NDS GROUP PLC (NNDS)

ONE HEATHROW BOULEVARD
286 BATH ROAD
WEST DRAYTON, MIDDLE, X0 UB7 0DQ
011 44 20 84
http://www.nds.com

F-1

Body Part 1
Filed on 11/04/1999
File Number 333-11086

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

vs.

NDS GROUP PLC, et al

PLAINTIFF'S EXHIBIT 2060

DATE ______________ IDEN.

DATE ______________ EVID.

BY ______________
Deputy Clerk

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As filed with the Securities and Exchange Commission on November 4, 1999

Registration No. 333- 11086

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM F-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

RECD S.E.C.
NOV 4 1999
074

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

Not Applicable
(Translation of registrant's name into English)

England and Wales (State or other jurisdiction of incorporation or organization)	**7372** (Primary Standard Industrial Classification Code Number)	**Not applicable** (I.R.S. Employer Identification Number)

NDS Group plc
1 Heathrow Boulevard
286 Bath Road
West Drayton, Middlesex, UB7 0DQ, England
44-181-476-8000
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

ARTHUR M. SISKIND, ESQ.
The News Corporation Limited
1211 Avenue of the Americas
New York, New York 10036
(212) 852-7000
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies of all communications to:

JEFFREY W. RUBIN, ESQ.	**VINCENT J. PISANO, ESQ.**
Squadron, Ellenoff, Plesent & Sheinfeld, LLP	**Skadden, Arps, Slate, Meagher & Flom LLP**
551 Fifth Avenue	**919 Third Avenue**
New York, NY 10176	**New York, NY 10022**
(212) 661-6500	**(212) 735-3000**

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act check the following box. ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ ________

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ ________

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ ________

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ☐

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered(1)	Proposed maximum offering price per unit(2)	Proposed maximum aggregate offering price(2)	Amount of registration fee
Series A Ordinary Shares, nominal value $0.01 per share (3)	10,350,000	$17.00	$175,950,000	$48,914.10

(1) Includes Series A Ordinary Shares in the form of American Depositary Shares ("ADSs") that (i) are to be offered and sold in the United States, (ii) are expected to be offered and sold outside the United States, and (iii) may be purchased and resold by the Underwriters pursuant to an over-allotment option. See "Underwriting."

(2) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(o) under the Securities Act of 1933.

(3) A separate Registration Statement on Form F-6 (Registration No.) is being filed with respect to the registration of ADSs evidenced by American Depositary Receipts issuable upon the deposit of the Series A Ordinary Shares registered hereby. Each ADS represents one Series A Ordinary Share.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

EXPLANATORY NOTE

This registration statement contains two forms of prospectus: one to be used in connection with an offering in the United States and Canada and one to be used in a concurrent offering outside the United States and Canada. The prospectuses are identical in all material respects except for the front cover page. The U.S. prospectus is included herein and is followed by the alternate front cover page to be used in the International prospectus. The alternate page for the International Prospectus included in this registration statement is labeled "Alternate Cover Page for International Prospectus." Final forms of each prospectus will be filed with the Commission under Rule 424(b) (2).

The information in this prospectus is not complete and may be changed. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. We may not sell these securities until the registration statement is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state or other jurisdiction where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)
Issued November 4, 1999

9,000,000 American Depositary Shares

NDS

REPRESENTING SERIES A ORDINARY SHARES

NDS Group plc is offering 9,000,000 Series A ordinary shares in the form of American depositary shares, or ADSs. Each ADS represents one Series A ordinary share and will be represented by American depositary receipts, or ADRs. This is our initial public offering and no public market currently exists for our shares or ADSs. We anticipate that the initial public offering price will be between $15 and $17 per ADS.

We have applied to quote our ADSs on the Nasdaq National Market under the symbol "NNDS" and on the European Association of Securities Dealers Automated Quotation.

Investing in our ADSs involves risks. See "Risk Factors" beginning on page 5.

PRICE $ PER ADS

	Price to Public	Underwriting Discounts and Commissions	Proceeds to NDS Group plc
Per ADS	$	$	$
Total	$	$	$

NDS has granted the underwriters the right to purchase up to an additional 1,350,000 ADSs to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Morgan Stanley & Co. Incorporated expects to deliver the ADSs to purchasers on , 1999.

MORGAN STANLEY DEAN WITTER

ALLEN & COMPANY INCORPORATED

MERRILL LYNCH & CO.

November , 1999

[4-COLOR ARTWORK]

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You should rely only on the information contained in this document. No one has authorized any person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. No one is making an offer to sell the ADSs in any jurisdiction where such offer or sale is not permitted. You should assume that the information appearing in this document is accurate only as of the date on the front cover of this document unless such information is stated to be given as of another date. Our business, financial condition, results of operations and prospects may have changed since any such date. No one has taken any action that would permit a public offering to occur in any jurisdiction other than the United States and Belgium. Persons who possess this document should learn about and observe any restrictions on the offering of the ADSs and the distribution of this document.

We were organized under the laws of England and Wales in September 1985 and were reorganized as a public limited company in 1996. Our principal executive offices are located at 1 Heathrow Boulevard, 286 Bath Road, West Drayton, Middlesex, UB7 0DQ, England, and our telephone number is 44-181-476-8000.

Until , 1999 (25 days after the date of this prospectus), all dealers that buy, sell or trade the ADSs or the Series A ordinary shares, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

PROSPECTUS SUMMARY

You should read the following summary together with the more detailed information regarding NDS and the ADSs and our financial statements and related notes appearing elsewhere in this prospectus.

About NDS

We are a leading provider of conditional access systems to digital pay-television broadcasters based upon the number of subscribers to our customers' services. We also provide broadcast control software and related products and services to pay-television and data broadcasters.

Conditional access systems scramble programming content to prevent unauthorized access to this content and, therefore, are a necessary component of every pay-television system. Our conditional access systems enable our customers to package programming content in pay-television channels and pay-per-view events and charge their subscribers for access to these channels and events. Our conditional access systems also enable our customers to provide to their subscribers electronic program guides and interactive services, including interactive advertising and e-commerce.

Our conditional access systems consist of three principal components:

- software that we develop that is installed at the broadcaster's facilities;
- software that we develop that is integrated into a viewer's set-top box or digital television; and
- a removable credit card-sized smart card which is inserted into each viewer's set-top box, digital television or personal computer.

Smart cards contain an embedded computer chip that we design and also incorporate software that we develop. Smart cards allow broadcasters to separate the implementation of conditional access services from the set-top box, which, in turn, allows broadcasters to introduce new features and services to their subscribers by upgrading their smart cards rather than by requiring the replacement of all set-top boxes.

We also design and develop broadcast control software that is essential for managing and operating a digital television broadcasting facility. 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.

Our customers include leading pay-television broadcasters worldwide. In the digital satellite television market, our customers include DIRECTV in the U.S.; BSkyB in the U.K.; Galaxy, NetSat and Innova in Latin America; and DIRECTV Japan, STAR TV and Sky New Zealand in the Asia-Pacific region. We estimate that our customers provide services using our conditional access systems and smart cards to over 50% of the world's digital satellite subscriber base. In the emerging digital cable market, our customers include Cablevision in the U.S., NTC in China and Madritel in Spain.

We currently derive the majority of our revenues from long-term contracts with broadcasters with respect to their conditional access systems, including the supply of smart cards. Our revenues depend in large part on the number of customers for our systems and services, the number of our customers' subscribers and the number of smart cards required by our customers' systems.

Our principal operations are located in the U.K. and Israel. We also have sales, technical and customer support facilities in the U.S., Hong Kong and Australia.

We are currently an indirect wholly owned subsidiary of The News Corporation Limited, a South Australia corporation. Upon the closing of this offering, News Corporation will beneficially own all of our Series B ordinary shares, which represent approximately 97.9% of the voting power of our ordinary shares. By reason of this ownership, News Corporation will be able to elect our entire board of directors and to control the vote on all other matters submitted to our shareholders. In addition, broadcasters in which News Corporation has an ownership interest, including BSkyB, currently account for, and are expected to continue to account for, a significant portion of our revenues. In fiscal 1999, approximately 42% of our revenues from continuing operations was derived from these broadcasters, the majority of which was derived from BSkyB.

The Offering

ADSs offered	9,000,000 ADSs
U.S. offering	ADSs
International offering	ADSs
Offering price	$ per ADS
Ordinary shares outstanding after the offering	9,000,000 Series A ordinary shares(1) 42,001,000 Series B ordinary shares(2)
Over-allotment option	1,350,000 ADSs
Voting rights	
Series A ordinary shares	One vote per share
Series B ordinary shares	Ten votes per share
ADSs	Each ADS represents the right to receive one Series A ordinary share. The ADSs are evidenced by American depositary receipts, or ADRs. See "Description of American Depositary Receipts."
Use of proceeds	We estimate that the net proceeds of the offering will be approximately $130.0 million, assuming an initial public offering price of $16.00 per ADS, based on the midpoint of the price range set forth on the cover page of this prospectus. We intend to use the net proceeds to repay indebtedness to a subsidiary of News Corporation. See "Use of Proceeds."
Dividend Policy	We do not currently intend to pay dividends on our ordinary shares.
Proposed Quotations	We have made applications for the ADSs (and the Series A ordinary shares which they represent) to be quoted on the Nasdaq National Market under the symbol "NNDS" and on the European Association of Securities Dealers Automated Quotation Market.

(1) Excludes 3,121,791 Series A ordinary shares issuable upon the exercise of outstanding options. See "Capitalization."

(2) Series B ordinary shares generally vote as a class with Series A ordinary shares and are convertible into Series A ordinary shares on a one-for-one basis. All of the Series B ordinary shares are beneficially owned by News Corporation. See "Relationship with Principal Shareholder and Certain Related Party Transactions" and "Description of Share Capital."

Summary Financial and Operating Data

The summary financial data presented below for NDS Group plc and its consolidated subsidiaries for each of the years in the three-year period ended June 30, 1999 and at June 30, 1998 and 1999 have been derived from our consolidated financial statements and the notes to those financial statements included elsewhere in this prospectus, which have been audited by Arthur Andersen, independent chartered accountants, and should be read in conjunction with those financial statements and related notes.

The consolidated financial statements have been prepared in accordance with U.K. GAAP, which differs in some respects from U.S. GAAP. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—U.S. GAAP Reconciliation" and Note 28 of the notes to our consolidated financial statements for a discussion of the principal differences between U.K. and U.S. GAAP.

On July 1, 1999, we sold our digital broadcasting business to Ordinto Investments, which is also a subsidiary of News Corporation, which subsequently sold the business to Tandberg Television ASA on October 14, 1999.

	U.K. GAAP			
	Fiscal Year Ended June 30,			
	1997	1998	1999	1999
	(In thousands, except per share data)			
Profit and Loss Accounts:				
Turnover —Continuing operations	£ 89,022	£ 101,332	£ 127,574	$ 201,120
—Discontinued operations(1)	78,515	87,465	88,348	139,281
	167,537	188,797	215,922	340,401
Cost of sales	(89,256)	(90,276)	(101,020)	(159,258)
Gross profit	78,281	98,521	114,902	181,143
Operating expenses	(69,981)	(87,394)	(98,029)	(154,543)
Operating profit (loss)				
—Continuing operations	5,742	8,137	18,734	29,534
—Discontinued operations(1)	2,558	2,990	(1,861)	(2,934)
	8,300	11,127	16,873	26,600
Finance charges (net)	(11,066)	(10,444)	(13,205)	(20,818)
Profit (loss) on ordinary activities before taxation	(2,766)	683	3,668	5,782
Taxation	312	(508)	(1,194)	(1,882)
Profit (loss) on ordinary activities after taxation	(2,454)	175	2,474	3,900
Minority interests(2)	(527)	(293)	(356)	(561)
Profit (loss) for the financial year	£ (2,981)	£ (118)	£ 2,118	$ 3,339
Basic and diluted earnings (loss) per share	(7.1p)	(0.3p)	5.0p	7.9c
Weighted average shares outstanding basic and diluted	42,000,666	42,001,000	42,001,000	42,001,000

(1) Discontinued operations refer to the digital broadcasting business that we transferred on July 1, 1999 to Ordinto Investments and which was subsequently sold to Tandberg on October 14, 1999 for £130.7 million.

(2) Minority interests represent the interest that News America Incorporated held in NDS Americas, Inc. prior to our acquisition of this interest on November 1, 1999.

The pro forma as adjusted financial information is adjusted to reflect the sale of our digital broadcasting business on July 1, 1999 as if it had occurred on July 1, 1998 and to reflect this offering and the application of the expected net proceeds of this offering, including repayment of a portion of the intercompany debt. For full details of the adjustments, see "Unaudited Pro Forma Consolidated Financial Information."

The pro forma adjustments for the sale of the discontinued digital broadcasting business reflects the receipt of cash of the digital broadcasting business and the repayment of intercompany and other debt financing from the proceeds of the sale of £70.6 million. The impact of the debt repayment on financing charges is reflected in the condensed income statement.

The pro forma adjustments also reflect the application of the net proceeds of the offering to repay a portion of the long-term intercompany debt and the impact upon associated finance charges. The net proceeds have been computed assuming the sale of 9,000,000 ADSs at a price of £10.15 per ADS (US$16.00 per ADS), after deducting an estimated £8,880,000 of offering expenses.

	U.S. GAAP				
	Fiscal Year Ended June 30, 1999				
	Actual	Adjustments for the sale of the discontinued digital broadcasting business	Adjustments for the application of the proceeds from this offering	Pro Forma As Adjusted	
	(in thousands, except per share data)				
Condensed Income Statement Information:					
Revenues	£137,024	£ —	£ —	£137,024	$216,018
Operating income	21,434	—	—	21,434	33,791
Interest income/(expense) (net)	(13,205)	6,799	6,463	57	90
Income before income taxes	8,229	6,799	6,463	21,491	33,881
Income taxes	(2,258)	(2,091)	(1,987)	(6,336)	(9,989)
Income from continuing operations	£ 5,971	£4,708	£4,476	£ 15,155	$ 23,892
Income from continuing operations per share	14.2p	—	—	29.6p	46.7c

	U.K. GAAP		U.S. GAAP				
	As of June 30,						
	Actual		Actual	Adjustments for the sale of the discontinued digital broadcasting business	Adjustments for the application of the proceeds from this offering	Pro Forma As Adjusted	
	1998	1999	1999	1999	1999	1999	1999
				(in thousands)			
Balance Sheet:							
Total assets	£ 140,377	£ 182,163	£ 183,252	£(75,836)	£ —	£107,416	$169,341
Long-term liabilities	(132,996)	(133,540)	(133,540)	11,687	82,461	(39,392)	(62,101)
Total other liabilities	(94,516)	(132,757)	(136,297)	69,341	—	(66,956)	(105,556)
Minority interests	(1,268)	(1,753)	—	—	—	—	
Shareholders' equity (deficit)	(88,403)	(85,887)	(86,585)	5,192	82,461	1,068	1,684

RISK FACTORS

You should carefully consider the following risks before making an investment decision. Our business, operating results and financial condition could be materially adversely affected by any of these risks. The trading price of our ADSs could decline due to any of these risks, and you could lose all or part of your investment. You also should refer to the other information set forth in this prospectus, including our financial statements and the related notes to those financial statements.

Risks Related to Our Industry

Our business will suffer if we do not respond rapidly to the commercial and technological changes in the broadcasting industry.

The market for conditional access systems, broadcast control software and interactive television applications is characterized by rapid technological change, evolving industry standards and frequent product enhancements. Many digital broadcasters are seeking more sophisticated software which will afford them greater flexibility in delivering programming material such as films and sports events, Internet web pages as well as other information to viewers, including the ability to offer:

- interactive services which permit viewers to request information about a specific program or subject, respond to advertisements and purchase products and services;
- video-on-demand which allows viewers to select and view films at their convenience from an electronic catalog of titles; and
- pay-per-view events which permit viewers to select and view events at scheduled times for a per event charge.

Broadcasters are also seeking to furnish programming and other content through newer forms of transmission, such as digital terrestrial television and data broadcasting to computers. Digital terrestrial television is a digital television service that uses land-based broadcasting facilities similar to those used by traditional analog free-to-air television services. Data broadcasting facilitates the rapid distribution of large amounts of data simultaneously to a number of computers by using infrastructure similar to that used for broadcasting television programming. Our continued success will depend, in part, upon:

- the pace of the commercialization and acceptance by consumers and businesses of a wide variety of broadband digital media, such as digital satellite, cable and terrestrial television and the Internet and applications; and
- our ability to develop and market products and services that respond to technological changes and evolving industry standards in a timely and cost-effective manner.

If the market for conditional access systems, broadcast control software and interactive television applications does not develop or develops more slowly than we anticipate, or if we should fail to develop and introduce products and services that are compatible with industry standards, satisfy customer requirements and compete effectively with products and services offered by our competitors, our business, operating results and financial condition could be materially and adversely affected.

Our operating results and growth could decline if our customers' subscriber bases do not continue to increase.

A significant portion of our revenues is derived from our sales of smart cards to our customers, ongoing support and maintenance fees paid by our customers based upon the number of their subscribers and royalties paid to us by third-party manufacturers for each set-top box incorporating our technology which is used by our customers' subscribers. This portion of our revenues is largely dependent upon our customers' subscriber numbers and the number of smart cards required by our customers' systems. A majority of the existing large digital satellite broadcasters have already entered into arrangements relating to conditional access software and services, and few new large systems are being planned. In addition, digital cable and digital terrestrial broadcasting have only recently been introduced. If our digital broadcasting customers' subscriber numbers do not continue to increase or if the number of smart cards required by our customers' systems decreases substantially, we are unlikely to be able to generate or sustain substantial revenue growth and our operating results will be seriously harmed.

Our business could be harmed if the security provided by our conditional access systems and products is compromised.

In common with all providers of conditional access systems, we face risks relating to the failure of those systems to protect broadcasters and content providers from signal theft. An important component of our conditional access systems is the smart cards we provide for the broadcasters' individual subscribers. Unauthorized viewing and use of content may be accomplished by counterfeiting or otherwise thwarting the security features of the smart card. Any significant increase in the incidence of signal theft could require the accelerated replacement of a broadcaster's smart cards sooner than otherwise planned. In those cases where we have accepted specific responsibilities for maintaining the security of a broadcaster's conditional access system, significant costs could be imposed on us if a security breach requires an accelerated replacement of smart cards. To the extent that signal theft may result in the cessation of all or some portion of the per-subscriber fees paid to us by a broadcaster while the security breach is being remedied or, in the termination by the broadcaster of our agreement if the breach is not satisfactorily remedied, the resultant loss of revenues could have a material adverse effect on our business, operating results and financial condition. A significant increase in the level of signal theft, whether or not resulting from a failure of our conditional access systems, could also injure the reputation of our conditional access systems among our customers and potential customers, also adversely impacting our business.

Our business could be harmed if a defect in our software or technology interferes with or causes any failure in our customers' systems.

Our software and technology are integrated into the products and services of our customers. Accordingly, a defect, error or performance problem with our software or technology could interfere with or cause a critical component of our customers' digital satellite, digital cable and digital terrestrial television or Internet service systems to fail for a period of time. Although we have not experienced any such interference or failure in the past, any future problem could cause severe customer service and public relations problems for our customers and could damage our relationship with our customers. As a result, any interference with or failure of any critical component of our customers' systems caused by our technology could result in:

- delayed or lost revenue due to adverse customer reaction;
- impaired ability of our customers to bill subscribers for services;
- negative publicity regarding us and our products and services; and
- claims for substantial damages against us, regardless of our responsibility for such failure.

Any claim brought against us could be expensive to defend and require the expenditure of a significant amount of resources, regardless of whether we prevail.

Intense competition could reduce our market share and harm our financial performance.

We compete both to attract new customers and to retain our existing customers. As new pay-television providers enter the market, and as existing broadcasters announce plans which will require them to acquire new software in order to transition their services from analog to digital transmission, we and many of our competitors solicit this new business. Our principal competitors include NagraVision, a division of Kudelski SA; Scientific Atlanta, Inc.; General Instrument Corporation; Canal+ Technologies S.A.; Viaccess, a division of France Telecom;

Sony Corporation; Irdeto B.V., a subsidiary of MIH Ltd.; and Philips Electronics. Many of our competitors and potential competitors have significant financial, product development and marketing resources. While we believe most purchases of conditional access systems are not based solely on cost, to the extent that our competitors seek to compete with our software and related products and services on the basis of price, such competition may cause us to lose market share and may result in reduced profit margins. It may also hinder our ability to enter into and successfully develop our business in emerging areas, such as data broadcasting and interactive television services that enable the viewer to purchase goods and services using their television and remote control. In addition, some of the companies that currently operate in the software business but have not historically been active competitors of ours may, in the future, through acquisitions or the development of their own resources, seek to enter and obtain significant market share in our current or planned business areas. This increased competition from existing competitors or new entrants into our business areas could result in price reductions, reduced margins or loss of market share, any of which could materially and adversely affect our business, operating results and financial condition.

Year 2000 complications may disrupt our operations and harm our business.

Many existing computer programs and electronic devices mistakenly treat dates falling after December 31, 1999 as dates during the twentieth century because they use only two digits to identify a year in the date field. If not corrected, those programs or devices could fail or create erroneous results by or at the Year 2000. Year 2000 issues may affect us in connection with our products and the software and systems we use in our operations as well as the software and systems which our suppliers, customers and strategic partners operate or upon which they rely. If we or any of those entities fail to successfully resolve any Year 2000 issues, our business, operating results and financial condition could be materially adversely affected, including as a result of claims which could be time consuming to defend, result in costly litigation and divert management's attention.

Our operations are dependent upon the proper functioning of our internal information systems. We have conducted a program to identify and remedy any Year 2000 issues with our principal information systems. We identified some systems that were not Year 2000 compliant. We have, however, completed our remedial work on these systems. If that remediation work is not effective in remedying those Year 2000 issues, our business, results of operations and financial condition could be materially adversely affected.

As part of our Year 2000 compliance program we have conducted an audit or tested our products to determine if they are Year 2000 compliant. As part of this program, we have offered customers of our non-customized products limited guarantees with respect to the Year 2000 compliance of those products. The guarantee is limited to the purchase price of the products. However, in the event of a Year 2000 related failure of those products, we cannot assure you that this limitation of liability would be effective in all circumstances and our business, operating results and financial condition could be materially adversely affected.

We are conducting a Year 2000 customer update program for customers with our customized conditional access systems that have been developed by us to address the specific requirements of individual customers. At the date of this prospectus, our updates have not been fully implemented and tested by all of our customers. We cannot be certain that the updates, even when implemented and tested, will be effective to remedy any Year 2000 compliance issues and will be compatible with our customers' other software or systems. In addition, our agreements with some of our customers contain limited representations as to the Year 2000 compliance of some of our products.

Although we have taken steps to contact our customers, we do not have extensive information regarding the overall Year 2000 readiness of our customers. Our customers' operations also depend on the Year 2000 readiness of third parties such as telecommunications providers and equipment manufacturers. If our customers experience material Year 2000 failures, whether or not they are related to failures of products supplied by us, our business, operating results and financial condition could be materially adversely affected.

Our products also incorporate third-party software products. Any failure by third parties to provide us with Year 2000 compliant software products could result in harm to our reputation and result in significant financial loss and harm to our business. In addition, any Year 2000 related failure that disrupts the supply of components or software supplied by third parties and that are critical to our operations could harm our ability to deliver our products to our customers and could result in loss of sales and customers if we cannot find an alternative source of supply in a timely manner.

Risks Related to Our Company

We derive a significant portion of our revenues from a limited number of large customers, and our revenues could decline significantly if any of our large customers significantly reduces its purchases of our products or services or terminates its relationship with us.

Our growth has depended historically on large digital satellite broadcasters introducing, marketing and promoting products and services that utilize our technology. We currently derive, and we expect to continue to derive, a significant portion of our revenues from a limited number of large customers. Our two largest customers are DIRECTV in the U.S. and BSkyB in the U.K. In fiscal 1999, DIRECTV directly accounted for 22% of our total revenues from continuing operations, and BSkyB directly accounted for 26% of such revenues. Together, DIRECTV and BSkyB indirectly accounted for an additional 25% of our total revenues from continuing operations. Indirect revenues consist of royalties paid to us by set-top box manufacturers for each set-top box incorporating our technology, which is manufactured for use by our customers' subscribers. We expect that we will continue to be dependent upon a limited number of customers for a significant portion of our revenues in future periods, although the customers may vary from period to period. Because of the integral role of conditional access systems to the operations of pay-television broadcasters, the transition by a pay-television broadcaster from one conditional access system to another would involve considerable time and expense. However, if a large customer purchases significantly less of our products or services, defers or cancels orders, or terminates its relationship with us, our direct revenues could decline significantly and our indirect revenues attributable to these customers could decline significantly. As a result, our business, operating results and financial condition could be materially and adversely affected.

Fluctuations in our quarterly financial results could adversely affect our stock price.

Our quarterly operating results have varied in the past and are likely to vary significantly from quarter to quarter. Our quarterly revenues in large part depend upon the timing of orders from new customers and on when our customers undertake smart card replacements which, in either case, can be unpredictable. Historically, our quarterly revenues have reflected a small number of relatively large orders for our conditional access systems and products, which generally have long sales and order cycles. From time to time, our customers replace their subscribers' smart cards either to upgrade the features of the smart cards or for security purposes. As a result, we believe that period-to-period comparisons of our operating results may not be a good indication of our future performance. Our actual quarterly results may differ from analyst expectations, which could adversely affect our stock price.

Failure to adequately protect the intellectual property rights upon which we depend could harm our business.

