our behalf by our chip suppliers and incorporate functions that hinder the unauthorised duplication of our cards or the introduction of counterfeit cards in a set-top box. Moreover, since we provide a unique design for each of our major customers, we lessen the risk that if one of our customers' systems is compromised our other customers' systems could also be compromised.

Broadcasting security countermeasures

We have developed a number of techniques that allow us to send specially disguised and encoded messages that disable or alter the operating characteristics of our smart cards. This allows our customers to disable cards of delinquent subscribers. In addition it allows our customers to combat signal theft more effectively by randomly altering the operating characteristics of all valid smart cards which makes counterfeit cards incompatible with the signals transmitted by our customers.

Efficient message transmission

We have developed sophisticated protocols for transmitting authorisation, entitlement and other control messages to the smart cards of our customers' subscribers. These protocols allow control messages to be compressed in a way which consumes only a small fraction of the broadcaster's bandwidth, allowing the broadcaster to transmit more programmes and channels to its subscribers without having to compromise its ability to control the individual subscriber's viewing entitlements.

Efficient and reliable head-end control systems

Based on our experience in digital television, we have developed efficient and reliable broadcasting control systems capable of supporting millions of subscribers. Our broadcasting control systems can grow with the broadcaster's subscriber base.

Our Markets

Digital Broadcasting

Digital broadcasters principally use three transmission media to deliver content to viewers: satellite, cable and terrestrial transmission. Furthermore, the recent adoption of ADSL technology for delivering high-speed digital content to the home over existing telephone lines may offer an additional market opportunity to us.

Digital Satellite Television

The digital satellite market was the first to adopt widely a pay-television business model using digital transmission technologies. DIRECTV was the first large-scale digital satellite broadcaster when it commenced its broadcasting operations in 1994 in the US. As of 30 September 2000, we supply conditional access systems to digital satellite broadcasters which have over 18 million subscribers, representing over 55% of the worldwide subscriber base. Although we are suppliers to many of the world's largest digital satellite broadcasters, all of the existing large regional digital satellite broadcasters have already entered into arrangements relating to conditional access technology and very few new large systems are in the planning phase. Consequently, a significant portion of the growth we anticipate to experience from our existing digital satellite customers in the future may be derived from increases in their subscriber numbers.

Digital Cable Television

Upgrading from analog to digital cable is a slow and expensive process, being influenced by three principal factors: competition with digital satellite networks, regulatory conditions related to the use of cable networks to provide high-speed Internet access and telephony, and market consolidation that makes it possible for companies to obtain the capital necessary to finance this transition.

In the US, the OpenCable standard that has been adopted mandates the use of a conditional access module called a POD (Point-of-Deployment) that is not integrated with the set-top box. We are currently working to complete the supply of a complete conditional access system, including smart cards and ultimately POD modules, in the US for the digital television service that Cablevision is preparing to launch during 2001. We have also supplied conditional access systems for a number of other digital cable television operators including Madritel in Madrid, Spain, which launched its digital service in January 2000 and are working on contracts to supply conditional access systems for cable systems for JNC, the national cable backbone operator established by the State Administration of Radio, Film and Television in China; for Matav and Tevel in Israel; and for Cablemas in Mexico.

Digital Terrestrial Television

The digital terrestrial market is relatively new with only a few operators in the US, UK and Scandinavia. We anticipate that in many parts of the world digital terrestrial television will initially be free-to-air, with no conditional access systems. As digital operators seek to benefit by providing value-added services, such as targeted marketing, interactive services and data broadcasting, our *Value@TV* product may provide the conditional access infrastructure to meet these needs. We have supplied a number of *NDS Director* and *StreamServer* systems to Tandberg Television Ltd. for resale to its customers in the digital terrestrial market.

ADSL

Although during the course of our last fiscal year we announced *Synamedia*,our system architecture for distributing digital content over high speed digital telephone lines, we do not anticipate in the near future the wide scale adoption of ADSL technologies. The fundamental requirement for wide scale deployment of ADSL technologies is the necessary capital expenditure by telecom communication companies for upgrading the existing telephony services distribution infrastructure to support high-speed digital data services. We believe therefore, that this market will start contributing substantial revenue streams only in the medium-term.

Internet/Broadband

We have developed a number of software systems and applications to address the requirements of network operators for the secure distribution of data and information to consumers with personal computers and other devices simultaneously over a variety of media including the Internet and other broadband digital media. Our individual products are targeted for different market segments:

Data Broadcasting

Data broadcasting enables the transmission of large quantities of content and data simultaneously to a number of PCs by using spare capacity on digital satellite or terrestrial television broadcasting systems. Data broadcasting offers an inexpensive high bandwidth delivery path that can be used by broadcasters to maximise the revenue earning potential of their existing transmission systems. We believe that we are well positioned to capitalize on this market opportunity through our experience in building large digital satellite solutions and our alliances with consumer electronic manufacturers that manufacture the necessary receiving equipment.

Secure Multicast

Most Internet communications today are point-to-point, that is, from a server to a single receiver. Sending the information to multiple clients generally requires sending the information many times, using excess bandwidth and effectively limiting the number of addressees. A recently adopted family of IP multicast protocols will allow broadcast-style transmissions across the Internet. We have developed products that address the need for securing the content that may be distributed over such IP networks. We believe we are optimally positioned to enter this market once wide-scale adoption of such IP multicasting techniques is initiated.

Our Customers

Our customers are located in North America, Europe, Latin America, the Middle East and the Asia Pacific region, and consist of approximately 25 broadcasters, of which 8 are broadcasters in which The News Corporation Limited ("News Corporation") has an interest. News Corporation related broadcasters accounted directly for 43% and 42% of our revenues from continuing operations in fiscal 2000 and fiscal 1999, respectively.

Some of our customers are:

DIRECTV Operations Inc. DIRECTV, owned by General Motors' Hughes Electronics Corporation, broadcasts digital satellite television services across the United States. It launched its operations in 1994 and is today the largest digital satellite television network in the world with approximately 7 million subscribers. As of 30 June 2000, DIRECTV US subscribers were using approximately 10.5 million smart cards that we have supplied. With its PrimeStar acquisition and the introduction of local programming, DIRECTV has added approximately 3 million subscribers during the course of our last fiscal year. We provide the conditional access system, smart cards, system support, maintenance and upgrade services and license certain of our technology to set-top box manufacturers. On 13 August 1999 we signed a new four-year agreement with DIRECTV which provides for ongoing systems supply and support, smart cards and various other services. In fiscal 2000, our direct revenues from DIRECTV were £49.6 million, or 31% of our total revenues.

British Sky Broadcasting Group plc. BSkyB operates the largest pay-television network in the UK and Ireland. Its analog service was launched in 1988 and in 1998 BSkyB launched Sky Digital, its digital service. BSkyB has stated that it aims to have completed the transition of its analog subscribers to Sky Digital by 30 June 2001. As of 30 June 2000, Sky Digital had approximately 3.6 million DTH subscribers and the remaining analog DTH subscribers had declined to 0.9 million. Total DTH subscribers to BSkyB increased by over a million during fiscal 2000. All BSkyB satellite subscribers use smart cards we supply. We provide all of the broadcast management systems, the conditional access system and systems support and maintenance services including operational security services. We have also developed on behalf of BSkyB the Sky Digital electronic programme guide and the Sky SportsActive interactive application as well as secure transaction technology used in BSkyB's home shopping platform Open..... We also license the necessary conditional access technologies to all manufacturers of set-top boxes for BSkyB. In fiscal 2000, our direct revenues from BSkyB were £52.5 million which represented 33% of our total revenues.

Innova S. de R.L. de C.V. Innova, a joint venture between Grupo Televisa S.A., News Corporation and AT&T, broadcasts digital satellite television services to Mexico. Innova launched in early 1997 and as of 30 June 2000 its subscribers were using over 600,000 smart cards that we had supplied. We supply Innova with the broadcast management system, the conditional access system, the subscriber smart cards, the subscriber management system, an electronic programme guide, and overall system support and maintenance. In addition, we license to Innova's set-top box manufacturers *VideoGuard* conditional access and *NDS Core* operating system.

NetSat Serviços Ltda. NetSat, a joint venture between Globo Communicaces e Participacoes Ltda., News Corporation and AT&T, broadcasts digital satellite television services to Brazil. NetSat launched its service at the end of 1996 and as of 30 June 2000 its subscribers were using approximately 540,000 smart cards that we had supplied. We provide to NetSat broadcast management system software, the conditional access system, smart cards, an electronic programme guide and overall system support, maintenance and upgrades. In addition, we license to all of NetSat's set-top box manufacturers *VideoGuard* conditional access and *NDS Core* operating system.

DIRECTV Latin America. DIRECTV Latin America (formerly Galaxy Latin America) is principally owned by General Motors' Hughes Electronic Corporation and local Latin American partners. DIRECTV Latin America broadcasts digital satellite television services across Latin America. Having launched in 1996, DIRECTV Latin America now broadcasts digital satellite services to several countries in Latin America, including Mexico, Brazil, Venezuela and Argentina. As of 30 June 2000, its subscribers were using approximately 1.4 million of our smart cards. In August 2000 we entered into a five-year renewal agreement with DIRECTV Latin America to continue to supply conditional access services and supply of the next generation smart card for its customers that is expected to be deployed during fiscal 2001. We have supplied DIRECTV Latin America with the conditional access system, smart cards for all of their subscribers and system support and maintenance services. Furthermore we license certain of our conditional access related technologies to all the manufacturers of set-top boxes used by this platform. We also manage on behalf of DIRECTV Latin America the conditional access management centre that is located at Long Beach, California.

QVC The Shopping Channel UK. We have entered an agreement with QVC to provide an interactive system to QVC The Shopping Channel for use with the Sky Digital network in the UK. QVC programming is received in over 6 million homes in the UK and Europe. The system will allow an interactive brochure to be broadcast providing the ability to browse a catalog of products that is made available on QVC's website and to make purchases or allow impulse buying the products that are currently advertised on the television channel. We completed the first phase of the project in July 2000.

Cablevision. We have entered into an agreement to supply the complete conditional access system, including smart cards and, ultimately, POD modules for the digital television service that Cablevision is preparing to launch. Cablevision is currently the seventh largest analog cable television operator in the US with approximately 3 million subscribers in the northeastern US. We have also agreed to develop a number of interactive applications specifically for Cablevision that will permit them to offer various value-added services to subscribers. We have agreed with Cablevision that we will have joint ownership of the intellectual property rights in those applications.

YES-DBS. During fiscal 2000 we worked as systems' integrator and technology provider to Israel's newest satellite broadcaster, Yes Satellite Services which went live with 90 digital channels on 15 July 2000. We worked with Yes Satellite Services to design, plan and oversee the rollout of the broadcast centre. As systems integrator, we provided much of the technology including conditional access and were responsible for the design and installation of the centre's infrastructure.

Stream S.p.A. Stream is an Italian satellite broadcaster, with News Corporation and Telecom Italia as shareholders. During fiscal 2000, we entered into an agreement with Stream to deploy our *Open VideoGuard* digital conditional access to secure its TV programming and to create a platform for next generation digital entertainment and interactive TV services. Prior to this agreement Stream had solely used a conditional access system from a competing vendor. In the future, consumers using new Stream set-top boxes will be using our conditional access systems and smart cards. For existing subscribers, *Open VideoGuard* will work alongside the existing conditional access system in a DVB SimulCrypt conditional access application. DVB Simulcrypt is a technique that allows both the delivery of one programme to a number of different decoder populations that contain different conditional access systems, and also for the transition between different conditional access systems in any decoder population

Joint Ventures and Business Alliances

We have established a number of joint ventures and business alliances with the aim of either enhancing our product development capabilities or jointly marketing products in some markets.

Microsoft. We entered into an agreement with Microsoft, Inc. to license, integrate and jointly extend our *NDS Core* middleware to be used in the Microsoft TV product family. With Microsoft we will jointly market digital solutions for network operators and will have an ongoing engineering relationship to evolve the joint solution and develop enhanced TV applications and services. Moreover, Microsoft has undertaken to market *NDS Core* as a member of the Microsoft family of set-top box operating system software under the product name MSTV basic.

Liberate. We have entered into an agreement with Liberate Technologies to make *XTV* fully integrated component of the Liberate TV Platform software for set-top boxes with hard disks. As part of the agreement, Liberate will also integrate our *Open VideoGuard* technology in certain consumer electronic manufacturers' set-top boxes that utilize Liberate's operating system software.

PictureVision/Kodak. PictureVision, Inc. is a pioneer of online photography and an independently operated subsidiary of Eastman Kodak Company. We have entered into an agreement jointly to develop and market a new application called *NDS Interactive Photo Applications* that introduces in televisions the capability to view digital photographs and order reprints over the Internet. The application is intended to allow consumers seamlessly to view, use, share, and order reprints of pictures from digital cameras and those stored on the Internet from their living rooms using their digital TVs. We will develop and deploy this application in return for a share of revenues.

Partnership in China. We have established a technology development partnership with the Academy of Broadcasting Science in China and have developed conditional access technologies that address the specific requirements of the Chinese digital television market. We have also entered into a partnership with NTC, a set-top box manufacturer in the

Sichuan province, jointly to develop set-top boxes for the Chinese digital cable television market. Several cable system operators are currently evaluating test models of these set-top boxes.

Competition

We compete in a number of business areas and no single company competes with us in all our product lines. Competition in our core area of conditional access is intense and in addition to price and commercial terms is based on:

- the number of set-top box manufacturers that have integrated conditional access systems and technologies in their products;
- the degree of compliance with the various international, regional and national standards that govern our industry;
- the availability of readily made value adding applications such as electronic programme guides and interactive services;
- the ability to integrate with broadcasting equipment; and
- the security that the overall system offers including the smart cards and their encryption technologies.

We consider our main conditional access systems competitors to be NagraVision, a division of Kudelski SA; Canal+ Technologies SA; General Instrument Corporation, a division of Motorola, Inc.; Scientific-Atlanta, Inc.; Irdeto BV, a subsidiary of MIH Limited; and Viaccess, a division of France Telecom, among others.

In the area of general broadcast system integration we compete with other broadcasting infrastructure companies such as Motorola, Inc., Scientific-Atlanta, Inc. and Philips Electronics.

Competitors in the supply of data broadcasting systems include Hughes Network Systems, Philips Video Systems, DiviCom, Inc., The Fantastic Corporation, ComBox Ltd. and SkyStream Corporation.

Except for Canal+ Technologies SA, most of our competitors in the interactive application market deliver only some components of a complete system solution. Companies such as TiVo, Inc. and Replay Networks, Inc. are competing with us only in the area of interactive set-top box based storage services. Companies such as WINK Communications, ACTV Inc., Open TV Inc. and WorldGate Communications Inc. compete with us in certain aspects with our interactive television technologies and applications.

Research & Development

We believe that our ongoing commitment to research and development enables us to retain a significant competitive advantage. For the year ended 30 June 2000, approximately 40% of our revenues and approximately 33% of our employees were devoted to research and development. All of our research and development activities are conducted either in our conditional access research and development facilities in Israel, where we employ approximately 329 engineers, or in our software development facilities in the UK, where we employ approximately 92 engineers. We have recently opened additional research and development facilities in Beijing, China and Bangalore, India.

The majority of our research and development activities are centered on enhancing and expanding the scope of our existing and planned products. Our non-product development related research is centered around the areas of security algorithms and smart card chip design.

Intellectual Property

Since the technology on which our business is dependent is critical to our success, we need to protect our intellectual property rights in our proprietary technology and in that which is licensed to us. We rely on a combination of patent, copyright and trademark laws, trade secrets, licences, confidentiality agreements and contractual provision to protect our proprietary rights. We generally enter into confidentiality and non-disclosure agreements with our employees, key customers and suppliers. We are the exclusive worldwide licencee of various patents, patent applications and patentable inventions from Yeda Research & Development Company Limited in Israel in the area of digital identification and signature schemes, which have been invented by Professor Adi Shamir. We pay a royalty equal to a percentage of relevant revenues in respect of the Shamir Patents to Yeda Research & Development Company. We are also a licencee of digital compression and digital broadcasting patents from Tandberg, the purchaser of our digital broadcasting business, for the ongoing marketing, supply and development of products such as *NDS Director* and *NDS Broadcaster*.

Where we license our patents and other forms of intellectual property to third parties we receive a licence fee, a royalty or the intellectual property rights are priced into the product or system price or some combination of the foregoing. We use third party software in our product offerings for which we have the necessary licences.

There has been substantial litigation in the technology industry, particularly in the US, regarding intellectual property rights. We have from time to time received claims that we are infringing upon third parties' intellectual property rights. In February 1999, we settled a patent infringement claim made by a Delaware partnership on terms acceptable to us. We are increasingly being asked by our customers to indemnify them against third party infringement claims and it is industry practice to accept and grant some form of indemnity.

Employees

We employ approximately 1,028 full-time employees in our continuing operations, of which 478 are based in Israel; 415 in the UK, and 108 in the US. The remainder are based in Hong Kong and Australia.

None of our employees is subject to any collective bargaining agreement. We believe that relations with our employees are satisfactory.

Doing Business in Israel

Our principal research and development facilities are located in Israel. We are directly affected by political, economic and military conditions in Israel. Our operations would be materially adversely affected if major hostilities involving Israel should occur or if trade between Israel and its present trading partners should be curtailed.

Political Conditions

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbours and a state of hostility has existed, varying in degree and intensity, between Israel and the Arab countries. This has led to security and economic problems in Israel. In 1979, however, a peace treaty between Israel and Egypt was signed under which full diplomatic relations were established. On 21 November 2000, in light of the recent deterioration in the relationship between the Palestinians and Israel, Egypt ordered its ambassador in Israel to return to Egypt. At this stage, we cannot anticipate the effect of this step on the relations between Israel and Egypt. Economic relations with Egypt, since the signing of the treaty in 1979, remain very limited.

Beginning in 1993, a joint Israeli-Palestinian declaration of principles and several agreements were signed by Israel and the Palestine Liberation Organization outlining interim Palestinian self-government arrangements. Since then, Israel has transferred the civil administration of the Gaza Strip, the major towns and villages of the West Bank and other territories in the West Bank to the Palestinian Self-Rule Authority, the Israeli army has withdrawn from these areas and some powers and governmental responsibilities have been transferred to the Palestinian Authority.

Recently, negotiations between Israel and the Palestinians towards the permanent Palestinian self-government arrangement have been stopped, as a result of the outbreak of hostilities between Palestinians and Israelis. We cannot be certain as to how the peace process will develop, if at all, or what effect the current deterioration in the relationship between Israel and the Palestinians may have on our business. Further escalation of the situation may lead to a conflict involving other countries in the Middle East, which may adversely affect our business.

In October 1994, Israel and Jordan signed a peace treaty, which provides for the start of full diplomatic relations between the two countries, including the exchange of ambassadors and consuls. This treaty also expresses the mutual desire of the parties for economic cooperation and calls for both parties to lift economic barriers and discrimination against the other and to act jointly towards the removal of any economic boycotts by third parties.

There are no peace treaties between Israel and Syria or Lebanon and material progress has not been achieved in peace talks between Israel and Syria or between Israel and Lebanon.

In addition, several countries, companies and organizations continue to participate in a boycott of Israeli firms. We do not believe that the boycott has had a material adverse effect on our business. However, restrictive laws, policies or practices directed towards Israel or Israeli businesses may have an adverse impact on the expansion of our business.

Army Service

Generally, all male adult citizens and permanent residents of Israel under the age of 51, unless exempt, are obliged to perform up to 39 days of military reserve duty annually. Additionally, all such individuals are subject to being called to active duty at any time under emergency circumstances. Currently, a significant number of our Israeli employees are obliged to perform annual reserve duty. While we have operated effectively under these requirements since we began operations, we cannot assess the full impact of these requirements on our workforce or business if conditions should change, and we cannot predict the effect on us of any expansion or reduction of these obligations.

Economic Conditions

Israel's economy has been subject to numerous destabilizing factors, including a period of rampant inflation in the early to mid-1980's, low foreign exchange reserves, fluctuations in world commodity prices, military conflicts and civil unrest. The Israeli government has, on occasion, intervened in various sectors of the economy, employing fiscal and monetary policies, import duties, foreign currency restrictions and control of wages, prices and foreign currency exchange rates. In 1998, the Israeli currency control regulations were liberalized significantly to allow Israeli residents to deal in foreign currency and non-residents of Israel to freely purchase and sell Israeli currency and assets. The Israeli government has periodically changed its policies in all these areas.

The Israeli government's monetary policy contributed to relative price and exchange rate stability in the last few years, despite fluctuating rates of economic growth and a high rate of unemployment. We cannot assure that the Israeli government will be successful in its attempts to keep prices and exchange rates stable. Price and exchange rate instability may have a material adverse effect on us.

Trade Agreements

Israel is a member of the United Nations, the International Monetary Fund, the International Bank for Reconstruction and Development and the International Finance Corporation. Israel is a member of the World Trade Organization and is a signatory to the General Agreement on Trade in Services, which provides for reciprocal lowering of trade barriers among its members. In addition, Israel has been granted preferences under the Generalized System of Preferences from the United States, Australia, Canada and Japan. These preferences allow Israel to export the products covered by such programmes either duty-free or at reduced tariffs.

In 1985, Israel and the United States entered into an agreement to establish a free trade area. The free trade area has eliminated all tariff and some non-tariff barriers on most trade between the two countries. Israel became associated with the European Economic Community, now known as the European Union, in a 1975 free trade agreement which confers advantages on Israeli exports to most European countries and obligates Israel to lower its tariffs on imports from those countries over a number of years. In November 1995 Israel entered into a new agreement with the European Union, which includes redefinition of rules of origin and other improvements, such as providing for Israel to become a member of the research and technology programmes of the European Union. In September 1992, Israel signed a free trade agreement with the European Free Trade Association whose members include Switzerland, Norway, Iceland and Liechtenstein. The agreement became effective on January 1, 1993, and establishes a free-trade zone between Israel and the other members.

Israel has also established commercial and trade relations with a number of the other nations, including Russia, China, India, Turkey and other nations in Asia and Eastern Europe

Grants

The State of Israel is interested in achieving growth of its high technology industries and has established several mechanisms of incentives in this regard. One such programme is "approved enterprise". Under this scheme, companies choose between either receiving grants accounting for up to 24% of their capital investments based on "approved plans" or an exemption from paying income tax for up to the first 10 years of operation. We are currently operating under this scheme.

The State of Israel also is engaged in the European 5th Framework. Under this programme, joint "infrastructure" technology development programmes are being encouraged by up to 50% of the investment. The programme requires that at least three companies from three different European countries participate in the project. We are currently evaluating engaging in some of these projects.

Employment Matters Relating to Israel

Israeli law and certain provisions of the nationwide collective bargaining agreements between the Histradrut (General Federation of Labor in Israel) and the Coordinating Bureau of Economic Organizations (the Israeli federation of employers' organizations) apply to our Israeli employees. These provisions principally concern the maximum length of the work day and the work week, minimum wages, contributions to a pension fund, insurance for work-related accidents, procedures for dismissing employees, determination of severance pay and other conditions of employment. Israeli law generally requires the payment of severance pay upon the retirement or death of an employee or upon termination of employment by the employer or, in certain circumstances, by the employee. We currently fund our ongoing severance obligations by making monthly payments for insurance policies.