We rely primarily on a combination of patent laws, trademark laws, copyright laws, trade secrets, confidentiality procedures and contractual provisions to protect our intellectual property rights. Notwithstanding these measures, we may not, and the third-party owners of the intellectual property rights we license may not, be able to detect unauthorized use of, or take appropriate steps to enforce, our intellectual property rights. In addition, the laws of many countries in which our products are used do not protect our intellectual property rights to as great an extent as do the laws of the U.K. and the U.S. Our competitors may also independently develop competitive software and systems using technology that is not protected by our intellectual property rights. The above factors could result in our competitors offering products that incorporate our most technologically advanced features, which could have a material adverse effect on our business, operating results and financial condition.

Defending against intellectual property infringement claims could harm our business.

We may increasingly be subject to the risk of infringement claims as the number of products and competitors grows and the functionality of products in different industry segments overlaps. From time to time, we hire or retain employees or consultants who have previously worked for independent software vendors or other companies developing products similar to those offered by us. These prior employers may claim that our products are based on their products and that we have misappropriated their intellectual property.

Our liability insurance may not protect us against the risk that licensed third-party technology infringes the intellectual property of others. Intellectual property claims could be time consuming to defend, result in costly litigation, divert management's attention and resources and cause product shipment delays. These claims could also require us to seek to enter into royalty or license agreements, redesign our products or potentially cease using those rights which could have a material adverse effect on our business, operating results and financial condition.

Any significant disruption in our processing of smart cards could adversely affect our business.

We process all of our smart cards at two facilities, one located in England and the other in California. A significant disruption in the processing of smart cards at either facility could result in delays in our ability to deliver smart cards to our customers. The sale of smart cards which we have processed is a material portion of our business and significant interruption to this part of our business could result in the loss of revenues, customers and future sales.

We may not be able to process sufficient quantities of smart cards because we obtain certain components from, and depend upon, a limited number of suppliers.

We currently obtain the computer chips used in our smart cards from a limited number of suppliers. In the event of a disruption of supply, we may not be able to develop an alternative source in a timely manner or at favorable prices. Such failure could harm our ability to deliver our smart cards to our customers, which could negatively affect our operating margins and could result in the loss of revenues, customers and future sales.

Political, regulatory and economic risks associated with our international customers could harm our business.

Our customers are located throughout the world, and we derived approximately 10% of our revenues from continuing operations during fiscal 1999 from sources outside of Europe and the U.S. Inherent risks of doing business in international markets include changes in regulatory requirements, export restrictions, exchange controls, tariffs and other trade barriers and longer payment cycles, among other risks. We may incur substantial expense as a result of the imposition of new restrictions or changes in the existing legal and regulatory environments in the territories where we conduct our business or due to political and economic instability in these territories.

Fluctuations in foreign exchange rates could harm our financial condition.

A risk inherent in our international operations is the exposure to fluctuations in currency exchange rates. Substantially all of our revenues are denominated in either pounds sterling or U.S. dollars. In addition, some of our costs are subject to contracts under which we purchase supplies denominated in Deutsche marks. As a result, we are exposed to fluctuations in exchange rates. We do not currently engage in hedging transactions in respect of such currency fluctuations, and such fluctuations may have a material adverse effect on our business, operating results and financial condition. We may in the future determine to engage in hedging transactions.

We are subject to certain risks relating to our operations in Israel.

Our conditional access systems research and development facilities are located in Israel. Although most of our sales are currently being made to customers outside of Israel, we are nonetheless directly influenced by the political, economic and military conditions affecting Israel. Any major hostilities involving Israel, or the interruption or curtailment of trade between Israel and its current trading partners, could significantly harm our business, operating results and financial condition. Since the establishment of the State of Israel in 1948, a state of hostility has existed, varying in degree and intensity, between Israel and the Arab countries. In addition, Israel and companies doing business with Israel have been the subject of an economic boycott by the Arab countries since Israel's establishment. Although Israel has entered into various agreements with certain Arab countries and the Palestinian Authority, and various declarations have been signed in connection with efforts to resolve some of the economic and political problems in the Middle East, we cannot predict whether or in what manner these problems will be resolved. In addition, certain of our officers and employees are currently obligated to perform annual reserve duty in the Israeli Defense Forces and are subject to being called for active military duty at any time. We have, in the past, operated effectively under these requirements. We cannot predict the effect of these obligations on us in the future.

In addition, we receive tax benefits from, and participate in, various programs sponsored by the Government of Israel. To be eligible for these programs and tax benefits, we must continue to meet certain conditions, including making certain specified investments in fixed assets. If we fail to meet such conditions in the future, we could be required to refund tax benefits already received. We cannot guarantee that these programs will continue in the future at their current levels or at all. Moreover, the termination or reduction of these programs or tax benefits could have a material adverse effect on our business, operating results and financial condition.

We are controlled by, and dependent upon our relationship with, News Corporation.

We are currently an indirect wholly owned subsidiary of The News Corporation Limited, a South Australia, Australia corporation, which, to date, has appointed our board of directors, financed our operations and controlled our activities. News Corporation is a diversified international communications company. Following the closing of this offering, News Corporation will beneficially own approximately 82.4% of our total issued and outstanding share capital. Because News Corporation beneficially owns 100% of our Series B ordinary shares having ten votes per share (as opposed to the Series A ordinary shares underlying the ADSs, which have one vote per share) it will control approximately 97.9% of our voting power. By reason of such ownership, News Corporation will be able to elect our entire board of directors and to control the vote on all other matters submitted to a vote of our shareholders. Moreover, five of our seven directors following this offering will be employed by News Corporation or other entities in which News Corporation has an interest. Dr. Abraham Peled, our President and Chief Executive, has previously been employed by, and rendered services to, various affiliates of News Corporation.

By virtue of shares of News Corporation owned by Mr. K. Rupert Murdoch and certain corporations, and Mr. Murdoch's position as Chairman and Chief Executive of News Corporation, Mr. Murdoch may be deemed to control the operations of News Corporation.

Broadcasters in which News Corporation has an interest currently account for, and are expected to continue to account for, a significant portion of our revenues. Such broadcasters include BSkyB, currently one of our largest customers in terms of revenues, as well as STAR TV in Asia, and NetSat and Innova in Latin America. During fiscal 1999, approximately 42% of our revenues from continuing operations was derived from News Corporation-related broadcasters.

Our future financial performance will, to a certain extent, depend upon the pricing we are able to obtain from customers which are News Corporation-related broadcasters, as well as our ability to satisfactorily perform our obligations to such customers. In addition, because a number of major broadcasters around the world are owned or controlled by entities that compete with News Corporation and entities in which News Corporation has an interest, our ability to attract customers in which News Corporation does not have an ownership interest may be affected by News Corporation's relationships with such potential customers and their perception of our relationship with News Corporation.

Prior to the closing of this offering, we will enter into a series of intercompany arrangements with News Corporation. Because News Corporation beneficially owns all of our Series B ordinary shares, these arrangements may not be the result of arm's-length negotiations. Although we believe the terms of the intercompany arrangements are no less favorable to us than those that we could obtain from unaffiliated third parties, we cannot assure you that this is the case.

Immediately following the closing of this offering and the application of the net proceeds, we will owe approximately £63.5 million to News Corporation or its subsidiaries, or approximately £50.6 million if the underwriters exercise their option to purchase additional ADSs in full.

Your rights as shareholders will differ from the rights of shareholders under U.S. law.

NDS Group plc is a public limited company organized under the laws of England and Wales. The rights of holders of ordinary shares and, indirectly, many of the rights of ADS holders are governed by English law and by our memorandum and articles of association. These rights differ from the rights of shareholders in typical U.S. and other European companies. In particular, English law significantly limits the circumstances under which shareholders of English companies may bring derivative actions. Under English law generally, only NDS can be the proper plaintiff in proceedings in respect of wrongful acts committed against us. In addition, it may be difficult for you to win a claim against us under, or to enforce liabilities predicated upon, U.S. securities laws. See "Description of Share Capital," "Description of American Depositary Receipts" and "Service of Process and Enforcement of Civil Liabilities."

We do not anticipate paying dividends.

Because we intend to apply our future earnings for use in our business, we do not currently anticipate that we will pay dividends to our shareholders, including holders of our ADSs.

Risks Related to this Offering

We will use the net proceeds of this offering to repay related party indebtedness.

The net proceeds of this offering will be used to repay indebtedness to a subsidiary of News Corporation. As a result, none of the amounts raised in the offering will be available for use in our business. See "Use of Proceeds."

Our stock price may be volatile, which could result in substantial losses for investors purchasing ADSs in this offering.

Prior to this offering, you could not buy or sell our ordinary shares or ADSs publicly. An active public market for our ADSs may not develop or be sustained after this offering. A number of factors could cause the market price of our ADSs to fluctuate significantly from the price paid by investors in this offering, including but not limited to:

- the loss of a major customer;
- the addition or departure of key personnel;
- variations in our quarterly operating results;
- announcements by us or our competitors of significant contracts, new products or product enhancements, acquisitions, distribution partnerships, joint ventures or capital commitments;
- changes in financial estimates by securities analysts;
- our sales of ADSs or other securities in the future;
- changes in market valuations of conditional access software companies and technology companies generally; and
- fluctuations in stock market prices and volumes.

Our share price could be affected by shares becoming available for sale in the future.

If new investors or News Corporation sell substantial amounts of our ADSs oı ordinary shares in the public market following this offering, the market price of our ADSs could fall. The negative effect of such sales on the market price of our ADSs could be more pronounced given the relatively small number of our shares offered to the public in this offering relative to the total number of shares to be outstanding following this offering. In addition, such sales could create the perception to the public of difficulties or problems with our products and services. These sales may also make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate if we require additional financing.

After this offering, if the underwriters do not exercise their option to purchase additional ADSs, we will have outstanding the ADSs being sold in this offering, representing 9,000,000 Series A ordinary shares, as well as 42,001,000 Series B ordinary shares which are beneficially owned by News Corporation. In addition, options to purchase 3,121,791 of our Series A ordinary shares will be outstanding upon the completion of this offering, including options to purchase 1,192,839 of our Series A ordinary shares which will be immediately exercisable. Our directors and executive officers have entered into agreements with the underwriters under which they have agreed that they will not sell any options or Series A ordinary shares issuable on exercise of such options for a period of 180 days after the date of this prospectus. However, Morgan Stanley & Co. Incorporated can waive this restriction without prior notice. All options outstanding upon the closing of this offering will have exercise prices at or below the offering price. The Series B ordinary shares indirectly beneficially owned by News Corporation are convertible at any time into Series A ordinary shares, and would convert automatically upon any sale of the shares by News Corporation to any entity which is not controlled by News Corporation.

The Series A ordinary shares sold in the form of ADSs in this offering are freely tradable unless purchased by one of our affiliates. The Series B ordinary shares beneficially owned by News Corporation, which will represent 82.4% of our total shares following the closing of the offering (80.2% if the underwriters exercise their option to purchase additional ADSs in full) are restricted from immediate resale but may thereafter be sold into the market. News Corporation has entered into an agreement with the underwriters under which it has agreed that it will not sell any of its Series B ordinary shares for a period of 180 days after the date of this prospectus. However, Morgan Stanley & Co. Incorporated can waive this restriction without prior notice and allow News Corporation to sell its shares at any time. As restrictions on resale end, the market price could drop significantly if News Corporation sells its Series B ordinary shares or other securities whose value is based on the value of those shares or if News Corporation is perceived by the market as intending to sell its ordinary shares.

We cannot predict if future sales of our ADSs or ordinary shares, or the availability of our ADSs or ordinary shares for sale will materially adversely affect the market price of our ADSs or our ability to raise capital by offering equity or equity-related securities.

The value of your investment will be diluted upon the completion of this offering.

Based on the estimated initial offering price of $16.00 per ADS, purchasers of ADSs offered by this prospectus will experience an immediate and substantial dilution in net tangible book value of $15.10 per ADS purchased, or $15.54 if the underwriters exercise their option to purchase additional ADSs in full. To the extent outstanding options to purchase Series A ordinary shares are exercised, there may be further dilution. See "Dilution."

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere in this prospectus constitute 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. Such factors include, among other things, those listed under Risk Factors and elsewhere in this prospectus.

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.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of such statements. We are under no duty to update any of the forward-looking statements after the date of this prospectus.

GENERAL INFORMATION

None of the financial information in this prospectus constitutes the statutory accounts of NDS Group plc, which are the financial statements we are required by the Companies Act 1985 to prepare and file with the Registrar of Companies in England in respect of each of our fiscal years. Statutory accounts for each of the four years in the four-year period ended June 30, 1998 have been delivered to the Registrar of Companies in England and the auditors made a report on them under Section 235 of the U.K. Companies Act 1985. None of these reports was qualified or contained any statements under Section 237 of that Act.

Solely for your convenience, some pound sterling amounts appearing in this prospectus have been translated into U.S. dollars at the rate of $1.5765 per £1.00, which was the noon buying rate on June 30, 1999 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.

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.

The use of the symbol "®" throughout this prospectus 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 prospectus. This prospectus also includes trade names and trademarks of companies other than NDS.

USE OF PROCEEDS

We estimate that the net proceeds of this offering will be approximately $130.0 million, assuming an initial public offering price of $16.00 per ADS, based upon the midpoint of the price range set forth on the cover page of this prospectus, or $150.3 million if the underwriters exercise their option to purchase additional ADSs in full.

We intend to use the net proceeds to repay a portion of our indebtedness to News International plc, a subsidiary of News Corporation, pursuant to our Term Loan Agreement with News International. At the date of this prospectus, £131.2 million was payable under this agreement. This loan bears interest at sterling 12-month LIBOR plus 1.75%, which is payable quarterly. Immediately following the closing of this offering and the application of the net proceeds, we will owe approximately £63.5 million to News Corporation or its subsidiaries, or approximately £50.6 million if the underwriters exercise their option to purchase additional ADSs in full.

We anticipate that cash provided by future operations will be sufficient to meet our working capital requirements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources," "Relationship with Principal Shareholder and Certain Related Party Transactions" and Note 24 of the notes to our consolidated financial statements.

DIVIDEND POLICY

We do not intend to declare any dividends on the ordinary shares for the foreseeable future. Under English law, a company may only pay dividends out of profits available for that purpose. In general, such available profits consist of a company's accumulated realized profits, to the extent not previously distributed or capitalized, less its accumulated realized losses, to the extent not previously written off in a reduction or reorganization of capital. In the case of a company with subsidiaries, dividends are payable only out of those profits in the holding company. Those profits include dividends received or receivable from subsidiaries, but not profits retained by subsidiaries.

As a public company, we may make a distribution only if, and to the extent that, at the time of such distribution the amount of our net assets is not less than the aggregate of our called-up share capital and undistributable reserves, as these terms are defined in the Companies Act. As of June 30, 1999, we had distributable reserves of £146.4 million.

The payment of final dividends with respect to any fiscal year must be recommended by our board and approved by our shareholders at the annual general meeting. After this approval, we may pay these dividends to eligible shareholders. We may pay interim dividends at the discretion of our board without the need for shareholder approval. Our board's decision whether to propose that dividends be paid for any fiscal year will depend upon a number of factors, including our operating results and financial condition. See "Description of Share Capital—Dividends."

If we decide to pay dividends on ordinary shares, they may be paid in any currency. We will pay dividends on ordinary shares represented by the ADSs to the depositary bank and, if the dividends are not paid in U.S. dollars, the depositary bank will covert them into U.S. dollars at the prevailing rate of exchange, net of conversion expenses of the depositary. As a result, exchange rate fluctuations will affect the U.S. dollar amounts received by holders of ADSs on conversion by the depositary bank of dividends paid in other currencies. See "Exchange Rates" and "Description of American Depositary Receipts."

DILUTION

The dilution table has been presented below in accordance with U.K. GAAP.

The net tangible book value of NDS Group plc at June 30, 1999 was a liability of £116.8 million, or approximately a liability of £2.78 per Series A ordinary share and per ADS. Net tangible book value per ordinary share represents the amount of our total tangible assets reduced by the amount of our total liabilities, divided by the total number of ordinary shares outstanding. After giving effect to our issuance and sale of 9,000,000 ADSs at an offering price of $16.00 per ADS, after deducting the underwriting discounts and the digital broadcasting business commissions and estimated offering expenses and the application of the net proceeds from the sale of our digital broadcasting business and from this offering, the pro forma net tangible book value of NDS Group plc at June 30, 1999, would have been £(29.1 million), or approximately £(0.57) per ordinary share and per ADS. This represents an immediate increase in pro forma net tangible book value of £2.20 per ordinary share and per ADS to our existing shareholder and an immediate dilution in net tangible book value of £9.58 per ordinary share or per ADS to new investors purchasing ADSs in this offering. The following table illustrates the per share dilution:

	Per Share	Per ADS(1)
Public offering price per ADS	£10.15	£10.15
Net tangible book value at June 30, 1999 before giving effect to this offering (4)	£(2.78)	£(2.78)
Increase attributable to this offering and the sale of the digital broadcasting business	£ 2.21	£ 2.21
Pro forma net tangible book value at June 30, 1999 after giving effect to this offering (3)	£(0.57)	£(0.57)
Dilution to new investors (2)	£ 9.58	£ 9.58

(1) Calculated as the average per ADS. Each ADS represents one Series A ordinary share.
(2) Further dilution of £0.28 per share would result if the over-allotment option is not exercised.
(3) The pro forma net tangible book value is calculated after the application of proceeds from the sale of our digital broadcasting business and from this offering.
(4) Net tangible book value is calculated as net liabilities after the elimination of intangible fixed assets.

The following table sets forth, on a pro forma basis, as of June 30, 1999 the number of ordinary shares we issued, the total consideration paid to us and the average price paid per ordinary share by Newscorp Investments, our sole existing shareholder, a wholly owned subsidiary of News Corporation, and by new investors purchasing ADSs in this offering:

	Ordinary Shares Purchased		Total Consideration(1)		Average Price
	Number	%	Amount	%	Per Share
Existing Shareholder	42,001,000	82	£ 42,001,000	31	£ 1.00
New Investors	9,000,000	18	91,350,000	69	£10.15
Total	51,001,000	100	£133,351,000	100	

(1) Consideration is stated before any issue costs.

The foregoing discussion and tables assume no exercise of outstanding options. As of June 30, 1999, there were outstanding options to purchase 2,226,791 Series A ordinary shares with a weighted average exercise price of $8.66, representing a range of exercise prices from $8.14 to $9.85 per ordinary share. See "Management—Incentive Schemes." To the extent any of these options are exercised, the new investors will incur additional dilution.

EXCHANGE RATES

Our revenues are predominantly denominated in pounds sterling and U.S. dollars depending on the location and preference of our customer. A portion of our operating costs and costs of sales are also denominated in U.S. dollars, principally our Israeli and U.S. 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 "Management's Discussion and Analysis of Financial Condition and Results of Operations—Foreign Exchange and Inflation."

The following table sets forth, 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 U.S. dollars per £1.00.

Year Ended June 30,	Average (1)	High	Low	Period End
1995	1.5787	1.6440	1.5244	1.5905
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 (through November 3, 1999)	1.6158	1.6765	1.5515	1.6440

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

On November 3, 1999, the noon buying rate was $1.6440 per £1.00.

EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

Although there are currently no U.K. foreign exchange control restrictions on the acquisition of, or payment of dividends on, the ordinary shares or the ADSs, there are from time to time sanctions which apply to us which 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. Currently such restrictions arising as a result of the United Nations sanctions have been imposed against:

(1) the governments of Iraq, the Federal Republic of Yugoslavia and Serbia (or people exercising public functions in those countries or companies controlled by such people);

(2) any resident of Iraq or any person treated as so resident; and

(3) senior officials of UNITA (Uniao Nacional para a Independencia Total de Angola) or adult members of their immediate family or any person or body acting on their behalf.

There are no restrictions under our memorandum and articles of association that limit the right of non-resident or foreign owners to hold our securities, including the ordinary shares and the ADSs. However, under current English law, any person prohibited from receiving dividends, as described above, may not own any of our ordinary shares or the ADSs.

CAPITALIZATION

The following table sets forth the short-term borrowings, and the capitalization of NDS Group plc on a consolidated basis as at June 30, 1999, in accordance with U.K. GAAP, based upon our consolidated financial statements:

(1) on an actual basis; and

(2) pro forma as adjusted to give effect to: (a) the sale of our digital broadcasting business on July 1, 1999 as if it had occurred on June 30, 1999; and (b) our issuance and sale of 9,000,000 Series A ordinary shares, to be represented by ADSs, in this offering, assuming an offering price of $16.00 per ADS (the midpoint of the price range set forth on the cover page of this prospectus) and the application of the net proceeds from this offering to repay indebtedness to a subsidiary of News Corporation. Adjustment is also made to give effect of the reclassification of ordinary shares as Series B ordinary shares.

The audited consolidated financial statements have been prepared in accordance with U.K. GAAP, which differs in some respects from U.S. GAAP. See "Managements Discussion and Analysis of Financial Condition and Results of Operations—U.S. GAAP Reconciliation" and in Note 28 of the notes to our consolidated financial statements for a discussion of the principal differences between U.K. and U.S. GAAP. The adjustments would be the same if the table below were presented in accordance with U.S. GAAP.

	June 30, 1999				
	Actual	Adjustments for the sale of the discontinued digital broadcasting business	Adjustments for the application of the proceeds from this offering	Pro Forma As Adjusted	
			(in thousands)		
Short-term portion of shareholder financing	£ 17,724	£(17,724)	£ —	£ —	$ —
Other short term debt	43,707	(43,707)	—	—	—
Long-term portion of shareholder financing	131,245	(9,176)	(82,461)	39,608	62,442
Shareholders' deficit:					
Ordinary shares, $.01 nominal value per share; 100,000,000 shares authorized, 42,001,000 issued and outstanding actual; no shares authorized, issued or outstanding pro forma as adjusted(1)	264	—	(264)	—	—
Series A ordinary shares, $.01 nominal value per share; no shares authorized, issued and outstanding, actual; 48,000,000 shares authorized, 9,000,000 shares issued and outstanding pro forma as adjusted(2)	—	—	57	57	90
Series B ordinary shares, $.01 nominal value per share; no shares authorized, issued and outstanding actual; 52,000,000 shares authorized, 42,001,000 shares issued and outstanding pro forma as adjusted	—	—	264	264	416
Deferred shares, £1 nominal value per share; 42,000,002 shares authorized, issued and outstanding, actual and pro forma as adjusted	42,000	—	—	42,000	66,213
Share premium	—	—	82,404	82,404	129,910
Capital contribution	133,265	—	—	133,265	210,091
Accumulated deficit	(261,416)	5,192	—	(256,224)	(403,937)
Total shareholders' equity (deficit)	(85,887)	5,192	82,461	1,766	2,783
Minority interests	1,753	—	—	1,753	2,764
Total capitalization(3)(4)	£ 47,111	£ (3,984)	£ —	£ 43,127	$ 67,989

(1) On November 1, 1999, all the 42,001,000 issued ordinary shares were converted into Series B ordinary shares.

(2) Excludes 3,121,791 Series A ordinary shares reserved for issuance pursuant to outstanding options.

(3) Capitalization excludes short-term debt and the short-term portion of shareholder financing.

(4) For the purpose of the capitalization statement, under U.S. GAAP, the gain on sale of our digital broadcasting business will result in an increase in equity.

SELECTED FINANCIAL AND OPERATING INFORMATION

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 June 30, 1999 and as at June 30, 1998 and 1999, have been derived from our consolidated financial statements and the notes to those financial statements included elsewhere in this prospectus, 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 June 30, 1996 and 1995 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 U.K. GAAP, which differs in some respects from U.S. GAAP. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—U.S. GAAP Reconciliation" and Note 28 of the notes to our consolidated financial statements for a discussion of the principal differences between U.K. and U.S. GAAP.

	Fiscal Year Ended June 30,					
	1995	1996	1997	1998	1999	1999
	(in thousands, except per share amounts)					
Profit and Loss account:						
In accordance with U.K. GAAP						
Turnover—Continuing operations	£ 43,736	£ 76,569	£ 89,022	£101,332	£ 127,574	$201,120
—Discontinued operations(1)	—	37,606	78,515	87,465	88,348	139,281
	43,736	114,175	167,537	188,797	215,922	340,401
Cost of sales	(32,386)	(56,595)	(89,256)	(90,276)	(101,020)	(159,258)
Gross profit	11,350	57,580	78,281	98,521	114,902	181,143
Operating expenses	(13,063)	(48,826)	(69,981)	(87,394)	(98,029)	(154,543)
Operating profit (loss)						
—Continuing operations	(1,713)	9,917	5,742	8,137	18,734	29,534
—Discontinued operations(1)	—	(1,163)	2,558	2,990	(1,861)	(2,934)
	(1,713)	8,754	8,300	11,127	16,873	26,600
Finance charges (net)	(1,066)	(1,489)	(11,066)	(10,444)	(13,205)	(20,818)
Profit (loss) on ordinary activities before taxation	(2,779)	7,265	(2,766)	683	3,668	5,782
Taxation	800	(1,741)	312	(508)	(1,194)	(1,882)
Profit (loss) on ordinary activities after taxation	(1,979)	5,524	(2,454)	175	2,474	3,900
Minority interests	(93)	(265)	(527)	(293)	(356)	(561)
Profit (loss) for the financial year	£ (2,072)	£ 5,259	£ (2,981)	£ (118)	£ 2,118	$ 3,339
Basic and diluted earnings (loss) per share	(4.9p)	12.5p	(7.1p)	(0.3p)	5.0p	7.9c
Profit and Loss account:						
In accordance with U.S. GAAP						
Revenues			£ 94,328	£ 93,492	£ 137,024	$216,018
Operating income			7,258	5,897	21,434	33,791
Interest expense (net)			(11,066)	(10,444)	(13,205)	(20,818)
Income (loss) before income taxes and discontinued operations(1)			(3,808)	(4,547)	8,229	12,973
Income tax benefit (expense)			985	(541)	(2,258)	(3,560)
Income before discontinued operations(1)			(2,823)	(5,088)	5,971	9,413
Discontinued operations, net of tax(1)			1,392	1,746	(1,627)	(2,565)
Net income (loss)			£ (1,431)	£ (3,342)	£ 4,344	$ 6,848
Basic and diluted earnings (loss) per share			(3.4)	(8.0)	10.3	16.3
—Continuing earnings (loss) per share				(12.1)	14.2	22.4
—Discontinued earnings (loss) per share				4.2	(3.9)	(6.1)

(1) Discontinued operations refer to the digital broadcasting business that we transferred on July 1, 1999 to Ordinto Investments and which was subsequently sold to Tandberg on October 14, 1999.

	As of June 30,		
	1998	1999	1999
		(in thousands)	
Balance Sheet:			
In accordance with U.K. GAAP			
Total assets	£ 140,377	£ 182,163	$ 287,180
Long-term liabilities	(132,996)	(133,540)	(210,526)
Total other liabilities	(94,516)	(132,757)	(209,291)
Minority interests	(1,268)	(1,753)	(2,764)
Shareholders' funds	£ (88,403)	£ (85,887)	$(135,401)
Balance Sheet:			
In accordance with U.S. GAAP			
Total assets continuing operations	£ 142,311	£ 107,416	$ 169,341
Total assets discontinued operations	—	75,836	119,556
Total assets	142,311	183,252	288,897
Long-term liabilities	(132,996)	(133,540)	(210,526)
Total other liabilities	(100,756)	(136,297)	(198,444)
Net assets of discontinued operations	—	65,415	103,127
Shareholders' equity (deficit)	£ (91,441)	£ (86,585)	$(136,501)

UNAUDITED PRO FORMA CONDENSED FINANCIAL INFORMATION

The unaudited pro forma financial information for the year ended June 30, 1999, presented below includes adjustments to the U.K. GAAP information in order to reflect the U.S. GAAP adjustments described in Note 28 of the notes to our consolidated financial statements and to reflect the application of the proceeds of the offering. The U.K. GAAP information has been derived from our consolidated financial statements and the notes to those financial statements included elsewhere in this prospectus, which have been audited by Arthur Andersen, independent chartered accountants, as well as unaudited information which is not included in such audited financial statements.

The unaudited condensed pro forma statement of operations for the year ended June 30, 1999 reflects the use of the consideration received upon the transfer of the digital broadcasting business to repay intercompany and other debt financing and has been adjusted to reflect the results of operations of NDS under U.S. GAAP as if the application of the proceeds of this offering had occurred on July 1, 1998. The unaudited condensed pro forma balance sheet as of June 30, 1999 reflects the use of the proceeds from the sale of the digital broadcasting business to repay intercompany and other debt financing and has been adjusted to reflect the financial position of NDS under U.S. GAAP as if the application of the proceeds of this offering had occurred on June 30, 1999.

Unaudited Condensed Pro Forma Statement of Operations

	Year ended June 30, 1999					
	U.K. GAAP	GAAP(a) adjustments	U.S. GAAP	Adjustments for the sale of the discontinued digital broadcasting business	Adjustments for the application of the proceeds from this offering	Pro Forma As Adjusted
	(in thousands, except per share data)					
Revenues	£ 127,574	£9,450	£ 137,024	£	£	£ 137,024
Cost of sales	(52,174)	(6,750)	(58,924)	—	—	(58,924)
Gross profit	75,400	2,700	78,100	—	—	78,100
Sales & marketing expenses	(7,012)	—	(7,012)	—	—	(7,012)
Research & development expenses	(36,050)	—	(36,050)	—	—	(36,050)
General & administration expenses	(13,794)	—	(13,794)	—	—	(13,794)
Gain on foreign exchange movements	1,559	—	1,559	—	—	1,559
Goodwill amortization	(1,369)	—	(1,369)	—	—	(1,369)
Operating income	18,734	2,700	21,434	—	—	21,434
Finance charges:						
Interest payable	(13,262)	—	(13,262)	6,799 (b)	6,463 (c)	—
Interest receivable	57	—	57	—	—	57
Taxation	(1,428)	(830)	(2,258)	(2,091)(d)	(1,987)(d)	(6,336)
Minority interests	(356)	356 (a)	—	—	—	—
Net income from continuing operations(d)	£ 3,745	£2,226	£ 5,971	£4,708	£4,476	£ 15,155
Basic earnings per share from continuing operations(e)	8.9 p		14.2 p			29.6 p
Weighted average shares outstanding	42,001,000		42,001,000			51,151,000

(a) The GAAP adjustments result from the different basis of consolidation of NDS Americas, Inc. and the treatment of subscriber fees under U.K. GAAP and U.S. GAAP as described in Note 28(i) to the consolidated financial statements.

(b) The adjustment to financing charges reflects the application of the net proceeds from the sale of the digital broadcasting business for £70.6 million to repay a portion of the long-term intercompany debt (which bore interest at 9.63%), the short-term intercompany financing debt (which bore interest at 7%) and the overdraft (which earned no interest charge).

(footnotes on next page)

(c) The adjustment to financing charges reflects the application of the net proceeds of the offering to repay a portion of the long-term debt. The net proceeds has been computed assuming the sale of 9,000,000 shares and ADSs at a price of £10.15 per share (US$16.00 per ADS), after deducting an estimated £8,880,000 of offering expenses. The effective interest rate on the long-term intercompany debt was 9.63% during the period.

(d) Tax effect has been computed based on the statutory rate of 30.75%.

(e) As disclosed in Note 7 of the notes to our consolidated financial statements, we have granted certain employee options to purchase shares in NDS which, upon the closing of this offering, will become exercisable, subject to vesting. Of the 3,121,791 options which will be outstanding upon the closing of this offering, 1,192,839 options will be immediately exercisable. For 180 days, any Series A ordinary shares issued to our directors or executive officers on exercise of any such options will be subject to the lock-up arrangements described under "Shares Eligible for Future Sale—Lock-Up Arrangements." It is estimated that, under U.S. GAAP, compensation expense of $12,472,056 (£7,597,037) will be recognized at the time of the offering relating to all vested options at that date. The intrinsic value of the granted but unvested options as at that date will fluctuate as those options will need to be marked to market. Based on the intrinsic value as at the time of the offering, future compensation expense (translated at the average exchange rate for the year ended June 30, 1999 of £1 equals $1.6417) will be recognized as follows:

	$	£
Offering date to June 30, 2000	1,725,229	1,050,880
Year ending June 30, 2001	1,475,836	898,968
Year ending June 30, 2002	542,975	330,739
Year ending June 30, 2003	119,837	72,996

The dilutive effect of such options on net income and earnings per share has not been reflected in the unaudited condensed pro forma statement of operations shown above.

Unaudited Condensed Pro Forma Balance Sheet

	As at June 30, 1999					
	Historical U.K. GAAP	GAAP(a) adjustments	U.S. GAAP	Adjustments for the sale of the discontinued digital broadcasting business(b)	Adjustments for the application of the proceeds from this offering(c)	Pro Forma As Adjusted
	(In thousands)					
Current assets	£114,660	£1,089	£ 115,749	£(43,670)	£ —	£72,079
Long-term assets	67,503		67,503	(32,166)	—	35,337
Total assets	182,163	1,089	183,252	(75,836)	—	107,416
Current liabilities	(132,757)	(3,540)	(136,297)	69,341	—	(66,956)
Long-term liabilities	(133,540)		(133,540)	11,687	82,461	(39,392)
Minority interest	(1,753)	1,753	—	—	—	—
Shareholders' equity (deficit)	(85,887)	(698)(a)	(86,585)	5,192	82,461	1,068

(a) The GAAP adjustments result from the different basis of consolidation of NDS Americas, Inc. and the treatment of subscriber fees under U.K. GAAP and U.S. GAAP as described in Note 28(i) of the notes to our consolidated financial statements.

(b) The adjustment to reflect the sale of the digital broadcasting business and repayment of intercompany and other debt financing.

(c) The adjustments to shareholders equity and debt reflect the issuance of common shares and ADSs, and the application of the net proceeds of the offering to repay a portion of the long-term intercompany debt. The net proceeds has been computed assuming the sale of 9,000,000 shares and ADSs at a price of £10.15 per share (US$16.00 per ADS), after deducting an estimated £8,880,000 of offering expenses.

(c) The adjustment to financing charges reflects the application of the net proceeds of the offering to repay a portion of the long-term debt. The net proceeds has been computed assuming the sale of 9,000,000 shares and ADSs at a price of £10.15 per share (US$16.00 per ADS), after deducting an estimated £8,880,000 of offering expenses. The effective interest rate on the long-term intercompany debt was 9.63% during the period.

(d) Tax effect has been computed based on the statutory rate of 30.75%.

(e) As disclosed in Note 7 of the notes to our consolidated financial statements, we have granted certain employee options to purchase shares in NDS which, upon the closing of this offering, will become exercisable, subject to vesting. Of the 3,121,791 options which will be outstanding upon the closing of this offering, 1,192,839 options will be immediately exercisable. For 180 days, any Series A ordinary shares issued to our directors or executive officers on exercise of any such options will be subject to the lock-up arrangements described under "Shares Eligible for Future Sale—Lock-Up Arrangements." It is estimated that, under U.S. GAAP, compensation expense of $12,472,056 (£7,597,037) will be recognized at the time of the offering relating to all vested options at that date. The intrinsic value of the granted but unvested options as at that date will fluctuate as those options will need to be marked to market. Based on the intrinsic value as at the time of the offering, future compensation expense (translated at the average exchange rate for the year ended June 30, 1999 of £1 equals $1.6417) will be recognized as follows:

	$	£
Offering date to June 30, 2000	1,725,229	1,050,880
Year ending June 30, 2001	1,475,836	898,968
Year ending June 30, 2002	542,975	330,739
Year ending June 30, 2003	119,837	72,996

The dilutive effect of such options on net income and earnings per share has not been reflected in the unaudited condensed pro forma statement of operations shown above.

Unaudited Condensed Pro Forma Balance Sheet

	As at June 30, 1999					
	Historical U.K. GAAP	GAAP(a) adjustments	U.S. GAAP	Adjustments for the sale of the discontinued digital broadcasting business(b)	Adjustments for the application of the proceeds from this offering(c)	Pro Forma As Adjusted
	(In thousands)					
Current assets	£114,660	£1,089	£ 115,749	£(43,670)	£ —	£72,079
Long-term assets	67,503		67,503	(32,166)	—	35,337
Total assets	182,163	1,089	183,252	(75,836)	—	107,416
Current liabilities	(132,757)	(3,540)	(136,297)	69,341	—	(66,956)
Long-term liabilities	(133,540)		(133,540)	11,687	82,461	(39,392)
Minority interest	(1,753)	1,753	—	—	—	—
Shareholders' equity (deficit)	(85,887)	(698)(a)	(86,585)	5,192	82,461	1,068

(a) The GAAP adjustments result from the different basis of consolidation of NDS Americas, Inc. and the treatment of subscriber fees under U.K. GAAP and U.S. GAAP as described in Note 28(i) of the notes to our consolidated financial statements.

(b) The adjustment to reflect the sale of the digital broadcasting business and repayment of intercompany and other debt financing.

(c) The adjustments to shareholders equity and debt reflect the issuance of common shares and ADSs, and the application of the net proceeds of the offering to repay a portion of the long-term intercompany debt. The net proceeds has been computed assuming the sale of 9,000,000 shares and ADSs at a price of £10.15 per share (US$16.00 per ADS), after deducting an estimated £8,880,000 of offering expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our financial data and the consolidated financial statements, including related notes, that appear elsewhere in this prospectus. The consolidated financial statements have been prepared in accordance with U.K. GAAP which differs in some respects from U.S. GAAP. See "U.S. GAAP Reconciliation" and Note 28 of the notes to our consolidated financial statements for a discussion of the principal differences between U.K. GAAP and U.S. GAAP.

The following discussion contains forward-looking statements relating to future events and our future financial performance, each of which involves risks and uncertainties. These events and actual results could differ materially from those described in these forward-looking statements. Factors that could cause or contribute to such differences include those set forth under "Risk Factors," "Business" and elsewhere in this prospectus.

We provide conditional access software, 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 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 utilizes our conditional access and broadcast control software. 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 our customers ongoing support and maintenance.

Presentation of Financial Information

On July 1, 1999 we sold the entire business, assets, including goodwill, and liabilities of our digital broadcasting business to an indirect wholly owned subsidiary of News Corporation, Ordinto Investments, for £70.6 million. On October 14, 1999, Ordinto Investments sold the digital broadcasting business to Tandberg Television ASA for £130.7 million. We sold our digital broadcasting business in order to devote all of our resources to opportunities which exist in the market for conditional access systems and related software. For additional information relating to this disposal, see Note 26a of the notes to our consolidated financial statements.

Since the sale of our digital broadcasting business to Ordinto Investments and until the sale from Ordinto to Tandberg, we continued to operate this business on behalf of Ordinto Investments. Ordinto Investments has agreed to reimburse us with respect to the activities we undertook on their behalf at cost. Upon completion of the sale by Ordinto Investments to Tandberg, we transferred the 618 employees engaged in the digital broadcasting business to Tandberg, as well as agreements relating to this business. We have established an ongoing contractual relationship with Tandberg as part of which Tandberg supports digital broadcasting business products which have been sold to customers we retain, and we support our products sold to Tandberg's customers. These contractual relationships have been negotiated on an arm's-length basis and each party will be remunerated at open market prices for the services provided to the other party. Each party will also appoint the other as a reseller in relation to future business opportunities.

The digital broadcasting business is a leading supplier of digital video compression, transmission and reception equipment for the broadcasting market. Its principal activities are the design, development, supply and support of its products. We acquired this business and its assets in 1995.

For the purposes of our consolidated financial statements, we have treated the digital broadcasting business as a discontinued operation. In order to provide a meaningful commentary on the business that we will carry out going forward, this discontinued operation has been excluded from this discussion of our financial condition and results of operations. However, the commentary on taxation and liquidity and capital resources includes the digital broadcasting business.

We conduct our activities in the U.S. through NDS Americas, Inc., which was a subsidiary of News Corporation. On November 1, 1999 we acquired the entire share capital of NDS Americas, Inc. for consideration of £170,000. See Note 26b of the notes to our consolidated financial statements. Within our consolidated financial statements, NDS Americas, Inc. is treated as a subsidiary of NDS. See Note 1b of the notes to our consolidated financial statements.

Revenues

Our revenues consist primarily of conditional access revenues, integration, development and support fees, and license fees and royalties. We derive revenues from customers in Europe, the U.S., Latin America and the Asia-Pacific region. Our operations are located principally in the U.K., Israel and the U.S. Our revenues have increased significantly over the last three years due in large part to the growth in the number of customers for our systems and services and the growth in the number of our customers' subscribers. For the period from July 1, 1996 to June 30, 1999, the number of subscribers using the services offered by those customers increased to 13 million from 5.2 million.

Conditional Access Revenues

Our conditional access revenues from a particular broadcaster are generally related to the number of subscribers to the broadcaster's system. Our contracts with our customers typically provide for the long-term supply of smart cards, integration of some software components in each set-top box used by the customers and provision of conditional access services to preserve the security of the system. Demand for smart cards depends on demand by the consumers for set-top boxes which enable the viewer to receive a broadcaster's programs and services. The nature and extent of the security services vary by customer and are reflected in their per-subscriber monthly fees. A significant portion of our revenues is based upon growth in our customers' subscriber bases and the number of smart cards required by their systems. In particular, in the three years ended June 30, 1999, we have benefitted from the rapid growth of the digital subscriber bases of Sky digital in the U.K., DIRECTV in the U.S. and our customers in Latin America.

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 recognized upon shipment of the cards.

- *Subscriber fees*

  In some circumstances, NDS 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 recognized 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 recognized as the services are performed. Costs associated with such arrangements include, therefore, the production of the 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 recognized to date. The proportion of revenues recognized 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, we 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 the ability to obtain new customers for our systems and technology and our ability to resource major projects. Such revenues are determined by the amount of time needed to manage the integration, customize or develop the software and the level of support required by the customer.

License Fees and Royalties

We derive license fees and royalties from licensing our technology to broadcasters for use in their head-end and subscriber management systems and to set-top box manufacturers. Such revenues are dependent upon our ability to obtain new customers for our systems and technology and upon the ongoing needs of those customers to expand their services or upgrade their systems to new technology. Royalties are generally a function of the number of set-top boxes manufactured, which is in turn dependent upon the ability of the broadcaster or service provider to generate new subscribers and the level of churn of their subscriber base. Churn is the number of subscribers in any given period who terminate their subscriptions and are replaced by new subscribers.

Expenses

Expenses comprise cost of goods sold, sales and marketing expenses, research and development costs and general and administration expenses. The largest component of expenses, excluding cost of goods sold, is personnel costs.

Cost of Goods Sold

Cost of goods sold primarily consist of the physical and processing costs of smart cards, personnel costs incurred in the provision of services and license fees and royalties we must pay to owners of technology we use.

Cost of goods sold also includes an appropriate provision towards the cost of replacing smart cards where we have agreed to assume that obligation and it is reflected in the fees charged to the customer. The amount provided to replace a card population in any period is matched with the revenues earned over the life of the card to be replaced. There may be a material impact on costs in any period if the planned card changeover is accelerated or deferred as this changes the assumptions used in determining the liability incurred by us in any period. In the two years ended June 1999, we have benefited from the fact that planned card changeovers have been deferred, primarily as a result of the effectiveness of our security services.

The physical costs of smart cards include the costs of the integrated circuits manufactured by third-party suppliers, the plastic smart cards, and the micromodule which houses the computer chips, as well as the processing and distribution costs associated with the smart cards. Total costs are dependent upon the costs of raw materials, such as the cost of the computer chips and plastic, and the volume of smart cards processed in the year.

Although we do not manufacture smart cards, we design their embedded computer chips and also incorporate software we develop onto the smart card.

The personnel costs included in cost of goods sold are largely determined by multiplying the number of man hours spent on customer contracts by the underlying salary costs of development and support staff. They include an allocation of direct overhead. Royalties are a function of revenues attributable to sales of products incorporating technology which we have licensed from third parties and are payable under the licensing agreements in respect of that technology.

Operations costs include the costs of smart card processing facilities, procurement and materials management, and our customer support and project management teams. These costs are attributable against conditional access; integration, development and support; and other revenue categories.

Sales and Marketing

Sales and marketing costs mainly consist of personnel and related costs of our sales teams in the U.K., U.S. and the Asia-Pacific region and our marketing teams in the U.K. and Israel. The remaining costs are mainly marketing activities and include advertising, exhibitions and marketing communications and demonstration activities.

Research and Development

Research and development costs consist mainly of personnel and related costs from our teams in Israel and the U.K. and related equipment used in our development and test activities. We write off all research and development expenditures in the period in which they are incurred.

General and Administration

General and administration costs consist primarily of personnel, facilities, infrastructure and administration costs, amortization of goodwill and foreign exchange gains and losses. Foreign exchange gains and losses arise on the translation of receivables and payables denominated in currencies other than pounds sterling. All such foreign exchange gains and losses are included in general and administrative costs, rather than in the individual revenue and expense categories to which they relate. Amortization of goodwill was £1.4 million in each of fiscal 1997, 1998 and 1999, and this goodwill arose from the reorganization of the group and acquisition of minority interests in the group's subsidiaries in July 1992.

	Fiscal Year Ended June 30,		
	1997	1998	1999
		(In thousands)	
Results of operations:			
Revenues			
Conditional access	£ 63,021	£ 60,782	£ 90,504
Integration, development & support	12,643	21,251	14,457
License fees & royalties	10,342	14,379	21,268
Other	3,016	4,920	1,345
Total revenues	89,022	101,332	127,574
Cost of goods sold			
Smart card and changeover provisions	(28,343)	(18,470)	(24,039)
Integration and development	(6,881)	(18,893)	(15,123)
Operations	(8,125)	(4,487)	(8,091)
Royalties	(3,765)	(2,770)	(3,770)
Other	(1,889)	(4,105)	(1,151)
Total cost of goods sold	(49,003)	(48,725)	(52,174)
Gross profit	40,019	52,607	75,400
Sales & marketing expenses	(2,310)	(6,535)	(7,012)
Research & development	(20,555)	(22,876)	(36,050)
General & administration	(11,412)	(15,059)	(13,604)
Total operating expenses	(34,277)	(44,470)	(56,666)
Operating profit	5,742	8,137	18,734
Results of discontinued operations	2,558	2,990	(1,861)
Finance charges (net)(1)	(11,066)	(10,444)	(13,205)
Profit (loss) before taxation	(2,766)	683	3,668
Taxation(2)	312	(508)	(1,194)
Profit (loss) after taxation	£ (2,454)	£ 175	£ 2,474

(1) Includes finance charges related to the digital broadcasting business disposed of on July 1, 1999.
(2) Includes taxation related to the digital broadcasting business disposed of on July 1, 1999.

	Fiscal Year Ended June 30,		
	1997	1998	1999
Results of operations:			
Revenues			
Conditional access	70.8%	60.0%	70.9%
Integration, development & support	14.2	21.0	11.3
License fees & royalties	11.6	14.1	16.7
Other	3.4	4.9	1.1
Total revenues	100.0%	100.0%	100.0%
Smart cards & changeover provisions	(31.8)	(18.3)	(18.8)
Integration & development	(7.7)	(18.6)	(11.9)
Operations	(9.2)	(4.4)	(6.3)
Royalties	(4.2)	(2.7)	(3.0)
Other	(2.1)	(4.1)	(0.9)
Total cost of goods sold	(55.0)	(48.1)	(40.9)
Gross margin	45.0%	51.9%	59.1%
Sales & marketing expenses	(2.6)	(6.4)	(5.5)
Research & development	(23.1)	(22.6)	(28.3)
General & administration	(12.8)	(14.9)	(10.6)
Total operating expenses	(38.5)	(43.9)	(44.4)
Operating profit	6.5	8.0	14.7
Results of discontinued operations	2.9	3.0	(1.4)
Finance charges (net)(1)	(12.5)	(10.3)	(10.4)
Profit (loss) before taxation	(3.1)%	0.7%	2.9%

(1) Includes finance charges related to the digital broadcasting business disposed of on July 1, 1999.

Fiscal Year Ended June 30, 1999 Compared to Fiscal Year Ended June 30, 1998

Revenues

Revenues increased to £127.6 million in fiscal 1999 from £101.3 million in fiscal 1998, a 26% increase.

Conditional access revenues, which increased to £90.5 million in fiscal 1999 from £60.8 million in fiscal 1998, an increase of 49%, represented the largest component of our 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 U.K. In addition, volumes of cards supplied also benefitted 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 our customers' subscribers. As of June 30, 1999, our customers had approximately 13 million subscribers compared to 9.2 million at June 30, 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 Sky digital, SkyColumbia and SkyChile projects. We recognized that the large digital satellite projects would be substantially complete during fiscal 1998 and we have therefore focused on winning smaller digital satellite and cable systems. In fiscal 1999, we entered into contracts with Matav and DBS Israel, Madritel in Spain and NTC in China. Under these contracts, a greater proportion of the revenue derives from license fees and ongoing royalties than from integration and development. As at June 30, 1999, these projects were in the early stages of implementation.

License fees and royalties received increased to £21.3 million in fiscal 1999 from £14.4 million in fiscal 1998, an increase of 48%. This increase primarily resulted from an increase in the number of subscribers to our broadcasting customers and from a number of new contracts we entered into for the licensing of our systems and software. License fees also increased in fiscal 1999 as we sold broadcasting control software to NTL Incorporated, a U.K. 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 current contracts where customers are being invoiced directly by third-party suppliers.

Expenses

Total operating expenses increased to £108.8 million in fiscal 1999 from £93.2 million in fiscal 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 our revenues and benefited from the deferral of the BSkyB card changeover and the full year effect of a transitional agreement entered into with DIRECTV. We also benefited from reductions in the costs of raw materials which resulted from design improvements and volume discounts. Gross margin improved to 59.1% in fiscal 1999 from 51.9% in fiscal 1998 as a result of the BSkyB and DIRECTV agreements. The increase also reflects the change in the revenue mix as license fees and royalties 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 stabilization in the number of personnel and expenditures in this area, as we have pursued a policy of developing indirect sales channels consisting of third-party resellers and agents for expanding our market and geographic coverage. In addition we have entered into a number of marketing alliances with other technology providers.

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 our activities to develop interactive applications and secure Internet technologies, including the development of our *AccessGear* and *CastGear* products;

(2) an increase in our 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 the number of hours 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 includes 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. See "—Foreign Exchange and Inflation."

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, license fees and royalties, principally generated by the growth in our customers' subscribers bases and, in particular, large volumes of smart cards purchased by DIRECTV and the launch of Sky digital by BSkyB in the U.K., were the most significant factors in the increase in operating profit in the period under review. We expect to see operating profit growth in future years, although it is unlikely to match the percentage growth achieved in fiscal 1999 due to the fact that this growth was from a relatively low base and benefited from the very strong card sales to DIRECTV which may not be repeated in future years. We have no reason, however, to believe that the growth in our total customers' subscriber base will not continue at similar rates as they had grown in the past.