Our general practice in Israel, although not legally required, is the contribution of funds on behalf of our employees to an individual insurance policy known as "Managers' Insurance". This policy provides a combination of savings plan, insurance and severance pay benefits to the insured employee. It provides for payments to the employee upon retirement or death and secures a substantial portion of the severance pay, if any, to which the employee is legally entitled upon termination of employment. Each employee contributes an amount equal to 5% of such employee's base salary, and the employer contributes between 13.3% and 15.8% of the employee's base salary. We also provide our employees with an Education Fund, to which each participating employee contributes an amount equal to 2.5% of such employee's base salary, and the employer contributes 7.5% of the employee's base salary. In addition to the employees employed by us, we also employ workers through manpower agencies whose terms of employment are different from those of our employees.

Regulation

Directive 95/47 EU and Related Proposals

Various aspects of digital television technology are subject to regulation in certain jurisdictions. Pursuant to Directive 95/47 EU (the "Directive") of the European Parliament and the Council of the European Union Member States of the EU are required to put in place various measures designed to provide for open access to conditional access systems used by digital television networks, to reduce the threat of piracy in the European digital audiovisual environment and to ensure a common approach to the development of technology for advanced television services, including the following:

- All consumer equipment capable of descrambling digital television signals is required to descramble such signals according to a common European scrambling algorithm; and it has been agreed that two concepts relating to digital conditional access systems can and should co-exist. These are SimulCrypt (based upon a proprietary conditional access interface) and MultiCrypt (based upon a standardized conditional access interface, the "Common Interface"). Both concepts will enable a single consumer set-top box to receive all DVB-compliant digital satellite broadcasts regardless of the broadcaster. DVB, which stands for digital video broadcasting, is a European project which has defined various transmission standards for digital broadcasting systems. These concepts are expected to enable the digital satellite market to establish itself in Europe more rapidly and more widely (and at lower cost to the consumer) than had been the case for analog satellite television. The European Parliament has reserved the right to mandate a single standard interface for conditional access and other functions. We believe that the adoption of the Common Interface would not be in the best interests of the industry or the consumer. We have fully supported the adoption of the common scrambling algorithm and were an active participant in creating this standard. We have recently successfully demonstrated SimulCrypt and use it for Stream;
- Member States of the EU are required to take all the necessary measures to ensure that the operators of conditional access services, irrespective of the means of transmission, who produce and market access services to digital television services, offer to all broadcasters on a fair, reasonable and non-discriminatory basis, technical services enabling the broadcasters' digitally transmitted services to be received by viewers authorised by means of decoders

administered by the service operators and comply with EU competition law, particularly if a dominant position appears, and keep separate financial accounts regarding their activity as conditional access providers;

- In granting licences to manufacturers of consumer equipment, holders of industrial property rights to conditional access products and systems shall ensure that this is done on fair, reasonable and non-discriminatory terms. Taking into account technical and commercial factors, holders of rights shall not subject the granting of licences to conditions prohibiting, deterring or discouraging the inclusion in the same product of a common interface allowing connection with several other access systems, or means specific to another access system, provided that the licencee complies with the relevant and reasonable conditions ensuring as far as the licencee is concerned, the security of transactions of conditional access system operators. These regulations do not have a material adverse effect on our business; and

- Where television sets contain an integrated digital decoder, such sets must allow for the option of fitting at least one standardized socket, permitting connection of conditional access and other elements of a digital television system to the digital decoder.

In its Green Paper on the legal protection of encrypted services of March 1996 the EU Commission noted that there were varying degrees of protection against piracy in different Member States and considered that this fragmentation was preventing the proper operation of the single market and holding back the development of a European market in encrypted services (including pay-television, digital television, pay-per-view, video-on-demand, near video-on-demand, games supplied on request and interactive teleshopping).

On 20 November 1998, the Commission adopted Directive 98/94EU on the legal protection of conditional access services, which addresses the issue of piracy of conditional access equipment, without regard to whether or not such equipment is used for television broadcasting. The Directive therefore applies to broadcasting and data services provided on a conditional access basis, without distinguishing between methods of content delivery. It aims at ensuring the legal protection of conditional access services against unauthorised reception and the free movement of these services in the Community. Under the Directive, Member States must provide appropriate sanctions and remedies against acts of commercial "piracy" (e.g. the manufacture, marketing and sale of illicit devices and the installation, maintenance or replacement of such devices). Providers of conditional access services will be entitled to bring an action for damages, apply for injunctive relief or have the illicit devices seized.

On 7 January 1997, the UK government introduced a new legislative framework for the regulation of conditional access systems for digital television services to implement Directive 95/47 EU. These regulations were brought into effect by the introduction of a class licence for conditional access services ("Conditional Access Class Licence") and a statutory instrument amending the Telecommunications Act 1984 to extend the definition of a telecommunication system for the first time.

The aim of the UK Conditional Access Regulations and the Conditional Access Class Licence is to ensure that providers of conditional access services who produce and market access to digital television services offer such services on fair, reasonable and non-discriminatory terms. This is to ensure that control of conditional access technology is not used to distort, restrict or prevent competition in television or other content services, particularly where a conditional access service provider is providing conditional access services to competitors of an associated programming or other contents-supplied business.

The Conditional Access Class Licence applies to all persons who operate telecommunication systems used to provide conditional access services whilst the new statutory instrument extends the definition of what amounts to a telecommunication system, to include a conditional access system used to provide subscriber management services (known as a "deemed system"). The statutory instrument also states that subscriber management services provided by means of a deemed system shall be treated as telecommunication services.

The Conditional Access Class Licence contains a number of enforcement mechanisms that require the provider of conditional access services to co-operate with broadcasters and to make such services available to broadcasters on fair, reasonable and non-discriminatory terms. Hence a provider of conditional access services may not show undue preference to, or exercise undue discrimination against, particular persons or classes of persons in relation to the provision of its services, unless it is only providing such services to itself. The conditional access operators are under an additional obligation to co-operate with broadcasters to ensure the interconnection or interoperability of the operators conditional access system and any associated apparatus to enable broadcasters to take advantage of the operators conditional access services.

The class licence also requires the provider of conditional access services to make available industrial property rights for conditional access products and systems to broadcasters on fair, reasonable and non-discriminatory terms. This requirement falls short of mandatory licensing of industrial property rights to broadcasters, but prohibits any anti-competitive behaviour and encourages licencees to include common interfaces, or other conditional access systems within any equipment manufactured by the licencees.

In May 1999, OFTEL adopted guidelines setting how it proposes to deal with unfair pricing in relation to the provision of conditional access services. The guidelines do not form part of the class licence or the regulations or affect their legal scope. However, the Director General has said that he would normally expect to follow the guidelines and to give his reasons if he departed from them.

OFTEL will only intervene in a firm's pricing of conditional access services in the event that commercial negotiations fail to arrive at an outcome which is fair, reasonable and non-discriminatory. In the event that the Director General took the view that the prices offered were not fair, reasonable and discriminatory, he would then take enforcement action under the Telecommunications Act 1984 to require the conditional access provider to revise its prices in order to comply with the terms of the class licence.

On 31 August 1999 a new Class Licence for the provision of Access Control Services ('the Access Control Class Licence') was granted. Access Control Services are services which control the supply of certain digital telecommunications services (as specified in the Access Control Class Licence) to end users. Examples of Access Control Services include services for authenticating identity, and services for encrypting or decrypting digital services that are not intended to be available to all. The digital services that might be controlled include home shopping and home banking services delivered via a set-top box or an integrated digital television set. Access Control Services are not supplied directly to end users but are supplied to third parties (such as retailers or banks) who wish to supply digital services to end users.

In September 2000 OFTEL issued a set of guidelines which set out the approach the Director General of Telecommunications expects to take when considering a Regulated Supplier determination. A Regulated Supplier determination can only be made in respect of Access Control Services. A determination which makes a licensee a Regulated Supplier will 'trigger' additional obligations that would otherwise lie dormant within the Access Control Class Licence. The conditions that are triggered by such a determination are designed to prevent the licensee using its position in the supply of Access Control Services to behave with an anti-competitive object or effect toward third parties who wish to supply digital services to end users. The ultimate purpose of the triggered conditions is to prevent anti-competitive behaviour against third parties that would result in reduced consumer welfare; for example by restricting the choice of digital services available to end users where no good substitutes exist or by raising the prices of digital services to end users by restricting the availability of alternative digital services. A Regulated Supplier determination can only be made in respect of Access Control Services and can therefore only be made in instances where the licensee supplies or intends to supply Access Control Services and third parties have made a reasonable request for the provision of Access Control Services from the licensee for the purposes of supplying end users with the relevant digital services.

However, a determination making a licensee a Regulated Supplier will only be made where the supplier of Access Control Services is in a dominant position or has Market Influence within the relevant market within which those Access Control Services fall. In making a Regulated Supplier determination the Director must, therefore, define the relevant market and assess whether the licensee is in a dominant position or has Market Influence within that relevant market.

We do not believe that the new class licence and statutory instrument will apply to us because we are not an operator of conditional access systems.

Regulations relating to the licence of industrial property rights in conditional access technology to, among others, manufacturers of decoders were brought forward and came into force on 23 August 1996. Broadly, these regulations prevent the licensors of industrial property rights in conditional access technology from including in the licence agreements conditions which would prohibit or discourage manufacturers of consumer decoder units from including in those units a common interface allowing connection with other conditional access systems or means specific to another conditional access system. These regulations do apply to us, but our policy on licensing our technology is such that we do not expect the regulations to have a material adverse effect on our business activities.

The main objective of the current arrangements is to prevent abuses of competition in relation to the provision of digital conditional access services, without at the same time stifling innovation and inhibiting investment in digital broadcasting. It is not presently proposed to introduce regulation for conditional access services for analog television.

ITEM 2. DESCRIPTION OF PROPERTY

We operate from a number of locations principally located in the UK, Israel and the US. All the UK and US facilities are either licenced or leased from News Corporation or its affiliates. All other facilities are leased.

A list of our main facilities is set out below..

Location	Principal Use	Approximate Size (sq ft)	Lease Expiry
Staines, UK	Executive and administrative offices	42,000	2017
West Drayton, UK(1)	Executive and administrative offices	31,000	2002-2014
Maidenhead, UK	Smart card processing and distribution	15,000	2004
Chilworth, UK	Software development	16,500	2009
Eastleigh, UK	Digital broadcasting system integration	16,000	2005
Jerusalem, Israel	Research and development, conditional access system support	100,000	2000-2006
Haifa, Israel	Research and development	7,000	2001
Newport Beach, CA, US	Executive offices of NDS Americas	23,000	2001
Lake Forest, CA, US	Smart card processing and distribution	29,000	2007

In addition, we also have offices in Miami, Florida; Hong Kong; Madrid, Spain; Beijing, China; New York, New York and Sydney, Australia.

(1) We vacated the premises at West Drayton on 16 September 2000 and have instructed agents to attempt to market and sell the facility.

We have entered into an agreement to negotiate a lease for premises in the Eastleigh, UK area of approximately 30,000 square feet. These premises are currently being constructed and we expect to enter into a full lease in this next fiscal year. We expect these new premises to replace our current facilities in Chilworth and Eastleigh and anticipate that the existing leases will be sold or terminated.

ITEM 3: LEGAL PROCEEDINGS

We are involved in a number of legal proceedings, most of which involve claims by us against persons or organizations engaged in signal theft. We have a close working relationship with law enforcement authorities, the Federation Against Copyright Theft, Trading Standards Officers and HM Customs and Excise in the investigation of signal theft. We also conduct our own investigations into those involved in the development, marketing and distribution of unauthorised signal theft devices. Many individuals and entities are involved in the development, marketing and distribution of signal theft devices in other European countries, and we have assisted in investigations in such countries by law enforcement agencies, and other commercial organizations with whom we share a common interest.

We are not involved in any legal proceedings that management believes would materially adversely affect our business, operating results or financial condition.

ITEM 4: CONTROL OF REGISTRANT

As of 21 November 2000, our outstanding voting securities consisted of 10,734,302 Series A ordinary shares of $0.01 each (having one vote per share) and 42,001,000 Series B ordinary shares of $0.01 each (having ten votes per share). All of the Series B ordinary shares are held by Sky Global Networks, Inc., which is a Delaware corporation and an indirect subsidiary of News Corporation , a company incorporated in South Australia. As a consequence of its ownership of the Series B ordinary shares, News Corporation is entitled to 97.51% of the aggregate voting power of NDS. Sky Global Networks, Inc. is engaged, among other things, in the distribution of pay-television services via satellite. The News Corporation Limited is a diversified international media company.

As of the date hereof, the directors and officers of the Company (as a group and including persons connected with them) owned 281,000 Series A ordinary shares in the form of ADSs. See also Item 12: "Options to purchase securities from registrant or subsidiaries".

Approximately 30% of the voting stock of News Corporation is owned by (1) Mr. K. Rupert Murdoch, (2) Cruden Investments Pty. Limited, a private Australian investment company owned by Mr. KR Murdoch, members of his family and various corporations and trusts, the beneficiaries of which include Mr. Murdoch, members of his family and certain charities, and (3) corporations, including a subsidiary of Cruden Investments Pty. Limited, which are controlled by trustees of settlements and trusts set up for the benefit of the Murdoch family, certain charities and other persons. By virtue of shares of News Corporation owned by such persons and entities, and Mr. KR Murdoch's position as Chairman and Chief Executive of News Corporation, Mr. KR Murdoch may be deemed to control the operations of News Corporation.

As far as is known to us, there are no arrangements the operation of which may at a subsequent date result in a change of control of the Company.

ITEM 5: NATURE OF TRADING MARKET

American Depositary Shares ("ADSs"), each representing one of our Series A ordinary shares, have been traded on the NASDAQ National Market since our initial public offering on 22 November 1999. Prior to that date there was no public trading market in our securities. The principal trading market for our ADSs is the NASDAQ National Market. Our ADSs are also listed on EASDAQ outside of the United States. The volume of ADSs traded on EASDAQ has been negligible. The ADSs are evidenced by American Depositary Receipts ("ADRs") issued by The Bank of New York as depositary under a Deposit Agreement dated 26 November 1999 among the Company, The Bank of New York and the Owners and Beneficial Owners of ADRs.

The high and low closing prices for our ADSs as reported on the NASDAQ National Market for each period since commencement of a market are as follows:

Period	High Price per ADR	Low Price Per ADR
22 November 1999 to 31 December 1999	$39.750	$28.000
1 January 2000 to 31 March 2000	$102.000	$29.063
1 April 2000 to 30 June 2000	$70.000	$41.875

On 21 November 2000, 10,734,302 ADSs (equivalent to 10,734,302 Series A ordinary shares) were outstanding, of which 10,728,185 ADSs were held of record by approximately 6 holders of record in the US.

ITEM 6: EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

There are currently no UK foreign exchange control restrictions on the acquisition of, or payment of dividends on, our ordinary shares or ADSs, although from time to time UK government sanctions may restrict our ability to sell securities, pay dividends or make other distributions to the governments of certain countries, persons associated with those governments or residents of those countries.

There are no restrictions under our Memorandum and Articles of Association that limit the right of non-UK residents or citizens to hold our securities, including our ordinary shares and ADSs.

ITEM 7: TAXATION

US securities' law requires disclosure in the Annual Report only of relevant tax laws of the UK along with relevant provisions of the US-UK tax treaty. The following discussion summarizes certain tax consequences of the acquisition, ownership and disposition of shares and shares represented by ADSs by a beneficial owner of ADSs who is a (i) citizen or resident of the US, (ii) a corporation organized under the laws of the US or any state thereof or the District of Columbia, (iii) a domestic partnership, (iv) an estate the income of which is subject to US federal income taxation regardless of its source or (v) a trust if a court within the US is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust (a "US Holder").

This summary is based (i) upon current UK law, United Kingdom Inland Revenue ("UK Inland Revenue") practice, and the UK-US Income Tax Convention currently in effect (the "Treaty") and (ii) in part upon representations of the Depositary and assumes that each obligation provided for in or otherwise contemplated by the Deposit Agreement and any related agreement will be performed in accordance with their respective terms. It should be noted that the United States and the United Kingdom have announced their intention to re-negotiate the Treaty.

The discussion set out below is only a general summary and does not purport to be a technical analysis nor a description of all possible tax consequences. Tax consequences to each US Holder will depend upon the particular facts and circumstances of each such holder. Accordingly, each person should consult with his own professional advisor with respect to the tax consequences of his ownership and disposition of shares or ADSs. US Holders of ADSs will be treated as owners of the shares underlying the ADSs. Accordingly, except as noted, the UK tax consequences discussed below apply equally to US Holders of ADSs and shares.

Taxation of Dividends

Dividends paid by UK companies have attached a tax credit equal to one-ninth of the dividend. A US Holder will be treated as receiving dividend income equal to the sum of the dividend and the tax credit, reduced by UK witholding tax at 10% which will be available as a foreign tax credit subject to the provisions of the US Internal Revenue Code. Thus a US Holder receiving a dividend of £90 will be treated as receiving taxable income of £100 less UK witholding tax of £10. No refund of UK tax will be available.

The dividend (including the related UK tax credit) payable to a US Holder will generally be treated as foreign source dividend income and will not be eligible for the dividends received deduction for US federal income tax purposes. Subject to certain complex limitations, US Holders may elect to take a credit against US income tax for the UK tax credit. US Holders should consult their advisors as to the application of the foreign tax credit rules.

Taxation of Chargeable Gains

A Holder who is not resident and not ordinarily resident for tax purposes in the UK will not normally be liable for UK tax on chargeable gains realized on the disposal of his ordinary shares or ADSs unless at the time of the disposal such Holder carries on a trade, profession or vocation in the UK through a branch or agency and such ordinary shares or ADSs are used or held or have been acquired for use by or for the purposes of such trade, profession or vocation or branch or agency.

Inheritance Tax

(a) Ordinary shares and ADSs will be assets situated in the UK for the purposes of UK inheritance tax. A gift of such assets by, or the death of, an individual holding such assets may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax. Such a charge may arise even if the Holder is neither domiciled in the UK nor deemed to be domiciled there for UK inheritance tax purposes under special rules relating to long residence or previous domicile. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift. Special rules apply to gifts where the donor reserves or retains some benefit. Special inheritance tax rules also apply to ordinary shares and ADSs held by close companies or by trustees of settlements bringing them within the charge to inheritance tax.

(b) An individual who is domiciled in the US for the purposes of the UK/United States Estate and Gift Tax Convention (the "Estate Tax Treaty") and who is not a national of the UK for the purposes of the Estate Tax Treaty will generally not be subject to UK inheritance tax in respect of the ordinary shares or ADSs on the individual's death or on a gift of the ordinary shares or ADSs during the individual's lifetime, provided that any applicable US federal gift or estate tax liability is paid, unless the ordinary shares or ADSs are part of the business property of a permanent establishment of an enterprise of the individual in the UK or pertain to a fixed base in the UK of the individual used for the performance of independent personal services. Where the ordinary shares or ADSs have been placed in trust by a settlor who, at the time of settlement, was domiciled in the US for the purposes of the Estate Tax Treaty and not a national of the UK for the purposes of the Estate Tax Treaty, the ordinary shares or ADSs will generally not be subject to UK inheritance tax (provided that the ordinary shares or ADSs are not part of the business property of a permanent establishment in the UK and do not pertain to a fixed base in the UK as mentioned above). In the exceptional case where the ordinary shares or ADSs are subject both to UK inheritance tax and to US federal gift or estate tax, the Estate Tax Treaty generally provides for the tax paid in the UK to be credited against tax paid in the US or for tax paid in the US to be credited against tax payable in the UK based on priority rules set out in the Estate Tax Treaty.

Stamp Duty/Stamp Duty Reserve Tax

(a) Any conveyance or transfer on sale of the ordinary shares will usually be subject to stamp duty on the instrument of transfer, generally at a rate of 0.5% of the amount or value of the consideration rounded up (if necessary) to the nearest multiple of £5. A charge to stamp duty reserve tax ("SDRT") at the rate of 0.5% of the amount or value of the consideration will arise in relation to an agreement to transfer such ordinary shares. However, where within 6 years of the date of the agreement (or, if the agreement is conditional, the date on which it becomes unconditional) an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that instrument, any liability to stamp duty reserve tax will be canceled and any such tax which has been paid will be repaid.

(b) Stamp duty or SDRT charges at the rate of 1.5% of the amount or value of the consideration, or in some circumstances, the value of the ordinary shares, may arise on a transfer or issue of ordinary shares to the Custodian of the Depositary or to certain persons providing a clearance system (or their nominees or agents) and will be payable by the Depositary or such other persons.

(c) In accordance with the terms of the Deposit Agreement, any tax or duty payable by the Depositary or the Custodian of the Depositary on any deposit of ordinary shares will be charged by the Depositary to the Holder of the ADS or any deposited security represented by the ADS.

(d) No UK stamp duty will be payable on the acquisition or transfer of an ADS or beneficial ownership of an ADS, provided that the ADS and any separate instrument of transfer or written agreement to transfer remains at all times outside the UK, and provided further that any instrument of transfer or written agreement to is not executed in the UK An agreement to transfer ADSs will not give rise to a liability for SDRT.

(e) Any transfer for value of the underlying ordinary shares represented by ADSs (which will exclude a transfer from the Custodian of the Depositary or the Depositary to an ADS holder on a cancellation of the ADSs), may give rise to a liability to UK stamp duty. The amount of UK stamp duty payable is generally calculated at the rate of 0.5% of the amount or value of the consideration for the transfer of the ordinary shares rounded up (if necessary) to the nearest multiple of £5. However, on a transfer from the Custodian of the Depositary to a US Holder or registered Holder of an ADS upon cancellation of the ADS only a fixed UK stamp duty of £5 per instrument of transfer will be payable.

(f) It should be noted that certain categories of person are not liable to stamp duty or SDRT or may, although not primarily liable for SDRT, be required to notify and account for it under the Stamp Duty Reserve Tax Regulations 1986.

ITEM 8: SELECTED FINANCIAL DATA

The selected financial data presented below for NDS Group plc and its consolidated subsidiaries for each of the years in the three-year period ended 30 June 2000 and as at 30 June 2000 and 1999, have been derived from our consolidated financial statements and the notes to those financial statements included elsewhere in this Annual Report, which have been audited by Arthur Andersen, independent chartered accountants, and should be read in conjunction with those financial statements and related notes. The selected financial data presented below for NDS for the years ended 30 June 1997 and 1996 have been derived from the audited financial statements of the companies within NDS, and the notes to those financial statements, for those periods.

The consolidated financial statements have been prepared in accordance with UK GAAP, which differs in some respects from US GAAP. See note 27 of the notes to our consolidated financial statements for a discussion of the principal differences between UK and US GAAP.

	Fiscal Year Ended 30 June				
	1996	1997	1998	1999	2000
	(in thousands, except per share amounts)				
Profit and Loss account:					
In accordance with UK GAAP					
Turnover—Continuing operations	£ 76,569	£ 89,022	£101,332	£ 127,574	£ 160,214
—Discontinued operations[1]	37,606	78,515	87,465	88,348	-
	114,175	167,537	188,797	215,922	160,214
Cost of sales	(56,595)	(89,256)	(90,276)	(101,020)	(61,958)
Gross profit	57,580	78,281	98,521	114,902	98,256
Operating expenses	(48,826)	(69,981)	(87,394)	(98,029)	(73,951)
Operating profit (loss)					
—Continuing operations	9,917	5,742	8,137	18,734	24,305
—Discontinued operations[1]	(1,163)	2,558	2,990	(1,861)	-
	8,754	8,300	11,127	16,873	24,305
Profit on sale of discontinued operations	-	-	-	-	5,192
Finance charges (net)	(1,489)	(11,066)	(10,444)	(13,205)	(3,389)
Profit (loss) on ordinary activities before taxation	7,265	(2,766)	683	3,668	26,108
Taxation	(1,741)	312	(508)	(1,194)	(6,498)
Profit (loss) on ordinary activities after taxation	5,524	(2,454)	175	2,474	19,610
Minority interests	(265)	(527)	(293)	(356)	(218)
Profit (loss) for the financial year	£ 5,259	£ (2,981)	£ (118)	£ 2,118	£ 19,392
Basic earnings (loss) per share	12.5p	(7.1p)	(0.3p)	5.0p	40.1p
Fully diluted earnings (loss) per share	12.5p	(7.1p)	(0.3p)	5.0p	38.7p
Profit and Loss account:					
In accordance with US GAAP					
Revenues		£ 94,328	£ 93,492	£ 137,024	£ 163,364
Operating income		7,258	5,897	21,434	11,806
Interest expense (net)		(11,066)	(10,444)	(13,205)	(3,389)
Income (loss) before income taxes and discontinued operations[1]		(3,028)	(4,547)	8,229	8,417
Income tax benefit (expense)		985	(541)	(2,258)	(6,795)
Income before discontinued operations[1]		(2,823)	(5,088)	5,971	1,622
Discontinued operations, net of tax[1]		1,392	1,746	(1,627)	-
Profit on sale of discontinued operations[1]	-	-	-	-	5,192
Net income (loss)		£ (1,431)	£ (3,342)	£ 4,344	£ 6,814

Earnings per share in accordance with US GAAP

	Fiscal Year Ended 30 June			
	1997	1998	1999	2000
Basic earnings (loss) per share	(3.4p)	(8.0p)	10.3p	14.1p
Diluted earnings (loss) per share	(3.4p)	(8.0p)	10.3p	13.6p
—Continuing earnings (loss) per share		(12.1p)	14.2p	3.4p
—Discontinued earnings (loss) per share [1]		4.4p	(3.9p)	10.7p

(1) Earnings per share for the year ended 30 June 2000 in respect of the discontinued operations represents the profit on the disposal of the discontinued operations attributable to each ordinary share.

	As of 30 June (In thousands)		
	1998	1999	2000
Balance Sheet:			
In accordance with UK GAAP			
Total assets	£ 140,377	£ 182,163	£ 124,096
Long-term liabilities	(132,996)	(133,540)	(1,474)
Total other liabilities	(94,516)	(132,757)	(70,005)
Minority interests	(1,268)	(1,753)	-
Shareholders' funds	£ (88,403)	£ (85,887)	£ 52,617
Balance Sheet:			
In accordance with US GAAP			
Total assets continuing operations	£ 142,311	£ 107,416	£ 124,888
Total assets discontinued operations[1]	-	75,836	-
Total assets	142,311	183,252	124,888
Long-term liabilities	(132,996)	(133,540)	(1,474)
Total other liabilities	(100,756)	(136,297)	(72,645)
Shareholders' equity (deficit)	£ (91,441)	£ (86,585)	£ 50,769
Net assets of discontinued operations[1]	-	65,415	-

(1) Discontinued operations refer to the digital broadcasting business that we transferred on 1 July 1999 to Ordinto Investments, a subsidiary of News Corporation. The consideration for goodwill amounted to £20 million. Other net assets were sold for their book value. The transaction yielded a profit to the NDS Group of £5,192,000, which is a permanent difference for tax purposes. Ordinto Investments sold the business to Tandberg Television ASA, an unrelated entity on 14 October 1999.

EXCHANGE RATES

Our revenues are predominantly denominated in pounds sterling and US dollars depending on the location and preference of our customer. A portion of our operating costs and costs of sales are also denominated in US dollars, principally our Israeli and US operations, and Deutsche marks, principally related to our purchase of some components. For a discussion of the impact of exchange rate movements on our financial condition and results of operations, see Item 9A: "Management's Discussion and Analysis of Financial Condition and Results of Operations - Foreign Exchange".

The following table sets out, for the periods and dates indicated, information concerning the noon buying rates in The City of New York for cable transfers in foreign currencies as certified by the Federal Reserve Bank of New York for customs purposes for pounds sterling expressed in US dollars per £1.00.

Year Ended 30 June	Average (1)	High	Low	Period End
1996	1.5470	1.6073	1.4948	1.5529
1997	1.6137	1.7123	1.5375	1.6650
1998	1.6458	1.7035	1.5775	1.6695
1999	1.6417	1.7222	1.5765	1.5765
2000	1.5919	1.6765	1.4702	1.5130

(1) The average of the noon buying rates on each day during the relevant period.

As of 24 November 2000, the noon buying rate was US$1.3997 per £1.00.

ITEM 9: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements, including the related notes, that appear elsewhere in this Annual Report. The consolidated financial statements have been prepared in accordance with UK GAAP, which differ in some respects from US GAAP. Note 27 to the financial statements explains the principal differences and provides a reconciliation of profits determined under UK GAAP to those that would be reported under US GAAP.

We provide conditional access, broadcast control software and related products and services for the management, control and distribution of entertainment and information to televisions and personal computers and the interaction of the subscriber with such content. Our conditional access systems enable the secure distribution of content over a variety of broadcasting media including analog and digital television, the Internet and other broadband networks. We have also started to generate revenues from the provision of Interactive TV applications and Data Broadcasting solutions.

We also provide consulting, system design, integration, and maintenance and support services to digital broadcasters. System integration includes both the selection of appropriate vendors and the integration of various components, including those of third party manufacturers, into a single operational broadcast system which also uses our conditional access and broadcast control software. Consulting services includes business consulting and technical assistance, as well as security design for interactive and other advanced services. Our software is licensed for use by broadcasters and others and generates initial licence fees and/or an ongoing royalty stream. Once customers' systems are operational, we may provide ongoing support and maintenance.

Presentation of Financial Information

In order to provide a meaningful commentary on the business, the discussion of revenues and costs relates to our continuing operations. Prior to 1 July 1999, we were involved, among other things, in the business of the design, development, supply and support of digital video, transmission and reception equipment for the broadcasting business ("the digital broadcasting business"). On 1 July 1999, the entire business, assets, including goodwill, and liabilities of the digital broadcasting business were sold to an indirect wholly-owned subsidiary of News Corporation, Ordinto Investments.

On 14 October 1999, Ordinto Investments sold the digital broadcasting business to Tandberg Television ASA. The results of the digital broadcasting business for the periods ending 30 June 1999 have been classified as a discontinued operation and has been discussed as a separate item below.

Revenues

We have identified four principal revenue streams of the business: conditional access revenues, integration, development and support fees, licence fees and royalties and revenues from new technologies. Revenues are derived from customers in the UK, mainland Europe, the US, Latin America and the Asia Pacific region. Our operations are located principally in the UK, Israel and the US. Revenues have increased significantly over the last three years due in large part to the growth in the number of customers and the growth in the number of our customers' subscribers. For the period from 1 July 1997 to 30 June 2000 the number of subscribers using the services offered by those customers increased to 18.5 million from 7.0 million.

Conditional Access Revenues

Conditional access revenues from a particular broadcaster are generally related to the number of subscribers to the broadcaster's systems. Contracts with customers typically provide for a long-term supply of smart cards and the provision of conditional access services to preserve the security of the system. Demand for smart cards depends on demand by consumers for set-top boxes which enable the viewer to receive a broadcaster's programmes and services. The nature and extent of the security services vary by customer and are reflected in the fees paid, which are typically determined by the number of smart cards. Thus, a significant proportion of the growth in conditional access revenues is driven by the rapid growth in the underlying subscriber bases of our broadcaster customers.

Conditional access revenues consist of the following elements:

Smart Cards Smart cards are sold to the broadcaster (or occasionally, their set-top box manufacturers) for distribution to and use by their subscribers. The revenues derived from these sales are recognised upon shipment of the cards.

Subscriber Fees In some circumstances, we receive fees from broadcasters for the maintenance of security of conditional access systems for a specified duration, which is typically between 18 and 40 months. Fees are received over the duration of the agreed service period and are usually related to the number of subscribers that the broadcasters have. These revenues are recognised in the period in which the security services are performed. The extent of services, which consist of maintenance of security of the conditional access systems, will vary between customers and, on occasion, may include the supply of smart cards for no extra charge to the broadcasters at a future date in order to replace a population of smart cards to maintain their security. This is an integral part of the wider security maintenance activities, and the subscriber fees continue to be recognised as the services are performed. Costs associated with such arrangements include, therefore, the production of smart cards to be provided. In these circumstances, a provision is made in the financial statements, which reflects the amount of the total anticipated costs relating to the subscriber fees recognised to date. The proportion of revenues recognised to date as compared with total security fees expected over the duration of the maintenance agreement is applied to the total anticipated costs in order to calculate the provision required as at each balance sheet date. Movements in the provision are included within the profit and loss account as part of cost of sales. Depending on the nature of the security plan entered into with a customer, when a customer undertakes such a replacement of smart cards, NDS can experience a significant increase in revenue from the supply of smart cards for that period.

Integration, Development and Support

Integration, development and support consists of activities such as software development and adaptation; design, implementation and project management of broadcasting systems; and ongoing support and maintenance of software and broadcaster systems. Integration, development and support fees are related to our ability to obtain new customers for systems and technology and to provide sufficient resources to accept a new contract. Such revenues are determined by contractual negotiation and depend on the amount of time required to manage the integration, customise or develop the software and also on the level of support and assistance required by the customer.

Licence Fees and Royalties

We derive licence fees and royalties from licensing technology to broadcasters for use in their head-end and subscriber management systems and to set-top box manufacturers. Licence revenues are dependent upon our ability to obtain new customers for proprietary technology and upon the ongoing needs of customers to expand their services or upgrade their systems to more sophisticated technology. Royalties are generally a function of the number of set-top boxes manufactured, which in turn is dependent upon the ability of the broadcaster or service provider to generate new subscribers, and the level of "churn" in their subscriber base. Churn is the number of subscribers in any given period who terminate their subscriptions and are replaced by new subscribers, without any growth in the absolute number of subscribers.

New Technologies

We have developed, and are marketing, new technologies which offer the broadcaster or channel operator the opportunity to increase the revenue per subscriber through enhancing the viewing experience and delivering more than just video. Examples include interactive applications, data broadcasting to personal computers and the use of our technologies to manage and control the secure distribution of digital content via broadband networks. Revenues under this category have been earned since 1 July 1999 and are in the form of development fees, licence fees and royalties per subscriber or user. These are typically earned on the successful deployment of technology to a customer or on the manufacture of the set-top box or device containing the technology. In some instances, an ongoing fee is payable for support and maintenance which is dependent upon the number of subscribers having access to, or making use of, the enhanced functionality. The revenue stream depends upon us developing and selling applications for use by platform operators and channel providers, and the take-up by the end consumer of the new services and functions offered by the service provider.

Expenses

Expenses consist of cost of goods sold, sales and marketing expenses, research and development costs and general and administrative expenses. The largest element after cost of goods sold is personnel costs.

Cost of Goods Sold

Cost of goods sold primarily consists of the physical and processing costs of smart cards, personnel costs incurred in the provision of services and royalties paid to owners of certain technologies which we exploit.

The physical costs of smart cards include the costs of the integrated circuits manufactured by third party suppliers, the micromodule which houses the computer chips and the plastic body of the smart cards. We do not manufacture smart cards, but our staff design their embedded computer chips, arrange for their manufacture and assembly by third party suppliers and then program the smart cards with proprietary software. Component costs are dependent upon the costs of raw materials, such as the cost of computer chips, plastic and assembly, and the volume of smart cards purchased and processed in any period.

Cost of goods sold also includes an appropriate provision towards the cost of replacing smart cards where we have agreed to assume this liability and the obligation is reflected in the fees charged to the customer. The amount provided to replace a card population in any period is matched with revenues earned over the life of the card to be replaced.

Personnel costs included in cost of goods sold are largely determined by the time spent by relevant staff in fulfilling customer contracts. Costs include an allocation of direct overhead.

Royalty costs are payable under licensing agreements with third parties for the use of technology incorporated in our products. Such royalties are typically a function of relevant revenues.

Sales & marketing

Sales and marketing costs mainly consist of personnel and related costs of sales and marketing staff in the UK, US and the Asia Pacific region. Marketing costs also include advertising, exhibitions, marketing communications and demonstration activities.

Research & development

Research and development costs consist mainly of personnel and related costs from staff in Israel and the UK who are developing our technology. Costs include consumables and the depreciation of equipment used in development and test activities. All research and development costs are written off in the period in which they are incurred.

General & Administration

General and administration costs consist primarily of personnel, facilities, infrastructure and administration costs, amortisation of goodwill and foreign exchange gains and losses. Goodwill requiring amortisation arose on the acquisition of the minority interest of subsidiary companies and a reorganisation of the NDS Group in 1995. Foreign exchange gains and losses arise on the translation of receivables and payables denominated in currencies other than pounds sterling.

Results of operations

The results of the operations for the three years ended 30 June 2000 are presented and analysed below.

	Financial year ended 30 June		
	1998	1999	2000
	£'000	£'000	£'000
Revenues			
Conditional access	60,782	90,504	102,737
Integration, development & support	21,251	14,457	22,375
Licence fees & royalties	14,379	21,268	26,387
New technologies	-	-	5,533
Other	4,920	1,345	3,182
Total revenues	102,332	127,574	160,214
% Change		*+25%*	*+26%*
Cost of sales			
Smart cards & changeover provisions	(18,470)	(24,039)	(33,102)
Operations & support	(23,380)	(23,214)	(21,300)
Royalties	(2,770)	(3,770)	(6,381)
Other	(4,105)	(1,151)	(1,175)
Total cost of sales	(48,725)	(52,174)	(61,958)
Gross profit	52,607	75,400	98,256
Operating expenses			
Sales & marketing	(6,535)	(7,012)	(11,178)
Research & development	(22,876)	(36,050)	(46,184)
General & administration	(15,059)	(13,604)	(16,589)
Total operating expenses	(44,470)	(56,666)	(73,551)
Operating income from continuing operations	8,137	18,734	24,305
Interest (net) attributable to continuing operations	(10,444)	(13,205)	(3,389)
Profit (loss) from continuing operations before tax and exceptional items	(2,307)	5,529	20,916
Tax on net profit from continuing operations	736	(1,428)	(6,498)
Profit (loss) after tax from continuing operations	(1,571)	4,101	14,418
Profit on sale of discontinued operations	-	-	5,192
Profit (loss) after tax from discontinued operations	1,746	(1,627)	-
Net Profit after taxation	175	2,474	19,610

Revenue mix & cost ratios

The table below highlights the change in revenue mix over the three year period. In addition, both gross profit and operating income, as a percentage of revenues, have increased in the three years ending 30 June 2000. This is analysed below, together with the cost line items presented as a percentage of revenues.

	Financial year ended 30 June		
	1998	1999	2000
	£'000	£'000	£'000
Revenues			
Conditional access	60.0%	70.9%	64.1%
Integration, development & support	21.0	11.3	14.0
Licence fees & royalties	14.1	16.7	16.5
New technologies	-	-	3.5
Other	4.9	1.1	1.9
Total revenues	100.0%	100.0%	100.0%
Cost of sales			
Smart cards & changeover provisions	(18.3)	(18.8)	(20.7)
Operations & support	(23.0)	(18.2)	(13.3)
Royalties	(2.7)	(3.0)	(4.0)
Other	(4.1)	(0.9)	(0.7)
Total cost of sales	(48.1)	(40.9)	(38.7)
Gross profit	51.9%	59.1%	61.3%
Operating expenses			
Sales & marketing	(6.4)	(5.5)	(7.0)
Research & development	(22.6)	(28.3)	(28.8)
General & administration	(14.9)	(10.6)	(10.3)
Total operating expenses	(43.9)	(44.4)	(46.1)
Operating income from continuing operations	8.0%	14.7%	15.2%

Year ended 30 June 2000 compared to year ended 30 June 1999

Revenues

Revenues increased by 26% to £160.2 million in fiscal 2000 from £127.6 million in fiscal 1999.

Conditional access revenues increased by 13.5% to £102.7 million in fiscal 2000 from £90.5 million in fiscal 1999. The effect of very strong demand from all the major platforms and initial orders for cards for new customers was offset, to some extent, by a very large shipment of smart cards to DIRECTV in the fourth quarter of fiscal 1999. As a consequence, actual smart card volumes sold increased by 16% in fiscal 2000, compared to the previous year. As of 30 June 2000, our customers had approximately 18.5 million subscribers compared to 13 million at 30 June 1999, an increase of 5.5 million or 42% in the year. Some customers are now achieving smart card volume discounts and reductions in per-subscriber fees due to the length of time a card has been in use. Also, in August 1999, we entered into a new four-year contract with DIRECTV. Amongst other things, the new contract had the effect of switching a proportion of revenues from the conditional access stream to support and maintenance.

Integration, development and support revenues increased to £22.4 million in fiscal 2000 from £14.5 million in fiscal 1999. Even after excluding the effect of the revenue "switch" under the new contract with DIRECTV, this revenue stream showed growth of 30%. Income was earned in the year for developments and enhancements to major systems installed in previous periods, as well as from long-term ongoing support and maintenance contracts. In earlier years, we had implemented large digital satellite broadcasting systems, which generated substantial integration and development revenues. Contracts entered into more recently have typically been on smaller digital satellite and cable systems, such as with Matav and YES-DBS in Israel, Madritel in Spain and Stream in Italy. Under these contracts a greater proportion of the revenue derives from licence fees and ongoing support and maintenance; fees for design and implementation have been smaller. We have also adopted an open strategy of integrating our technology with many different manufacturers of set-top boxes and components for use in consumer devices.

Licence fees and royalty income increased by 19.3% to £26.4 million in fiscal 2000 from £21.3 million in fiscal 1999. This increase has been driven by growth in demand for set-top boxes, which in turn is driven by the underlying growth in customers' subscriber bases. This revenue stream also includes the first element of revenues from a contract with Microsoft for a licence to use and develop set-top box middleware written by our engineers to control digital set-top boxes, as well as conditional access and broadcast control licence fees for smaller customer systems delivered in the year. Additionally licence fees have been earned from the sale of our broadcast control software to Tandberg (the new owners of the digital broadcast business which we sold on 1 July 1999), for on-sale to its customers.

In fiscal 2000, we generated our first revenues from New Technologies which include revenues from interactive applications and data broadcasting. Actual reported revenues were £5.5 million in the year.

Other revenues include income earned from managing the personalisation, fulfillment and distribution of smart cards for certain customers. It also includes third party technology – such as computer hardware included as part of a total broadcast system.

Expenses

Total operating expenses increased to £135.9 million in fiscal 2000 from £108.8 million in fiscal 1999, an increase of 25%.

Cost of sold goods

Cost of goods sold increased to £62.0 million in fiscal 2000 from £52.2 million in fiscal 1999, an increase of 18.8%. Overall this is a result of higher revenues; gross profit as a percentage of revenues improved from 59.1% to 61.3%. Gross margins have improved as a result of economies of scale and the deferral of certain card changeovers. Operations and support costs have also decreased due to the fact that many new systems are more standardised, and partly because employees are working on a larger number of smaller contracts which have many similarities and this gives rise to productivity improvements.

Sales and marketing

Sales and marketing expenses increased from £7.0 million in fiscal 1999 to £11.2 million in fiscal 2000. This represents a rise from 5.5% of revenues in fiscal 1999 to 7.0% of revenues in fiscal 2000. The sales and marketing operations of the NDS Group were impacted by the disposal of the digital broadcasting business on 1 July 1999, as these operations were the most integrated across both businesses. As a result of this transaction, we had to redefine our marketing approach, including redesigning the marketing strategy, and embarking on a programme of active public relations and marketing communications to explain to customers the rationale behind the transaction. Additionally, staff had to be recruited and trained to replace some of the skills and geographical coverage "lost" when the sales and marketing operations were split and some staff transferred to Tandberg. Also, the increasing depth and breadth of our product offerings has meant that certain additional specialist skills need to be recruited. This has been particularly the case for interactive applications and Internet-related technologies, where we have recruited a dedicated sales team, and for new markets which we are pursuing more aggressively, especially the United States. We are also selling to a larger number of actual and potential customers, which has the effect of increasing the "cost" of achieving each "sale".

Research and development

Research and development expenditure increased by 28.0% to £46.2 million in fiscal 2000 from £36.1 million in fiscal 1999. We have deliberately increased investment for the future by recruiting additional staff with the skills needed to develop and enhance our technology, in line with our strategy. As a percentage of revenues, expenditure on research and development increased slightly from 28.3% to 28.8%.

A major area of expenditure has been the development of *XTV*. Other reasons for the absolute increase were:

(1) a further increase in activities to develop interactive applications, in particular as a result of the success in winning customers and the momentum generated;

(2) continued investment in developing conditional access systems for digital cable and ADSL;

(3) a reduction in proportion of time worked on chargeable customer projects by employees in the research and development teams; and

(4) continuing development of data broadcasting software.

General and administration

General and administration costs increased from £13.6 million in fiscal 1999 to £16.6 million in fiscal 2000, an increase of 21.9%. As a percentage of revenue, these costs fell from 10.6% to 10.4%. The increase can be attributed to the following primary factors:

(1) increased expenditure on infrastructure to support the growth in staff numbers and our increasing geographical "reach";

(2) increased expenditure in infrastructure as a result of the sale of the digital broadcasting business. Certain key areas needed to be rebuilt or replaced following the transaction, as the staff had either transferred or the support systems were inappropriate to the continuing operations of the NDS Group. Some of this expenditure could be regarded as "one off";

(3) additional costs arising as a consequence of NDS Group plc being a public company;

(4) a reduction in foreign exchange gains from £1.6m in fiscal 1999 to £1.0 million in fiscal 2000;

(5) costs from the application of UK Employers National Insurance tax to the gains from stock options by UK employees. This levies a tax of 12.2% on employers and a provision of £0.4 million has been provided in this period.

Operating income from continuing operations

The factors outlined above have resulted in an increase in operating income from the continuing operations of NDS of 30% to £24.3 million in fiscal 2000 from £18.7 million in fiscal 1999.

Interest expense

Net interest charges decreased from £13.2 million in fiscal 1999 to £3.4 million in fiscal 2000 as a consequence of the repayment of our borrowings, using funds raised from the initial public offering and from the sale of the digital broadcasting business as well as cash generated from operations.

Tax on profits from continuing operations

The effective tax rate on profits from continuing operations increased to 31.1% in fiscal 2000 from 25.8% in fiscal 1999. The UK statutory rate decreased from 30.75% to 30% in the period. Although lower rates of tax are levied on profits earned in Israel, the effect is substantially offset by expenses for which no deduction against taxable income is received, principally amortisation of goodwill and certain items of marketing expenditure. The increase in the effective tax rate is due to a change in the mix of jurisdictions in which the profits arose.