We continued to invest heavily in our research and development activities to support existing customers technologies and to develop new business opportunities. The number of our full-time employees increased from an average of 450 in fiscal 1997 to an average of 717 in fiscal 1999. Associated with this increase have been investments in premises and facilities to accommodate the additional staff and administrative support to enable the growth to be managed and controlled. Direct personnel costs accounted for 45% of operating expenses, excluding cost of goods sold, in fiscal 1999 compared with 44% in fiscal 1998.

Discontinued Operations

Discontinued operations consist of the activities of our digital broadcasting business which we sold to Ordinto Investments on July 1, 1999. In fiscal 1999, our digital broadcasting business reported revenues of £88.3 million compared to £87.5 million in fiscal 1998, an increase of 1%. This low increase disguised the fact that revenues from non-News Corporation customers increased by 50% to £76.6 million in fiscal 1999 from £51.0 million in fiscal 1998. The revenues from News Corporation related broadcasters decreased to £11.7 million from £36.5 million due to the fact that the major News Corporation related satellite broadcasters had completed their installations in fiscal 1998.

Gross margin in fiscal 1999 was 45% compared to 52% in fiscal 1998. The decrease was as a result of the change in the type of sales from large complete broadcasting systems to smaller systems and more stand alone products, and the inclusion of a greater proportion of products sourced from outside the NDS group. Furthermore, we experienced some problems with the introduction of new products that resulted in a considerable amount of additional cost due to rework in the manufacturing process. In fiscal 1999, gross margins also benefited from a reduced charge for warranty costs of £0.3 million compared to a charge of £3.6 million in fiscal 1998. The reduction in the charge resulted from a detailed review being undertaken of the incidence of warranty claims and the requisite provision, which concluded that only a small additional provision was required in fiscal 1999. In fiscal 1999, £2.0 million of the warranty provision brought forward at June 30, 1998 was utilized.

In order to offset the small increase in revenues, cost growth was contained and operating expenses increased only 4% to £28.7 million in fiscal 1999. The discontinued operations reported an operating profit before royalties and amortization of £10.8 million compared to an operating profit before royalties and amortization of £18.3 million in fiscal 1998. The main reasons for the decrease in this profit was that revenues only increased by £0.9 million, and the fall in the gross margin percentage as described above. In addition, there was a license charge in fiscal 1999 consisting of an £11.7 million royalty payable by us to a subsidiary of News Corporation. In fiscal 1998, the royalty payable was £14.4 million. In addition, in both fiscal 1999 and fiscal 1998, there was a goodwill amortization of £0.9 million. The goodwill arose on the acquisition of the business and assets of this segment from NTL in 1995. After these charges there was an operating loss in fiscal 1999 of £1.9 million compared to an operating profit of £3.0 million in fiscal 1998.

Profit On Ordinary Activities Before Taxation

We reported an increase in profit on ordinary activities before taxation to £3.7 million in fiscal 1999 from £0.7 million in fiscal 1998. Net interest payable increased to £13.2 million from £10.4 million due principally to the increase in our borrowings from News Corporation to fund working capital and capital investment.

Taxation

NDS, including the discontinued operations, incurred a taxation charge of £1.2 million in fiscal 1999, compared with a charge of £0.5 million in fiscal 1998. This represented an effective tax rate of 32.5% compared with a U.K. corporation tax rate of 30.75%. The main reasons for the increased tax rate were expenditures for which no deduction against taxable income was allowed. Examples include goodwill amortization and certain items of marketing expenses.

Fiscal Year Ended June 30, 1998 Compared to Fiscal Year June 30, 1997

Revenues

Revenues increased to £101.3 million in fiscal 1998 from £89 million in fiscal 1997, a 14% increase.

Conditional access revenues decreased to £60.8 million in fiscal 1998 from £63 million in fiscal 1997, a reduction of 3.5%. The number of smart cards sold decreased by 18% in fiscal 1998 primarily reflecting a decrease in the growth of BSkyB's analog subscribers in the U.K. in anticipation of the launch of Sky digital in October 1998. Secondly there was a reduction in the volume of cards supplied to DIRECTV as a result of the large volume of smart cards that had been shipped to DIRECTV's set-top box manufacturers in fiscal 1997 in anticipation of their marketing activities building an increase in demand.

Conditional access revenues were also affected by a change of terms in the DIRECTV supply agreement, whereby DIRECTV took responsibility for ordering and paying for all new and replacement smart cards in exchange, amongst other things, for a reduction in the monthly fee per subscriber. As of June 30, 1998, our customers had approximately 9.2 million subscribers compared with 7 million at June 30, 1997, an increase of 31%.

Integration, development and support revenues increased to £21.3 million in fiscal 1998 from £12.6 million in fiscal 1997, an increase of 69%. In fiscal 1998, work was undertaken on a number of large ongoing digital satellite projects, including Sky digital, DIRECTV Japan, Innova, NetSat and Indovision. Such digital satellite projects were substantially completed during that year. In fiscal 1997, work had continued or commenced on projects for NetSat, Innova and STAR TV. In addition we signed long-term support agreements with Innova, NetSat and STAR TV.

License fees and royalties increased to £14.4 million in fiscal 1998 from £10.3 million in fiscal 1997, an increase of 40%. This increase is a function of the increase in the number of subscribers to our broadcasting customers and our new systems and software contracts. In fiscal 1998, a number of our broadcasting customers launched their services.

Other revenues comprise principally mailing income and third-party systems supplied as a component of a complete broadcasting solution. In fiscal 1998, this principally comprised bought-in third-party systems supplied to broadcasters in preparation for the launch of their services. In fiscal 1997, other revenue principally comprised mailing income associated with the smart card changeovers for BSkyB and DIRECTV.

Expenses

Total operating expenses increased to £93.2 million in fiscal 1998 from £83.3 million in fiscal 1997, an increase of 11.9%. The growth in operating expenses was in line with the growth in revenues.

Cost of Goods Sold. Cost of goods sold decreased to £48.7 million in fiscal 1998 from £49 million in fiscal 1997, a reduction of 1%. This small reduction reflects the change in the revenue mix with a decline in the proportion of revenue from conditional access offset by an increase in integration, development and support. Related to the decrease in the revenue per subscriber noted above, cost of goods sold benefited from the change in the contractual relationship with DIRECTV. Under the transitional contractual arrangements, the liability to replace cards was capped at a quantity less than the number of cards in issue at that time. Accordingly, the provision accrued in accordance with our accounting policies was reduced, resulting in a reduction in the charge for the year of approximately £1.1 million. In addition, there was no significant increase in cost of goods sold associated with the increase in license fees and royalties. As a result of this reduction, gross margin percentage increased to 51.9% in fiscal 1998 from 45.0% in fiscal 1997.

Sales and Marketing. Sales and marketing expenses increased from £2.3 million in fiscal 1997 to £6.5 million in fiscal 1998, an increase of 183%. As a percentage of revenues, these expenses increased to 6.4% from 2.6%. This reflects the decision made in fiscal 1997 to substantially increase sales resources, particularly in the U.S. and Asia-Pacific, and to commence an aggressive marketing plan. Further, we established a team of technical consultants to support the sales and marketing activities and we also established extensive systems demonstration facilities for customers.

Research and Development. Research and development costs increased to £22.9 million in fiscal 1998 from £20.6 million in fiscal 1997, an increase of 11%. Such costs represented 22.6% of revenue in fiscal 1998 compared to 23.1% in fiscal 1997. We invested significant resources in fiscal 1998 in developing our *MediaStorm* and data broadcasting systems and released our *NDS Broadcaster* conditional access and *Provider II* subscriber management systems.

General and Administration. General and administration costs increased to £15.1 million in fiscal 1998 from £11.4 million in fiscal 1997, an increase of 32%. The significant increase in costs reflects the increase in infrastructure, facilities and administration to support the increases in revenue and headcount. In addition, we received notice of patent infringement claims arising from the use of technology in the U.S. pursuant to the provisions of our contract with DIRECTV and made provisions for license fees, royalties and professional fees that could arise out of those claims. These claims were brought against DIRECTV, NDS and certain set-top box manufacturers alleging usage of technology protected by patents owned by the plaintiff. These patent infringement claims have been settled.

Operating Profit

Operating profit increased to £8.1 million in fiscal 1998 compared to a profit of £5.7 million in fiscal 1997, an increase of 42%. The increase in operating profit between fiscal 1998 and fiscal 1997 reflects the increase in revenues and gross margin percentage, resulting in a £12.6 million increase in gross profit. This additional gross profit has been invested by us in recognition of the need to invest in sales and marketing activities and, in particular, increase our presence in the U.S. and the Asia-Pacific region. This was mainly driven by the recognition that most large digital satellite systems and, in particular, News Corporation-related broadcasters, had now launched their services and that the future market for conditional access systems was in cable, digital terrestrial and smaller off-the-shelf conditional access systems deployed by operators with less than 1 million subscribers. Furthermore, we continued to invest heavily in its research and development activities to support existing customers technologies and to develop new business opportunities. In addition, there were a number of non-recurring items as described above.

Discontinued Operations

In fiscal 1998, discontinued operations reported revenues of £87.5 million compared to revenues of £78.5 million in fiscal 1997, an increase of 11%. The increase in revenues was due in part to an increase in products supplied to News Corporation related broadcasters and in part due to the growth in sales in Europe.

Gross margin improved to 52% in fiscal 1998 from 49% in fiscal 1997 due to our success in reducing component prices and a change in the sales product mix in favour of higher margin products. Operating expenses increased 28% to £27.0 million reflecting our increased investment in research and development to develop products for the digital terrestrial television market and our investment in manufacturing and operations facilities to support an increase in product volumes. In fiscal 1998 there was a charge for warranty costs of £3.6 million compared to a charge of £1.8 million in fiscal 1997. The increase in the warranty provision in fiscal 1998 was as a result of an extended warranty being offered to certain customers and the introduction of a new range of products for which the incidence of warranty was uncertain. In fiscal 1998, £1.6 million of the warranty provision brought forward at July 1, 1997 was utilized.

The discontinued operations reported an operating profit before royalties and amortization of £18.3 million in fiscal 1998 compared to an operating profit before royalties and amortization of £16.7 million in fiscal 1997, an increase of 9.6%. Profits increased primarily as a result of a £9 million, or 11%, increase in revenues and an improvement in the gross margin. In addition, there was a license charge in fiscal 1998 consisting of a £14.4 million royalty payable by us to a subsidiary of News Corporation. In fiscal 1997, the royalty was £13.2 million. In addition, in both fiscal 1998 and 1997, there was goodwill amortization of £0.9 million. The goodwill arose on the acquisition of the business and assets of this segment from NTL in fiscal 1996. After these charges there was an operating profit in fiscal 1998 of £3.0 million compared to an operating profit of £2.6 million in fiscal 1997.

Profit On Ordinary Activities Before Taxation

We moved to a profit on ordinary activities before taxation of £0.7 million in fiscal 1998 from a loss of £2.8 million in fiscal 1997. Net interest payable decreased to £10.4 million from £11.1 million due principally to £40 million of cash flow from operating activities.

Taxation

NDS, including the discontinued operations, incurred a taxation charge of £0.5 million in fiscal 1998. This compared to a credit of £0.3 million in fiscal 1997. The tax credit in fiscal 1997 arose as a result of the loss before taxation of £2.8 million. This represented an effective tax rate of 28% in fiscal 1998 compared with a U.K. corporation tax rate of 31%.

Recent Developments

Since June 30, 1999 we have continued to see healthy growth in the subscriber bases of our customers and we have continued to trade in line with expectations.

We have announced a number of new contracts, including our first digital conditional access system in the U.S. cable market for Cablevision Systems Corp. We have also been awarded a contract for the provision of a broadcasting system including conditional access for Madritel in Spain, a digital cable television company. We have also signed an agreement with QVC The Shopping Channel to design and implement an interactive home shopping service based upon our *Value@TV* technology. On August 13, we also renewed our conditional access services agreement with DIRECTV for a further four years.

Foreign Exchange and Inflation

Foreign Exchange

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

Substantially all of our revenues are denominated in either pounds sterling or U.S. dollars, depending on the location and preference of the customer. In fiscal 1999, revenues of £90 million (representing 70.5% of total revenues) were denominated in U.S. dollars (fiscal 1998, £68.1 million (67.3%); fiscal 1997, £55.6 million (62.4%)) and almost all the remainder was denominated in pounds sterling. The growth in the percentage of revenues denominated in U.S. dollars reflects our sales to customers outside of the U.K. and the growth of revenues from DIRECTV.

A proportion of our operating costs and cost of goods sold is also denominated in U.S. dollars, principally our Israeli and U.S. operations and the purchase of computer chips and smart cards. In fiscal 1999, costs of £71.5 million (65.7% of total costs) were denominated in U.S. dollars (fiscal 1998, £54 million (57.9%); fiscal 1997, £52.7 million (63.3%)). The reduction in the proportion of dollar denominated costs to total costs in fiscal 1998 compared to fiscal 1997 and fiscal 1999 reflect the lower proportion of conditional access revenues out of total revenues in fiscal 1998 and the resulting reduction in cost of good sold. We also pay for purchases from a number of suppliers in Deutsche marks, which in fiscal 1999 amounted to £10.5 million, or 9.6% of total costs.

All material transactions of our Israeli subsidiaries are denominated in U.S. dollars. All material contracts with Latin American and Asia-Pacific customers are denominated in U.S. dollars. Such customer payments may from time to time be subject to locally imposed exchange controls.

As a result of the foregoing, we are exposed to fluctuations in the pound sterling versus U.S. dollar exchange rate and each of those currencies versus the Deutsche mark. We do not currently engage in hedging transactions in respect of currency fluctuations as any hedging is undertaken by our parent company at a consolidated level. We had foreign exchange gains of £1.6 million in fiscal 1999 (fiscal 1998, loss of £2.4 million; fiscal 1997, loss of £1.9 million). We may enter into foreign currency exchange rate contracts in the event of any future material mismatch of foreign currency cash flows.

We intends to make investments in facilities and equipment in fiscal 2000, the equivalent of approximately £3.4 million of which, at current exchange rates, is expected to be denominated in U.S. dollars.

European Economic and Monetary Union

European Economic and Monetary Union commenced on January 1, 1999, in the eleven member states of the European Union which satisfy the convergence criteria set forth in the Maastricht Treaty and elected to participate at that stage. As a result, on January 1, 1999, (1) exchange rates in the Member States became irrevocably fixed, (2) the euro, a single currency intended to replace the national currencies of the Member States was introduced, and (3) authority for conducting monetary policy for the Member States was transferred to the European Central Bank. Full implementation of European Economic and Monetary Union will occur over a three-year transitional period, during which time both the euro and the national denominations of the Member States will exist side by side. Although the U.K. Government has stated that the U.K. may wish to join the single currency at a later date, the U.K. Government has opted out from European Economic and Monetary Union at this stage. Accordingly, the U.K. was not a participant on January 1, 1999 and the pound sterling was unaffected on January 1, 1999.

As substantially all of our revenues and the majority of our expenses are denominated in currencies of countries not currently participating in European Economic and Monetary Union, we do not anticipate a significant level of euro-denominated transactions in the period following January 1, 1999. In addition, because the pound sterling was unaffected by the implementation of the European Economic and Monetary Union on

January 1, 1999, we will continue to record and report our business transactions in pounds sterling. We believe that the introduction of the European Economic and Monetary Union and the euro have not had, and are not expected to have, a material adverse effect on our operating results or financial condition. If and when the U.K. does participate in the euro, there can be no assurance that the cost of ensuring that our U.K. operations are euro compliant will not have an adverse affect on our operating results and financial condition.

Inflation

Inflation has not had a significant impact on our results of operations during the three year period ended June 30, 1999.

Seasonality

Our business is subject to seasonal fluctuations in our customers' markets. Broadcasters typically aim to achieve new channel or service launches in the autumn or spring periods to coincide with demand in their markets and consequently integration, development and license fee revenues tend to be linked to these cycles. Smart card sales and set-top box royalties depend upon the marketing campaigns of our customers and this has led to stronger periods in the first half of each fiscal year. Significant conditional access revenues are generated from customers who pay for their smart cards when a changeover takes place.

Liquidity and Capital Resources

Throughout the period under review our funding has been provided either directly or indirectly by News Corporation in the form of share capital and intercompany loans. We have participated in News Corporation banking facilities, whereby overdrafts and cash balances are aggregated. We have paid interest on our loans from News Corporation at commercial rates.

In fiscal 1999, net cash flows from operating activities moved to a cash outflow of £25.3 million compared to a cash inflow of £39.7 million in fiscal 1998. This is as a result of collecting conditional access revenues related to the maintenance of security of customers conditional access systems in 1997 and 1998 in advance of the need to purchase and process the volumes of replacement smart cards. These changeovers took place in fiscal 1999. In addition stock increased by £15 million and receivables by £31.9 million at June 30, 1999 compared to June 30, 1998. This reflects the decision to increase stock in order to shorten lead-times in the digital broadcasting business and the build-up of smart card components in response to increased customer orders. The increase in receivables is a result of the strong sales in the last two months of fiscal 1999 relating to smart cards and compression products. Days sales outstanding increased from 64 days at June 30, 1998 to 100 days at June 30, 1999. The increase in days sales outstanding resulted from commercial agreements to extend the payment terms for certain customers for a short period. Two of these agreements were with related parties; we allowed BSkyB to defer a payment of £9.4 million and Innova SdRL to defer a payment of £0.5 million which were due before June 30, 1999 into fiscal 2000. Both these amounts have now been paid and the payment terms under these contracts have reverted back to the standard contractual terms of between 30 and 60 days.

At June 30, 1999, we owed News International £131.2 million pursuant to our term loan agreement with News International. The loan is repayable on June 29, 2001 and carries interest at sterling 12 month LIBOR plus 1.75%, payable quarterly.

At June 30, 1999 and June 30, 1998, we had both net current liabilities and negative shareholders equity. These positions derive from the methodology of funding of NDS used by News Corporation, reflecting our position as a wholly-owned subsidiary of News Corporation. NDS has benefited from access to News Corporation funding as required and has always been able to meet its liabilities as they fall due. This offering will provide resources to reduce the net debt, and together with the sale of the digital broadcasting business, will result in a net equity position.

Immediately following the closing of this offering and the application of the net proceeds, we will owe approximately £63.5 million to News Corporation or its subsidiaries, or approximately £50.6 million if the underwriters exercise their option to purchase additional ADSs in full.

We made capital expenditures, net of grants receivable, of £13.5 million in fiscal 1999, £14.8 million in fiscal 1998 and £19.7 million in fiscal 1997. These figures include expenditures for our digital broadcasting business. Our board of directors has authorized a further £6 million in fiscal 2000 for various projects. We expect to finance these expenditures out of cash flow or through short-term borrowings from News Corporation.

We cannot predict with certainty the extent to which internally generated cash flows will be sufficient to satisfy future capital requirements. Therefore the amount of required capital and the availability of additional financing cannot be determined at this time. However, capital requirements in the next twelve months will be funded out of internally generated cash flow or short-term borrowings from News Corporation. Sources of additional capital may include debt and equity financing. However there can be no assurance that additional debt or equity financing will be available to us on acceptable terms or at all.

U.S. GAAP Reconciliation

Our financial statements are prepared in accordance with U.K. GAAP which differs in certain respects from U.S. GAAP. For the years presented, there were differences between U.K. GAAP and U.S. GAAP which resulted in adjustments to net income and shareholders' equity. In addition, differences existed which related to the presentation or classification of amounts within the financial statements, including the presentation of the discontinued operations and the format of the statement of cashflows. The effects of all these differences are set out in Note 28 of the notes to our consolidated financial statements.

Accounting standards and pronouncements which come into effect subsequent to June 30, 1999 include Financial Reporting Standard ("FRS") 15 "Tangible Fixed Assets" under U.K. GAAP and SFAS 133 "Accounting for Derivative Investments and for Hedging Activities" under U.S. GAAP. Compliance with these standards, to the extent that it is not already achieved, will be ensured in future periods. The main impact is likely to result in additional disclosures being made in the financial statements. We expect minimal disclosure impact from SFAS 133 because NDS has no instruments that fall within its scope. In addition, compliance with those standards which apply to entities with listed securities only, including FRS 13 "Derivatives and Other Financial Instruments: Disclosures" under U.K. GAAP will be ensured where appropriate.

As disclosed in Note 7 of the notes to our consolidated financial statements, we have granted employee options which, upon the closing of this offering, will become exercisable, subject to vesting. Of the 3,121,791 options which will be outstanding upon the closing of the offering, 1,192,839 options will be immediately exercisable. For 180 days, any Series A ordinary shares issued to our directors or executive officers on exercise of any such options will be subject to the lock-up arrangements described under "Shares Eligible for Future Sale —Lock-Up Arrangements." It is estimated that, under U.S. GAAP, compensation expense of $12.5 million (£7.6 million) will be recognized at the time of this offering. Under U.K. GAAP, it is expected that such options will have no impact on profit. As the remaining options become vested and therefore exercisable in future periods, there will be further compensation expense under U.S. GAAP. This further expense is not yet fixed due to potential fluctuations in the intrinsic value of those options which were granted but unvested as at the time of the offering since the options will be marked to market for the purposes of calculating that intrinsic value. Based upon the intrinsic value as at the time of the offering, this future compensation cost (translated at the average exchange rate for the year ended June 30, 1999 of £1 equals $1.6417) will be recognized as follows:

	$	£
Offering date to June 30, 2000	1,725,229	1,050,880
Year ending June 30, 2001	1,475,836	898,968
Year ending June 30, 2002	542,975	330,739
Year ending June 30, 2003	119,837	72,996

In future periods, differences between U.K. GAAP and U.S. GAAP could significantly impact net income and shareholders' equity, specifically with respect to differences in accounting compensation costs in respect of employee options discussed above.

Year 2000

We are currently working to resolve the potential impact of the Year 2000 on the processing of date sensitive information by our computerized information systems. Many correctly installed computer systems, software products and processor based hardware products are coded to accept or generate two digit year entries in date fields. Consequently, on January 1, 2000, many of these systems and the systems they are connected to, could fail or malfunction because they may not be able to distinguish 21st century dates from 20th century dates. As a result, computer systems, software and processor based hardware products used by many companies, including us, our customers and our potential customers, may need to be upgraded to comply with such "Year 2000" requirements.

We have developed and implemented a company-wide program to identify and remedy the Year 2000 issues. We commenced Year 2000 work in 1997 in some parts of the group, and the company-wide program was begun in February 1998. The scope of our company-wide program includes the review and evaluation of:

- our IT systems such as hardware and software utilized in the operation of our business;
- our non-IT systems or processor embedded technology such as micro-controllers contained in various equipment, smart cards and facilities;
- the readiness of key suppliers and third-party equipment supplied to our customers in systems; and
- our standard and customized range of products.

We are using as the basis for our certification program the criteria contained in the British Standard Institute (BSI) PD-2000-1 standard. This standard defines two levels of compliance:

- "Year 2000 Compliant," which qualifies the system as fully compliant to all of the specified requirements, and
- "Year 2000 Compliant With Reservations," which qualifies systems as compliant in principle although certain minor problems or limitations may persist.

In our compliance program a number of systems have been classified as "Year 2000 Compliant With Reservations." Based on our close examination of these minor problems or limitations, we believe that they will not have a material impact on our operations or the systems that we supply to our customers.

We have inventoried and conducted a program of remedial work to our principal information systems and believe that with certain known exceptions that they are Year 2000 Compliant. The exceptions were the subject of the ongoing company-wide program. We have, however, completed our remedial work for these systems. Because we and our customers are substantially dependent on the proper functioning of our computer systems, if that remediation work is not effective in remedying these Year 2000 issues, our operations could be materially disrupted which could seriously harm our business.

We have audited or tested our products to determine if they are Year 2000 Compliant. For our standard products, the results of the audits and tests have been compiled and sent to our customers. For these standard Year 2000 Compliant products we have issued a limited guarantee. For customers of our customized conditional access systems, we have conducted a customer update program.

In addition to the individual product actions, we have constructed a system from a number of our Year 2000 Compliant products together with a number of third party products declared by their suppliers to be Year 2000 Compliant. We operationally tested these together for Year 2000 compliance for a limited set of dates after December 31, 1999. The tested products performed in a Year 2000 Compliant manner together as expected. Any failure of our audits or tests to identify any Year 2000 related problems could result in products which are not Year 2000 Compliant and could result in financial loss, harm to our reputation and liability to others and could seriously harm our business.

The Year 2000 problem may also affect third-party software products that are incorporated into our products. We have reviewed the use of third-party products and any issues where they are Year 2000 Compliant with Reservations. However, for some products there are rapid changes, introduced by the supplier, such as the addition of operating system patches, which may or may not be necessary for the Year 2000 Compliant operation of a software product using it. We do not guarantee or certify that the software licensed by these suppliers is Year 2000 Compliant. Any failure by third parties to provide Year 2000 Compliant software products that we incorporate into our products could result in financial loss, harm to our reputation and liability to others and could seriously harm our business.

Although we have taken steps to contact customers we do not have extensive information regarding the overall Year 2000 readiness of our customers. Our current and potential customers may incur significant expense to achieve Year 2000 compliance. If our customers are not Year 2000 compliant, they may experience material costs to remedy problems, or they may face litigation costs or lost revenue costs.