Disposal of discontinued operations

The digital broadcasting business previously owned by NDS was sold on 1 July 1999 to an indirect wholly-owned subsidiary of News Corporation, Ordinto Investments. On 14 October 1999, Ordinto Investments sold the digital broadcasting business to Tandberg Television ASA. No revenue or costs have been recorded by NDS associated with the discontinued operations.

The assets and liabilities of the discontinued operations were sold for their net book value. Ordinto Investments paid an additional £20 million for the goodwill of the digital broadcasting business. As at 30 June 1999, NDS owned goodwill substantially related to this business with a net book value of £14.8 million. This goodwill was written off against the sale proceeds, giving rise to an exceptional gain of £5.2 million in fiscal 2000. No tax charge arises on this gain.

Year ended 30 June 1999 compared to year ended 30 June 1998

Revenues

Revenues increased by 26% to £127.6 million in fiscal 1999 from £101.3 million in fiscal 1998.

Conditional access revenues, which increased to £90.5 million from £60.8 million in fiscal 1998, an increase of 49%, represented the largest component of the overall revenue increase during this period. The number of smart cards sold increased by 77% in fiscal 1999 primarily reflecting the increase in new subscribers of DIRECTV and the launch of Sky Digital by BSkyB in the UK. In addition, volumes of cards supplied also benefited from the increase in purchases of smart cards by DIRECTV. Conditional access revenues also increased as a result of the growth in the number of customers' subscribers. As of 30 June 1999, our customers had approximately 13 million subscribers compared to 9.2 million at 30 June 1998, an increase of 41%. Partially offsetting the increase in smart card revenues referred to above, the average subscriber fee was lower in 1999 than in 1998. Both BSkyB and DIRECTV paid a lower fee per subscriber in comparison with the previous year as a result of renegotiations of aspects of their contractual relationships. In part, the changes were the result of effective security services provided by NDS, which made it possible for the broadcasters to delay their planned card changeovers.

The increase in conditional access revenues offset a decline in integration, development and support revenues, which decreased to £14.5 million in fiscal 1999 from £21.3 million in fiscal 1998, a reduction of 32%. This reduction reflects the substantial completion in fiscal 1998 of work undertaken on a number of large digital satellite projects, including Sky Digital, DIRECTV Japan, Innova, NetSat and Indovision. In fiscal 1999, work continued to complete the BSkyB, Sky Columbia and Sky Chile projects.

Licence fees and royalty revenues increased to £21.3 million in fiscal 1999 from £14.4 million in 1998, an increase of 48%. This increase primarily resulted from an increase in the number of subscribers to broadcasters' customers and from a number of new contracts entered into for the licensing of systems and software. Licence fees also increased in fiscal 1999 as a result of selling broadcasting control software to NTL Incorporated, a UK digital terrestrial broadcasting services provider.

Other revenues consist principally of income from shipping smart cards and third party systems supplied as part of a complete broadcasting system. The decrease in revenue in fiscal 1999 reflects the nature of contracts fulfilled in the year where there was a switch towards customers dealing directly with third parties for incidental items.

Expenses

Total expenses increased to £108.8 million in fiscal 1999 from £93.2 million in 1998, an increase of 16.7%.

Cost of goods sold

Cost of goods sold increased to £52.2 million in fiscal 1999 from £48.7 million in fiscal 1998, an increase of 7%. This increase reflects the increase in revenues and benefits from the deferral of the BSkyB analog card changeover and the full year effect of a transitional agreement entered into with DIRECTV. Benefits were also obtained from reductions in the costs of raw materials which resulted from design improvements and volume discounts. Gross margins improved to 59.1% from 51.9% in fiscal 1998 as a result of the BSkyB and DIRECTV agreements. The increase also reflects the change in revenue mix as licence fees and royalty income have no associated cost of goods sold. Additionally, the decline in revenues on software and equipment sourced from third parties improved overall profitability as such items earn a low margin.

Sales and marketing

Sales and marketing expenses increased from £6.5 million in fiscal 1998 to £7.0 million in fiscal 1999, an increase of 7%. As a percentage of revenues, these expenses fell from 6.4% to 5.5%. These costs mainly consist of personnel and related costs, and marketing communications. Following a period of rapid expansion in fiscal 1998, fiscal 1999 saw a stabilisation in the number of personnel. A number of marketing alliances with other technology providers were entered into during the year with a view to achieving greater market and geographic coverage without the need for a great increase in direct sales staff.

Research and development

Research and development costs increased to £36.1 million in fiscal 1999 from £22.9 million in fiscal 1998, an increase of 58%. Such costs represented 28.3% of revenue in fiscal 1999 compared to 22.6% in fiscal 1998. The main reasons for this increase were:

(1) an increase in activities to develop interactive applications and secure Internet technologies;

(2) an increase in activities to develop broadcast control software and related applications;

(3) investment in developing conditional access systems for the digital cable and digital terrestrial markets;

(4) a reduction in proportion of time worked on chargeable customer projects by employees in the research and development teams; and

(5) continuing development of data broadcasting software.

General and administration

General and administration costs which include gains and losses on foreign exchange decreased to £13.6 million in fiscal 1999 from £15.1 million in fiscal 1998, a decrease of 10%. In fiscal 1999, personnel, facilities and infrastructure costs increased in line with the growth in revenues to support the increased size of the business and the number of employees world-wide.

These increases were offset by a reversal in movements in foreign exchange which moved from a loss in fiscal 1998 to a gain in fiscal 1999.

Operating profit

Operating profit increased to £18.7 million in fiscal 1999 compared to a profit of £8.1 million in fiscal 1998, an increase of 131%. The growth in conditional access revenues, licence fees and royalties, were principally generated by the growth in customers' subscriber bases. In particular, large volumes of smart cards purchased by DIRECTV and the launch of Sky Digital in the UK were the most significant factors in the increase in operating profit in the period under review

We continued to invest heavily in research and development activities to support the technologies being used by existing customers and to develop new business opportunities. The number of full-time employees increased from an average of 623 in fiscal 1998 to an average of 717 in fiscal 1999. Associated with this increase were investments in premises and facilities to accommodate the additional staff and administrative support. Direct personnel costs accounted for 45% of operating expenses, excluding cost of goods sold, in fiscal 1999, compared to 44% in fiscal 1998.

Interest expense

Net interest charges increased from £10.4 million in fiscal 1998 to £13.2 million in fiscal 1999. This is as a consequence of an increase in debt taken to fund the growth of the business.

Tax on profits from continuing operations

The effective tax rate on profits from continuing operations decreased from 31.9% in fiscal 1998 to 25.8% in fiscal 1999. The UK statutory rate decreased in the period from 31% to 30.75%. The overall rate is lower than the UK statutory rate because of lower rates of tax levied on profits earned in Israel. The decrease in the effective tax rate is due to a change in the mix of jurisdictions in which the profits arose.

Discontinued operations

The discontinued operations generated an after-tax profit in fiscal 1998 of £0.7 million against an after-tax loss of £1.4 million in fiscal 1999. The decrease was due to lower margins achievable in the markets in which the business operated and to a change in mix of sales from a few large systems to a larger number of smaller systems, which necessitated increased sales and marketing activity.

Liquidity and capital resources

Until 26 November 1999, NDS Group plc was a wholly-owned subsidiary of News Corporation and funding was provided either directly or indirectly by News Corporation in the form of share capital and intercompany loans.

On 26 November 1999, NDS Group plc issued 10,350,000 Series A ordinary shares by way of an initial public offering and has since issued further shares for cash under options granted to employees. The net proceeds of shares issued in the year was £118.5 million. This, together with proceeds from the sale of the discontinued operations of £70.6 million enabled us to repay all our borrowings during the year.

Cash generated from continuing operations amounted to £46.1 million in the year. In 1999, the continuing operations absorbed £8.2 million of cash as stock levels were increased to meet our customers' needs. In 1999, trade receivables increased significantly with the growth of the business but decreased markedly in fiscal 2000 as a consequence of increased monitoring and more active collection procedures. During fiscal 2000 we received significant payments as deposits for cards to be shipped in fiscal 2001 which also contributed to the cash generated from continuing operations in the year.

As at 30 June 2000 we had cash balances of £21.7 million, no borrowings and an unused facility to borrow up to £30 million from companies within the News Corporation Group. As at 30 June 2000 we had commitments for capital expenditure of approximately £2.6 million.

ITEM 9A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign exchange

We operate in international markets and have an operational presence in several countries. Accordingly we have substantial transactions which are denominated in US dollars as well as in our reporting currency of pounds sterling. We view these two currencies as being the two main currencies of international trade and will enter into contracts denominated in either currency. All material contracts with customers in Latin America and the Asia-Pacific region are denominated in US dollars. From time to time, commercial pressures have resulted in contracts being entered into in other currencies, mainly where the customer or supplier is located in a country which is part of the currency bloc commonly known as "Euroland". Therefore our financial performance is exposed to risks associated with fluctuating exchange rates.

Gains or losses arising on the realisation or retranslation of monetary assets and liabilities are included within general and administration costs, as explained more fully in the accounting policies within the financial statements.

Substantially all revenues are denominated in either pounds sterling or US dollars, depending on the location and preference of the customer. In most markets outside of the US or Europe, customers for our products and services regard the US dollar as the main medium of exchange for international trade. In Europe, some commercial negotiations have resulted in contracts denominated in euros and it is possible that a greater proportion of our revenues will be denominated in that currency in the future.

In fiscal 2000, 59.0% of revenues having a sterling-equivalent value of £94 million were denominated in US dollars (fiscal 1999 – 70.5%, being £90 million; fiscal 1998 – 67.3%, being £68 million). Substantially all the remaining revenues were denominated in sterling, with less than 1% being denominated in other currencies in each of the three fiscal years 2000, 1999 and 1998. The relative rise in sterling-denominated revenues in fiscal 2000 compared with fiscal 1999 was due to the strong growth in revenues from BSkyB and other customers who make use of the Sky Digital platform. The relative rise in US dollar-denominated revenues in fiscal 1999 compared with fiscal 1998 was due to a relative growth in new customer sales outside the UK and in the growth in revenues from DIRECTV.

A substantial proportion of operating costs are denominated in US dollars, principally the costs of the Israeli and US operations and the purchase of some components for smart cards. A number of suppliers are paid in euros or the component currencies of Euroland. In fiscal 2000, costs of £73.5 million (54.1% of total costs) were denominated in US dollars and £7.4 million (5.4% of total costs) were denominated in Euroland currencies. Substantially all of the remainder of costs were denominated in sterling. The equivalent figures for fiscal 1999 were: US dollars – £71.5 million or 65.7% of total costs, Euroland currencies – £10.5 million or 9.6% of total costs with substantially all of the balance of costs being denominated in sterling. The equivalent figures for fiscal 1998 were: US dollars – £54 million or 57.9% of total costs, with substantially all of the balance of costs being denominated in sterling.

Movements in foreign exchange rates generated foreign exchange gains of £1.0 million in fiscal 2000 (fiscal 1999 – gains of £1.6 million; fiscal 1998 – losses of £2.4 million).

To date, our policy has been not to engage in any hedging transactions in respect of currency fluctuations. Receipts and payments in currencies other than sterling or US dollars have been converted to/from sterling on the spot market as required. Cash balances denominated in US dollars in excess of the foreseeable requirements have been converted into sterling on the spot market.

Inflation

Inflation has not had any significant impact on the results of operations during the three-year period ended 30 June 2000.

Credit risk

We are exposed to the risk that a customer may default on payment of amounts due under contracts. A substantial proportion of our revenues is derived from large corporations with substantial assets, but many customers are in the early stages of their business cycle when they are investing heavily to build their businesses, which increases credit risk. Additionally, a number of customers are located in countries subject to exchange control regulations, which may restrict their ability to settle debts on a timely basis. We reduce credit risk by close monitoring of trade receivables and, if necessary, requiring payment of at least part of amounts due under contracts in advance. Potential customers who are in early stages of development are investigated before orders are accepted to ensure that their business plans appear reasonable and that their investors are credible. In none of the three years ended 30 June 2000 has any customer defaulted on payment due to insolvency.

Liquidity risk

Our policy is to use borrowing facilities available from News Corporation to manage short term needs should this become necessary.

Interest rate risk

We have entered into no fixed-rate borrowings. All borrowings to date have been from News Corporation (or via bank overdraft facilities operated as part of a News Corporation banking group) and interest has been charged at variable rates which have been a function of LIBOR quoted rates. As at 30 June 2000, we had no debt. Our policy is to review the available options for minimising interest rate risk as and when the need arises

Additional quantitative information is given in note 25 to our consolidated financial statements.

ITEM 10: DIRECTORS AND OFFICERS OF REGISTRANT

Our business is managed by our board of directors. Our articles of association provide that the number of our directors is not subject to a maximum, but shall not be less than two. Directors may be appointed by our shareholders by ordinary resolution; in addition, the board of directors or the holder of a majority of the voting rights exercisable, on a poll, at general meetings may appoint directors. A director so appointed by the board of directors retires from office at the next annual general meeting, but is then eligible for reappointment.

At each annual general meeting, generally one-third of those directors subject to retirement by rotation are obliged to retire by rotation, based principally upon the length of time in office, and are eligible for re-election. A director holding the office of chairman or chief executive or appointed by the holders of a majority of the voting rights and any director appointed by the board of directors since the previous annual general meeting are not subject to retirement by rotation. Any director may be removed from office in a general meeting, or by the holder of a majority of the voting rights, or by all the other directors.

No person is disqualified from being appointed or reappointed as a director and no director is required to vacate his office by reason of attaining the age of 70 or any other age. A director is not required to own any of our shares. The quorum for meetings of the board is two directors, unless otherwise decided by the board.

A director may hold any other office of NDS (except that of auditor) and no contract, arrangement or transaction involving NDS in which a director is in any way interested (directly or indirectly) shall be avoided, provided that such director has disclosed such interest in accordance with the UK Companies Act 1985. Subject to such disclosure, a director may vote or be counted in the quorum with respect to any resolution of the board or of a committee concerning any contract, arrangement, transaction or proposal to which we are, or will be, a party in which he is interested, except a resolution concerning his own appointment.

Our board of directors currently comprises seven directors, five of whom were appointed by News Corporation and are not subject to retirement by rotation. The two other non-executive directors are subject to retirement by rotation. Based on its current beneficial share ownership, Sky Global Networks has the power to appoint and remove any director.

The directors who served during the year and up to the date of this report were as follows:

Name	Position	Position held since
Dr. Abraham Peled	Executive Director, President and Chief Executive Officer	July 1995
Arthur M Siskind	Non-Executive Director	October 1996
David F DeVoe	Non-Executive Director	October 1996
Chase Carey	Non-Executive Director	December 1998
James Murdoch	Non-Executive Director	November 1999
Julian A Brodsky	Non-Executive Director	January 2000
Peter J Powers	Non-Executive Director	January 2000

Messrs Siskind, DeVoe and Carey are directors of News Corporation and of Sky Global Networks, Inc. Mr James Murdoch is a director of Sky Global Networks, Inc. The appointment of Messrs Brodsky and Powers was confirmed by election at our Annual General Meeting held on 6 October 2000. One of Mr Brodsky or Mr Powers is required to retire by rotation at the next annual general meeting.

The sole executive officer of NDS (in addition to Dr. Peled) is Richard Medlock, Chief Financial Officer.

Set out below is further information with respect to our directors and executive officers.

Abraham Peled joined NDS as a director, President and Chief Executive Officer in 1995. Prior to his employment with us, Dr. Peled served as Senior Vice President for business development for Elron Electronic Industries, based in Haifa. Dr. Peled was employed by IBM in the US from 1974 to 1993, at which time he served as Research Division Vice President, Systems and Software, with responsibility for all research and advanced development worldwide. Dr. Peled received his BSc and MSc degrees in Electrical Engineering from the Technion-Israel Institute of Technology and his M.A. and Ph.D. degrees in Electrical Engineering from Princeton University. Dr. Peled also serves on the News

Corporation Executive Committee and advises News Corporation with respect to various technology matters. Dr. Peled currently serves as the Deputy Chairman of the Board of Directors of Tandberg Television ASA.

Arthur M. Siskind has been a director of NDS since October 1996. Mr. Siskind has also been an Executive Director and Group General Counsel of News Corporation since 1991 and a Senior Executive Vice President of News Corporation since 1996; Mr. Siskind has also been a director, Senior Executive Vice President and General Counsel of Fox Entertainment Group, Inc. since August 1998. Mr. Siskind has been a director of BSkyB since 1992, a director of STAR TV since 1993 and a director of Sky Global Networks, Inc. since 1998. Mr. Siskind has been a Member of the Bar of the State of New York since 1962.

David F. DeVoe has been a director of NDS since October 1996 and is a member of the Audit Committee. Mr. DeVoe has also been an Executive Director, Chief Financial Officer and Finance Director of News Corporation since 1990 and a Senior Executive Vice President of News Corporation since 1996. Mr. DeVoe has been a director of Fox Entertainment Group, Inc. since 1991, and Senior Executive Vice President and Chief Financial Officer of Fox Entertainment Group, Inc. since August 1998. Mr. DeVoe has been a director of STAR TV since 1993 and a director of BSkyB since 1994.

Chase Carey has been a director and chairman of NDS since December 1998 as is a member of the Remuneration Committee. Mr. Carey has been an Executive Director and the Co-Chief Operating Officer of News Corporation since 1996. Mr. Carey was appointed director, President and Chief Executive Officer of Sky Global Networks, Inc. in June 2000 and has been a director of STAR TV since 1993. Mr. Carey has been a director of Fox Entertainment Group, Inc. since 1992 and Co-Chief Operating Officer of Fox Entertainment Group, Inc. since August 1998. Mr. Carey was President of Fox Entertainment Group, Inc. from 1995 to 1998, Executive Vice President of Fox Entertainment Group, Inc. and its Chief Operating Officer from 1991 to 1995. Mr. Carey has served as the Chairman and Chief Executive Officer of Fox Television since July 1994. Mr. Carey is a member of the Boards of Directors of Fox Family Worldwide, Inc., Gemstar-TV Guide International, Inc., Gateway 2000 and Colgate University.

James Murdoch has been a director of NDS since November 1999. Mr. Murdoch is an Executive Vice President of News Corporation and Chairman and Chief Executive Officer of STAR TV. He was President of News Digital Media, Inc. (formerly News America Digital Publishing, Inc.) from November 1997 until October 1999. Mr. Murdoch was Vice President, Music and New Media of News Corporation from November 1996 to November 1997. He founded Rawkus Entertainment LLC in June 1995 and has served as its chairman since its inception. Mr. Murdoch is the son of Mr. K. Rupert Murdoch, Chairman and Chief Executive of News Corporation.

Julian Brodsky was appointed as a non-executive director in January 2000 and was elected to the position at the Annual General Meeting of shareholders on 6 October 2000. He is chairman of the Audit Committee and a member of the Remuneration Committee. Mr. Brodsky is co-founder, Director and Vice Chairman of Comcast Corporation, and also serves as Chairman of Comcast Interactive Capital LP, an in-house venture capital fund that seeks and manages Internet-related investments complimentary to core Comcast activities. Mr. Brodsky has been elected to the Pennsylvania Cable and Telecommunications Association Hall of Fame.

Peter Powers was appointed as a non-executive director in January 2000 and was elected to the position at the Annual General Meeting of shareholders on 6 October 2000. He is chairman of the Remuneration Committee and a member of the Audit Committee. Mr. Powers is President and CEO of Powers Global Strategies LLC and former First Deputy Mayor of the City of New York. He has recently served as the Chair of the New York City Public Initiatives Corporation, and is a member of the board of trustees of Manhattan Private College, and of the board of directors of New York City Partnership and Chamber of Commerce, as well as the Central Park Conservancy and Victim Services Agency. He also has served as an outside member of the board of directors of publicly and privately held companies, serving on audit committees, independent evaluation and investigatory committees.

Richard Medlock was appointed Chief Financial Officer and Company Secretary of NDS in 1996. Mr. Medlock served as Finance Director of Creative Group Holdings Ltd. from April 1994 until its sale in December 1994 to Policy Management Systems Corporation ("PMSC"), at which time Mr. Medlock was appointed Chief Financial Officer, Europe of PMSC. He is currently a non-executive director of Mondiale Publishing Limited, and Logistics Technology Group as well as a fellow of the Institute of Chartered Accountants of England and Wales. Mr. Medlock received an M.A. in Economics from the University of Cambridge in 1983.

ITEM 11: COMPENSATION OF DIRECTORS AND OFFICERS

Aggregate compensation paid to directors and officers as a group amounted to £1,020,000 in respect of the year ended 30 June 2000. Additionally we paid pension contributions of £19,000. Certain directors who have additional responsibilities within The News Corporation Group receive emoluments for those services from the relevant News Corporation entity.

ITEM 12: OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT OR SUBSIDIARIES

The Company has three share option schemes under which options to purchase Series A ordinary shares have been or may be granted: The 1997 Executive Share Option Scheme ("the 1997 scheme"), The 1999 Unapproved Executive Share Option Scheme ("the 1999 unapproved scheme") and The 1999 Approved Executive Share Option Scheme ("the 1999 approved scheme"). The provisions of each scheme are substantially the same, except that the 1999 approved scheme is approved by the UK Inland Revenue for the purposes of granting UK employees options over shares in the Company which are free from income tax in the hands of the employee under certain circumstances. Following the creation of the 1999 schemes, no further options will be granted under the 1997 scheme.

The schemes provide for the grant of options to purchase Series A ordinary shares in NDS Group plc with a maximum term of 10 years. Options granted under the schemes vest in equal annual installments over a four-year period. The schemes authorise options to be granted subject to a maximum of 10% of the ordinary shares of the Company in issue at the date of grant. Series A ordinary shares allotted under the share option schemes rank equally in all respects with Series A ordinary shares then in issue, but will not participate in any dividend or other rights attaching to Series A ordinary shares by reference to a record date preceding the date of exercise of an option. In the event of any rights or capitalization issue or of any reduction, sub-division, consolidation or other variation of share capital, the option price and/or the number of shares over which options have been granted may be adjusted. Any such adjustment in respect of options granted under the 1999 approved scheme will require the prior approval of the UK Inland Revenue.

Options granted prior to the initial public offering were granted at the directors' estimate of the market value of the Company, as supported by independent advice. Vested options became exercisable following the initial public offering of the Series A ordinary shares on 22 November 1999. Options granted on, and subsequent to, the initial public offering have been granted at an exercise price equal to the closing price of the Series A ordinary shares on the NASDAQ National Market on the trading day immediately prior to the date of issue.

All of our employees and directors are eligible to participate in the share option schemes. Options may be granted at the discretion of the directors or an appropriate committee thereof. An option may only be exercised by the person to whom it is granted or his personal representative and is not transferable. Normally, an option lapses if the option holder ceases to be an employee or director; vested options may be retained for a limited period on the retirement or death of the holder or in such other circumstances as the directors may decide.

The share option schemes may be altered by resolution of our directors in any respect. Any alteration to the 1999 approved scheme will require the prior approval of the UK Inland Revenue.

Options outstanding as at 15 November 2000 are as follows:

Expiry date	Number	Exercise price ($)
21 May 2007	702,683	8.14
5 April 2008	494,158	8.14
24 March 2009	618,400	9.85
4 May 2009	4,000	9.85
22 November 2009	873,542	20.00
24 January 2010	13,500	43.00
24 January 2010	10,000	20.00
20 February 2010	30,000	66.00
27 April 2010	225,997	56.875
	2,972,280	

As at 15 November 2000, Dr Peled had 508,500 options outstanding at an average exercise price of $13.101 and which expire between 21 May 2007 and 22 November 2009. Other directors and officers as a group had 171,000 options outstanding at an average exercise price of $13.001 and which expire between 21 May 2007 and 24 January 2010.

ITEM 13: INTERESTS OF MANAGEMENT IN CERTAIN TRANSACTIONS

There have been no transactions with any director or officer (or individuals connected to them) acting in a personal capacity, other than in respect of their remuneration and options as set out in Item 11: "Compensation of Directors and Officers" and Item 12: "Options to Purchase Securities from Registrant or Subsidiaries" of this Annual Report.

We conduct business transactions on normal commercial terms with entities which are subsidiaries or affiliates of News Corporation (together, "The News Corporation Group"). These entities include some which The News Corporation Group does not control but in which it has a significant equity interest. These entities are considered to be related parties.

The directors consider that agreements covering these arrangements were entered into in the context of a parent-subsidiary relationship and therefore are not the result of arm's-length negotiations between independent parties. There can be no assurance therefore, that each of the agreements, or the transactions provided for therein, or any amendments thereof will be effected on terms at least as favourable to us as could have been obtained from unaffiliated third parties. Material related party transactions are subject to approval by our Audit Committee

These transactions are of two main types, which are the provision by us of integrated broadcast systems and the receipt by us of administrative services from The News Corporation Group. Additionally, our discontinued operations licensed certain intellectual property rights from The News Corporation Group, and the business was sold to The News Corporation Group prior to its eventual disposal to an unrelated third party.

a) Provision of integrated broadcast systems

Integrated broadcast systems are supplied to both associated undertakings and a subsidiary undertaking of News Corporation. The principal related undertakings of The News Corporation Limited which we supply are British Sky Broadcasting Group plc (and its subsidiaries), Net Sat Serviços Ltda., Innova S. de R.L. de C.V., DTH TechCo Partners, Sky Columbia S.A., Sky Argentina S.C.A., Stream S.p.A. and Satellite Television Asian Region Limited.

b) Administration services and provision of debt finance

Funding is provided by The News Corporation Group and bank overdrafts have been made available as part of collective News Corporation Group banking facilities. Interest is charged at commercial rates on financing and, since 1 July 1999, on overdrafts. Conversely, cash in excess of our immediate requirements is loaned to The News Corporation Group. Interest is received at commercial rates on such amounts due from The News Corporation Group and, since 1 July 1999, on cash balances which form part of collective News Corporation Group banking facilities.

The News Corporation Group provided us with administrative services including payroll, legal and company secretarial services. These services are provided under a Master Intercompany Agreement with The News Corporation Group which provides, among other things, for arrangements governing the relationship between the NDS Group and The News Corporation Group. The consideration for each of the services and other arrangements set out in the Master Intercompany Agreement is mutually agreed and based upon allocated costs. All such consideration and any material arrangements are subject to the approval of our Audit Committee.

The services covered by the Master Intercompany Agreement include cash management and financing, services of Group employees, facility arrangements, employee matters, including pensions and certain other services.

c) Licensing of intellectual property rights

The discontinued operations of the NDS Group licensed certain intellectual property rights from a fellow subsidiary company of The News Corporation Limited. Royalties were payable under the licence agreement, calculated as a percentage of relevant NDS Group turnover

d) UK Corporation Tax

We entered into a Group Relief Agreement, with a UK fellow subsidiary of News Corporation, which provides for the mutual surrender of losses and other allowances by group relief. Subject to the terms of the agreement, the party accepting such surrender shall pay or cause to be paid to the surrendering party an amount equal to the amount of tax such accepting party would have paid but for such surrender. Full group relief is not expected to be available for the year ended 30 June 2000 and no group relief is expected to be available in future periods.

e) NDS Americas Inc.

On 4 November 1999, we acquired ownership of NDS Americas, Inc. from News Corporation for 430,000 Australian Dollars.

d) Discontinued operations

The digital broadcasting business previously owned by the NDS Group was sold on 1 July 1999 to an indirect wholly-owned subsidiary of News Corporation, Ordinto Investments, for £70.6 million. On 14 October 1999, Ordinto Investments sold the digital broadcasting business to Tandberg Television ASA, an unrelated party, for £130.7 million.

e) Credit Arrangements

We may from time to time in the future be required to guarantee certain bank or other debt obligations of News Corporation and its subsidiaries. Our obligation to make such guarantees will depend upon the provisions contained in the credit agreements and indentures of News Corporation and certain of its subsidiaries, as in effect from time to time. The principal amount of such debt obligations which was subject to guarantees by certain subsidiaries of News Corporation at 30 June 2000 was approximately $9.9 billion. There are no such guarantees outstanding at the date hereof.

Pursuant to the Master Intercompany Agreement, News Corporation will indemnify and hold us harmless from and against all liabilities arising from any default under the debt instruments or obligations of News Corporation or its subsidiaries (other than NDS and its subsidiaries) which have been guaranteed by us or our subsidiaries.

f) Proceeds of initial public offering

All of the net proceeds of our initial public offering were paid to News International plc, an indirect subsidiary of News Corporation in partial repayment of indebtedness under a Term Loan Agreement. As at the date hereof, we have no indebtedness to News International plc under the Term Loan Agreement and no other indebtedness to News Corporation.

PART II

ITEM 14: DESCRIPTION OF SECURITIES TO BE REGISTERED

Not Applicable

PART III

ITEM 15: DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 16: CHANGES IN SECURITIES, CHANGES IN SECURITY FOR REGISTERED SECURITIES AND USE OF PROCEEDS

On 26 November 1999, we issued 10,350,000 Series A ordinary shares in the form of ADSs at a price of $20 each. The Bank of New York holds the Series A ordinary shares as the depositary under a Deposit Agreement relating to the ADSs. The ADSs are quoted on the NASDAQ National Market and EASDAQ under the symbol "NNDS". The ordinary shares issued in connection with the initial public offering were registered with the SEC on a Registration Statement on Form F-1, declared effective on 22 November 1999 (SEC File Number 333-11086). Morgan Stanley Dean Witter acted as global co-ordinator for the initial public offering.

The net proceeds of the offering were as follows:

	$'000
Gross proceeds	207,000
Underwriting fees	12,420
Expenses of the offering:	
Stamp Duty Reserve Tax	3,105
Other costs	2,259
Total costs and expenses of the offering	17,784
Net Proceeds	189,216

We used all the net proceeds to repay a portion of our indebtedness to News International plc, a subsidiary of News Corporation, pursuant to a Term Loan Agreement with News International plc. As of the date hereof, there were no amounts outstanding under the Term Loan Agreement and no other indebtedness to News Corporation.

None of the costs and expenses of the initial public offering were made as direct or indirect payments to any of our directors and officers (or their associates), or to persons owning 10% or more of any class of our equity securities, or to any of our affiliates. All of the costs and expenses of the initial public offering were direct payments to others.

Part IV

ITEM 17: FINANCIAL STATEMENTS

We have elected to respond to Item 18 in lieu of responding to this Item.

ITEM 18: FINANCIAL STATEMENTS

Reference is made to Item 19 for a list of all financial statements filed as part of this report.

ITEM 19: FINANCIAL STATEMENTS AND EXHIBITS

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Exhibits

	Page Numbering in Sequential Numbering System
23.1 Consent of Arthur Andersen to the incorporation by reference in Forms S-8 of their report dated 27 November 2000	100

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorised.

Date: November 27 2000

NDS Group plc

By________________________

Abraham Peled
President and Chief Executive Officer

REPORT OF INDEPENDENT CHARTERED ACCOUNTANTS

To the Board of Directors of NDS Group plc:

We have audited the accompanying consolidated balance sheets of NDS Group plc as of 30 June 2000 and 1999 and the related consolidated profit and loss accounts and consolidated cash flow statements for each of the three years in the period ended 30 June 2000, all expressed in pounds sterling and prepared on the basis set out in Note 1 to the consolidated financial statements. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with United Kingdom generally accepted auditing standards which are substantially consistent with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NDS Group plc at 30 June 2000 and 30 June 1999 and the results of their operations and their cash flows for each of the three years in the period ended 30 June 2000, in conformity with generally accepted accounting principles in the UK.

Accounting practices used by the Company in preparing the accompanying financial statements conform with generally accepted accounting principles in the United Kingdom, but do not conform with accounting principles generally accepted in the United States. A description of these differences and a complete reconciliation of consolidated profit (loss) for the financial year and total shareholders' funds to United States generally accepted accounting principles is set out in Note 27.

Arthur Andersen

Arthur Andersen

Chartered Accountants and Registered Auditors
1 Surrey Street
London WC2R 2PS
England

27 November 2000

NDS Group plc
Consolidated Profit and Loss Accounts

	Notes	Year ended 30 June 1998 £'000	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000
Turnover				
Continuing operations		101,332	127,574	160,214
Discontinued operations		87,465	88,348	-
	2,3	188,797	215,922	160,214
Cost of sales	3	(90,276)	(101,020)	(61,958)
Gross profit		98,521	114,902	98,256
Operating expenses	3	(87,394)	(98,029)	(73,951)
Operating profit (loss)				
Continuing operations		8,137	18,734	24,305
Discontinued operations		2,990	(1,861)	-
	3	11,127	16,873	24,305
Profit on sale of discontinued operations	4	-	-	5,192
Profit on ordinary activities before finance charges		11,127	16,873	29,497
Finance charges (net)	5	(10,444)	(13,205)	(3,389)
Profit on ordinary activities before taxation	6	683	3,668	26,108
Taxation	7	(508)	(1,194)	(6,498)
Profit on ordinary activities after taxation		175	2,474	19,610
Minority interests	18	(293)	(356)	(218)
Retained profit (accumulated loss) for the year		(118)	2,118	19,392

	Notes / Basis	1998	1999	2000
Earnings (loss) per share	8			
.....On profit (loss) from continuing activities after tax, excluding exceptional gain	Basic	(3.7p)	9.8p	29.8p
	Fully diluted	(3.7p)	9.8p	28.8p
.....On profit before minority interests	Basic	0.4p	5.9p	40.6p
	Fully diluted	0.4p	5.9p	39.2p
.....On net profit (loss)	Basic	(0.3p)	5.0p	40.1p
	Fully diluted	(0.3p)	5.0p	38.7p

The statement of movements in reserves and the reconciliation of movements in shareholders' funds are provided in note 17 d).

The accompanying notes form an integral part of these profit and loss accounts.

NDS Group plc
Consolidated Statement of Total Recognised Gains and Losses

	Notes	Year ended 30 June 1998 £'000	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000
Profit (loss) for the year		(118)	2,118	19,392
Foreign exchange translation	17	(88)	398	661
Total recognised gains (losses) relating to the year		(206)	2,516	20,053

The accompanying notes form an integral part of these statements.

NDS Group plc
Consolidated Balance Sheets

	Notes	30 June 1999 £'000	30 June 2000 £'000
Fixed assets			
Investments	9	-	191
Intangible assets	10	32,652	16,475
Tangible assets	11	34,851	16,809
		67,503	33,475
Current assets			
Stocks	12	33,258	11,722
Debtors - due within one year	13	75,405	54,071
- due after one year	7	3,307	3,094
Cash at bank and in hand		2,690	21,734
		114,660	90,621
Creditors			
Amounts falling due within one year	14	(120,637)	(62,320)
Net current assets (liabilities)		(5,977)	28,301
Total assets less current liabilities		61,526	61,776
Creditors			
Amounts falling due after one year	15	(133,540)	(1,474)
Provisions for liabilities and charges	16	(12,120)	(7,685)
Net assets (liabilities)		(84,134)	52,617
Equity capital and reserves			
Share capital	17	264	329
Share premium	17	-	120,726
Profit and loss account	17	(261,416)	(243,703)
Capital contribution	17	133,265	133,265
Total equity shareholders' funds		(127,887)	10,617
Non-equity capital	17	42,000	42,000
Total shareholders' funds	17	(85,887)	52,617
Minority interests	18	1,753	-
Total capital employed		(84,134)	52,617

The accompanying notes form an integral part of these balance sheets.

NDS Group plc
Consolidated Cash Flow Statements

	Notes	Year ended 30 June 1998 £'000	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000
Net cash inflow (outflow) from operating activities	19	39,707	(25,255)	46,126
Returns on investments and servicing of finance	20	(10,444)	(13,205)	(5,785)
Taxation	20	(2,193)	(1,612)	(2,307)
Capital expenditure and financial investment	20	(12,815)	(13,334)	(8,779)
Disposal of business	20	-	-	70,607
Cash inflow (outflow) before financing		14,255	(53,406)	99,862
Financing	20	(57)	10,546	(37,111)
Increase (decrease) in cash in the year	21	14,198	(42,860)	62,751

The accompanying notes form an integral part of these cash flow statements.

NDS Group plc
Notes to the Consolidated Financial Statements

1 Accounting policies and principal activity

NDS Group plc (the "Company") is incorporated in England and Wales. The Company, together with its subsidiaries ("the NDS Group"), is engaged in the business of providing conditional access and broadcast control software and systems used by broadcasters and content providers. With effect from 1 July 1999, the business of developing and manufacturing digital compression products was transferred out of the NDS Group (see note 2). The results of that business are shown as discontinued operations in these financial statements.

The principal accounting policies, all of which have been applied consistently throughout the three-year period, are:

a) Basis of accounting

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

b) Basis of consolidation

The financial statements consolidate the accounts of the Company and all its subsidiary undertakings, including NDS Americas Inc. (see below), drawn up to 30 June each year. All intercompany transactions and balances have been eliminated on consolidation. The results and cash flows of subsidiaries or businesses acquired or sold are consolidated for the periods from or to the date on which control passed to or from the NDS Group.

The Company's ultimate parent company is The News Corporation Limited, which taken together with its subsidiary and associated undertakings is referred to herein as "The News Corporation Group".

The NDS Group has an operational presence in the US, whose activities are carried out through NDS Americas Inc. Until 4 November 1999, ownership of NDS Americas Inc. was held by another entity within The News Corporation Group and not by the NDS Group. On 4 November 1999, the Company acquired ownership of NDS Americas Inc. NDS Americas Inc. has been consolidated in these financial statements for periods prior to 4 November 1999 since, under UK GAAP and in accordance with section 258 of the Companies Act 1985, there was a control contract between the Company and the shareholders of NDS Americas Inc. A minority interest equal to the whole of the net income and net assets of NDS Americas Inc. was recorded under UK GAAP. Information about minority interests is disclosed in note 18.

c) Goodwill

Goodwill arising on the acquisition of subsidiary undertakings or businesses represents the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired. Goodwill is capitalised and written off on a straight-line basis over its useful economic life, which is estimated to be 20 years. This is the Directors' estimate of the period over which benefits will accrue to the NDS Group in respect of this goodwill. Provision is made for any impairment.

d) Fixed asset investments

Fixed asset investments are stated at cost less any provision for impairment. Income from investments is included in the profit and loss account only if received, or declared and receivable.

e) Research and development

Research and development expenditure is written off to the profit and loss account as incurred.

f) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. They are depreciated on a straight-line basis over their expected useful economic lives or anticipated length of use by the NDS Group. The useful lives are as follows:

Leasehold improvements:	Over lesser of useful life or period of lease.
Equipment and furniture:	3 to 6 years.

g) Stocks and work-in-progress

Stocks and work-in-progress are valued at the lower of cost (calculated on a first in, first out (FIFO) basis) and net realisable value. Cost represents purchase price and, in respect of manufactured or processed items, includes an appropriate proportion of production overheads. Provision is made for obsolete, slow-moving or defective items where appropriate.

h) Debtors

Debtors are recognised at the amounts due to the NDS Group, net of any valuation reserve.

i) Foreign currency

The reporting currency and principal functional currency of the NDS Group is UK pounds sterling. The functional currency of each of the subsidiaries of NDS Group plc is the local currency of the country in which each subsidiary is located, except in the case of the subsidiaries operating in Israel, where the functional currency is the US Dollar.

Normal trading activities denominated in foreign currencies are recorded in the functional currency of the relevant company at actual exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end with any resulting gain or loss being recorded in the profit and loss account.

The results and cash flows of overseas operations are translated into sterling at the average rates of exchange during the period and their balance sheets at the rates prevailing at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are dealt with through reserves.

j) Taxation

Corporation tax is provided on the taxable profits for the year at the rate prevailing during the year.

Taxation deferred or accelerated is accounted for using the liability method on all timing differences, only to the extent that they are expected to reverse in the future without being replaced. No deferred tax assets arising from indexation of certain assets for tax purposes are recognised.

k) Turnover

Turnover represents amounts receivable by the NDS Group for goods and services provided in the ordinary course of business, net of trade discounts, value added tax and other sales-related taxes.

The provision of software and systems for broadcasters gives rise to a number of revenue streams for which accounting policies are applied as follows:

- *Conditional access security services*

The NDS Group derives revenues from the provision of conditional access systems to pay-television broadcasters and content providers. Conditional access systems enable such customers to manage and control the distribution of programmes and information and to protect such content from signal theft. The NDS Group's conditional access systems include software that is installed at the broadcasters' facilities as well as software and smart cards in set-top boxes, digital televisions and PCs. Revenues from the provision of conditional access systems comprise the following elements:

- Smart Cards

Smart Cards are sold to the broadcaster for distribution to and use by their subscribers. The revenues derived from these sales are recognised upon despatch of the cards.

- Subscriber fees

In some circumstances, the NDS Group receives fees from broadcasters for the maintenance of security of conditional access systems for a specified duration which is typically between 18 and 40 months. Fees are received over the duration of the agreed service period and are related to the number of subscribers that the broadcasters have. These revenues are recognised in the period in which the security services are performed. The extent of services, which comprise maintenance of security of the conditional access systems, will vary between customers and, on occasion, may include the supply of smart cards for no extra charge to the broadcasters at a future date in order to replace a population of smart cards to maintain their security. This is an integral part of the wider security maintenance activities and the subscriber fees continue to be recognised as the services are performed. Costs associated with such arrangements include, therefore, the production of smart cards to be provided. In these circumstances, a provision is made in the financial statements, which reflects the amount of the total anticipated costs relating to the subscriber fees recognised to date. The proportion of revenues recognised to date as compared with total security fees expected over the duration of the maintenance agreement is applied to the total anticipated costs in order to calculate the provision required as at each balance sheet date. Movement in the provision is included within the profit and loss account as part of cost of sales. Amounts provided for as at each balance sheet date are included in provisions for liabilities and charges.

- *Development contracts*

Some of the NDS Group's development contracts have characteristics of long term contracts as defined in SSAP 9 Revised, "Stocks and long-term contracts".

Contracts are undertaken for customers on the basis of time and materials and according to fixed price terms, or a combination of the two. Turnover for contracts negotiated on a time and materials basis is recognised as costs are incurred. For fixed price contracts, turnover and profit are recognised according to the proportion of the estimated contract value completed, ascertained by reference to percentage of technical completion. The duration of development contracts has varied from under one year to approximately two years. Where a contract has not sufficiently progressed for the outcome to be seen with reasonable certainty, but no loss is expected, then a nil profit is recognised. All losses are recognised as soon as incurred or reasonably foreseen. Total contract turnover and profitability to date are reviewed periodically and the cumulative effects of changes are recognised in the period in which they are identified.

"Contract work in progress" is included within stocks and represents costs incurred for which no related turnover has been recognised, net of foreseeable losses and "Payments received on account". "Payments received on account" in excess of amounts included within stocks are included within creditors and represent amounts received from customers not recognised as turnover. "Amounts recoverable on contracts" is included within debtors and represents turnover less payments received on account.

- *Royalties and licence fees*

  Royalty and licence fee income is recognised in the period in which it is earned.

- *Broadcast products*

  Revenue from the sales of broadcast products is recognised when the products are despatched to the customer.

l) Pension costs

For defined benefit schemes the amount charged to the profit and loss account in respect of pension costs is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future payroll. Variations from regular cost are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated average remaining working life of scheme members. Defined benefit schemes are externally funded with the assets of the scheme held separately from those of the NDS Group in separate trustee administered funds. Differences between amounts charged to the profit and loss account and amounts funded or paid directly to members of unfunded schemes are shown as either accruals or prepayments in the balance sheet. Since 1 July 1999, the NDS Group no longer has any defined benefit pension obligations.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are show as either accruals or prepayments in the balance sheet

m) Government grants

The NDS Group receives grants towards the cost of certain capital expenditure. Such grants are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned.

n) Warranty provisions

Where the NDS Group provides a warranty to customers (typically one year) a provision is recognised for the anticipated costs to be incurred during the warranty period. The amount of the provision is calculated based on historical experience and projected failure rates for individual components. Costs are charged to the provision as incurred.

o) National Insurance on share options

UK law levies Employer's National Insurance contributions on the gains made by employees upon exercise of options issued under certain unapproved share option schemes. The charge applies to options granted after 5 April 1999. Provision is made over the vesting period of relevant options based on the prevailing National Insurance rate and the difference between the market value of the underlying shares at the balance sheet date and the option exercise price.

p) Leases

Amounts payable under operating leases are charged on a straight line basis over the lease or licence term.

q) Licence agreements

The NDS Group has the right to use certain intellectual property under various licence agreements. Royalties payable under these licence agreements are typically calculated as a percentage of relevant revenues and are charged in the profit and loss account to match with the recognition of those revenues.

r) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2 Segment Information

a) Business segments

Until 1 July 1999, the NDS Group had two business segments, being the provision of conditional access and broadcast control software and systems, and the development and manufacture of digital compression products. The latter segment has been shown throughout these financial statements as a discontinued operation, as it was sold on 1 July 1999; the former single segment comprises the continuing operations of the NDS Group and has associated with it a number of revenue streams.

The two business segments had separate operational management, operated from different locations and offered distinct products and services, which required different technology and marketing strategies. The accounting policies of the segments are the same as those described in note 1 to these financial statements. The results of the development and manufacture of digital compression products prior to its disposal on 1 July 1999 are further analysed in note 3.

b) Geographical Destination

Turnover may be analysed by geographical destination as follows:

	Year ended 30 June 1998 £'000	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000
Continuing Operations			
UK	35,244	36,416	61,731
Europe	885	3,135	4,406
USA	35,872	61,662	65,595
Americas excluding USA	16,669	15,339	18,571
Asia – Pacific	12,662	11,022	9,911
	101,332	127,574	160,214
Discontinued Operations			
UK	14,387	36,918	-
Europe	29,542	24,830	-
USA	23,478	15,038	-
Americas excluding USA	5,667	1,216	-
Asia – Pacific	14,391	10,346	-
	87,465	88,348	-
Total			
UK	49,631	73,334	61,731
Europe	30,427	27,965	4,406
USA	59,350	76,700	65,595
Americas excluding USA	22,336	16,555	18,571
Asia – Pacific	27,053	21,368	9,911
	188,797	215,922	160,214

c) Geographical origin

Turnover, profits and assets may be analysed by geographical origin as follows. For the purpose of the analyses presented below, the NDS Group's operations in Israel have been included within the UK segment in order to reflect the fact that these operations directly support UK trading activity.