Because our Year 2000 compliance work is part of ongoing system upgrades, we have funded our Year 2000 program from operating cash flows and have not separately accounted for these costs in the past. With the exception of our testing program, these costs have not been material to date. For our testing program, we have incurred costs as of June 30, 1999 of £0.4 million. We anticipate future Year 2000 costs to complete our preparations to also be funded in the same way. Although we currently do not expect future Year 2000 compliance costs to be material, we may experience material problems and costs with Year 2000 compliance which could seriously harm our business, including:

- Operational disruptions and inefficiencies for us, our customers and our vendors, that will divert managements time and attention and financial and human resources from ordinary business activities;
- Business disputes, warranty and pricing claims by our customers some of which could result in litigation or contract termination; and
- Harm to our reputation to the extent that our customers products, whether supplied by us or not, experience interruptions or errors.

The worst case scenario for Year 2000 problems for us would be to cease normal operations for an indefinite period of time while we attempted to respond to Year 2000 problems in our internal systems and our products. Although it is not fully developed, we are in the process of developing our Year 2000 contingency plan to address situations that may develop if products and systems are not fully Year 2000 compliant. We expect to complete our Year 2000 contingency plan in advance of December 31, 1999.

Quantitative and Qualitative Disclosures About Market Risk

Market Rate Sensitive Instruments and Risk Management

The following discussion summarizes the financial instruments we held at June 30, 1999, which are sensitive to changes in interest rates or foreign exchange rates. We do not have significant exposures to other forms of market risk, including commodities risks. We have not historically hedged such exposures, as a result of our relationship with News Corporation. As a result, we held no derivative instruments at June 30, 1999 or at June 30, 1998. Following the closing of this offering, we expect to adopt a hedge policy, which may provide for the use of derivative financial instruments in the future to manage our risks.

Interest Rate Risk Management

Our exposure to interest rate fluctuation arises from certain of our variable rate short-term and long-term intercompany debt. The long-term debt instrument payable to News International is repayable on June 29, 2001 and carries interest at sterling 12-month LIBOR plus 1.75%, payable quarterly. Early repayments can be made against the loan at the discretion of management. The short-term debt instrument payable to News International is payable on demand and carries interest at sterling 3-month LIBOR plus 1%. Based on the June 30, 1999 balances of such short-term and long-term borrowings totalling £154,489,000, a 1% hypothetical increase in interest rates would cause finance charges to increase, and profit (loss) on ordinary activities before taxation to decrease, by approximately £1,544,890.

Foreign Currency Exchange Risk

Our exposure to foreign currency exchange rate fluctuations arises because we have revenues and purchases denominated in currencies other than pounds sterling. In fiscal 1999, revenues of £90 million were denominated in U.S. dollars. Also in fiscal 1999, costs of £71.5 million and £10.5 million were denominated in U.S. dollars and Deutsche marks, respectively. We had no significant financial instruments denominated in foreign currencies at June 30, 1999 or at June 30, 1998.

BUSINESS

About NDS

We are a leading provider of conditional access systems to digital satellite and cable pay-television broadcasters. We also provide broadcast control software and related products and services to pay-television and data broadcasters.

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 programs and information and to protect content from signal theft. Our systems allow our customers to charge their subscribers for access to content through a variety of pay-television channels, pay-per-view events and interactive services. The conditional access systems that we provide include software that is installed at the broadcasters' facilities as well as software and smart cards in 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 authorized 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. 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 without requiring replacement of all of its subscribers' set-top boxes.

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.

Our systems assist broadcasters both in their basic operations and in the development and implementation of value added services from which broadcasters can derive additional revenues. We believe that these services will become increasingly important in the future, as broadcasters will need systems that integrate multiple sources of programming and content, have the capacity to make the viewing process increasingly interactive, monitor the content viewed by individual subscribers and create viewer profiles to assist in targeted marketing activities.

Since the commencement of operations in 1989, we have concentrated on providing systems and software to major broadcasters worldwide. Our customers include the leading broadcasters DIRECTV in the U.S., the world's largest digital satellite broadcaster, and British Sky Broadcasting Group plc ("BSkyB") in the U.K., one of the largest digital satellite broadcasters in Europe, as well as a number of the digital satellite broadcasters in Latin America, and a number of broadcasters in the Asia-Pacific region. We are a leading supplier of conditional access systems in a number of market segments, including digital satellite television, in which we estimate that our customers' systems provide services requiring the use of our smart cards to over 40% of the world's subscriber base. In addition, over 20 manufacturers of consumer electronic devices, including television set-top boxes, have incorporated our technology in their products.

Market Opportunities

Television today is predominantly distributed using analog transmission technologies that limit the amount of programming that can be distributed at any one time to the viewer. Television broadcasting is currently undergoing a major transition from analog to digital broadcasting and transmission. Digital technologies will enable broadcasters to:

- provide viewers with more channels;
- package content into targeted channels;
- offer viewers a number of value-added services, including interactive applications;
- combine their program content with content from other information sources, such as the Internet; and
- move from broadcasting a single advertisement to all viewers to viewer-specific advertising.

The transition to digital is currently at an early stage. Of the approximately one billion television households throughout the world, fewer than 26 million television households are currently receiving programming by means of digital transmission. Digital television transmission commenced in the mid 1990's, initially in the digital satellite market through broadcasters such as DIRECTV and PrimeStar. According to Allied Business Intelligence, the pace of conversion is expected to accelerate significantly over the next seven years. By 2005, Allied Business Intelligence expects that 241 million television households will be receiving programming by digital transmission. Digital transmission technology has recently been introduced to cable television and terrestrial television systems. An increasing number of operators have or have announced the launch of digital services. In the U.K., the first national digital terrestrial system commenced operations in 1998. In the U.S., the Federal Communications Commission has mandated that by the year 2002, all U.S. viewers must have access to digital television transmissions, and by 2006, stations must cease their analog service.

We believe that the adoption of digital technologies will accelerate the convergence of previously distinct media, resulting in the development and commercialization of new services, including interactive services. A number of our broadcasting customers, such as BSkyB and DBS Israel, have introduced or will be introducing interactive services that will transform the television into an interactive multi-media resource in the home. Using these services, subscribers will be able to browse the Internet, engage in electronic commerce, conduct banking, view localized weather reports, or play interactive games on their televisions.

We expect that the shift to digital technologies will result in broadcasters relying to an increasing degree on revenues from subscribers in the form of subscription fees, charges for pay-per-view events, fees for value-added services and revenues from targeted viewer-specific advertisements and transactions. We also expect set-top box manufacturers to incorporate hard disk drives into digital set-top boxes, which will enable the set-top box to perform functions similar to those of a VCR. Viewers will be able to store programs of interest and watch them at their leisure or even alter the sequence of viewing in accordance with their individual preferences.

The economic opportunities made possible by digital technologies require systems which manage and control the broadcaster's relationship with the viewer and protect the broadcaster's programming content from unauthorized viewing.

Our customers operate in two principal markets, digital broadcasting and Internet/broadband networks. They are principally digital satellite and digital cable broadcasters and digital terrestrial broadcasters, which broadcast digital transmissions over-the-air. With the expected convergence of the Internet and broadcasting, we believe new markets for our products and services will develop.

The NDS Advantage

We are a leading systems supplier in the evolving digital television market as a result of (1) the integrity and sophistication of our software and systems, (2) our experience in meeting the needs of broadcasters worldwide and (3) our reputation as a leading supplier of conditional access systems. We believe that our leadership is due to the following factors:

Scope and quality of our software solutions. We offer our customers a broad range of conditional access and broadcaster head-end control software which can be tailored to our customers' specific requirements. Our systems are open and modular, and compatible with all significant international standards. We have implemented a rigorous software development and testing program. As part of our commitment to the quality of our systems, we have created test facilities which simulate the operating environments of some of our large customers. We use these facilities to thoroughly test our systems prior to releasing them to these large customers. In addition, we devote significant resources to ensuring the interoperability between our systems and the other broadcasting systems used at our customers' head-end facilities.

Track record of innovation We have consistently offered our customers innovative products and services, including the first commercially-adopted smart cards used to decrypt television signals, the first digital conditional access system capable of supporting millions of subscribers and the first data broadcasting system fully integrated with digital video and conditional access. These innovative products and systems are largely based upon our proprietary technology. We have and continue to invest significantly in our research and development efforts.

Broad industry knowledge. We have developed a unique global customer base. Our access to broadcasters and content providers located in different parts of the world and operating on different platforms has provided us with a wide range of experience, allowing us to respond effectively to our customers' evolving system needs.

Our Strategy

Our primary strategic objective is to retain our position as a market leader in the development, implementation, supply and support of conditional access and related management and control systems for the distribution of entertainment and information to televisions and personal computers.

We intend to accomplish this strategic objective through the following key initiatives:

Endeavor to be the provider of choice to new broadcasters as well as established operators making the transition to digital broadcasting. Through our leadership in introducing a number of technological innovations in the conditional access technology market, we have established a significant portfolio of prominent customers, including some of the world's largest digital satellite broadcasters. Our goal is to obtain as customers a significant percentage of new pay-television broadcasters, including broadcasters transitioning from analog systems, and to grow with them. We actively identify and pursue opportunities to provide our services to new entrants in the digital broadcasting industry, including digital cable, digital terrestrial and data broadcasters. Our intention is to assist such broadcasters in designing, integrating and implementing their initial systems, and to continue to meet their needs as they grow.

Assist our existing customers to expand their businesses. We intend to continue to place significant emphasis on our close working relationships with existing broadcasting customers. In cooperation with us, many of our customers are expanding into new technologies, enabling them to offer interactive and transaction-oriented value added services, including interactive advertising, shopping at home, loyalty programs and other multimedia services.

Capitalize on new market opportunities. We intend to use our expertise and industry relationships to enable us to anticipate and adapt to developments in the broadcasting industry. We intend to continue to be prominently involved in the development and application of new technologies and standards for the distribution of entertainment and information, including the development of interactive consumer applications, such as home shopping by television. In addition, we expect to continue to create new products to serve these emerging technologies, such as *Value@TV*, our family of software tools for developing interactive services using our conditional access systems; and *xTV*, our software for managing broadcast materials stored in the digital set-top box.

Maintain our technological leadership though our commitment to research and development. In order to achieve our current leadership, we have invested heavily in research and development in the core areas of cryptography, data security and smart card technology. We have also invested in the research and development of the technology underlying broadcasting control systems for video and data. In fiscal 1999, approximately 28% of our revenues and approximately 33% of our employees were devoted to research and development. We will continue to devote substantial resources to research and development in the future in order to improve our current products as well as to develop new technologies.

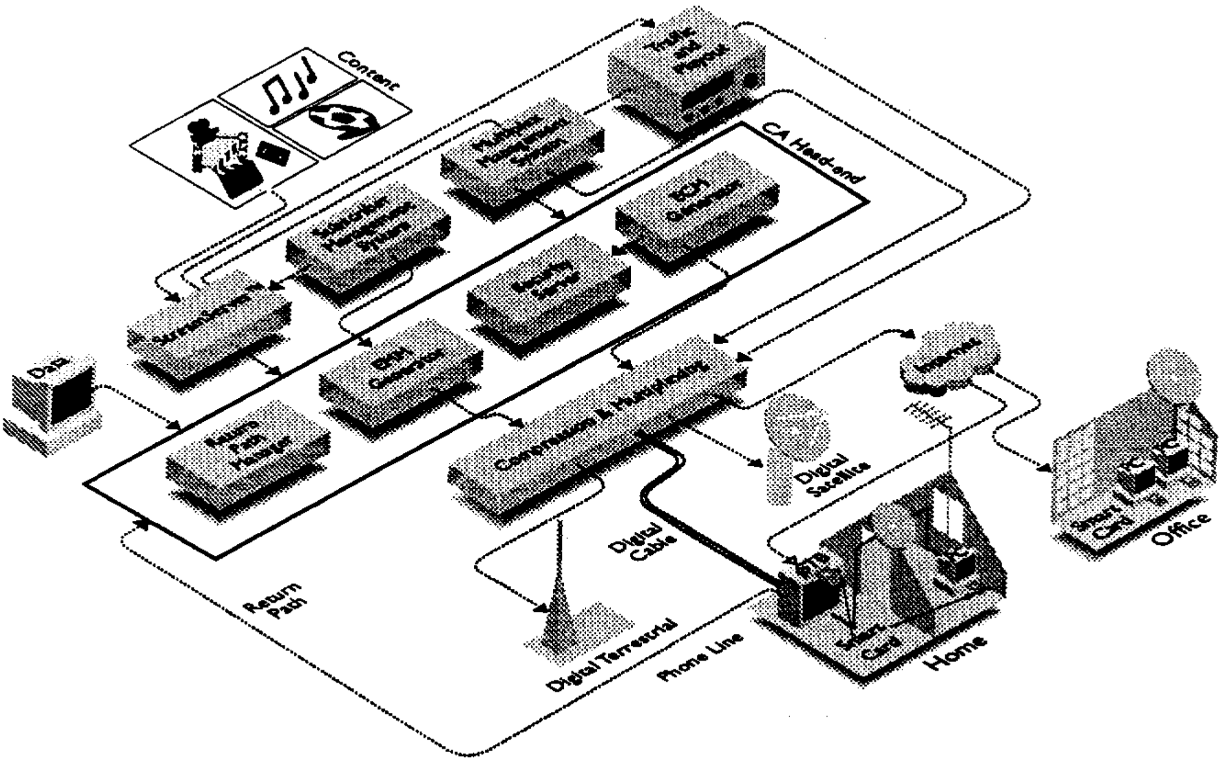
Strengthen and develop our industry alliances. An increasing number of companies are actively participating in the business opportunities afforded by the convergence of the broadcasting, telecommunications, information, entertainment and computer industries. We have endeavored to develop alliances with major players in relevant sectors, including

- OpenTV, Inc. and Liberate Technologies in the development of set-top boxes and related software;
- Intracom S.A., Gilat Communications Limited and BroadLogic, Inc. in connection with data broadcasting; and
- Banca Nazionale del Lavoro S.p.A. and Saras S.p.A. in the area of Internet authentication and security.

In the future, we expect to expand both the number of companies with which we are working, and the scope of the initiatives we seek to explore with them.

How Our Conditional Access Systems Operate

NDS Conditional Access System Architecture



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 broadcasters 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 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 charging information.

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 authorized 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 programs 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 scramble the program material. The scrambled program material and the program 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 passes the scrambled program material portion of transmission stream to the subsystem in the set-top box responsible for descrambling. In parallel, the conditional access software in the subscribers' set-top box passes the program 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 program guide software application in the set-top box processes the program information contained in the transmission stream and provides an on-screen listing of programs available to the subscriber.

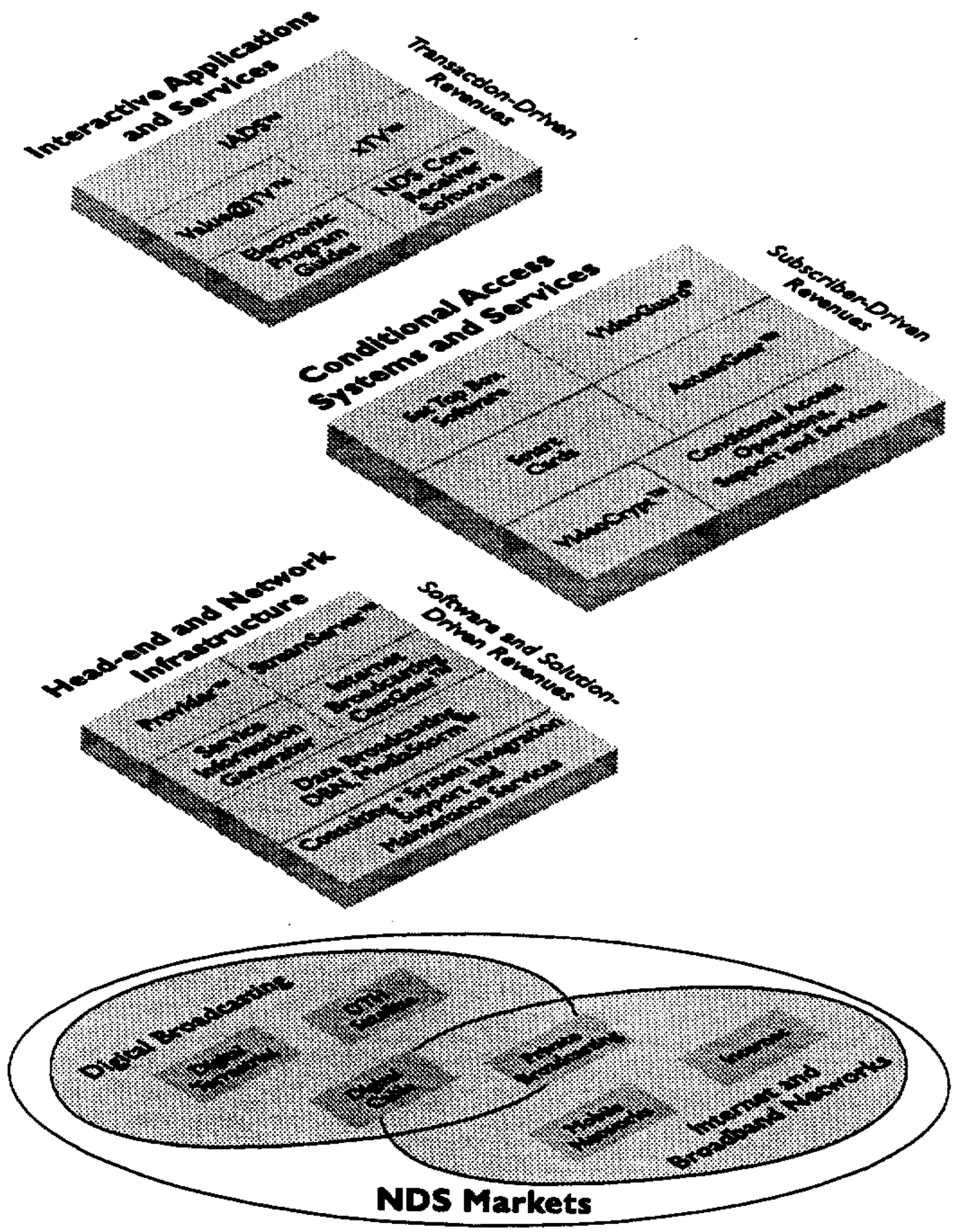
When a subscriber tunes to a program, the program information is checked against the subscriber's viewing entitlements. If the subscriber is entitled to view the program, the smart card generates the codes necessary to descramble the content and permit the subscriber to view the program. If the subscriber decides to watch a pay-per-view program, the smart card generates the viewing entitlement and the purchase is securely recorded on the smart card. Periodically, the set-top box automatically calls the conditional access system at the broadcaster's head-end using the subscriber's telephone line. The set-top box downloads the stored pay-per-view purchase information to the return path manager component of the conditional access system which reformats the information and then sends the reformated 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;
- head-end and network infrastructure software and services; and
- interactive applications and services.

NDS Product Family



Conditional Access Systems and Services

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

- license 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's 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 a smart card replacement.

VideoCrypt™

Our first conditional access product was *VideoCrypt*, a system developed jointly with Thomson Consumer Electronics and first used for BSkyB's analog broadcasting service in 1989. This system was based on the use of a removable smart card in the subscriber's set-top box. Today, approximately 2.3 million subscribers are using this system. 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 transitioned its analog subscribers to Sky digital by December 31, 2002 at the latest.

VideoGuard®

We first supplied our *VideoGuard* conditional access system for digital broadcasting services to DIRECTV in connection with their 1994 launch in the U.S. The *VideoGuard* family of products is compatible with all internationally accepted digital television transmission standards. Over 20 major consumer electronics vendors worldwide include *VideoGuard* technology in their set-top boxes, including 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 program packaging features, including providing content in multiple subscription services, flexible pricing of services in tiers and video-on-demand. Moreover, it supports different modes of pay-per-view operation, such as:

- 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 center; and
- impulse pay-per-view, permitting a subscriber to order pay-per-view programming directly from the electronic program guide for instantaneous viewing.

Both 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 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, customized versions of *VideoGuard* are used by major broadcasters, including DIRECTV worldwide, BSkyB, NetSat and Innova. It provides unique features for each broadcaster, including multicurrency impulse pay-per-view, and 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 broadcaster's systems and integrates with equipment purchased from third-party vendors.

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 and based on Windows NT platforms instead of the UNIX servers which most broadcasting systems currently use. This new system will be fully integrated with our interactive 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 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 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 signal theft 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, unauthorized 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 for each of our large customers, if one of our large customer's system suffers a security failure, such failure may not affect our other large customers.

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

- Smart cards are designed and manufactured under strict security conditions, 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 readily 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 subscriber's smart cards in order to upgrade security. We use these periodic replacements as an opportunity to implement more sophisticated technology in the new generation of smart cards.
- We monitor signal theft activity, and work with broadcasters and law enforcement officials to detect and prosecute instances of signal theft.

Smart Card Processing and Distribution.

We currently procure, process, test and distribute smart cards from two facilities, one in the U.K. and one in the U.S., which together are capable of processing up to 40 million cards per year. In fiscal 1999, we distributed approximately 10.5 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.

AccessGear™

We have developed the *AccessGear* product to address the security needs for Internet-based communications and transactions. Through the use of smart cards, *AccessGear* allows users to prove their identity when communicating over public networks. *AccessGear* also enables the secure execution of e-commerce transactions over the Internet by attaching a secure digital signature to each transaction. *AccessGear* utilizes a number of advanced encryption methods, including Public Key Infrastructure (PKI).

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 to our customers for one-time licensing fees that may vary, depending on its scale and complexity. In addition, we provide system design, customization and systems integration services, for which we charge either a fixed price or on a time and materials basis. We also provide ongoing support and maintenance services for these products.

Our main products in this business area are:

Provider™

Provider is a subscriber management system which manages the authorization and billing of pay-television and other services to a 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 from other companies. *Provider* enables the broadcaster to manage a number of critical tasks, including:

- 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. *Provider* supports interfaces with the Internet, enabling the subscriber to obtain current account status information.

StreamServer™

StreamServer is the central system that co-ordinates the information flow and exchange between the various systems at the broadcasters' facilities, such as the subscriber management system, the programming play-out systems and the conditional access systems. It also manages the broadcasters' 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 television channels of a multiplex in order to maximise its efficient use instead of providing a fixed bandwidth for each channel.

We can also link together *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. Our service information generator software system 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 program guide application in the subscriber's set-top box to provide up-to-date program 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 program 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 transition smoothly from *MediaStorm* to *DBN* without requiring any change in the end-user's PCs hardware or software.

CastGear™

Although most Internet communications today are point-to-point, that is, from a server to a single receiver, a recently adopted family of IP multicast protocols will allow broadcast-style transmissions to a number of recipients over the Internet. This simultaneous broadcasting of content to a number of Internet users is known as multicasting. *CastGear* provides security for the multicast distribution of content and can be integrated with any multicast-enabled application. *CastGear* provides authentication of multicast source and recipients, data integrity, authenticity, secrecy and accountability for multicast content distribution and consumption when used in combination with our smart cards. *CastGear* protects multicast systems against security threats by encrypting the content transmitted over the Internet. It also provides tools to manage the security characteristics of the multicast content, the security attributes of receiving users and the easy distribution and maintenance of decryption keys. *CastGear* is designed for corporations, data broadcasters, content providers, multicast service operators and Internet service providers who want to secure their multicast content distribution.

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 our customers 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, including BSkyB and DIRECTV, 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.

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 mass customization 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 utilize our conditional access system capabilities for implementing interactive viewer applications, as follows:

Electronic Program Guides

An electronic program guide is an on-screen guide to the programs and services available to subscribers. The electronic program 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 program schedule information, store favorite channels, adjust set-top box settings and, in some applications, purchase current and future pay-per-view events.

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

NDS Core Receiver Software

We supply broadcasters with *NDS Core*, a low-cost entry-level operating system for digital set-top boxes, which includes a simple electronic program guide. *NDS Core* has recently been enhanced as a second-generation system to support the display of specially formatted Internet web pages on television sets and complex character sets such as Chinese. *NDS Core* has been implemented in over a million set-top boxes, and is now supported by a number of manufacturers, including Pace, Philips, Advanced Digital Broadcast Limited and NTC. It supports digital satellite, cable and terrestrial set-top box variants.

Value@TV™

Value@TV is our system of software tools that can be used to develop interactive applications that 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 to be later transmitted to the broadcaster.

We also offer to our customers specific interactive applications based on our *Value@TV* technology. For example, we are currently developing a system for QVC/The Shopping Channel U.K. that allows its viewers to purchase an item by pressing a button on his or her remote control while the product is being promoted on the home shopping channel the viewer is watching. In addition, we have supplied BSkyB with its recently launched *SportsActive* feature, which allows the viewer 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.

xTV™

We are currently developing *xTV*, which is intended to extend the television viewing experience offered by large-storage digital set-top boxes. The *xTV* software in the set-top box uses a viewer profile to search for programs of special interest to the subscriber. The *xTV* software automatically scans electronic program guides and selects programs that are subsequently recorded on the hard disk which is integrated into the set-top box. These stored programs can then be viewed by the subscriber at his or her convenience.

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 or receive loyalty coupons issued by the advertiser.

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 utilized 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 unauthorized 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 authorization, 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 programs 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.

Digital Satellite Television

The digital satellite market was the first to adopt widely a pay-television business model utilizing digital transmission technologies. DIRECTV was the first large-scale digital satellite broadcaster when it commenced its broadcasting operations in 1994 in the U.S. According to a recent study by The Strategis Group, an independent market researcher, the worldwide satellite pay-television market at the end of 1998 consisted of approximately 30 million subscribers, approximately 9 million of which were located in the U.S. Allied Business Intelligence projects that satellite market will grow to approximately 95 million by 2005. We currently supply conditional access systems to digital satellite broadcasters which have over 13 million subscribers, representing over 50% of the worldwide subscriber base. Although we are suppliers to many of the world's largest digital satellite broadcasters, including DIRECTV and BSkyB, 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 experience from our existing digital satellite customers will derive from increases in their subscriber numbers.