(i) Turnover

	Year ended 30 June 1998 £'000	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000
Continuing operations			
UK	90,652	104,188	114,432
USA	10,680	23,386	45,782
	101,332	127,574	160,214
Discontinued operations			
UK	87,465	84,226	-
USA	-	4,122	-
	87,465	88,348	-
Total			
UK	178,117	188,414	114,432
USA	10,680	27,508	45,782
	188,797	215,922	160,214

(ii) Profit on ordinary activities before taxation

	Year ended 30 June 1998 £'000	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000
Continuing operations			
UK	(2,754)	5,105	24,147
USA	447	424	1,961
	(2,307)	5,529	26,108
Discontinued operations			
UK	2,990	(1,985)	-
USA	-	124	-
	2,990	(1,861)	-
Total			
UK	236	3,120	24,147
USA	447	548	1,961
	683	3,668	26,108

(iii) Assets (liabilities)

	Discontinued Operations 30 June 1999 £'000	*Continuing Operations 30 June 1999 £'000*	Total 30 June 1999 £'000	Total * 30 June 2000 £'000
Goodwill				
UK	*14,808*	*17,844*	32,652	16,475
US	-	-	-	-
	14,808	*17,844*	32,652	16,475
Other fixed assets				
UK	*17,358*	*14,783*	32,141	14,784
US	-	*2,710*	2,710	2,216
	17,358	*17,493*	34,851	17,000
Total fixed assets				
UK	*32,166*	*32,627*	64,793	31,259
USA	-	*2,710*	2,710	2,216
	32,166	*35,337*	67,503	33,475
Other assets (liabilities)				
UK	*29,601*	*(180,281)*	(150,680)	19,947
USA	*3,648*	*(4,605)*	(957)	(805)
	33,249	*(184,886)*	(151,637)	19,142
Net assets (liabilities)				
UK	*61,767*	*(147,654)*	(85,887)	51,206
USA	*3,648*	*(1,895)*	1,753	1,411
	65,415	*(149,549)*	(84,134)	52,617

* All assets (liabilities) as at 30 June 2000 are attributable to the continuing operations.

d) Principal customers:

Substantial revenues are derived from businesses in which The News Corporation Group has an equity interest. Turnover from related parties is disclosed in note 24 a). Turnover from the one principal third party customer of the continuing operations (defined as a customer accounting for greater than 10% of total turnover) is £49,579,000 (1999: £28,240,000; 1998: £17,165,000).

3 Continuing and discontinued operations

An analysis of revenues and costs and operating profit between the continuing and discontinued operations is as follows:

a) Year ended 30 June 2000

All operating activity in the year ended 30 June 2000 is attributable to the continuing operations as the discontinued operations were sold on 1 July 1999.

	Year ended 30 June 2000 £'000
Turnover	160,214
Cost of sales	(61,958)
Gross profit	98,256
Operating expenses (excluding goodwill amortisation)	(72,415)
Trading profit	25,841
Goodwill amortisation	(1,536)
Operating profit	24,305
Operating expenses consist of:	
Sales and marketing	(11,178)
Research and development	(46,184)
General and administration (including goodwill amortisation)	(17,576)
Gain on foreign exchange movements	987
	(73,951)

b) Year ended 30 June 1999

	Continuing operations £'000	Discontinued operations £'000	Total £'000
Turnover	127,574	88,348	215,922
Cost of sales	(52,174)	(48,846)	(101,020)
Gross profit	75,400	39,502	114,902
Operating expenses (excluding royalties payable to related parties and goodwill amortisation)	(55,297)	(28,736)	(84,033)
Trading profit	20,103	10,766	30,869
Royalties payable to related parties	-	(11,720)	(11,720)
Goodwill amortisation	(1,369)	(907)	(2,276)
Operating profit	18,734	(1,861)	16,873
Operating expenses consist of:			
Sales and marketing	(7,012)	(7,210)	(14,222)
Research and development	(36,050)	(24,452)	(60,502))
General and administration (including goodwill amortisation)	(15,163)	(9,701)	(24,864)
Gain on foreign exchange movements	1,559	-	1,559
	(56,666)	(41,363)	(98,029)

Year ended 30 June 1998

	Continuing operations £'000	Discontinued operations £'000	Total £'000
Turnover	101,332	87,465	188,797
Cost of sales	(48,725)	(41,551)	(90,276)
Gross profit	52,607	45,914	98,521
Operating expenses (excluding royalties payable to related parties and goodwill amortisation)	(43,101)	27,637	(70,738)
Trading profit	9,506	18,277	27,783
Royalties payable to related parties	-	(14,380)	(14,380)
Goodwill amortisation	(1,369)	(907)	(2,276)
Operating profit	8,137	2,990	(11,127)
Operating expenses comprise:			
Sales and marketing	(6,535)	(5,971)	(12,506)
Research and development	(22,876)	(25,672)	(48,548)
General and administration (including goodwill amortisation)	(12,654)	(11,281)	(23,935)
Loss on foreign exchange movements	(2,405)	-	(2,405)
	(44,470)	(42,924)	(87,394)

4 Profit on sale of discontinued operations

With effect from 1 July 1999, the business of developing and manufacturing digital compression products was sold to a subsidiary of The News Corporation Group. The consideration for goodwill amounted to £20 million. Other net assets were sold for their book value, as shown in note 20 d). The transaction yielded a profit to the NDS Group of £5,192,000, which is a permanent difference for tax purposes.

5 Finance charges (net)

	Year ended 30 June 1998 £'000	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000
Net interest payable to The News Corporation Group (see notes 13 & 14)	10,378	13,262	3,412
Other interest receivable	(8)	(57)	(43)
Other interest payable	74	-	20
	10,444	13,205	3,389

6 Profit on ordinary activities before taxation

a) Profit on ordinary activities before taxation

The profit on ordinary activities before taxation is stated after charging (crediting):

	Year ended 30 June 1998 £'000	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000
Depreciation of tangible fixed assets	8,852	11,045	10,162
Goodwill amortisation	2,276	2,276	1,536
Foreign exchange (gains) losses	2,405	(1,559)	(987)
Primary auditors' remuneration:			
- Audit services	115	115	120
- Non-audit services	172	35	102
Secondary auditors' remuneration:			
- Audit services	15	17	25
- Non-audit services	-	35	66
Release of deferred capital government grants	(287)	(672)	(1,794)
Management fees payable to The News Corporation Group	600	656	965
Operating lease costs	3,165	3,598	2,975
Directors' emoluments (see note 6 d)	561	612	710
Staff costs (see note 6 b)	45,880	54,814	47,271

Additional fees amounting to £220,000 for the year ended 30 June 2000 in respect of services provided by the primary auditors in connection with the initial public offering have been deducted from shareholders' funds as a cost of issuing shares.

b) Employee costs

The average monthly number of employees (including Executive Directors) was:

	Year ended 30 June 1998 Number	Year ended 30 June 1999 Number	Year ended 30 June 1999 Number
Provision of conditional access and broadcast control software and systems	623	717	841
Development and manufacture of digital compression products	518	594	-
	1,141	1,311	841

Their aggregate remuneration comprised:

	Year ended 30 June 1998 £'000	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000
Wages, salaries and benefits	42,191	50,429	44,615
Social security costs	2,235	2,697	1,724
Other pension costs	1,454	1,688	932
	45,880	54,814	47,271

c) Pensions

Pension costs for the year amounted to £932,000 (1999 - £1,688,000; 1998 - £1,454,000). In 1999, £686,000 of the total related to a defined benefits scheme (1998 - £701,000). Substantially all of the members of the defined benefits scheme were employed by the discontinued operations and therefore the NDS Group's continuing obligations to this scheme ceased as at 1 July 1999.

There were no pension contributions unpaid or prepaid as at 30 June 1998, 1999 or 2000.

d) Directors' emoluments

Aggregate emoluments paid by the NDS Group to Directors of the Company amounted to £696,000 (1999 - £598,000; 1998 - £547,000), of which the highest-paid director received £677,000 (1999 - £598,000; 1998 - £547,000). Additionally, the NDS Group paid pension contributions of £14,000 (1999 - £14,000; 1998 - £14,000), all of which was in respect of the highest-paid director. No Directors, including the highest-paid director exercised any share options in the period.

Certain directors who have additional responsibilities within The News Corporation Group receive emoluments for those services from the relevant Group entities.

7 Taxation

	Year ended 30 June 1998 £'000	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000
UK Corporation tax at 30% (1999 - 30.75%; 1998 - 31.0%)	3,617	(5,768)	3,589
Movement on deferred taxation	(3,640)	5,410	213
Overseas taxation	531	1,552	2,696
	508	1,194	6,498
Attributable to continuing operations:			
- UK Corporation tax	(821)	(2,925)	3,589
- Movement in deferred taxation	(446)	2,801	213
- Overseas taxation	531	1,552	2,696
	(736)	1,428	6,498
Tax attributable to discontinued operations	1,244	(234)	-
	508	1,194	6,498

In the years ended 30 June 1998 and 30 June 1999, the charge (credit) for UK Corporation tax represents amounts surrendered by (to) UK companies within The News Corporation Group in respect of tax group relief. It is expected that full group relief will not be available for surrender by The News Corporation Group in respect of the year ended 30 June 2000 or in future years.

The NDS Group is subject to taxation on the profits of its overseas subsidiaries. Substantially all such profits arise on transactions with UK Group companies. It is also subject to taxation on certain remittances from overseas customers, for which UK double taxation relief is substantially available.

The tax rate differs from the statutory taxation rate as a consequence of certain permanent differences and the application of different overseas tax rates. A reconciliation of the tax charge is as follows:

	Year ended 30 June 1998 £'000	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000
Profit on ordinary activities before taxation	683	3,668	26,108
Prima facie tax rate	31.00%	30.75%	30.00%
Prima facie tax charge	212	1,128	7,832
Effect of different tax rates on profits earned outside of the UK	(839)	(856)	(443)
Effect of changes in tax rate	319	-	-
Permanent differences:			
Non-taxable gain on disposal of discontinued operations	-	-	(1,558)
Non-deductible goodwill	706	700	461
Non-deductible expenses	110	222	206
Tax charge	508	1,194	6,498

There are material differences between profits recognised in the financial statements of NDS Group companies and profits calculated for tax purposes. Certain charges, primarily goodwill amortisation, are disallowable for tax purposes and others are recognised for tax purposes in periods different from those in which they are recognised in the financial statements. These latter timing differences give rise to deferred tax assets, the potential benefit of which is recognised unless the asset is not expected to be recovered.

Deferred tax assets recognised relate to:

	30 June 1999 £' 000	30 June 2000 £' 000
Short-term timing differences on accrued expenses	1,304	2,220
Long-term timing differences on fixed assets	803	874
Timing differences attributable to royalty payments	1,200	-
	3,307	3,094

There were no unrecognised deferred tax assets or liabilities as at 30 June 2000 or 30 June 1999, with the exception of potential deferred tax assets arising from the indexation of certain assets of the NDS Group's operations in Israel.

8 Earnings (loss) per share

		Year ended 30 June 1998	Year ended 30 June 1999	Year ended 30 June 2000
.....On profit (loss) from continuing activities after tax, excluding exceptional gain	Basic	(3.7p)	9.8p	29.8p
	Fully diluted	(3.7p)	9.8p	28.8p
.....On profit before minority interests	Basic	0.4p	5.9p	40.6p
	Fully diluted	0.4p	5.9p	39.2p
.....On net profit (loss)	Basic	(0.3p)	5.0p	40.1p
	Fully diluted	(0.3p)	5.0p	38.7p

The earnings (loss) per share represents the profit (loss) attributable to equity shareholders divided by the weighted average number of shares in issue. In addition to earnings per share calculated on the basis of net profit for the year, figures are also presented for earnings per share calculated on the basis of profit from continuing operations before exceptional items and profit before minority interests so as to achieve a more accurate comparison from period to period.

Fully diluted earnings per share for the year ended 30 June 2000 has been calculated in the manner prescribed by Financial Reporting Standard No. 14, "Earnings per share". Share options extant at 30 June 1999 and 30 June 1998 were not been capable of being exercised. Accordingly they had no dilutive effect on earnings per share for those periods.

The profits (losses) used in the calculations are as follows:

	Year ended 30 June 1998 £'000	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000
Net profit (loss)	(118)	2,118	19,392
Adjust for minority interests	293	356	218
Profit before minority interests	175	2,474	19,610
Adjust for:			
- Profit on sale of discontinued operations	-	-	(5,192)
- Operating loss (profit) from discontinued operations	(2,990)	1,861	-
- Tax on loss (profit) from discontinued operations	1,244	(234)	-
Profit (loss) from continuing activities after tax, excluding exceptional gain	(1,571)	4,101	14,418

The weighted average number shares used in the calculations are as follows:

	Year ended 30 June 1998	Year ended 30 June 1999	Year ended 30 June 2000
Weighted average number of shares	42,001,000	42,001,000	48,309,178
Fully diluted weighted average number of shares	42,001,000	42,001,000	50,044,537

9 Fixed asset investments

a) Group investments

During the year ended 30 June 2000, the NDS Group agreed to invest up to $2 million in an unlisted investment fund specialising in technology complementary to that developed by the NDS Group. As at 30 June 2000, £191,000 ($300,000) of the commitment had been called and paid.

There are no provisions against the carrying value of the cost of fixed asset investments.

b) Subsidiary undertakings

The subsidiary undertakings of the Company as at 30 June 2000 are as follows:

	Country of incorporation	Description and proportion of Shares held at 30 June 2000	Principal activity
NDS Limited	Great Britain	22,000,000 ordinary shares of £1 each (100%)	Provision of broadcast control technology
Digi-Media Vision Limited	Great Britain	1 ordinary share of £1 (100%)	Intermediate holding company
News Datacom Limited*	Great Britain	20,000,000 ordinary shares of £1 each (100%)	Provision of conditional access technology
NDS Technologies Israel Limited*	Israel	2,161 ordinary shares of NIS1 each (100%)	Research and development
NDS Marketing Israel Limited	Israel	100 ordinary shares of NIS1 each (100%)	Marketing and customer support
NDS Asia Pacific Limited	Hong Kong	2 ordinary shares of HK$1 each (100%)	Marketing and customer support
NDS Asia Pacific Limited	Great Britain	2 ordinary shares of £1 each (100%)	Customer support
NDS Asia Pacific Pty. Limited	Australia	2 ordinary shares of A$1 each (100%)	Marketing and customer support
NDS Americas Inc.	USA	100 shares of common stock of no par value (100%)	Marketing, customer support and operations

* indirect holding

10 Intangible fixed assets

Intangible fixed assets comprises goodwill. The movement in the two years ended 30 June 1999 was as follows:

	Group Year ended 30 June 1999 £' 000	Group Year ended 30 June 2000 £' 000
Cost		
Beginning of year	45,513	45,513
Additions	-	167
Disposals	-	(18,131)
End of year	45,513	27,549
Amortisation		
Beginning of year	10,585	12,861
Charge for the year	2,276	1,536
Disposals	-	(3,323)
End of year	12,861	11,074
Net Book Value		
Beginning of year	34,928	32,652
End of year	32,652	16,475

Disposals relate to the sale of the digital broadcast business. Additions comprise goodwill arising on the acquisition of NDS Americas Inc.

11 Tangible fixed assets

The movement in tangible fixed assets in the year ended 30 June 2000 was as follows:

	Leasehold Improvements £' 000	Equipment & furniture £' 000	Total £' 000
Cost			
Beginning of year	15,236	50,512	65,748
Additions	1,272	7,768	9,040
Disposal of digital broadcast business assets	(8,622)	(20,454)	(29,076)
Foreign exchange movement	245	1,075	1,320
End of year	8,131	38,901	47,032
Depreciation			
Beginning of year	3,713	27,184	30,897
Charge for the year	1,394	8,768	10,162
Disposal of digital broadcast business assets	(1,207)	(10,511)	(11,718)
Foreign exchange movement	131	751	882
End of year	4,031	26,192	30,223
Net Book Value			
Beginning of year	11,523	23,328	34,851
End of year	4,100	12,709	16,809

The movement in tangible fixed assets in the year ended 30 June 1999 was as follows:

	Leasehold Improvements £' 000	Equipment & furniture £' 000	Total £' 000
Cost			
Beginning of year	13,250	37,462	50,712
Additions	1,734	11,809	13,543
Foreign exchange movement	252	1,241	1,493
End of year	15,236	50,512	65,748
Depreciation			
Beginning of year	2,286	16,876	19,162
Charge for the year	1,348	9,697	11,045
Foreign exchange movement	79	611	690
End of year	3,713	27,184	30,897
Net Book Value			
Beginning of year	10,964	20,586	31,550
End of year	11,523	23,328	34,851

12 Stocks

	Discontinued Operations 30 June 1999 £'000	*Continuing 30 June 1999 £'000*	Total 30 June 1999 £'000	Total 30 June 2000 £'000
Raw materials	*9,198*	-	9,198	-
Work-in-progress	*6,578*	*10,493*	17,071	7,674
Contract work-in-progress (see note 1 k)	*266*	*368*	634	4,048
Finished goods	*6,355*	-	6,355	-
	22,397	*10,861*	33,258	11,722

There is no material difference between the balance sheet value of stock and its replacement cost.

13 Debtors

Amounts falling due within one year:

	Discontinued Operations 30 June 1999 £'000	*Continuing Operations 30 June 1999 £'000*	Total Group 30 June 1999 £'000	Group 30 June 2000 £'000
Trade debtors	*19,214*	*11,379*	30,593	22,607
Recoverable on contracts	*1,206*	*1,687*	2,893	-
Due from The News Corporation Group				
- Arising out of trading transactions	-	*29,085*	29,085	15,279
- Arising out of financing transactions	-	-	-	5,674
UK VAT recoverable	-	*230*	230	-
UK tax recoverable	-	*1,001*	1,001	725
Other debtors	*6*	*3,030*	3,036	3,207
Prepayments and accrued income	*847*	*7,720*	8,567	6,579
	21,273	*54,132*	75,405	54,071

Trade debtors are stated net of a valuation reserve of £573,000 (1999 £750,000).

Amounts due from The News Corporation Group arising out of trading transactions with related parties are non-interest bearing and are due under normal settlement terms.

Amounts due from The News Corporation Group arising out of financing transactions represent cash in excess of the NDS Group's immediate requirements which is loaned to The News Corporation Group. Interest is receivable on such balances at commercial rates. The NDS Group draws on these funds on a day to day basis as required.

14 Creditors - Amounts falling due within one year

	Discontinued Operations 30 June 1999 £'000	*Continuing Operations 30 June 1999 £'000*	Total 30 June 1999 £'000	Total 30 June 2000 £'000
Bank overdrafts	-	*43,707*	43,707	-
Payments received on account	*1,265*	*4,118*	5,383	7,918
Trade creditors	*4,828*	*6,474*	11,302	8,907
Due to The News Corporation Group				
- Arising out of financing transactions	-	*17,724*	17,724	-
- Arising out of trading transactions	-	*20,377*	20,377	-
UK Corporation tax	-	-	-	2,670
UK PAYE and social security	-	*151*	151	248
UK VAT	-	-	-	724
Other creditors	*180*	*3,687*	3,867	3,905
Customer deposits and deferred income	*1,230*	*4,231*	5,461	21,593
Accrued expenses	*407*	*11,111*	11,518	15,618
Deferred government grants	-	*1,147*	1,147	737
	7,910	*112,727*	120,637	62,320

Substantially all of the amounts due to The News Corporation Group arising out of financing transactions were provided as financing for the NDS Group's working capital needs, were unsecured and bore interest at commercial rates.

Amounts due to The News Corporation Group arising out of trading transactions represented unpaid royalties due under a licensing agreement (see note 24 c). Although the royalty expenses related to the discontinued operations, the NDS Group retained, and subsequently paid, the liability existing at 30 June 1999.

b) Overdraft facilities and cash

The News Corporation Group operates a collective overdraft facility with its bankers which allows individual companies within that group to become overdrawn subject to an agreed limit not being exceeded in aggregate. Since 1 July 1999, interest has been paid to and received from The News Corporation Group on overdraft and cash balances at rates reflecting those paid to or received from The News Corporation Group's bankers on its overdrafts and cash balances.

15 Creditors - Amounts falling due after one year

	30 June 1999 £'000	30 June 2000 £'000
Loan from The News Corporation Group	131,245	-
Deferred government grants	2,295	1,474
	133,540	1,474

The loan from The News Corporation Group was contractually repayable on 29 June 2001; the agreement permitted early repayment in whole or in part. The NDS Group repaid the loan early using the proceeds of the initial public offering and the sale of the digital broadcasting business. The loan bore interest at Sterling 12-month LIBOR plus 1.75%, payable quarterly. The annual rate of interest applied during the year ended 30 June 2000 was 7.27%.

16 Provision for liabilities and charges

The movement in provisions for liabilities and charges during the year ended 30 June 2000 was as follows:

	Severance pay provision £' 000	Warranty Provision £' 000	Changeover provision £' 000	Provision for National Insurance	Total £' 000
Beginning of year	759	2,511	8,850	-	12,120
Charged (credited) to profit and loss account	(74)	-	5,880	400	6,206
Disposal of business	-	(2,511)	-	-	(2,511)
Used	-	-	(8,130)	-	(8,130)
End of year	685	-	6,600	400	7,685

The movement in provisions for liabilities and charges during the year ended 30 June 1999 was as follows:

	Severance pay provision £' 000	Warranty Provision £' 000	Changeover provision £' 000	Total £' 000
Beginning of year	563	4,159	15,600	20,322
Charged (credited) to profit and loss account	196	313	(163)	346
Used	-	(1,961)	(6,587)	(8,548)
End of year	759	2,511	8,850	12,120

Provision for warranty costs relates entirely to the discontinued operations; other provisions relate entirely to the continuing operations.

17 **Share capital and reserves**

a) *Called-up equity share capital of the Company*

	30 June 1999 US$' 000	30 June 2000 US$' 000
Authorised:		
100,000,000 ordinary shares of $0.01 each	1,000	-
48,000,000 Series A ordinary shares of $0.01 each	-	48,000
52,000,000 Series B ordinary shares of $0.01 each	-	52,000
	1,000	1,000
	£' 000	£' 000
Allotted, issued and fully paid:		
42,001,000 ordinary shares of $0.01 each	264	-
10,539,126 Series A ordinary shares of $0.01 each	-	65
42,001,000 Series B ordinary shares of $0.01 each	-	264
	264	329

On 1 November 1999, the authorised equity share capital was reclassified into 48,000,000 Series A ordinary shares of US$0.01 each and 52,000,000 Series B ordinary shares of US$0.01 each. The resulting issued share capital at that date comprised no Series A ordinary shares and 42,001,000 Series B ordinary shares. These two classes of shares entitle the holder to the same rights except that the Series A and Series B ordinary shares are entitled to one vote and 10 votes per share respectively; and the Series B ordinary shares may be converted by the shareholder into Series A ordinary shares, at the instigation of the shareholder at any time.

Automatic conversion will occur if any sale, transfer or other disposal results from the cessation of the ultimate beneficial ownership of the Series B ordinary shares being retained by entities controlled by The News Corporation Group.

On 26 November 1999, 10,350,000 Series A ordinary shares were issued for cash under an initial public offering. Between 23 November 1999 and 30 June 2000, a further 189,126 Series A ordinary shares were issued for cash upon exercise of share options. Issue costs have been written off against the share premium account. The net proceeds received by the NDS Group on shares issued in they year amounted to £118,451,000 (1999 and 1998: nil).

b) Non-equity share capital

	30 June 1999	30 June 2000
Authorised, issued and fully paid:		
Deferred shares of £1 each	£42,000,002	£42,000,002

The deferred shares do not entitle the holders thereof to receive notice of, or attend or vote at, meetings of shareholders of the Company, or to receive dividends. Upon liquidation of the Company, the deferred shares entitle the holders to repayment of the capital paid up on those shares, but only after each holder of ordinary shares has received (i) the amount paid up on his shares and (ii) an additional sum of $1 million per share.

c) Share Options

The Company has three share option schemes: The 1997 Executive Share Option Scheme ("the 1997 scheme"), The 1999 Unapproved Executive Share Option Scheme ("the 1999 unapproved scheme") and The 1999 Approved Executive Share Option Scheme ("the 1999 approved scheme"). The provisions of each scheme are substantially the same, except that the 1999 scheme is approved by the UK Inland Revenue for the purposes of granting UK employees options over shares in the Company which are free from income tax in the hands of the employee under certain circumstances. Following the creation of the 1999 scheme, no further options will be granted under the 1997 scheme.

The schemes provide for the grant of options to purchase Series A ordinary shares in NDS Group plc with a maximum term of 10 years. Options granted under the scheme vest over a four-year period. The schemes authorise options to be granted subject to a maximum of 10% of the ordinary shares of the Company in issue at the date of grant. Options granted prior to the initial public offering were granted at the Directors' estimate of the market value of the Company, as supported by independent advice. Vested options became exercisable following the initial public offering of the Series A ordinary shares on 22 November 1999. Options granted on, and subsequent to, the initial public offering have been granted at an exercise price equal to the quoted closing price of the Series A ordinary shares on the NASDAQ Exchange on the last trading day before the date of issue. No charge for compensation costs arises in respect of options granted.

The number and weighted average exercise prices of options are as follows:

	Number	Weighted average exercise price ($)
Year ended 30 June 1998		
Options outstanding at the beginning of the year	1,523,234	8.14
Options granted	719,416	8.14
Options forfeited	(230,178)	8.14
Options outstanding at the end of the year	2,102,472	8.14
Options exercisable at the end of the year	Nil	Nil
Year ended 30 June 1999		
Options outstanding at the beginning of the year	2,012,472	8.14
Options granted	878,368	9.85
Options forfeited	(53,171)	8.28
Options outstanding at the end of the year	2,837,669	8.66
Options exercisable at the end of the year	Nil	Nil
Year ended 30 June 2000		
Options outstanding at the beginning of the year	2,837,669	8.66
Options granted	1,182,745	28.86
Options forfeited	(645,588)	9.40
Options exercised	(189,126)	8.42
Options outstanding at the end of the year	3,185,700	16.03
Options exercisable at the end of the year	1,139,226	8.34

Options outstanding as at 30 June 2000 expire as follows:

Expiry date	Number	Exercise price ($)
21 May 2007	870,660	8.14
5 April 2008	519,582	8.14
24 March 2009	637,235	9.85
4 May 2009	4,000	9.85
22 November 2009	875,932	20.00
24 January 2010	13,500	43.00
20 February 2010	30,000	66.00
27 April 2010	234,791	56.875
	3,185,700	

The option prices have been determined in US$ because that is the denomination of the market in which the shares are most easily traded.

d) Shareholders' funds

Movements on capital and reserves and reconciliation of movements in shareholders' funds for the Group for the three years ended 30 June 2000 are as follows:

	Equity share capital £' 000	Share Premium £' 000	Non-equity share capital £' 000	Capital contribution £' 000	Profit and loss account £' 000	Total share-holders' funds £' 000
As at 30 June 1997	264	-	42,000	133,265	(263,726)	(88,197)
Loss for the financial year	-	-	-	-	(118)	(118)
Foreign exchange movement	-	-	-	-	(88)	(88)
As at 30 June 1998	264	-	42,000	133,265	(263,932)	(88,403)
Profit for the financial year	-	-	-	-	2,118	2,118
Foreign exchange movement	-	-	-	-	398	398
As at 30 June 1999	264		42,000	133,265	(261,416)	(85,887)
Profit for the financial year	-	-	-	-	19,392	19,392
Issue of shares for cash	65	120,726	-	-	(2,340)	118,451
Foreign exchange movement	-	-	-	-	661	661
As at 30 June 2000	329	120,726	42,000	133,265	(243,703)	52,617

18 Minority Interests

Minority interests comprised the equity of NDS Americas Inc., the results, cash flows and net assets of which have been consolidated in these financial statements as a subsidiary undertaking (see note 1b) for the period until 4 November 1999 when ownership was acquired by NDS Group plc. The movement in reserves attributable to minority interests for the three years ended 30 June 2000 is as follows:

	Year ended 30 June 1998 £' 000	Year ended 30 June 1999 £' 000	Year ended 30 June 2000 £' 000
Beginning of year	939	1,268	1,753
Profit on ordinary activities after taxation	293	356	218
Dividends paid	-	-	(2,396)
Acquisition of equity ownership	-	-	407
Foreign exchange movement	36	129	18
End of year	1,268	1,753	-

19 Analysis of cash flows

A reconciliation of operating profit to net cash flow from operating activities is as follows:

	Year ended 30 June 1998 £'000	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000
Operating profit	11,127	16,873	24,305
Depreciation	8,852	11,045	10,162
Amortisation of goodwill	2,276	2,276	1,536
Release of deferred capital government grants	(287)	(672)	(1,794)
(Increase) decrease in stocks	(3,484)	(14,955)	(861)
(Increase) decrease in debtors	1,748	(31,867)	5,719
Increase (decrease) in creditors	9,188	(271)	8,025
Increase (decrease) in provisions	9,664	(8,202)	(1,924)
Other	623	518	958
Net cash inflow (outflow) from operating activities	39,707	(25,255)	46,126
Attributable to:			
Continuing operations	49,643	42,312	46,126
Discontinued operations	(9,936)	(17,057)	-
	39,707	25,255	46,126

20 Analysis of cash flows

a) Returns on investments and servicing of finance

	Year ended 30 June 1998 £'000	Year ended 30 June 1999 £'000	Year ended 30 June 1999 £'000
Interest received	367	716	43
Interest paid	(10,811)	(13,921)	(3,432)
Dividend paid to minority interests	-	-	(2,396)
Net cash inflow (outflow)	(10,444)	(13,205)	(5,785)

Immediately prior to the acquisition of ownership op NDS Americas Inc. (see note 1 b)), that company paid a dividend of substantially all of its retained earnings.

All cash flows associated investments and the servicing of finance are attributable to the continuing operations of the NDS Group.

b) Taxation

	Year ended 30 June 1998 £'000	Year ended 30 June 1999 £'000	Year ended 30 June 1999 £'000
Overseas tax paid	(2,193)	(1,612)	2,583
UK tax recovered	-	-	(276)
Net cash inflow (outflow)	(2,193)	(1,612)	(2,307)

In the year ended 30 June 1998, the NDS Group settled a tax investigation undertaken by the Israeli tax authorities resulting in a payment of $3,250,000 (£1,971,000) being made in respect of financial years 1988 to 1992. The charge has been dealt with in the financial statements of the years to which it relates and does not affect the tax charge in these financial statements.

All cash flows associated with taxation are attributable to the continuing operations of the NDS Group.

c) *Capital expenditure and financial investment*

	Year ended 30 June 1998 £'000	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000
Capital government grants received	1,875	209	619
Purchase of tangible fixed assets	(14,826)	(13,543)	(9,040)
Purchase of fixed asset investments	-	-	(191)
Purchase of NDS Americas Inc.	-	-	(167)
Sale of tangible fixed assets	136	-	-
Net cash inflow (outflow)	(12,815)	(13,334)	(8,779)
Attributable to:			
Continuing operations	(5,354)	(3,756)	(8,779)
Discontinued operations	(7,461)	(9,578)	-
	(12,815)	(13,334)	(8,779)

d) *Disposal of business*

Cash received from the disposal of the digital broadcasting business on 1 July 1999 was made up as follows:

	£' 000
Profit on disposal of business	5,192
Net assets realised:	
Goodwill	14,808
Tangible fixed assets	17,358
Stock	22,397
Debtors falling due within one year	21,273
Creditors falling due within one year	(7,910)
Provision for liabilities and charges	(2,511)
Total cash received	70,607

e) *Financing*

	Year ended 30 June 1998 £'000	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000
Proceeds from issue of shares	-	-	118,451
Cash inflow (outflow) in respect of financing transactions with The News Corporation Group	(57)	10,546	(155,562)
Net cash inflow (outflow)	(57)	10,546	(37,111)

21 Analysis and reconciliation of net debt

a) Analysis of net debt

Year ended 30 June 2000

	1 July 1999	Cash flow	Other non-cash changes	30 June 2000
	£'000	£'000	£'000	£'000
Cash	2,690	19,044	-	21,734
Overdrafts	(43,707)	43,707	-	-
		62,751		
Due (to) from The News Corporation Group in respect of financing transactions	(17,724)	24,317	(919)	5,674
Loan from The News Corporation Group	(131,245)	131,245	-	-
		155,562		
Net liquid resources (debt)	(189,986)	218,313	(919)	27,408

Year ended 30 June 1999

	1 July 1998	Cash flow	Other non-cash changes	30 June 1999
	£'000	£'000	£'000	£'000
Cash	4,214	(1,524)	-	2,690
Overdrafts	(2,371)	(41,336)	-	(43,707)
		(42,860)		
Due to The News Corporation Group in respect of financing transactions	(12,946)	(10,546)	5,768	(17,724)
Loan from The News Corporation Group	(131,245)	-	-	(131,245)
		(10,546)		
Net debt	(142,348)	(53,406)	5,768	(189,986)

Year ended 30 June 1998

	1 July 1997	Cash flow	Other non-cash changes	30 June 1998
	£'000	£'000	£'000	£'000
Cash	6,571	(2,357)	-	4,214
Overdrafts	(18,926)	16,555	-	(2,371)
		14,198		
Due to The News Corporation Group in respect of financing transactions	(9,386)	57	(3,617)	(12,946)
Loan from The News Corporation Group	(131,245)	-	-	(131,245)
		57		
Net debt	(152,986)	14,255	(3,617)	(142,348)

b) Reconciliation of net liquid resources (debt)

	Year ended 30 June 1998 £'000	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000
Increase (decrease) in cash in year	14,198	(42,860)	62,751
Cash inflow (outflow) in respect of financing transactions with The News Corporation Group	57	(10,546)	155,562
Cash movement in net debt in year	14,255	(53,406)	218,313
Non-cash transactions	(3,617)	5,768	(919)
Movement in net debt in year	10,638	(47,638)	271,394
Net (debt), beginning of year	(152,986)	(142,348)	(189,986)
Net liquid resources (debt), end of year	(142,348)	(189,986)	27,408

22 Non-cash transactions

Amounts in respect of UK Corporation Tax expected to be surrendered by (to) UK companies within The News Corporation Group in respect of tax group relief have been credited to the net financing provided by The News Corporation Group.

23 Guarantees and other financial commitments

a) Financial commitments

Capital expenditure contracted for but not provided in the financial statements amounted to £1,526,000 (1999 - £702,000; 1998 - £2,198,000). The NDS Group has a commitment to make a further investment referred to in note 9 a) of up to $1,700,000 (£1,120,000).

b) Lease commitments

The Company and certain subsidiary undertakings occupy buildings held on short-term leases. The annual rentals paid on these leases during the year ended 30 June 2000 were £2,975,000 (1999 - £3,598,000; 1998 - £3,165,000). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. Certain of the leases are held by companies within The News Corporation Group. The NDS Group has entered into indemnity agreements whereby it will be liable for all amounts due relating to the leases.

Annual commitments under operating leases are as follows:

	1998 £'000	1999 £'000	2000 £'000
Expiry date of lease			
- Within one year	103	209	81
- In two to five years inclusive	1,007	1,112	1,934
- Over five years	2,541	2,361	1,780
	3,651	3,682	3,795

The future minimum rental commitments as of 30 June 2000 fall due in the following periods

Year ended 30 June	£'000
2001	3,826
2002	3,745
2003	2,742
2004	2,511
2005	1,881
Thereafter	11,921

c) Severance pay

In certain countries in which the NDS Group operates, it is required to make severance payments to dismissed employees and employees leaving employment in certain other circumstances, on the basis of the latest monthly salary for each year of service. This liability is provided for by payments of premiums to insurance companies under approved plans.

Provision is made in the financial statements for amounts payable to employees of NDS Technologies Israel Limited, an Israeli subsidiary undertaking, that are not funded by insurance policies. The gross liability and the amount funded by insurance policies are:

	30 June 1999 £'000	30 June 2000 £'000
Gross severance pay liability	4,710	5,411
Amounts funded by insurance policies	(3,951)	(4,726)
Net Provision	759	685

d) Government grants

The NDS Group has received government grants towards the cost of certain capital expenditure. If the conditions of the grants are not complied with, the grants may be required to be refunded, in whole or in part, with interest from the date of receipt. The major conditions relating to a grant concern the maintenance of adequate non-distributable reserves and retention of the associated assets for a set period of time. The cumulative amount received and receivable to 30 June 2000 amounted to £5 million. It is not anticipated that any repayment will be required.

The plant and equipment of NDS Technologies Israel Limited, with a net book value of £9 million as at 30 June 2000, is the subject of a floating charge to secure compliance with the terms of the grants.

e) Intellectual property rights

The nature of the NDS Group's business is such that it is subject to claims by third parties alleging infringements of various intellectual property rights. The NDS Group vigorously defends such claims. Where a liability arising from these claims is probable, provision is made based on management's best estimate. It is not considered that any resulting liability in excess of amounts provided for in these financial statements would materially affect the financial position of the NDS Group.

f) Contingent asset

A subsidiary undertaking, News Datacom Limited was plaintiff in an action brought with other companies in The News Corporation Group against several former officers, employees and suppliers of the Group. The action alleged that the Group paid an artificially high price to suppliers.

The plaintiffs obtained judgement at the English High Court in their favour and were awarded damages, costs and interest totaling some US$47 million (£28 million). The plaintiffs are attempting to enforce judgement but no amounts in respect of damages have been recognised in these financial statements as it is not possible to determine with sufficient accuracy the amount, if any, which might be realised from the judgement.

g) National Insurance on share options

The Company has granted options to certain UK employees under unapproved share option schemes. UK law levies Employer's National Insurance contributions on the gains made by employees upon exercise of options issued under certain unapproved share option schemes. The charge applies to options granted after 5 April 1999. Provision is made over the vesting period of relevant options based on the prevailing National Insurance rate and the difference between the market value of the underlying shares at the balance sheet date (being $61 per share) and the option exercise price. The amount provided as at 30 June 2000 was £400,000 (see note 16).

If all options extant at 30 June 2000 had been capable of being exercised on the date, the National Insurance payable would have amounted to £1.3 million. This would increase by £0.2 million, had the stock price been 10% higher than the year end price of $61.

24 Related party transactions

The NDS Group conducts business transactions with The News Corporation Group on normal commercial terms. These entities are considered to be related parties.

The Directors consider that agreements covering these arrangements were entered into in the context of a parent-subsidiary relationship and therefore are not the result of arm's-length negotiations between independent parties. There can be no assurance therefore, that each of the agreements, or the transactions provided for therein, or any amendments thereof will be effected on terms at least as favourable to the NDS Group as could have been obtained from unaffiliated third parties.

Following the initial public offering, material related party transactions are subject to approval by the Company's Audit Committee

These transactions are of two main types, which are the provision by the Group of integrated broadcast systems and the receipt by the Group of administrative services from The News Corporation Group. Additionally, the discontinued business of the Group licensed certain intellectual property rights from The News Corporation Group, and the business was sold to The News Corporation Group prior to its eventual disposal to an unrelated third party.

a) Provision of integrated broadcast systems

Integrated broadcast systems are supplied to both associated undertakings and a subsidiary undertaking of The News Corporation Limited. The principal related undertakings of The News Corporation Limited supplied by the Group are BSkyB, NetSat, Innova, and DTH TechCo, Sky Columbia, Sky Chile, Sky Argentina, Stream and STAR TV. The amounts included within the Group turnover in each year and the amounts outstanding at each year-end attributable to these related parties are shown below.

	With associated and subsidiary undertakings of The News Corporation Group		
	1998	1999	2000
	£'000	£'000	£'000
For the year ended 30 June			
Turnover from:			
Continuing operations	55,847	54,018	69,159
Discontinued operations	36,457	11,711	-
	92,304	65,728	69,159
As at 30 June			
Amounts receivable	14,441	29,085	15,279

All amounts receivable from related parties are attributable to the continuing operations. There are no valuation reserves against these receivables.

b) *Administration services and provision of debt finance*

Funding is provided by The News Corporation Group and bank overdrafts have been made available as part of collective News Corporation Group banking facilities. Interest is charged at commercial rates on financing and, since 1 July 1999, on overdrafts. Conversely, cash in excess of the NDS Group's immediate requirements is loaned to The News Corporation Group. Interest is received at commercial rates on such amounts due from The News Corporation Group and, since 1 July 1999, on cash balances which form part of collective News Corporation Group banking facilities.

The News Corporation Group provided £965,000 of administrative services including payroll, legal and company secretarial services to the Group during the year ended 30 June 2000 (1999 - £656,000; 1998 - £600,000). These services are provided under a Master Intercompany Agreement with The News Corporation Group which provides, among other things, for arrangements governing the relationship between the NDS Group and The News Corporation Group. The consideration for each of the services and other arrangements set out in the Master Intercompany Agreement is mutually agreed and based upon allocated costs. All such consideration and any material arrangements are subject to the approval of the Audit Committee of NDS Group plc.

The services covered by the Master Intercompany Agreement include:

- cash management and financing
- services of Group employees
- facility arrangements
- employee matters, including pensions
- certain other services

c) *Licensing of intellectual property rights*

The discontinued operations of the NDS Group licensed certain intellectual property rights from a fellow subsidiary company of The News Corporation Limited. Royalties were payable under the licence agreement, calculated as a percentage of relevant NDS Group turnover

The amounts included within the NDS Group operating expenses in each year and the amounts outstanding at each year end attributable to these related parties are shown below. The arrangement formed part of the discontinued operations of the Group, although amounts unpaid as at 30 June 1999 were retained and subsequently paid by the NDS Group.

	1998 £'000	1999 £'000	2000 £'000
For the year ended 30 June			
Charged to the Profit and Loss account	14,380	11,720	-
As at 30 June			
Amounts payable	17,657	20,377	-

d) UK Corporation Tax

NDS Group plc entered into a Group Relief Agreement, with a UK fellow subsidiary of The News Corporation Limited, which provides for the mutual surrender of losses and other allowances by group relief. Subject to the terms of the agreement, the party accepting such surrender shall pay or cause to be paid to the surrendering party an amount equal to the amount of tax such accepting party would have paid but for such surrender. Full group relief is not expected to be available for the year ended 30 June 2000 and no group relief is expected to be available in future periods.

e) NDS Americas Inc.

As stated in note 1, NDS Americas Inc. was consolidated in these financial statements for periods prior to 4 November 1999, the date on which it was acquired by the NDS Group from another subsidiary of The News Corporation Group. Prior to the acquisition, NDS Americas Inc. paid substantially all of its retained profits as a dividend of £2,396,000. The purchase transaction gave rise to goodwill (being the excess of the purchase price over the fair value of its net assets) of £167,000.

d) Discontinued operations

The digital broadcasting business previously owned by the NDS Group was sold on 1 July 1999 to an indirect wholly-owned subsidiary of The News Corporation Limited, Ordinto Investments, for £70.6 million, giving raise to a gain of £5,192,000. On 14 October 1999, Ordinto Investments sold the digital broadcasting business to Tandberg Television ASA, an unrelated party, for £130.7 million. Since 1 July 1999, no revenue or costs have been recorded by the NDS Group associated with the discontinued operations.

25 Derivatives and financial instruments

a) Qualitative discussion on financial risks

The NDS Group is exposed to financial risk factors in the normal course of business. The principal factors identified by the Directors are as follows:

- *Foreign Exchange*

The NDS Group operates in international markets and has operational presence in several countries. Accordingly it has substantial transactions which are denominated in US Dollars as well as its functional currency of pounds sterling. The Directors view these two currencies as being the two main currencies of international trade and will enter into contracts denominated in either currency. All material contracts with customers in Latin America and the Asia-Pacific region are denominated in US Dollars. From time to time, commercial pressures have resulted in contracts being entered into in other currencies, mainly euros.

Gains or losses arising on the realization or retranslation of monetary assets and liabilities are included within general and administration costs, as explained more fully in the accounting policies within the financial statements. Movements in foreign exchange rates generated foreign exchange gains of £1.0 million (1999 – gains of £1.6 million; 1998 – losses of £2.4 million).

- *Inflation*

Inflation has not had any significant impact on the results of operations during the three-year period ended 30 June 2000.

- *Credit Risk*

The NDS Group is exposed to the risk that a customer may default on payment of amounts due under contracts. A substantial proportion of revenues is derived from large corporations with substantial assets, but many customers are in the early stages of their business cycle when they are investing heavily to build their businesses which increases credit risk. Additionally, a number of customers are located in countries subject to exchange control regulations, which may restrict their ability to settle debts on a timely basis. The Directors' policy is to reduce credit risk by close monitoring of trade receivables and, if necessary, requiring payment of at least part of amounts due under contracts in advance. Potential customers who are in early stages of development are investigated before orders are accepted to ensure that their business plans appear reasonable and that their investors are credible. In none of the three years ended 30 June 2000 has any customer of NDS defaulted on payment due to insolvency.

- *Interest rate risk*

The NDS Group has entered into no fixed rate borrowings. All borrowings to date have been from The News Corporation Group (or via bank overdraft facilities operated as part of a News Corporation banking group) and interest has been charged at variable rates which have been a function of LIBOR quoted rates. As at 30 June 2000, NDS has no net debt. Accordingly NDS is not currently exposed to interest rate risk.

b) *Financial instruments*

The NDS Group's financial instruments, other than derivatives, comprise borrowings, some cash and liquid resources, and various items, such as trade debtors, trade creditors etc. that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the NDS Group's operations.

The fair values of the financial assets and liabilities are equal to the book values of these assets and liabilities.

It is, and has been throughout the period under review, the NDS Group's policy that no trading in financial instruments shall be undertaken. The NDS Group had no hedging contracts as at 30 June 1999 or 2000 and there are no unrecognised balances at either year end that will be recognised in future years.

b) *Liquidity and interest rate risks*

As at 30 June 2000, the NDS Group had repaid all its long-term debt and had no net debt.

The News Corporation Group operates collective sterling overdraft facilities with its bankers which allows individual companies in that group to become overdrawn subject to an agreed limit not being exceeded in aggregate. Interest is paid by the NDS Group on sterling overdrafts and is received on sterling cash balances. Such interest is paid to or received from The News Corporation Group.

The News Corporation Group operates a US dollar cash-sweeping arrangement with its bankers under which relevant cash receipts by the NDS group are passed daily to another News Corporation Group company; conversely, the other News Corporation Group company transfers cash to the NDS Group to meet daily expenditure requirements. Interest is paid to or received from the other News Corporation Group company based on the daily net balance.

The NDS Group has a short term loan facility of £30 million (1999 – £30 million) from companies within The News Corporation Group, which is considered to be adequate for the NDS Group's needs. The facility has no expiry date.