Digital Cable Television

According to The Strategis Group, there were approximately 182 million cable subscribers worldwide in 1998, of whom only a small percentage are receiving digital cable services. 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. According to the Allied Business Intelligence report, the U.S. digital cable market alone is expected to grow from approximately 3.3 million subscribers in 1999 to over 29 million in 2005.

In the U.S., 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 working with CableLabs, the U.S. digital cable industry standards body that developed the OpenCable standard, in the development of test systems for digital cable markets. We have recently 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 shortly.

Digital Terrestrial Television

The digital terrestrial market is relatively new, with only a few operators in the U.S., U.K. and Scandinavia. In many parts of the world, we anticipate that 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.

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 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 bandwidth content to many PCs simultaneously. It offers an inexpensive high bandwidth delivery path. DTT Consulting estimates the market for satellite-based high-speed Internet access alone at between 24 and 84 million connections, and that data broadcast satellites will have an addressable end-user market of between 5% and 15% of all high-speed Internet access links going to the home or business. 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.

Network Authentication

According to Frost & Sullivan's 1999 report on U.S. Network Authentication Markets, the U.S. market for public key infrastructure hardware tokens that also include smart cards will grow from $240 million in 1998 to approximately $1.2 billion in 2005. We believe that our encryption and smart card technologies will allow us to capitalize on opportunities in this emerging market.

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 are expected to enable broadcast-style transmissions across the Internet.

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 News Corporation has an interest. The News Corporation related broadcasters directly accounted for 42% and 55% of our revenues from continuing operations in fiscal 1999 and fiscal 1998, respectively.

Some of our customers are:

BSkyB	DIRECTV Japan	NetSat
British Telecom	Foxtel	Reuters
Cablevision	Galaxy Latin America	Shinawatra
Cyberstar	Innova	Sky New Zealand
DBS Israel	Madritel	STAR TV
DIRECTV	Matav	QVC The Shopping Channel

Examples of relationships with some of our customers are outlined below:

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 June 10, 1999, DIRECTV U.S. subscribers were using approximately 6.8 million smart cards that we have supplied. With its recent PrimeStar acquisition, DIRECTV has added approximately 2 million subscribers. Over the next 18 months, DIRECTV will offer to migrate all of PrimeStar's subscribers to DIRECTV's high-power satellite service which uses our conditional access systems. We provide the conditional access system, smart cards, system support, maintenance and upgrade services and license certain of our technology to related set-top box manufacturers. We also provide packaging and mailing services for the direct distribution of the smart cards to DIRECTV's subscribers. On August 13, 1999, we signed a new four-year agreement with DIRECTV U.S. which provides for ongoing systems supply and support, smart cards and various other services. In fiscal 1999, our direct revenues from DIRECTV U.S. were $45 million, or 22% of our total revenues from ongoing operations.

BSkyB. BSkyB operates the largest pay television network in the U.K. and Ireland. Its analog service was launched in 1988 and as of June 30, 1999 had approximately 2.7 million analog satellite subscribers. BSkyB launched Sky digital, its digital service, in 1998. BSkyB has stated that it aims to have transitioned its analog subscribers to Sky digital by December 31, 2002 at the latest. As of June 30, 1999, Sky digital had approximately 750,000 subscribers. 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 Program Guide, as well as the SportsActive interactive application. We also license the necessary conditional access technologies to all manufacturers of set-top boxes for BSkyB. In fiscal 1999, our direct revenues from BSkyB were £42.8 million which represented 26% of our revenues from ongoing operations.

Innova SdRL. 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 June 30, 1999, its subscribers were using approximately 400,000 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 program guide, and overall system support, maintenance and upgrades. In addition, we license to Innova's set-top box manufacturers *VideoGuard* conditional access and the *NDS Core* operating system.

NetSat Servicos Ltda. NetSat, a joint venture between Globo Communicaes 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 June 30, 1999, it's subscribers were using approximately 450,000 smart cards that we had supplied. We provide to NetSat broadcast management system software, the conditional access system, smart cards, an electronic program 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 the *NDS Core* operating system.

Galaxy Latin America. Galaxy is principally owned by General Motors' Hughes Electronic Corporation and local Latin American partners. Galaxy broadcasts digital satellite television services across Latin America. Having launched in 1996, Galaxy now broadcasts digital satellite services to several countries in Latin America, including Mexico, Brazil, Venezuela and Argentina. As of June 30, 1999, Galaxy subscribers were using approximately 900,000 of our smart cards. We have supplied Galaxy with the conditional access system, smart cards for all of their subscribers and system support and maintenance services. Further we license certain of our conditional access related technologies to all the manufacturers of set-top boxes used by Galaxy. We also manage the conditional access management center facility, on behalf of Galaxy, that is located at Long Beach, California. An additional agreement was signed with Galaxy in 1999 which provides for the development and supply of a next generation smart card for Galaxys customers that is expected to be deployed before the end of year 2000.

QVC The Shopping Channel U.K. Recently 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 U.K. QVC programming is received in over 6 million homes in the U.K. and Europe. The system will allow an interactive brochure to be broadcast providing an ability to browse the catalog to make purchase selections and to allow impulse buying from the catalog with telephone confirmation.

Cablevision. We have recently 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 shortly. Cablevision is currently the seventh largest analog cable television operator in the U.S. with approximately 3.3 million subscribers in the northeastern U.S. 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.

Joint Ventures and Business Alliances

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

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, to jointly 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.

Joint venture for the development of personal identification smart cards. In July 1999, we signed a memorandum of understanding with a subsidiary of Banca Nazionale del Lavoro S.p.A. and a subsidiary of Saras S.p.A. contemplating the establishment of a joint venture company in Italy. We anticipate acquiring 24.5% of the equity of Tecne S.r.l., the joint venture vehicle, in which we will have certain governance rights, including the right to designate certain members of the board of directors and of the management team. Tecne will develop and subsequently market smart card based solutions for the specific requirements of the Italian market in the areas of personal identification and network authorization. Tecne will utilize technology based on our *AccessGear* product.

Sales and Marketing

Our sales and marketing organization consists of sales account managers supported by technical sales specialists, technology consultants and marketing staff. Because our systems and solutions are often large-scale and cover a number of key business requirements for our customers, the time that elapses between making an initial proposal and the signing of a binding purchase agreement can range between 6 and 24 months. We sell our products and services primarily through a dedicated sales force and we maintain for this purpose sales and support offices at our headquarters in the U.K., in the U.S. and in a number of other countries. The sales and marketing organization currently consists of approximately 82 people globally; 60 are located at our headquarters in the U.K.; 10 are located in our offices in Hong Kong and Sydney; and 12 are located in the U.S.

In addition to our direct sales teams, we employ a small sales and marketing group aimed exclusively at generating indirect sales opportunities through establishing relationships and alliances with third-party system integrators and consultants. In certain situations, we establish relationships with business partners for developing jointly products and services that suit specific local country standards. For example, in China we have partnered with the Academy of Broadcasting Sciences and have co-developed a Chinese standard for conditional access products. We also utilize third-party resellers and agents for expanding our market and geographic coverage.

Our marketing groups are targeted to identify emerging market and customer opportunities around the world and to provide product and segment marketing support. In support of the sales efforts, our global marketing team conducts targeted marketing programs globally and in individual countries, including public relations, advertising, white papers, seminars and trade shows where we exhibit and arrange speaking engagements for our key personnel.

For our products that are focused on the Internet and broadband networks, we deploy business development managers who are specifically tasked to establish partnerships with other companies in this area in order to accelerate our pace of entry into these emerging markets.

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 ability to integrate with broadcasting equipment;
- the number of set-top box manufacturers that have integrated conditional access system 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 program guides and interactive services; 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, Irdeto B.V., a subsidiary of MIH Limited and Viaccess, a division of France Telecom, among others.

Our main subscriber management systems competitors include MIH Limited, Wiztec Solutions, Ltd., and CableData, Inc.

In the area of general broadcast system integration, we compete with other broadcasting infrastructure companies such as General Instrument Corporation, Scientific-Atlanta, Inc., Philips Electronics and Echostar Communications Corp.

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., Replay Networks, Inc. and WINK Communications are competing with us only in the area of interactive, set-top box based storage services.

Other competitors in the application domain include Liberate Technologies, OpenTV, Inc., WorldGate Communications Inc. and Power TV, Inc.

In the network authentication market, we compete against both large companies like Gemplus SCA and Schlumberger Limited, and smaller companies like SCM Microsystems, Inc.; Security Dynamics Technologies, Inc.; Litronic, Inc.; and DataKey, Inc.. In the area of secure multicast, our main competitors include companies active in the Internet multicast community including IBM and Intel Corporation.

Research & Development

We believe that our ongoing commitment to research and development enables us to retain a significant competitive advantage. For the year ended June 30, 1999, approximately 28% 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 210 engineers, or in our software development facility in Chilworth, U.K. where we employ approximately 70 engineers.

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 limited to the areas of security algorithms and smart card chip design. Currently, we are engaged in research and new product development efforts in the following areas:

Conditional access systems. We are developing a next-generation conditional access system that will integrate a number of interactive and value-added services with the core capabilities of our *VideoGuard* system. This conditional access system will be modular, based on an open standardized system architecture, and will be deployed without requiring significant customization. This system will also utilize newer computer platforms that will offer a significant reduction in operating costs to the broadcasters.

Conditional Access Security and Smart Cards. Our card and security research team is working on new customized smart card platforms and on software algorithms for security purposes. Furthermore, it is developing a new smart card platform that will allow a number of applications to be concurrently active in a subscribers smart card. We are also developing new set-top box conditional access software that will be compatible with operating systems such as Microsoft's WindowsCE™ and Sun Microsystems' Java™.

Mobile and Handheld Device Applications. We are currently undertaking research projects into various technologies that are expected to be utilized in mobile and handheld devices and wireless networks in the home. The goal of this work is to develop a platform that will integrate various key functions such as content management and protection, secure broadcasting and data distribution and which can be deployed on a wireless network.

Broadcaster backoffice systems. Broadcasters and content providers employ many systems for performing a number of critical business functions, including managing their content inventory, editing content to suit their specific formats and coordinating its transmission. The ability to describe in sufficient detail the characteristics of each individual content element is essential to these tasks. This is accomplished by means of detailed records that are commonly referred to as metadata. We are developing systems that will allow broadcasters to integrate and simplify all digital content manipulation functions by means of metadata. Furthermore, the use of metadata throughout the broadcaster's head-end facilities will enable them to transmit metadata to the subscriber. This metadata can then be interpreted by the subscriber's set-top box and used to enhance the degree of interaction between content and subscriber.

Media conversion. In order for content to be transmitted over digital satellite, cable or terretrial links it must be converted into a specific format required by the MPEG standard. This form of streaming transmission is inappropriate for the Internet or any type of networks that were developed primarily for data communication purposes and use transmission standards that are commonly referred as IP. We are developing products that will facilitate the format conversion so content can be transmitted interchangeably between networks using either MPEG or IP standards.

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, licenses, 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 licensee 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 revenues in respect of the Shamir Patents to Yeda Research & Development Company. We are also a licensee 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 license 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 licenses.

There has been substantial litigation in the technology industry, particularly, in the U.S., 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, which was settled 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 830 full-time employees in our continuing operations, of which 414 are based in Israel; 285 in the U.K., and 109 in the U.S. The remainder are based in Hong Kong and Australia. See "—Doing Business in Israel."

None of our employees is subject to any collective bargaining agreement. Some of our employees in the U.K. are represented by the Broadcasting Entertainment Cinematograph Theatre Union, which represents its members on matters such as discipline, grievance and appeals.

We believe that relations with our employees are satisfactory.

Properties

We operate from a number of locations principally located in the U.K., Israel and the U.S. All the U.K. and U.S. facilities are either licensed or leased from News Corporation or its affiliates. See "Relationship with Principal Shareholder and Certain Related Party Transactions." All other facilities are leased.

A list of our main facilities is set forth below.

Location	Principal Use	Approximate Size (sq ft)	Lease Expiration	Approximate Current Annual Rent
West Drayton, U.K.	Executive and administrative offices	31,000	2002-2014	£805,000
Maidenhead, U.K.	Smart card processing and distribution	15,000	2004	£202,000
Chilworth U.K.	Software development	16,500	2009	£214,500
Eastleigh, U.K.	Digital broadcasting system integration	16,000	2005	£70,000
Jerusalem, Israel	Research and development, conditional access system support	100,000	2000-2006	$1,314,500
Haifa, Israel	Research and development	7,000	2001	$101,361
Newport Beach, CA, U.S.	Executive offices of NDS Americas	23,000	2001	$514,000
Lake Forest, CA, U.S.	Smart card processing and distribution	29,000	2007	$236,000

In addition, we also have offices in Miami, Florida; Hong Kong; and Sydney, Australia. We believe that we have sufficient office space for the foreseeable future.

Doing Business in Israel

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 neighbors. A state of hostility, varying from time to time in intensity and degree, has led to security and economic problems for Israel. However, a peace agreement between Israel and Egypt was signed in 1979, a peace agreement between Israel and Jordan was signed in 1994 and, since 1993, several agreements between Israel and Palestinian representatives have been signed. In addition, Israel and several Arab States have announced their intention to establish trade and other relations and are discussing certain projects. Israel has not entered into any peace agreement with Syria or Lebanon, and there have been difficulties in the negotiations with the Palestinians. We cannot be certain as to how the peace process will develop or what effect it may have upon our business.

Despite the progress towards peace between Israel and its Arab neighbors and the Palestinians, certain 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, but restrictive laws, policies or practices directed towards Israel or Israeli businesses may have an adverse impact on the expansion of our business.

Generally, all male adult citizens and permanent residents of Israel under the age of 51 are obligated to perform up to 39 days, or longer under certain circumstances, of military reserve duty annually. Additionally, all such residents are subject to being called to active duty at any time under emergency circumstances. Currently, a significant number of our Israeli employees are obligated to perform annual reserve duty. While we have operated effectively under these requirements since we began operations, no assessment can be made as to the full impact of such requirements on our workforce or business if conditions should change, and no prediction can be made as to the effect on us of any expansion or reduction of such obligations.

Economic Conditions

Israel's economy has been subject to numerous destabilizing factors, including a period of rampant inflation in the early to mid-1980s, low foreign exchange reserves, fluctuations in world commodity prices, military conflicts and civil unrest. The Israeli government has, for these and other reasons, intervened in various sectors of the economy, employing, among other means, fiscal and monetary policies, import duties, foreign currency restrictions and controls of wages, prices and foreign currency exchange rates. The Israeli government has periodically changed its policies in all these areas.

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 also a signatory to the General Agreement on Tariffs and Trade, 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 Australia, Canada and Japan. These preferences allow Israel to export the products covered by such programs either duty-free or at reduced tariffs. Israel has entered into preferential trade agreements with the European Union, the U.S. and the European Free Trade Association. In recent years, Israel has established commercial and trade relations with a number of the other nations, including Russia, China and India, with which Israel had not previously had such relations.

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 program is "approved enterprise". Under this scheme, companies choose between either receiving grants accounting for about 24% of their capital investment 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 the second of these two schemes.

The State of Israel also is engaged in the European 5th Framework. Under this program, joint "infrastructure" technology development programs are being incentivized by up to 50% of the investment. The program 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 Histadrut (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 employees 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 employees 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:

(1) 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 digital 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;

(2) 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 authorized 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;

(3) in granting licenses 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 licenses 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 licensee complies with the relevant and reasonable conditions ensuring as far as the licensee is concerned, the security of transactions of conditional access system operators. These regulations do not have a material adverse effect on our business; and

(4) 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 November 20, 1998, the Commission adopted the Directive 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 Information Society 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 unauthorized 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 January 7, 1997, the U.K. 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 new class license and a statutory instrument amending the Telecommunications Act 1994 to extend the definition of a telecommunication system for the first time.

The aim of the U.K. conditional access regulations and the class license 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 new class license 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 class license 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 cooperate 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 license 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 behavior and encourages licensees to include common interfaces, or other conditional access systems within any equipment manufactured by the licensees.

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 license 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 license.

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

Regulations relating to the license of industrial property rights in conditional access technology to, among others, manufacturers of decoders were brought forward and came into force on August 23, 1996. Broadly, these regulations prevent the licensors of industrial property rights in conditional access technology from including in the license 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.

Regulation of Competition

We are subject to general EU and U.K. competition law regimes administered respectively by the European Commission and, within the U.K., the Director General of Fair Trading and his office, the Office of Fair Trading.

European Union Regulation. EU law prohibits certain anti-competitive agreements and abuses of dominant market positions through Articles 81 and 82 of the Treaty of Rome. Article 81 prohibits and renders void agreements, decisions by association of undertakings and concerted practices that may appreciably affect trade between EU Member States and which have as their object or effect the prevention, restriction or distortion of competition within the EU. EU Article 81(3) allows for exemption (on an individual basis or by category of agreements) from such prohibition for agreements, decisions by association of undertakings or concerted practices whose beneficial effects in improving production or distribution or promoting technical or economic progress outweigh their restrictive effects, provided that consumers receive a fair share of the benefit, that competition is not eliminated in respect of a substantial part of the products in question and that restrictions which are not indispensable to the achievement of the beneficial effects of the agreement or concerted practice are not accepted. Article 82 prohibits the abuse of a dominant position within the EU or a substantial part of it insofar as it may appreciably affect trade between Member States.

The European Commission is currently entrusted with the principal enforcement powers under EU competition law and the exclusive right to grant exemptions under Article 81(3). It has the power to impose heavy fines (up to 10% of a group's annual turnover) in respect of breaches of Articles 81 and 82. In most cases the notification of potentially infringing agreements to the Commission under Article 81 with a request for an exemption under Article 81(3) protects against the risk of fines under Article 81 from the date of notification. However, in April 1999 the European Commission published a white paper in which it set out proposals for modernization of the implementation of Articles 81 and 82. These proposals include the ending of the notification and authorization system and the transfer of much responsibility for the application and enforcement of the EU competition rules to the competition authorities of Member States.

The Commission administers the EU Merger Control Regulation 4064/89 as amended by Regulation 1310/97 which applies to concentrations having an EU dimension where the turnover of the undertakings concerned in the concentration exceeds specified thresholds.

U.K. Competition Law. U.K. competition law is undergoing fundamental reform. While mergers are still controlled through the Fair Trading Act 1973, the Competition Act 1998 will replace much of the old U.K. competition law. The Competition Act 1998 introduces a new prohibition regime modeled on the competition rules in the EU Treaty, as well as stronger powers of investigation and enforcement. The Restrictive Trade Practices Act 1976 and 1977, the Restrictive Practices Court Act 1976 and the Resale Prices Act 1976, as well as the provisions of the Competition Act 1980 relating to anti-competitive practices, will be repealed from a date to be appointed, expected to be March 1, 2000.

From March 1, 2000, the new Act will prohibit:

- Agreements or concerted practices which prevent, restrict or distort competition and may affect trade in the U.K. or part of it (the "Chapter I Prohibition"), and
- Conduct which amounts to an abuse of a dominant position and affects trade in the U.K. or part of it (the "Chapter II Prohibition").

The new Act introduces a system for voluntary notification. When the prohibitions come into force it will be possible to notify an agreement or conduct to the Director-General of Fair Trading ("DGFT") and request either guidance or a decision as to whether an agreement or course of conduct infringes either of the Chapter I or Chapter II Prohibitions or whether it is appropriate to grant an individual exemption in respect of the Chapter I Prohibition. Before the prohibitions come into force it is possible to request early guidance from the DGFT on the application of the Chapter I Prohibition to agreements that are entered into between November 9, 1998 and February 29, 2000 (both dates inclusive) (the "interim period").

Failing to abide by the Chapter I or Chapter II Prohibition can render firms liable to fines of up to 10% of U.K. turnover over up to three years and third parties who have suffered loss as a result of an infringing agreement may also bring actions in the U.K. courts seeking damages. The Act provides that the U.K. courts handle cases in such a way as to ensure consistency with EU law.

Examples of practices which may infringe the Chapter I prohibition include directly or indirectly fixing purchase or selling prices or any other trading conditions, limiting or controlling production, markets, technical development or investment, sharing markets or sources of supply, applying dissimilar conditions to equivalent transactions with other trading parties and making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

Examples of practices infringing the Chapter II prohibition include directly or indirectly imposing unfair purchase or setting prices or other unfair trading conditions; or limiting production, markets or technical development to the prejudice of consumers, applying dissimilar conditions to equivalent transactions with other trading parties and making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

Our Dealings with the EU and U.K. Competition Authorities

A number of our commercial agreements have been notified to the EU Commission requesting confirmation either that the agreements do not infringe Article 81(1), or alternatively that all agreements would benefit from exemption under Article 81(3). These agreements relate principally to our arrangements for licensing our *VideoCrypt* analog technology. These include our arrangements with BSkyB for the exploitation of *VideoCrypt* in the U.K. and Ireland, including the related arrangements for the supply of smart card technology and subscriber management services (notified to the EU Commission in October 1993), and our arrangements with Nethold for the exploitation of *VideoCrypt* in Benelux, Scandinavia and certain other territories (notified to the Commission in June 1993). In the case of the arrangements with BSkyB, the parties have discussed with the Commission proposed modifications to the agreements which, if adopted by the incorporation of suitable amendments, would enable the agreements to qualify for exemption under Article 81(3). Such modifications have yet to be finalized with the Commission, however. The Commission did not respond in any detail to the notification of the arrangements with Nethold and we have since requested that the Commission not look at this notification any further as Nethold is no longer in business.

In addition, particulars of a number of our agreements have been furnished to the Office of Fair Trading under the Restrictive Trade Practices Act, including our arrangements with BSkyB for the exploitation of *VideoCrypt*, and agreements with Sky Subscribers Services Limited (a subsidiary of BSkyB) and International

Cable Casting Technologies-Europe (U.K.) Limited providing for the licensing by us of satellite encryption technology for the transmission of audio signals relating to the "DMX" music service and the provision by Sky Subscribers Services Limited of subscriber management services. The Office of Fair Trading has concluded that both of these agreements were registrable under the Restrictive Trade Practices Act but we have since asked the Office of Fair Trading not to look into these agreements any further as the DMX music service has ceased to operate and the significance of the restrictions in these agreements is presently being considered pursuant to the Restrictive Trade Practices Act. We are unable to predict at this stage the outcome of such assessments.

U.K. Takeover Regulations

In the U.K., takeovers of public companies are regulated by the City Code on Takeovers and Mergers. Any takeover or merger transaction in respect of the Company, including any transaction under which control of the Company is obtained or consolidated, will accordingly be subject to the rules of the Takeover Code and to the requirements of the Panel on Takeovers and Mergers, which is the body which issues and administers the Takeover Code.

During an offer period for the purposes of the Takeover Code, the Panel generally requires accelerated disclosure of dealings in relevant securities (which could include ADSs) by certain persons, including disclosure by significant shareholders (those owning or controlling 1% or more of any class of relevant securities).

In addition, the Panel has published the Rules Governing Substantial Acquisition of Shares. In general terms, the rules restrict the speed with which a person may increase a holding of shares and rights over shares in a company incorporated in, and resident in, the U.K. to an aggregate of between 15% and 30% of the voting rights.

Export Licensing Regulations

The export or transfer of technology is subject to various regulations in the U.K., U.S. and Israel. These regulations restrict the right to export certain types of encryption technology, impose licensing requirements and, in some cases, restrict the export of encryption technology to proscribed countries.

Litigation

We are involved in a number of litigations, 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 the United Kingdoms 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 unauthorized 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.

MANAGEMENT

The directors of NDS are as follows:

Name	Age	Position
Chase Carey	45	Non-Executive Director
David F. DeVoe	51	Non-Executive Director
James Murdoch	26	Non-Executive Director
Dr. Abraham Peled	54	Executive Director, President and Chief Executive
Arthur M. Siskind	61	Non-Executive Director

It is anticipated that, following the closing of this offering, two independent Non-Executive Directors will be appointed to our board of directors.

The sole executive officer of NDS (in addition to Dr. Peled) is as follows:

Name	Age	Position
Richard Medlock	39	Chief Financial Officer

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

Background of Directors

Chase Carey has been a director of NDS since December 1998. Mr. Carey is an Executive Director of News Corporation and has been the Co-Chief Operating Officer of News Corporation since 1996. 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., TV Guide, Inc., Gateway 2000 and Colgate University.

David F. DeVoe has been a director of NDS since October 1996. 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.

James Murdoch has been a director of NDS since October 1999. Mr. Murdoch is an Executive Vice President of News Corporation and has been President of News Digital Media, Inc. (formerly News America Digital Publishing, Inc.) since November 1997. Mr. Murdoch was Vice President, Music and New Media of News Corporation from November 1996 to November 1997. He founded Rawkus Entertainment LLP in August 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.

Abraham Peled joined NDS as a director, President and Chief Executive 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 U.S. 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, Executive Vice President 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 and a director of STAR TV since 1993. Mr. Siskind has been a Member of the Bar of the State of New York since 1962.

None of the directors listed above is, or will be, subject to annual re-election. See "—Directors" below.

Background of Executive Officers

In addition to Dr. Peled, the sole executive officer of NDS is Richard Medlock.

Mr. Medlock was appointed Chief Financial Officer of NDS in 1996. Mr. Medlock served as Finance Director of Creative Group Holdings Ltd. (Creative) 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 Group, 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.