As at 30 June 2000, the NDS Group had cash balances of £21.7 million (1999 – £41.0 million net overdraft balance) and amounts receivable from The News Corporation Group arising out of financing of £5.7 million (1999 – £17.7 million payable). The average interest rate applied on short term loans and overdrafts during the year was 7.55% (1999 – 7.0%); the average interest applied to cash balances and amounts receivable from The News Corporation Group arising out of financing transactions was 5% (1999 – nil).

c) Currency risks

The NDS Group has no open derivative contracts as at 30 June 2000 to mitigate against currency risk. All monetary assets and liabilities as at 30 June 2000 have been stated in sterling at their revalued amounts using year end exchange rates.

The table below analyses the net monetary assets or liabilities as at 30 June 2000 that are denominated in currencies that are not the functional currency of the operating unit concerned:

Net foreign currency assets (liabilities)	Functional currency of Group operating unit Sterling £'000	US Dollar £'000	Total £'000
Sterling	-	(92)	(92)
US Dollar	14,009	-	14,009
Israeli Shekel	(4)	(42)	(46)
Australian Dollar	(3,571)	-	(3,571)
Other (mainly Euro)	(553)	(10)	(563)
Total	9,881	(144)	9,737

Rates of interest payable on financial liabilities are shown on notes 14 and 15.

The table below analyses the net monetary assets or liabilities as at 30 June 1999 that are denominated in currencies that are not the functional currency of the operating unit concerned:

Net foreign currency assets (liabilities)	Functional currency of Group operating unit Sterling £'000	US Dollar £'000	Total £'000
Sterling	-	28	29
US Dollar	14,918	-	14,918
Israeli Shekel	-	(1,259)	(1,259)
Australian Dollar	(2,506)	-	(2,506)
Other (mainly Euro)	1,157	-	1,157
Total	13,569	(1,231)	12,338

26 Controlling party

Throughout the period covered by these financial statements, NDS Group plc has been under the control of The News Corporation Limited, a company registered in Australia. Until 26 November 1999, NDS Group plc was a wholly-owned subsidiary of Newscorp Investments, a company registered in England and Wales and wholly-owned by The News Corporation Limited. On 26 November 1999, following the initial public offering, Newscorp Investment's effective interest in the Company was reduced to approximately 80%. On 29 June 2000, Newscorp Investments sold its interest in the Company to Sky Global Networks, Inc., a US corporation wholly-owned by The News Corporation Limited, as part of an internal reorganisation of certain of The News Corporation Group's properties.

The accounts of the smallest group into which the accounts of the Company are consolidated are contained herein. The largest group into which they are consolidated is that headed by The News Corporation Limited. Copies of these accounts are available from The News Corporation Limited, 2 Holt Street, Sydney, New South Wales 2010, Australia.

27 Summary of differences between United Kingdom and United States generally accepted accounting principles

The Group's financial statements are prepared and presented in accordance with generally accepted accounting principles applicable in the United Kingdom ("UK GAAP"), which differ in certain respects from those applicable in the United States ("US GAAP"). The main differences that affect the Group relate are set out below.

(a) Differences giving rise to accounting adjustments

Net Income

	Year ended 30 June 1998 £'000	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000
UK GAAP: Profit (loss) for the financial year	(118)	2,118	19,392
Adjustments:			
Minority interests	293	356	218
Subscriber fees	(1,546)	1,870	603
Israeli tax settlement	(1,971)	-	-
Share options	-	-	(13,566)
Purchase of NDS Americas Inc.	-	-	167
US GAAP: Net income (loss)	(3,342)	4,344	6,814

Shareholders' equity

	30 June 1999 £'000	30 June 2000 £'000
UK GAAP: Total shareholders' funds	(85,887)	52,617
Adjustments:		
Minority interests	1,753	-
Subscriber fees	(2,451)	(1,848)
US GAAP: Total shareholders' funds	(86,585)	50,769

i) Minority interests and purchase of NDS Americas Inc.

The accounting adjustment results from the different basis of consolidation of NDS Americas Inc. under US GAAP. Prior to 4 November 1999, under UK GAAP, NDS Americas Inc. was consolidated with 100% minority interest. Under US GAAP, NDS Americas Inc. was combined under the principles relating to the reorganisation of entities under common control with no minority interest.

On 4 November 1999, equity ownership of NDS Americas Inc. was purchased by NDS Group plc for cash consideration. Prior to this transaction, NDS Americas Inc. paid out substantially all of its retained profits as a dividend. The acquisition gave rise to an immaterial amount of goodwill, which has been written off. Under US GAAP, this payment is regarded as a dividend distribution. Following completion of this transaction, there is no difference in shareholders' equity.

ii) Subscriber fees

Under UK GAAP, subscriber fees are recognised as the services are performed. When the services include an obligation to supply smart cards in the future at no extra charge to the broadcaster, provision is made in the financial statements which reflects the amount of the total anticipated costs relating to the subscriber fees recognised to date. Under US GAAP, the costs of supplying smart cards are recognised upon shipment of the smart cards to the broadcaster or its subscribers. A portion of the subscriber fee revenue is deferred, equivalent to the estimated fair value of the cards, which has been calculated based on the revenue the Group would expect to earn in supplying an equivalent volume of cards in a standalone arrangement. This revenue is the recognised upon eventual shipment of the smart cards to the broadcaster or its subscribers.

As a result of this difference in accounting treatment, the US GAAP financial statements differ from the UK GAAP financial statements as follows:

Affect on net income	Year ended 30 June 1998 £'000	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000
Increase (Decrease) in revenue	(7,840)	9,450	3,150
Decrease (Increase) in cost of sales	5,600	(6,750)	(2,250)
Decrease (Increase) in taxation charge	694	(830)	(297)
Increase (Decrease) in net income	(1,546)	1,870	603

Affect on shareholders' equity	30 June 1999 £'000	30 June 2000 £'000
Increase in deferred revenue	(12,390)	(9,240)
Reduction in changeover provision	8,850	6,600
Increase in deferred tax asset	1,089	792
Decrease in shareholders' funds	(2,451)	(1,848)

iii) Stock options

Certain stock options were issued to employees prior to 22 November 1999, the date of the Company's Initial Public Offering and from which an open market existed in the Company's shares. The options were granted at an estimate of the market value as at the date of grant. Under UK GAAP, no compensation cost arises. The NDS Group has elected to account for stock-based compensation for employees under Accounting Principles Board Opinion No. 25 ("APB 25"). Under APB 25, the measurement date is the date of the Initial Public Offering and a compensation cost falls to be charged to the profit and loss account equal to the difference between the exercise price and the market price of the shares as set by the Initial Public Offering. The compensation cost is charged over the vesting period of the options. The charge under US GAAP gives rise to a permanent difference for the purposes of determining deferred taxation.

This item has the effect of reducing net income in the year ended 30 June 2000 by £13,567,000. The item has no effect on shareholders' equity. The remaining deferred component of £2,113,000 will reduce net income in future years as follows:

Financial year ending	Reduction in net income under US GAAP £'000
30 June 2001	1,457
30 June 2002	539
30 June 2003	117
	2,113

No charge for compensation costs arises in respect of options granted at, and subsequent to, the initial public offering .

iii) Israeli tax settlement

In the financial year to 30 June 1998, the NDS Group's Israeli subsidiary reached a settlement with the Israeli tax authorities resulting in a payment of $3,250,000 (£1,971,000) being made in respect of financial years 1988 to 1992. Under UK GAAP the charge has been dealt with in the consolidated financial statements of the years to which it relates. Under US GAAP the charge should be recorded in the period in which the liability became known. This was the year ended 30 June 1998. Accordingly the tax charge under US GAAP for that year is different from that under UK GAAP.

b) Difference giving rise to presentational differences

i) Discontinued operations

Under UK GAAP the turnover, cost of sales, operating expenses and net operating profit from discontinued operations are separately identified as components of elements of the consolidated whole. Under US GAAP, only those elements of turnover, cost of sales and operating expenses which relate to the continuing operations are shown; the net operating profit of the discontinued operations is shown as a single component of consolidated operating profit. Total operating profit is the same under UK GAAP as under US GAAP. Note 3 to the financial statements provides the necessary information.

Under UK GAAP, the consolidated fixed assets and provisions for liabilities and charges as at 30 June 1999 include elements relating to the discontinued operations. Under US GAAP, the elements would be reclassified as current items. Consolidated net assets are the same under UK GAAP as under US GAAP. The notes to the consolidated balance sheet as at 30 June 1999 provide the necessary information.

ii) Consolidated balance sheet presentation

The consolidated balance sheet prepared in accordance with UK GAAP differs in certain respects from US GAAP. For example, under UK GAAP, current assets are presented after fixed assets; creditors falling due after one year are deducted from current assets to present net assets and provisions are distinguished from other liabilities on the face of the balance sheet, and minority interest are included in equity.

iii) Consolidated statement of cash flows

The consolidated statement of cash flows prepared in accordance with Financial Reporting Standard No. 1 (Revised) "Cash flow statements" presents substantially the same information as that required under US GAAP. Under US GAAP however, there are certain differences from UK GAAP with regard to classification of items within the cash flow statement and with regard to the definition of cash and cash equivalents.

Under UK GAAP, cash flows are presented separately for operating activities, returns on investments and servicing of finance, taxation, capital expenditure, acquisition or disposals, and financial investment. Under US GAAP however, only three categories are reported, being operating activities, investing activities and financing activities. Cash flows from taxation and returns on investments and servicing of finance would be included as operating activities under US GAAP. Amounts paid in connection with the acquisition of NDS Americas Inc. would be classified as financing activities. Amounts received in connection with the disposal of the discontinued operations would be classified as investing activities.

Under US GAAP, cash and cash equivalents do not include bank overdrafts repayable within three months from the date of advance. Under UK GAAP, cash includes cash in hand and deposits repayable on demand less overdrafts repayable on demand. The presentation of cash flows provided by (used in) operating, investing and financing activities in accordance with US GAAP would be as follows:

	Year ended 30 June 1999 £'000	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000
Operating activities	27,070	(40,072)	37,867
Investing activities	(12,815)	(13,334)	61,995
Financing activities	(16,612)	51,882	(80,818)
Increase (decrease) in cash	(2,357)	(1,524)	19,044

The relevant balances of cash and overdrafts are disclosed in note 21 a).

c) *Additional disclosures*

i) *Earnings per share*

Under US GAAP, basic earnings per share would be computed based on the weighted average shares outstanding during the periods presented. Share options extant at 30 June 1999 have no dilutive effect on earnings (loss) per share. Amounts computed under US GAAP are shown below:

	Year ended 30 June 1999 £'000	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000
Net income (loss) from continuing operations	(5,088)	5,971	1,622
Net (loss) from discontinued operations	1,746	(1,627)	
Net income from sale of discontinued operations	-	-	5,192
Net income (loss) for the year	(3,342)	4,344	6,814
Weighted average number of shares	42,001,000	42,001,000	48,309,178
Diluted weighted average number of shares	42,001,000	42,001,000	50,044,537

.....Net income (loss) from continuing operations per share	Basic	(12.1p)	14.2p	3.4p
	Diluted	(12.1p)	14.2p	3.2p
.....Net income (loss) from discontinued operations per share	Basic	4.2p	(3.9p)	-
	Diluted	4.2p	(3.9p)	-
.....Net income from sale of discontinued operations per share	Basic	-	-	10.7p
	Diluted	-	-	10.4p
.....Net income per share(loss)	Basic	(8.0p)	10.3p	14.1p
	Diluted	(8.0p)	10.3p	13.6p

ii) *Comprehensive income statement*

The requirement of SFAS No. 130 to provide a comprehensive income statement is met by the Statement of Total Recognised Gains and Losses.

iii) Stock options

Under US GAAP, the NDS Group has elected to account for stock-based compensation for employees under Accounting Principles Board Options No. 25 ("APB 25") and adopt the disclosure only alternative provided under SFAS No. 123. For the year ended 30 June 2000, compensation expense of £13,566,000 (1999 and 1998 £ nil) has been recorded for options which became capable of exercise on the initial public offering. No compensation cost has been recorded for options granted in the year.

The impact of the compensation cost, had it been recorded as determined under SFAS No. 123 would have been as follows:

	Year ended 30 June 1998 £'000	Year ended 30 June 1999 £'000	Year ended 30 June 2000 £'000
Net Income			
As reported (US GAAP)	(3,342)	4,344	6,814
Adjustment for SFAS 123	(648)	(789)	(1,665)
Pro forma, as adjusted for SFAS 123	(3,990)	3,555	5,149

.....Net income per share, as reported	Basic	(8.0p)	10.3p	14.1p
	Diluted	(8.0p)	10.3p	13.6p
.....Pro forma net income per share, as adjusted for SFAS 123	Basic	(9.5p)	8.5p	10.7p
	Diluted	(9.5p)	8.5p	10.3p

The fair value of these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for the period ended June 30:

	1998	1999	2000
Risk free interest rate	5.53%	5.07%	6.11%
Dividend yield	0%	0%	0%
Expected volatility	50%	50%	50%
Expected life of options	3 years	3 years	3 years

The exercise price for all outstanding options at 30 June 2000 ranged from $8.14 to $66, with a weighted average exercise price of $16.03 and a remaining contractual life of 8.35 years.

The following table summarises information about the stock options outstanding 30 June 2000:

	Options outstanding as at 30 June 2000			Options exercisable as at 30 June 2000	
Range of exercise prices ($)	Number	Weighted average exercise price ($)	Weighted average remaining contractual life	Number	Weighted average exercise price ($)
8.14 - 9.85	2,031,477	8.68	7.70 years	1,139,226	8.34
20	875,932	20.00	9.40 years	-	-
43 - 56.88	248,291	56.12	9.81 years	-	-
66	30,000	66.00	9.64 years	-	-
All options	3,185,700	16.03	8.35 years	1,139,226	8.34

iv) Pension

As mentioned in note 6 c), the NDS Group's obligations under defined benefit schemes was terminated on the sale of the discontinued operations. Information under US GAAP regarding the Group's defined benefit pension plan is as follows:

The pension cost for 1999 is shown in the following table:

	Year ended 30 June 1998 £000's	Year ended 30 June 1999 £000's
Service cost-benefit earned during the period	626	590
Interest cost on projected benefit obligation	613	849
Expected Return on Assets	851	976
Net amortisation of loss	-	42
Net periodic pension expenses	388	505

The following assumptions were used in accounting for the Plan:

	1998	1999
Discount rate	7.5%	6.5%
Investment return	9.25%	8.5%
Salary growth	6.25%	5.0%
Pension increases	4.0%	3.0%

The prepaid pension expense under US GAAP was £677,000 as of 30 June 1999.

The following table is a reconciliation of the funded status as of 30 June 1999.

	1999 £000's
Funded status	(1,746)
Unrecognized net actuarial loss	2,423
Prepaid Pension Expense	677

The following table is a reconciliation of projected benefit obligation (PBO) for the two years ended 30 June 2000:

	£000's	£000's
PBO at 30 June 1998		11,338
Interest on PBO:		849
Service Cost:		590
Distributions:		(341)
Employee Contributions:		313
(Gains) Losses:		277
PBO at 30 June 1999		13,026
PBO transferred on sale of business		(13,206)
PBO at 30 June 2000		-

The following table is a reconciliation of the fair value of plan assets for the two years ended 30 June 1999:

	£000's
Plan Assets at 30 June 1998, at fair value	10,071
Employer Contributions:	691
Employee Contributions:	302
Benefits paid:	(377)
Return on Assets:	593
Plan Assets at 30 June 1999, at fair value	11,280
Transferred on sale of business	(11,280)
Interest in plan assets at 30 June 2000	-

The effect of FAS 87 "Employers' accounting for pensions" on the financial statements is not material.

v) Valuation reserves

- Receivables

The movement in the valuation reserve against trade accounts receivable is as follows:

	Continuing operations £'000	**Discontinued operations** £'000	**Total** £'000
Balance, 30 June 1997	248	42	290
Provision / expense	40	204	244
Written off	-	-	-
Balance, 30 June 1998	288	246	534
Provision / expense	62	154	216
Written off	-	-	-
Balance, 30 June 1999	350	400	750
Sale of business	-	(400)	(400)
Provision / expense	223	-	223
Written off	-	-	-
Balance, 30 June 2000	573	-	573

- Inventory

The movement in the valuation reserve related to stock is as follows:

	Continuing operations £'000	Discontinued operations £'000	Total £'000
Balance, 30 June 1997	486	3,300	3,786
Provision / expense	1,117	2,322	3,439
Written off	(198)	(1,128)	(1,326)
Balance, 30 June 1998	1,405	4,494	5,899
Provision / expense	230	2,424	2,654
Written off	(929)	(1,735)	(2,664)
Balance, 30 June 1999	706	5,183	5,889
Sale of business	-	(5,183)	(5,183)
Provision / expense	-	-	-
Written off	(370)	-	(370)
Balance, 30 June 2000	336	-	336

- Other valuation reserves

There are no other valuation reserves in the financial statements presented for the years ended 30 June 2000 and 30 June 1999.

vi) Software development costs

Under the criteria set out in SFAS No. 86 "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed" capitalisation of software development costs begins upon establishment of technical feasibility as the completion of a working model. From this point in the development process, the company will secure a contract for the ultimate sale of the product to a customer before continuing with the development of that product to meet the specific needs of the customer. These contracts will be accounted for under Statement of Position 81-1 "Accounting of Construction—Type and Certain Production—Type Contracts" where appropriate.

vii) Recognition of software revenues

The Directors have considered the provisions of the American Institute of Certified Public Accountants Statement of Position 97-2, Software Revenue Recognition (SOP 97-2) and the further guidance contained in SEC Staff Accounting Bulletin No. 101 – Revenue Recognition in Financial Statements. The NDS Group enters into software product contracts that provide for a customer deposit upon contract execution, milestone billings (and fixed monthly service fees thereafter). As a result, SOP 97-2 requires the Company to recognise product and service revenue using the percentage-of-completion method prescribed by SOP 81-1 Accounting for Performance of Construction-Type and Certain Production-Type Contracts. Accordingly, product revenue is recognised at the completion of each milestone, and service revenue, including maintenance, is recognised as services are rendered. The same treatment is adopted for UK GAAP.

viii) New accounting pronouncements

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This has been amended by SFAS No. 137, which had the effect of deferring the date of SFAS No. 133's effectiveness. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. This statement is effective for fiscal periods beginning after 15 June 2000 and will be adopted by the NDS Group from 1 July 2000. The impact on the financial statements is expected to be minimal as the NDS Group currently has no instruments which fall within its scope and the disclosure items are covered by the equivalent UK GAAP requirements.

In July 2000, the Emerging Issues Task Force issued an abstract under Issue 00-16: "Recognition and Measurement of Employer Payroll Taxes on Employee Stock-Based Compensation". The effect of this pronouncement is that, it is no longer appropriate under US GAAP to recognise a liability for UK Employer's National Insurance on stock options granted to employees until such time as the liability crystallizes, which would normally be when the options are exercised. This view is the opposite to that taken by the Urgent Issues Task Force in respect of UK GAAP, as set out in UITF Abstract 25 "National Insurance on Share Option Gains" which is consistent with the accounting policy adopted by the NDS Group as summarised in note 1 o). There will be no impact on the results and net assets reported in future periods under UK GAAP as a result of these pronouncements but there will be a future additional reconciling difference between UK GAAP and US GAAP.

ix) Deferred taxation

There are no unprovided deferred tax liabilities. The NDS Group has certain deferred tax assets at 30 June 2000 and 30 June 1999. These have been recognised in full in the balance sheet at those dates because the directors consider that they will be recovered without replacement by equivalent debit balances. This treatment is consistent with the requirements of SFAS 109, since it is considered to be more likely than not that these assets will be recovered. There is therefore no US GAAP reconciling item in respect of deferred tax other than the tax effect of the other US GAAP adjustments.

x) Additional information regarding discontinued operations

- Operating costs

The profit (loss) on ordinary activities before taxation of the discontinued operations is stated after charging:

	Year ended 30 June 1998 £'000	Year ended 30 June 1999 £'000
Depreciation of tangible fixed assets	2,610	6,771
Amortisation of goodwill	907	907
Management fees payable to The News Corporation Group	300	300
Operating lease costs	1,097	1,384
Employee costs comprise the following:		
Wages and salaries	13,002	15,695
Social security costs	1,352	1,601
Other pension costs	650	628
	15,004	17,924

- Tax

A reconciliation of the tax attributable to the discontinued operations is as follows:

	Year ended 30 June 1998 £'000	Year ended 30 June 1999 £'000
Profit (loss) on discontinued operations	2,990	(1,861)
Prima facie tax rate	31.00%	30.75%
Prima facie tax charge (credit)	927	(572)
Tax charge (credit)	1,244	(234)
Difference	(317)	(338)
Difference attributable to:		
Non-deductible goodwill	(281)	(279)
Non-deductible expenses	(36)	(59)
	(317)	(338)

- Deferred tax

The deferred tax asset arising from the discontinued operations as at 30 June 1999 relates to:

	30 June 1999 £'000
Short term timing differences on accrued expenses	857
Long term timing differences on fixed assets	562
Timing differences attributable to royalty payments	1,200
	2,619

The benefit of the deferred tax asset was realised by the NDS Group in the year ending 30 June 2000..

- Intangible Fixed Assets

Movement on intangible fixed assets, which comprises goodwill is as follows:

	Year ended 30 June1999 £'000
Cost, beginning and end of year	18,131
Accumulated amortisation, beginning of year	2,416
Charge for the year	907
Accumulated amortisation, end of year	3,323
Net book value, beginning of year	15,715
Net book value, end of year	14,808

- Tangible Fixed Assets

Movement on tangible fixed assets in the year ended 30 June 1999 is as follows:

	Leasehold Improvements £'000	Equipment & Furniture £'000	Total £'000
Cost			
Beginning of year	7,680	11,818	19,498
Additions	942	8,636	9,578
End of year	8,622	20,454	29,076
Depreciation			
Beginning of year	461	4,486	4,947
Additions	746	6,025	6,771
End of year	1,207	10,511	11,718
Net Book Value			
Beginning of year	7,219	7,332	14,551
End of year	7,415	9,943	17,358

- Cashflow statements

The cashflow from operating activities of discontinued operations is:

	Year ended 30 June 1998 £'000	Year ended 30 June 1999 £'000
Operating loss from discontinued operations	2,990	(1,861)
Depreciation	2,610	6,771
Amortisation of goodwill	907	907
Increase in stocks	(120)	(8,757)
Increase in debtors	(5,868)	(10,091)
Decrease in creditors	(11,921)	(2,378)
Decrease in provisions	1,466	(1,648)
Purchase of tangible fixed assets	(7,537)	(9,578)
Sale of tangible fixed assets	76	-
Cash absorbed by operating activities equivalent to financing provided by the continuing operations	(17,397)	(26,635)

EXHIBIT 23.1

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CONSENT OF INDEPENDENT CHARTERED ACCOUNTANTS

As independent chartered accountants, we hereby consent to the incorporation of our reports included (or incorporated by reference) in this Form 20-F, into the Company's previously filed Registration Statement File No. 333-11236 and the form S-8 filed on 22 November 2000 which has not yet been allocated a file number.

Arthur Andersen

Arthur Andersen
Chartered Accountants
1 Surrey Street
London
WC2R 2PS
UK

November 27, 2000