Senior Executives

The following persons are our senior executives:

Name	Age	Position
Raffi Kesten	46	Vice President Operations
Andrew Mathieson	46	Vice President Sales and Marketing
Rafi Nave	50	Vice President of Research and Development
Dr. Mike Windram	54	Senior Vice President Broadcasting

Background of Senior Executives

Raffi Kesten has been Vice President Operations of NDS and General Manager of our Israeli subsidiary since 1996. From 1993 to 1996, Mr. Kesten was Vice President of Indigo, an international printing company. From 1982 to 1993, Mr. Kesten served in a variety of positions at Intel Corporation in the U.S. and in Israel.

Andrew Mathieson has been Vice President Sales and Marketing of NDS since 1994. Prior to joining NDS, Mr. Mathieson was a European Sales Manager of Data General Corporation. From 1991 to 1994, Mr. Mathieson was a Director of Asset Technology plc. From 1984 to 1991, Mr. Mathieson served in a variety of sales and marketing roles at Burroughs/Univac.

Rafi Nave has been Vice President of Research and Development of NDS since 1998. From 1996 to 1998, Mr. Nave was Vice President of Consumer Devices. Prior to joining NDS, Mr. Nave was General Manager of the Israeli office of NetManage. From 1980 to 1994, Mr. Nave served in a variety of positions at Intel Corporation in the U.S. and Israel, including General Manager of Intel Israel.

Mike Windram has been Senior Vice President Broadcasting of NDS since 1999 and was Senior Vice President and Managing Director of our digital broadcasting business from 1995 to 1999. From 1993 to 1995, Dr. Windram was Director of the Advanced Products division of NTL that NDS acquired in 1995 and which subsequently became our digital broadcasting business. From 1971 to 1993, Dr. Windram served in a variety of engineering, research and development and general management positions in the Independent Broadcasting Authority. Dr. Windram is a director of Tandberg Television ASA.

Directors

The board is currently comprised of five directors, and will be increased to seven directors following the closing of this offering.

The board will establish an audit committee and a remuneration committee following completion of the offering. The audit committee will consist of at least three directors, including at least two independent directors. The audit committee is expected to meet not less than two times a year. Its purpose will be to consider and recommend the appointment of our auditors, approve the audit fee, consider any questions of resignation or dismissal of the auditors, discuss with the auditors the nature and scope of the audit, review the half-year and annual financial statements before submission to the board of directors, discuss problems and reservations, if any, arising from interim and final audits and any other matters the auditors may wish to discuss, review the auditors' management letter and management's response, review our statement on internal control systems, consider the major findings of internal investigations and management's response and, if requested by the board of directors, to review potential conflicts of interest. The remuneration committee is expected to consist of three directors, including at least two independent directors. The remuneration committee is expected to meet not less than once a year in order to approve and recommend to the board of directors the hiring and the remuneration of the executive directors and key personnel. In particular, the remuneration committee is required to approve any new service agreement with any of our executive directors.

The following is a summary of relevant provisions contained in our articles of association concerning the directors.

Unless otherwise decided by shareholders by ordinary resolution, the number of directors is not subject to a maximum but shall not be less than two. Directors may be appointed by 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; any director so appointed by the board of directors retires from office at the next annual general meeting, but is then eligible for re-appointment.

At each annual general meeting, as nearly as possible (but not exceeding) 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 since the previous annual general meeting are not subject to retirement by rotation. A director may be removed in a general meeting, by the holder of a majority of the voting rights or by all the other directors.

No person is disqualified from being appointed or re-appointed 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 such director is in any way interested (directly or indirectly) shall be avoided provided that such director has disclosed such interest in accordance with the Companies Act. 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.

The board may from time to time appoint one or more directors to any executive office on such terms and for such periods as the board may (subject to the provisions of the Companies Act and any other applicable statute) determine and, without prejudice to the terms of any contract entered into in any particular case, may at any time revoke any such appointment.

Compensation of Directors and Officers

Non-executive directors of NDS, other than those who are appointed by the holder of a majority of the voting rights under its special power or who are full-time employees of News Corporation or its affiliates, will be entitled to annual directors' fees at rates consistent with those paid by comparable companies. The directors may also be paid all expenses properly incurred by them in attending meetings of the directors or any committee of the directors or general meetings of NDS or otherwise in connection with the discharge of their duties as directors. Any director who holds any executive office or who serves on any committee of the directors, or who otherwise performs services which in the opinion of the directors are outside the scope of the ordinary duties of a director, may be paid such extra remuneration by way of salary, commission or otherwise, as the directors may determine. The directors have power to provide benefits whether by payment of gratuities, pensions or otherwise to (or to any person in respect of) any director or ex-director and for the purpose of providing any such benefits to contribute to any scheme or fund or to pay premiums. The directors may purchase and maintain insurance for, or for the benefit of, present or former directors, officers, employees of NDS or an associated company or trustees of any pension fund in which our employees or any such other associated company are interested.

Dr. Peled entered into a service agreement with NDS on January 1, 1997 providing for an initial term of three years, subject to annual renewals thereafter.

The aggregate amount of compensation paid by NDS and its subsidiaries during fiscal 1999 to all directors and officers as a group for services in all capacities was £1.4 million.

Dr. Peled and Dr. Windram have been granted options under the News Corporation Share Option Plan to purchase preferred limited voting ordinary shares of News Corporation. Dr. Peled has been granted options to purchase an aggregate of 506,000 preferred limited voting ordinary shares at an average exercise price of A$6.50 per share, and Dr. Windram has been granted options to purchase an aggregate of 28,000 preferred limited voting ordinary shares at an exercise price of A$5.17 per share.

Pensions

U.K. employees are members of either of two pension schemes: (i) the News International plc pension scheme which is a defined contribution scheme into which we contribute an amount equal to 8% of an employee's salary and the employee contributes 4% of salary; or (ii) a defined benefit scheme to which the former employees of APD, the predecessor of the digital broadcasting business, belong. See "Business—Doing Business in Israel" for a discussion of pension arrangements for our employees in Israel. Also see "Relationship with Principal Shareholder and Certain Related Party Transactions."

The aggregate amount set aside by us in fiscal 1999 to provide pensions and other similar benefits for its directors and officers was £0.1 million.

Incentive Schemes

We adopted the 1997 Executive Share Option Scheme in May 1997. As of the date hereof, options to purchase an aggregate of 2,226,791 Series A ordinary shares are outstanding under the scheme. Normally, an option becomes vested over a period of four years, provided the option holder remains a director or employee. Upon the closing of this offering, all vested options will become exercisable.

Options held by persons who ceased to be our employees as a result of the sale of the digital broadcasting business by Ordinto Investments have terminated. No further options will be granted under this scheme.

We intend to establish two new share option schemes to provide employees with incentives linked to equity participation in NDS. The new share option schemes are (i) an approved share option scheme (as defined by U.K. Inland Revenue) and (ii) an unapproved share option scheme.

Series A ordinary shares allotted under the share option schemes will 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.

Participants will be able to exercise their options and acquire Series A ordinary shares at a price which will be fixed by the directors when the option is granted, but may not be granted at less than the greater of (1) the market value of a Series A ordinary share (as determined in accordance with the rules of the share option schemes) or (2) if new shares are to be subscribed on exercise, their nominal value.

Under the share option schemes, the options may not be exercised on or after the tenth anniversary of the date of grant and become exercisable over a four year period.

All of our employees (including employee 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.

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

An option may only be exercised by the person to whom it is granted or his personal representative and is not transferable.

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 approved share option scheme will require the prior approval of the U.K. Inland Revenue.

Share Limits

The limit on the number of shares which may be issued pursuant to options granted under all share option schemes is in aggregate 10% of the ordinary share capital in issue at the time such options are granted.

Subject to any requisite approvals, it is proposed that options to acquire approximately 895,000 Series A ordinary shares under the share option schemes will be granted upon completion of the global offering. All such options are expected to have an exercise price equal to the initial public offering price per share (subject to approval of the U.K. Inland Revenue with respect to any options granted under the approved share option scheme).

RELATIONSHIP WITH PRINCIPAL SHAREHOLDER AND CERTAIN RELATED PARTY TRANSACTIONS

Stock Ownership of NDS

After this offering, all of the 42,001,000 outstanding Series B ordinary shares (entitled to ten votes per share) will be owned by Newscorp Investments, an English corporation. Newscorp Investments is a wholly owned subsidiary of The News Corporation Limited, a South Australia, Australia corporation. As a result, News Corporation will beneficially own Series B ordinary shares entitled to 97.9% of the voting power of NDS after the closing of this offering, or 97.6% if the underwriters exercise their option to purchase additional ADSs in full. There will be no Series A ordinary shares outstanding prior to the closing of this offering.

As of November 1, 1999, (1) Mr. K. Rupert Murdoch and members of his family (2) Cruden Investments Pty. Limited, a private Australian investment company owned by Mr. 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) a corporation which is controlled by trustees of settlements and trusts set up for the benefit of the Murdoch family, certain charities and other persons owned 30.36% of the outstanding ordinary shares of News Corporation. By virtue of shares of News Corporation owned by such persons and entities, and Mr. Murdoch's position as Chairman and Chief Executive of News Corporation, Mr. Murdoch may be deemed to control the operations of News Corporation.

Business Relationships between us and News Corporation

We have in the past, engaged in a broad range of relationships with News Corporation and its subsidiaries and its associated entities. These relationships have included the purchase by satellite broadcasters of systems, software and services from us and to sale by us of our digital broadcasting business to Ordinto Investments on July 1, 1999, as described below.

Master Intercompany and Other Agreements

For purposes of governing certain ongoing relationship between News Corporation and us, we have entered into, and propose to enter into, various agreements and relationships, including those described below with News Corporation, prior to the closing of this offering. The agreements described below were negotiated 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 such agreements, or the transactions provided for therein, or any amendments thereof will be effected on terms at least as favorable us as could have been obtained from unaffiliated third parties.

Certain agreements summarized below are included as exhibits to the registration statement on Form F-1 of which this prospectus is a part. The following descriptions summarize all material terms of such agreements.

Master Intercompany Agreement

We will enter into a Master Intercompany Agreement with News Corporation which will provide, among other things, for agreements governing the relationship between us and News Corporation following the closing of this offering. The consideration for each of the services and other arrangements set forth in the Master Intercompany Agreement will be mutually agreed upon between News Corporation and us based upon allocated costs; provided that all such consideration and any material arrangements will be subject to the approval of the audit committee of NDS.

Cash Management and Financing

Pursuant to the Master Intercompany Agreement, we will utilize the worldwide treasury and cash management function, including the use of bank overdraft facilities, of News Corporation and its subsidiaries, subject to specified limitations. In addition, our cash balances will be available to News Corporation and its subsidiaries. Prior to this offering, no interest has been charged to us on our bank overdrafts nor has any interest been paid to us on cash deposits. It is expected that following the closing of this offering, we will receive interest on cash deposits with News Corporation and pay interest on overdrafts at commercial interest rates which shall not exceed News Corporation's average cost of borrowing.

Services of Company Employees

The Master Intercompany Agreement will provide that our employees may from time to time be required to devote time to the business activities of News Corporation, its subsidiaries and affiliated and associated companies.

Facility Arrangements

Our leases in the United Kingdom are held in the name of News International, and charges relating to these properties are passed through to us for payment on a cost basis. News International also acts as a guarantor for our leases in Jerusalem, Israel.

Our principal facilities are located in premises leased by News Corporation, or entities in which News Corporation has an interest. Under the Master Intercompany Agreement, in cases where we do not have a formal sublease arrangement, we will license from the lessee of the premises the right to continue to occupy the premises, and we as licensee, will be responsible for our pro rata share (based on square feet occupied) of all monetary obligations imposed on the lessee under the relevant lease. The term of each license will be coextensive with the applicable lease term, subject to certain provisions for early termination by the relevant entity in which News Corporation has an interest.

Insurance

The Master Intercompany Agreement will provide that News Corporation or its subsidiaries will provide insurance coverage on our behalf against some risks and in amounts of coverage consistent with current coverages, or as otherwise may be agreed between us. The Master Intercompany Agreement will further provide that News Corporation will not be obligated to maintain any type or amount of coverage.

Services

The Master Intercompany Agreement will provide that News Corporation and its subsidiaries will continue to provide various services to us, including material procurement, transportation and financial and administrative services.

Indemnities by NDS

News Corporation or its subsidiaries have, in the past, given certain guarantees or made commitments relating to NDS. These include commitments made in connection with various leases. The Master Intercompany Agreement will provide that we will indemnify and hold News Corporation and its subsidiaries harmless from and against all liabilities arising from any default thereunder.

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 June 30, 1999 was in excess of $9 billion. There are no such guarantees outstanding at the date of this prospectus.

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.

Group Relief Agreement

We have entered into a Group Relief Agreement with Newscorp Investments, 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.

Intercompany Debt

Long-Term Debt Arrangements

At June 30, 1999, £131.2 million was payable to News International under our long-term loan agreement with News International. The loan is repayable on July 29, 2001 and carries interest at sterling 12-month LIBOR plus 1.75%, payable quarterly.

Revolving Credit Facility

We have entered into a Revolving Credit Facility Agreement with News International providing for borrowings of up to £30 million, bearing interest at sterling three-month LIBOR plus 1.00%. At June 30, 1999, £23.2 million was owed to News International under this facility.

Indebtedness following this Offering

Immediately following the closing of this offering and the application of the net proceeds, we will owe approximately £63.5 million to News Corporation or its subsidiaries, or approximately £50.6 million if the underwriters exercise their option to purchase additional ADSs in full.

Sale of Digital Broadcasting Business

On July 1, 1999, we sold our digital broadcasting business to Ordinto Investments, which is also a subsidiary of News Corporation, for £70.6 million. The digital broadcasting business is a leading supplier of digital video compression, transmission and equipment for the broadcasting market. Its principal activities consist of the design, development, supply and support of its products. On October 14, 1999, Ordinto Investments sold the digital broadcasting business to Tandberg Television ASA.

We continued to operate the digital broadcasting business on behalf of Ordinto Investments from July 1, 1999 until October 14, 1999. Ordinto Investments has agreed to reimburse us with respect to such activities.

We have established a contractual relationship with Tandberg under which Tandberg will support the digital broadcasting business products which have been sold to our customers. Under this agreement we are obliged also to support our products sold by Tandberg to their customers. Moreover, each party appoints the other as a reseller in relation to future business opportunities. In addition, the parties have entered into a product collaboration agreement relating to certain integrated products such as NDS Director and NDS Broadcaster, and they have also granted cross licenses of various intellectual property rights associated with their respective businesses.

DESCRIPTION OF SHARE CAPITAL

Description of Existing Shares

The authorized share capital of NDS is £42,000,002 and $1,000,000 divided into 42,000,002 deferred shares of £1 each, 48,000,000 Series A ordinary shares of $.01 each and 52,000,000 Series B ordinary shares of $.01 each, respectively. The issued share capital at the date of this prospectus is divided into 42,000,002 deferred shares and 42,001,000 Series B ordinary shares. No Series A ordinary shares had been issued as of this date.

In November 1999, all the 42,001,000 ordinary shares of NDS owned by Newscorp Investments were converted into Series B ordinary shares.

Immediately following the closing of this offering and assuming that the underwriters' over-allotment option is not exercised, the issued share capital of NDS will be 42,000,002 deferred shares, 9,000,000 Series A ordinary shares and 42,001,000 Series B ordinary shares.

Description of Deferred Shares

Upon a liquidation of NDS, 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 (1) the amount paid up on their shares and (2) an additional sum of $1 million per share. The deferred shares do not entitle the holders thereof to receive notice of, or to attend or vote at, meetings of our shareholders, or to receive dividends.

Description of Ordinary Shares

The following is a description of the material rights of the Series A and B ordinary shares based on our articles of association. Copies of our full articles of association have been filed as an exhibit to the registration statement of which this prospectus forms a part.

The Series A ordinary shares and the Series B ordinary shares have identical rights except with respect to voting, conversion and transfer. Series B ordinary shares may only be issued to News Corporation, its successors and subsidiaries. Ordinary shares are issued by us in registered form.

Voting Rights

Holders of Series A ordinary shares are entitled to one vote per share and holders of Series B ordinary shares are entitled to 10 votes per share on all matters to be voted on by shareholders on a poll taken at a general meeting. Holders of ordinary shares are entitled to one vote each on a show of hands. Votes may be cast either personally or by proxy.

Voting at any general meeting is by a show of hands unless a poll is demanded. A poll may be demanded by:

(1) the chairman of the meeting,

(2) not less than five shareholders present in person or by proxy and entitled to vote,

(3) any shareholder or shareholders representing in the aggregate not less than one-tenth of the total voting rights of all shareholders entitled to attend and vote at such meeting or

(4) any shareholder or shareholders present in person or by proxy and holding shares conferring a right to vote at the meeting on which there have been paid-up sums in the aggregate equal to not less than one-tenth of the total sum paid on all shares conferring such right.

Where a poll is not demanded, the interests of beneficial owners of shares who hold through a nominee may not be reflected in votes cast on a show of hands if such nominee does not attend the meeting or receives conflicting voting instructions from beneficial owners for which it holds as nominee. Since under English law voting rights are only conferred on registered holders of shares, a person who owns shares through a nominee (such as a holder of our ADS) may not directly demand or join in demanding a poll or cast the votes relating to those shares.

Unless otherwise required by law or our articles of association, voting in a general meeting is by ordinary resolution. An ordinary resolution, for example, the election of directors, the approval of financial statements, the declaration of a final dividend, the appointment of auditors, the increase of authorized share capital or the grant of authority to allot shares, requires the affirmative vote of a majority of the votes cast, either on a show of hands or on a poll. A special resolution, for example, amending the memorandum or articles, changing our corporate name or waiving statutory preemption rights on the issue of new shares for cash, or an extraordinary resolution, for example, modifying the rights of any class of shares at a meeting of the holders of such class or relating to certain matters concerning the liquidation of NDS requires the affirmative vote of at least three-fourths of the votes cast, either on a show of hands or on a poll. In the case of an equality of votes whether on a show of hands or on a poll, the chairman of the meeting is entitled to cast a deciding vote. Annual general meetings are convened upon at least 21 days' notice and extraordinary general meetings are convened upon at least 21 days' notice when a special or extraordinary resolution is being proposed or 14 days' notice when an ordinary resolution is being proposed, in each case exclusive of both the day of dispatch of the notice and the day of the meeting.

Restrictions on Voting and Other Rights

Unless the directors otherwise determine, no ordinary shareholder may vote at a general meeting either personally or by proxy if (1) any call or other sum that is presently payable by him to us in respect of such share remains unpaid; or (2) such shareholder or any other person who appears to be interested in that share has been duly served with a notice from us requiring the provision of information regarding that share and is in default in complying with such notice for a period of at least 14 days and the board decides to impose restrictions in respect of that share. If these restrictions are imposed, such holder is also precluded from receiving any dividend or other distribution in respect of, or from transferring the relevant share.

Quorum

The quorum at our general meetings is two or more persons holding ordinary shares who are present in person or by proxy.

Dividends

Shareholders may by ordinary resolution declare dividends to be paid to shareholders according to their rights and priorities, but no dividend may exceed the amount recommended by the directors. If in the opinion of the directors our financial position justifies such payments, the directors may also from time to time pay interim dividends on the shares of such amounts as they think fit. Subject to the extent that rights attached to any shares or their terms of issue provide otherwise, our profits which we resolve to distribute shall be distributed among the holders of the shares ratably and in proportion to the amounts paid up on the shares during any portion of the period in respect of which the dividend is paid. Holders of Series A ordinary shares and Series B ordinary shares will therefore share equally on a per share basis in any dividend. Dividends consisting of, or including a right to elect to receive, Series B ordinary shares may be distributed only to holders of Series B ordinary shares simultaneously with a like dividend in respect of Series A ordinary shares which is equal on a per share basis with respect to each outstanding share of the Series A ordinary shares and the Series B ordinary shares.

No dividend or other amount payable on, or in respect of, a share shall bear interest. Any dividend remaining unclaimed after a period of 12 years from the date such dividend became due for payment will be forfeited and will revert to us.

Conversion of Series B Ordinary Shares

A holder of a Series B ordinary share may convert that share into a Series A ordinary share at any time by giving notice in writing us at our registered office, accompanied by the certificate relating to the Series B ordinary share. A Series B ordinary share will convert automatically into a Series A ordinary share if any sale, transfer or other disposal, or any other transaction or event occurs as a result of which the Series B ordinary share is not beneficially owned by:

(1) News Corporation, or

(2) any company which is a successor to News Corporation by reason of one or more reorganizations or reconstructions, or

(3) any subsidiary of News Corporation or any successor to it.

Upon any conversion of a Series B ordinary share, that share will be redesignated as a Series A ordinary share and the number of Series A ordinary shares forming part of the authorized share capital will be increased, and the number of Series B ordinary shares reduced accordingly, without any further action or authorization on the part of shareholders. Upon the conversion into Series A ordinary shares of all the Series B ordinary shares in issue immediately before such conversion, all of the Series A ordinary shares, both issued and unissued, and any unissued Series B ordinary shares, will be automatically redesignated as ordinary shares.

Distribution of Assets on a Winding-Up

If we are wound up, the liquidator may, with the sanction of an extraordinary resolution and any other sanction required by the Companies Act and other applicable statutes: (1) divide any assets among the shareholders and, for that purpose, value any assets and determine how the division shall be carried out between the shareholders, and (2) vest the whole or any part of the assets in trustees upon such trusts for the benefit of shareholders as the liquidator thinks fit. However, no shareholder can be compelled to accept any assets upon which there is any liability.

Preemptive Rights

Our articles do not contain any pre-emptive rights. The Companies Act confers on shareholders, to the extent not disapplied, rights of pre-emption in respect of the issuance of equity securities that are, or are to be, paid up wholly in cash. The term "equity securities" means:

(1) shares other than shares which, with respect to dividends and capital, carry a right to participate only up to a specified amount in a distribution and other than shares allotted pursuant to an employee share scheme; and

(2) rights to subscribe for, or to convert securities into, such shares.

Pursuant to the Companies Act, these provisions may be disapplied by a special resolution of the shareholders, either generally or specifically, if the directors are generally authorized to allot relevant securities, such authorization being for a maximum period of five years and such a special resolution has been passed in respect of all our authorized and unissued shares for the period up to September 30, 2004.

Disclosure of Interests

Section 198 of the Companies Act provides that a person, including a company and other legal entities, who acquires any interest of 3% or more of any class of shares, including through ADRs, comprised in an English public company's "relevant share capital" is required to notify the company in writing of such interest within two business days following the day on which the obligation arises. After the 3% level is exceeded, similar notifications must be made where the interest falls below the 3% level or otherwise in respect of increases or decreases of 1% or more. For these purposes the Series A ordinary shares will form a separate class from the Series B ordinary shares.

For purposes of the notification obligation, the interest of a person in shares means any kind of interest in shares including interests in any shares:

(1) in which a spouse, or child or stepchild under the age of 18, is interested;

(2) in which a corporate body is interested and either (a) that corporate body or its directors generally act in accordance with that person's directions or instructions or (b) that person controls one-third or more of the voting power of that corporate body; or

(3) in which another party is "interested" and the person and that other party are parties to a "concert party" agreement under Section 204 of the Companies Act.

A concert party agreement is one which provides for one or more parties to acquire interests in shares of a particular company and imposes obligations or restrictions on any of the parties as to the use, retention or disposal of such interests acquired pursuant to such agreement and any interest in the company's shares is in fact acquired by any of the parties pursuant to the agreement. Certain non-material interests may be disregarded for the purposes of calculating the 3% threshold, but the obligation of disclosure will still apply where such interests exceed 10% or more of any class of a company's relevant share capital and to increases or decreases of 1% or more thereafter.

In addition, Section 212 of the Companies Act provides that a public company may by written notice require a person whom the company knows or has reasonable cause to believe to be, or to have been at any time during the three years immediately preceding the date on which the notice is issued, interested in shares consisting of the company's "relevant share capital" to confirm that fact or to indicate whether or not that is the case, and where such person holds or during the relevant time had held an interest in such shares, to give such further information as may be required relating to such interest and any other interest in the shares of which such person is aware.

Where notice is served by a company under the foregoing provisions on a person who is or was interested in shares of the company and that person fails to give the company any information required by the notice within such reasonable time as is specified in the notice, the company may, as well as, or instead of, imposing restrictions under the powers conferred by our articles of association, apply to the English court for an order directing that the shares in question be subject to restrictions prohibiting, among other things, any transfer of those shares, the exercise of voting rights in respect of such shares, the taking up of rights in respect of such shares and, other than in liquidation, payments in respect of such shares.

A person who fails to fulfill the obligations imposed by Sections 198 and 212 of the Companies Act described above is subject to criminal penalties.

Transfer of Shares

A transfer of shares may be effected by a transfer in writing in any usual form or in any other form which the directors may approve. Any such instrument of transfer must be signed by or on behalf of the transferor and, except in the case of fully paid shares, by or on behalf of the transferee. The transferor remains the holder of the shares concerned until the name of the transferee is entered in the register of members in respect thereof.

The directors may, in their absolute discretion, and without giving any reason, refuse to register any transfer of a share:

(1) which is not fully paid up;

(2) on which we have a lien;

(3) if a notice has been duly served in respect of that share pursuant to Section 212 of the Companies Act and the notice has not been complied with within 14 days; or

(4) which is in favor of more than four persons jointly.

The directors may also decline to recognize a transfer of shares unless it is in respect of only one class of share and is deposited at our registered office or such other place as the directors may decide accompanied by the relevant share certificate(s) and in any case such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer.

Variation of Rights

Whenever our share capital is divided into different classes of shares, all or any of the rights attached to any class may be varied with the written consent of the holders of at least three-fourths in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of such shares.

So long as any Series B ordinary shares are in issue, any variation of the special rights attaching to either class of the ordinary shares is deemed to be a variation of the special rights attaching to the other class.

Share Capital and Changes in Capital

Without prejudice to any rights conferred on the holders of any existing shares or class of shares, any shares in our capital may be allotted with such rights or restrictions as shareholders by ordinary resolution, or to the extent no such resolution is in effect the directors, may decide.

Shareholders may from time to time by ordinary resolution increase our capital by the creation of new shares, consolidate all or any of our share capital into shares of larger amount than the existing shares; sub-divide existing shares or any of them into shares of smaller amount, and reduce our share capital, any capital redemption reserve and share premium account.

So long as any Series B ordinary shares are in issue, however, no consolidation, sub-division or other reorganization may have the effect of the par value of such shares being different from the par value of the Series A ordinary shares.

We may issue redeemable shares and may purchase our own shares, including any redeemable shares.

Non-U.K. Shareholders

There are no limitations in our articles on the right of non-U.K. citizens or residents to hold, or exercise voting rights attaching to, our ordinary shares.

Untraced Members

We may sell any share if, during a period of 12 years, at least three cash dividends have become payable in respect of that share and have not been claimed and no communication has been received by us from the person entitled to the share.

Transfer Agent and Registrar

Lloyds TSB Registrars will serve as transfer agent and registrar for our ordinary shares.

DESCRIPTION OF AMERICAN DEPOSITARY RECEIPTS

American Depositary Receipts

The Bank of New York will issue the ADSs. Each ADS will represent an ownership interest in Series A ordinary shares. The Series A ordinary shares or the right to receive Series A ordinary shares will be deposited by us with the custodian, which is currently the London office of The Bank of New York, the Custodian. Each ADS will also represent securities, cash or other property deposited with The Bank of New York but not distributed to ADS holders. The Bank of New York's Corporate Trust Office is located at 101 Barclay Street, New York, NY 10286, its principal executive office is located at One Wall Street, New York, New York 10286, and the Custodian's office is currently located at One Canada Square, London, E14 5AL, England.

You may hold ADSs either directly or indirectly through your broker or other financial institution. If you hold ADSs directly, you are an ADS holder. This description assumes you hold your ADSs directly. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

Because The Bank of New York will actually be the legal owner of the Series A ordinary shares, you must rely on it to exercise the rights of a shareholder. The obligations of The Bank of New York are set out in a deposit agreement among NDS, The Bank of New York and you, as an ADS holder. The deposit agreement and the ADSs are generally governed by New York law.

The following is a summary of the deposit agreement. For more complete information, you should read the entire deposit agreement and the ADR. Copies of the deposit agreement and the ADR will be available for inspection at the Corporate Trust Office of The Bank of New York and at the London office of the Custodian set forth above.

Share Dividends And Other Distributions

The Bank of New York has agreed to pay to you the cash dividends or other distributions it or the Custodian receives on Series A ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of Series A ordinary shares your ADSs represent.

Cash

The Bank of New York will, as promptly as practicable, convert any cash dividend or other cash distribution we pay on the Series A ordinary shares into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If that is not possible or if any approval from any government is needed and can not be obtained, the agreement allows The Bank of New York to distribute the foreign currency only to those ADS holders to whom it is possible to do so. It may hold the foreign currency it cannot convert for the account of the ADS holders who have not been paid. It will not invest the foreign currency and it will not be liable for the interest.

Before making a distribution, any withholding taxes that must be paid will be deducted. See "Certain Tax Considerations." It will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. If the exchange rates fluctuate during a time when The Bank of New York cannot convert the foreign currency, you may lose some or all of the value of the distribution.

Series A ordinary shares

The Bank of New York will distribute new ADSs representing any Series A ordinary shares we may distribute as a dividend or free distribution, if we request it to make this distribution. The Bank of New York will only distribute whole ADSs. It will sell Series A ordinary shares which would require it to issue a fractional

ADS and distribute the net proceeds in the same way as it does with cash. If The Bank of New York does not distribute additional ADSs, each ADS will also represent the new Series A ordinary shares.

Rights to receive additional Series A ordinary shares.

If we offer holders of securities any rights to subscribe for additional Series A ordinary shares or any other rights, The Bank of New York, after consultation with us, will have discretion as to the procedure to be followed in making these rights available to you. If The Bank of New York decides it is not legal or feasible to make these rights available to you, The Bank of New York may sell the rights and allocate the net proceeds. The Bank of New York may allow rights that are not distributed or sold to lapse. In that case, you will receive no value for them.

After consultation with us, if The Bank of New York makes rights available to you, upon instruction from you it will exercise the rights and purchase the Series A ordinary shares on your behalf. The Bank of New York will then deposit the Series A ordinary shares and issue ADSs to you. It will only exercise rights if you pay it the exercise price and any other charges the rights require you to pay.

U.S. securities laws may restrict the sale, deposit, cancellation and transfer of the ADSs issued after exercise of rights. For example, you may not be able to trade the ADSs freely in the United States. In this case, The Bank of New York may issue the ADSs under a separate restricted deposit agreement which will contain the same provisions as the deposit agreement, except for the changes needed to put the restrictions in place. The Bank of New York will not offer you rights unless those rights and the securities to which the rights relate are either exempt from registration or have been registered under the Securities Act with respect to a distribution to you. We will have no obligation to register under the Securities Act those rights or the securities to which they relate.

Other Distributions

The Bank of New York will, after consultation with us, send to you anything else we distribute on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, The Bank of New York, after consultation with us, may decide to sell what we distributed and distribute the net proceeds in the same way as it does with cash or it may decide to hold what we distributed, in which case the ADSs will also represent the newly distributed property.

The Bank of New York is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADS holders. We have no obligation to register ADSs, Series A ordinary shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADSs, Series A ordinary shares, rights or anything else to ADS holders. This means that you may not receive the distribution we make on our Series A ordinary shares or any value for them if it is illegal or impractical for us to make them available to you.

Deposit, Withdrawal and Cancellation

The Bank of New York will issue ADSs if you or your broker deposit Series A ordinary shares or evidence of rights to receive Series A ordinary shares with the Custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, The Bank of New York will register the appropriate number of ADSs in the names you request and will deliver the ADSs as promptly as practicable at its Corporate Trust Office to the persons you request.

You may turn in your ADSs at The Bank of New York's Corporate Trust Office. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, The Bank of New York will deliver (1) the underlying Series A ordinary shares to the office of the Custodian to or upon the order of the person designated in the instructions received by The Bank of New York and (2) any other deposited securities underlying the ADSs at The Bank of New York's Corporate Trust Office, or, at your request, risk and expense, The Bank of New York will deliver the deposited securities at its Corporate Trust Office.

Voting Rights

You may instruct The Bank of New York to vote the Series A ordinary shares underlying your ADSs. Otherwise, you will not be able to exercise your right to vote unless you withdraw the Series A ordinary shares. However, you may not know about the meeting sufficiently in advance to withdraw the Series A ordinary shares.

We will ask The Bank of New York to notify you of the upcoming vote and arrange to deliver our voting materials to you. The materials will (1) describe the matters to be voted on and (2) explain how you, on a specified date, may instruct The Bank of New York to vote the Series A ordinary shares or other deposited securities underlying your ADSs as you direct. For instructions to be valid, The Bank of New York must receive them on or before the date specified. The Bank of New York will try, as far as practical, subject to English law and the provisions of the Memorandum and Articles of Association, to vote or to have its agents vote the Series A ordinary shares or other deposited securities as you instruct. If The Bank of New York does not receive instructions from you by the date specified, The Bank of New York will deem you to have instructed The Bank of New York to give a discretionary proxy to a person designated by us and The Bank of New York will give a discretionary proxy to a person designated by us to vote such Series A ordinary shares.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct The Bank of New York to vote your Series A ordinary shares. In addition, The Bank of New York and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote and there may be nothing you can do if your Series A ordinary shares are not voted as you requested.

Fees and Expenses

ADS holders must pay:	*For:*
$5.00 (or less) per 100 ADSs	Each issuance of an ADS, including as a result of a distribution of Series A ordinary shares or rights or other property. Each cancellation of an ADS, including if the agreement terminates.
$.02 (or less) per ADS	Any cash payment.
Registration or Transfer Fees	Transfer and registration of Series A ordinary shares on the share register of the Foreign Registrar from your name to the name of The Bank of New York or its agent when you deposit or withdraw Series A ordinary shares.
Expenses of The Bank of New York	Conversion of foreign currency to U.S. Dollars, cable, telex and facsimile Transmission expenses.
Taxes and other governmental charges The Bank of New York or the Custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary.

Payment of Taxes

The Bank of New York may deduct the amount of any taxes owed from any payments to you. The Bank of New York may refuse to transfer your ADSs or allow you to withdraw the deposited securities underlying your ADSs until such transfer taxes or other charges are paid. The Bank of New York may also withhold any dividend or other distributions, or may sell deposited securities, by public or private sale, to pay any taxes owed. You will remain liable if the proceeds of the sale are not enough to pay the taxes. If The Bank of New York sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to you any proceeds, or send to you any property, remaining after it has paid the taxes.

Reclassifications, Recapitalization and Mergers

If we:	Change the nominal or par value of our Series A ordinary shares;
	Reclassify, split up or consolidate any of the deposited securities;
	Distribute securities on the Series A ordinary shares that are not distributed to you; or
	Recapitalize, reorganize, merge, liquidate, sell all or substantially all of its assets, or take any similar action,
Then:	The cash, Series A ordinary shares or other securities received by The Bank of New York will become deposited securities.

Each ADS will automatically represent its equal share of the new deposited securities.

The Bank of New York may, and will if we ask it to, distribute some or all of the cash, Series A ordinary shares or other securities it received. It may also issue new ADSs or ask you to surrender your outstanding ADSs in exchange for new ADSs, identifying the new deposited securities.

Disclosure of Interests

You, and each ADS holder, agree to provide the information that we request in each disclosure notice (a Disclosure Notice) given pursuant to the Companies Act or our Memorandum and Articles of Association. You acknowledge that you understand that if you fail to provide this information on a timely basis, sanctions may be imposed against the holder of Series A ordinary shares represented by ADSs in which you are or were or appear to be or have been interested, as provided in the Companies Act and our Memorandum and Articles of Association. These sanctions include the withdrawal of the voting rights and the imposition of restrictions on the rights to receive dividends. You also agree to comply with the provisions of the Companies Act that require you to notify us if you become directly or indirectly interested, within the meaning of the Companies Act, in 3% or more of our outstanding Series A ordinary shares or are aware that another person for whom you hold ADRs is so interested. You must notify us of your or their interest within two business days after becoming so interested or so aware. In addition, the Companies Act requires that you notify us if your or their interest changes by at least 1% of our outstanding Series A ordinary shares.

Amendment and Termination

We may agree with The Bank of New York to amend the agreement and the ADSs without your consent for any reason. If the amendment adds or increases fees or charges, except for taxes and other governmental charges or administrative expenses of The Bank of New York, or prejudices an important right of ADS holders, it will only become effective thirty days after The Bank of New York notifies you of the amendment. At the time an amendment becomes effective, you are considered, by continuing to hold your ADR, to agree to the amendment and to be bound by the ADR and the agreement as amended.

The Bank of New York will terminate the agreement if we ask it to do so. The Bank of New York may also terminate the agreement if The Bank of New York has told us that it would like to resign and we have not appointed a new depositary bank within 90 days. In both cases, The Bank of New York must notify you at least 90 days before termination.

After termination, The Bank of New York and its agents will be required to do only the following under the agreement:

- collect dividends and distributions on the deposited securities;
- sell rights offered to you; and
- deliver Series A ordinary shares and other deposited securities upon cancellation of ADSs.

Any time after one year after termination, The Bank of New York will, if practicable, sell any remaining deposited securities by public or private sale. After that, The Bank of New York will hold the proceeds of the sale, as well as any other cash it is holding under the agreement for the pro rata benefit of the ADS holders that have not surrendered their ADSs. It will not invest the money and will have no liability for interest. The Bank of New York's only obligations will be to account for the proceeds of the sale and other cash. After termination our only obligations will be with respect to indemnification and to pay fees and expenses of The Bank of New York.

Limitations on Obligations and Liability to ADS Holders

The deposit agreement expressly limits our obligations and the obligations of The Bank of New York, and it limits our liability and the liability of The Bank of New York. We and The Bank of New York:

- are only obligated to take the actions specifically set forth in the deposit agreement without negligence or bad faith;
- are not liable if either of us is prevented or delayed by law or circumstances beyond our control from performing our obligations under the deposit agreement;
- are not liable if either exercises discretion permitted under the deposit agreement;
- have no obligation to become involved in a lawsuit or other proceeding related to the ADRs or the deposit agreement on your behalf or on behalf of any other party; and
- may rely upon any documents we believe in good faith to be genuine and to have been signed or presented by the proper party.

In the deposit agreement, we and The Bank of New York agree to indemnify each other under specified circumstances.

Requirements for Depositary Actions

Before The Bank of New York will issue or register transfer of an ADS, make a distribution on an ADS, or withdrawal of Series A ordinary shares, The Bank of New York may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any Series A ordinary shares or other deposited securities;
- production of satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and
- compliance with laws or governmental regulations relating to ADSs or the withdrawal of deposited securities and any such reasonable regulations, if any, The Bank of New York may establish, from time to time, consistent with the agreement, including presentation of transfer documents.

The Bank of New York may refuse to deliver, transfer, or register transfers of ADSs generally when our books or The Bank of New York's books are closed, or at any time if The Bank of New York or we think it advisable to do so.

You have the right to cancel your ADSs and withdraw the underlying Series A ordinary shares at any time except:

- when temporary delays arise because: we or The Bank of New York have closed our transfer books; in connection with voting at a shareholders' meeting; or we are paying a dividend on the Series A ordinary shares;
- when you or other ADS holders seeking to withdraw Series A ordinary shares owe money to pay fees, taxes and similar charges; or
- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of Series A ordinary shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

Pre-Release of ADSs

Subject to the provisions of the deposit agreement, The Bank of New York may issue ADSs before deposit of the underlying Series A ordinary shares. This is called a pre-release of ADSs. The Bank of New York may also deliver Series A ordinary shares prior to the receipt and cancellation of pre-released ADSs even if the ADSs are cancelled before the pre-release transaction has been closed out. A pre-release is closed out as soon as the underlying Series A ordinary shares are delivered to The Bank of New York. The Bank of New York may receive ADSs instead of Series A ordinary shares to close out a pre-release. The Bank of New York may pre-release ADSs only under the following conditions:

(1) before or at the time of the pre-release, the person to whom the pre-release is being made must represent to The Bank of New York in writing that it or its customer, as the case may be,

(a) owns the Series A ordinary shares or ADSs to be remitted,

(b) will assign all beneficial rights, title and interest in the ADSs or Series A ordinary shares to The Bank of New York in its capacity as the depositary and for the benefit of the holders of the ADSs and

(c) will not take any action with respect to the ADSs or Series A ordinary shares that is inconsistent with the assignment of beneficial ownership (including, without the consent of The Bank of New York, disposing of the ADSs or Series A ordinary shares) other than in satisfaction of the pre-release;

(2) the pre-release must be fully collateralized with cash or collateral that The Bank of New York considers appropriate; and

(3) The Bank of New York must be able to close out the pre-release on not more than five business days' notice.

The pre-release will be subject to whatever indemnities and credit regulations that The Bank of New York considers appropriate. In addition, The Bank of New York will limit the number of ADSs that may be outstanding at any time as a result of pre-release.

Notices and Reports

On or before the date of giving by us of notice to its shareholders, by publication or otherwise, of any meeting of holders of Series A ordinary shares or other deposited securities, or of any adjourned meeting of such holders, or of the taking of any action in respect of any cash or other distributions or the offering of any rights in respect of the deposited securities, we agree to transmit to The Bank of New York and the Custodian a copy of the notice thereof in the form given to holders of Series A ordinary shares or other deposited securities. The

Bank of New York will, at our expense, arrange for the prompt transmittal by the Custodian to The Bank of New York of such notices and any other reports and communications which are made generally available by us to holders of its Series A ordinary shares, and arrange for the mailing of copies thereof to all ADR holders or, at our request and expense, make such notices, reports and other communications available to ADR holders on a basis similar to that for holders of Series A ordinary shares or other deposited securities or on such other basis as we may advise The Bank of New York may be required by any applicable law or regulation.

The Bank of New York will make available for inspection by ADR holders at its principal executive office, any reports and communications received from us which are both (i) received by The Bank of New York as the holder of the deposited securities, and (ii) made generally available to the holders of such deposited securities by us.

Inspection of Transfer Books

The Bank of New York shall keep books in the Borough of Manhattan, the City of New York, for the registration and transfer of ADRs which at all reasonable times shall be open for inspection by the ADR holders and us, provided that such inspection shall not, to The Bank of New York's knowledge, be for the purpose of communicating with ADR holders in the interest of a business or object other than our business or a matter related to the deposit agreement or ADRs. The Bank of New York may close the books, at any time or from time to time, when deemed expedient by it in connection with the performance of its duties under the deposit agreement or at our request.

Book-Entry Ownership

We and The Bank of New York have made application to DTC for acceptance of the ADSs in DTC's book-entry settlement system. Upon acceptance of such application, a single global ADR evidencing all the ADSs will be issued to DTC and registered in the name of Cede & Co., as nominee of DTC. Thereafter, Cede & Co. will be the holder of record of all the ADSs. Accordingly, each beneficial owner of an interest in the global ADR must rely upon the procedures of DTC and the institutions having accounts with DTC ("DTC Participants") to exercise or be entitled to any rights of a holder of an ADR. So long as any ADSs are traded through DTCs book-entry settlement system, or unless otherwise required by law, ownership of beneficial interests in the global ADR will be shown on, and the transfer of that ownership will be effected only through, records maintained by (1) DTC or its nominee with respect to DTC Participants' interests or (2) DTC Participants. Where the context requires, the term ADR includes the global ADR.

If such application is not accepted, or if DTC subsequently ceases to make its book-entry settlement system available for the ADSs, we will be required under the deposit agreement to consult with The Bank of New York regarding other arrangements for book-entry settlement. Only in the event that it is impracticable without undue effort or expense to have or continue to have the ADSs available in book-entry form shall we instruct The Bank of New York to make ADRs available in physical, certificated form.

Information Concerning DTC

With respect to DTC, we understand that:

DTC is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities of DTC Participants and to facilitate the clearance and settlement of transactions among its Participants in such securities through electronic book-entry changes in accounts of DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers (including firms that may act as underwriters of the ADSs offered hereby), banks, trust companies, clearing corporations and certain other organizations, some of whom (and/or their representatives) own DTC. Access to the DTC book-entry system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly.

Because DTC can only act on behalf of DTC Participants, who in turn act on behalf of a indirect DTC Participants and certain banks, the ability of an owner of a book-entry ADS to pledge such ADS to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such ADS may be limited by the lack of a definitive certificate for such ADS. The laws of some states require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer book-entry ADSs to such persons may be limited. In addition, beneficial owners of book-entry ADSs through the DTC system will receive distributions attributable to the shares or deposited securities only through DTC Participants.

The following information has been provided by DTC:

DTC Management is aware that some computer applications, systems, and the like for processing data that are dependent upon calendar dates, including dates before, on, and after January 1, 2000, may encounter "Year 2000 problems." DTC has informed its participants and other members of the financial community that it has developed and is implementing a program so that its systems, as the same relate to the timely payment of distributions (including principal and income payments) to holders, book-entry deliveries and settlement of trades within DTC, continue to function appropriately. This program includes a technical assessment and a remediation plan, each of which is complete. Additionally, DTC's plan includes a testing phase, which is expected to be completed within appropriate time frames.

However, DTC's ability to perform properly its services is also dependent upon other parties, including but not limited to issuers and their agents, as well as third party vendors from whom DTC licenses software and hardware, and third party vendors on whom DTC relies for information or the provision of services, including telecommunication and electrical utility service providers, among others. DTC has informed the industry that it is contacting (and will continue to contact) third party vendors from whom DTC acquires services to: (a) impress upon them the importance of such services being Year 2000 compliant and (b) determine the extent of their efforts for Year 2000 remediation (and, as appropriate, testing) of their services. In addition, DTC is the process of developing such contingency plans as it deems appropriate.

According to DTC, the foregoing information with respect to DTC has been provided to the industry for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

CERTAIN TAX CONSIDERATIONS

The following discussion represents the opinion of Allen & Overy, U.K. counsel to NDS, as to U.K. tax law, the opinion of Squadron, Ellenoff, Plesent & Sheinfeld, LLP, U.S. counsel to NDS, as to U.S. tax law and the opinion of Loeff Claeys Verbeke as to Belgian tax law. The discussion summarizes material U.K. tax consequences of the acquisition, ownership and disposition of ordinary shares and shares represented by ADSs evidenced by ADRs by U.K. resident and non-resident Holders, material U.S. Federal income tax consequences of such acquisition, ownership and disposition by a U.S. Holder and material Belgian tax consequences of such acquisition, ownership and disposition of ordinary shares and shares represented by ADSs evidenced by ADRs. As used herein, the term "U.S. Holder" shall mean a beneficial owner of ordinary shares or ADSs that is, for U.S. federal income tax purposes: (i) a citizen or resident of the U.S., (ii) a domestic corporation, (iii) a domestic partnership, (iv) an estate the income of which is subject to U.S. federal income taxation regardless of its source, (v) a trust if a court within the U.S. is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of that trust. However, in the case of a partnership, estate or trust, the term "U.S. Holder" shall only include the partnership, estate or trust to the extent its income is taxed to the entity or its partners or beneficiaries on a net income basis by the U.S. This summary is based upon current U.K., U.S. and Belgian law, and U.K. Inland Revenue and U.S. Internal Revenue Service and Belgian Tax Authority practice, as at the date of this prospectus, and in relation to the U.S. federal tax consequences (i) the U.K.-United States Income Tax Convention in effect as at the date of this prospectus (the "Treaty") and (ii) in part upon representations of the Depositary. This summary 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.

The part of this summary which deals with the U.S. federal tax consequences relates to the material aspects of the taxation position of U.S. Holders and does not address the tax consequences to a U.S. Holder (i) that is resident (or, in the case of an individual, ordinarily resident) in the U.K. for U.K. tax purposes, (ii) whose holding of ordinary shares or ADSs is effectively connected with a permanent establishment in the U.K. through which such U.S. Holder carries on business activities or, in the case of an individual who performs independent personal services, with a fixed base situated therein, or (iii) that is a corporation which alone or together with one or more associated companies, controls directly or indirectly, 10% or more of NDS. Prospective purchasers who are in doubt as to their tax position, including, if relevant, the consequences under foreign, U.S. state and local, and other laws, of the acquisition, ownership and disposition of shares or ADSs should consult their own advisors.

U.S. Holders of ADSs will be treated as owners of the ordinary shares underlying the ADSs and deposited with the Custodian of the Depositary. Accordingly, except as noted, the U.S. federal and U.K. tax consequences discussed below apply equally to U.S. Holders of ADSs and shares.

Holders of ADSs should, in principle, be treated for Belgian tax purposes as owners of the ordinary shares underlying the ADSs and deposited with the Custodian of the Depositary. However, there is no clear tax legislation confirming this interpretation. The summary of the Belgian tax position below is based on the assumption that Holders of ADSs will be treated for Belgian tax purposes as owners of underlying ordinary shares.

PROSPECTIVE PURCHASERS OF THE ORDINARY SHARES OR ADSs ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE U.S., BELGIAN, U.K. OR OTHER TAX CONSEQUENCES IN THEIR PARTICULAR CIRCUMSTANCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE ORDINARY SHARES OR ADSs, INCLUDING THE EFFECT OF ANY STATE OR LOCAL TAX LAWS.

U.K. Considerations

U.K. Taxation

The following statements are intended only as a summary of current U.K. tax legislation and published practice of the Inland Revenue as it applies to certain categories of Holders. They relate to persons who hold ordinary shares and shares represented by ADSs evidenced by ADRs as capital investments and who are the beneficial owners of such ordinary shares and shares represented by ADSs evidenced by ADRs. They may not apply to certain classes of Holders, such as dealers in securities. The statements are a general guide, and should be treated with appropriate caution. Any prospective investor who is in any doubt as to his tax position, or who is subject to tax in any jurisdiction other than the U.K. is strongly recommended to consult his professional advisers immediately. Prospective investors who are subject to tax in the U.S. should also refer to the section headed "U.S. Taxation" below.

1. Non-resident Holders (including U.S. residents)

(i) Dividends

Whether Holders who are resident for tax purposes in countries other than the U.K. are entitled to a payment from the Inland Revenue of a proportion of the tax credit in respect of any dividends received depends in general upon the provisions of any double taxation convention which exists between such countries and the U.K., Individual Holders who are resident for tax purposes in countries other than the U.K. but who are (inter alia) Commonwealth citizens, nationals of any State which is a member of the European Economic Area or residents of the Isle of Man or the Channel Islands will be entitled to a tax credit in relation to dividend payments which they will be entitled to offset against their total U.K. income tax liability. The right of such Holders and of non-resident Holders to claim repayment of the tax credit from the Inland Revenue will depend on the existence and terms of any double taxation treaties between the U.K. and the territory in which they are resident. However, the amount of the tax credit described at 2(i)(b) below will mean that the amount reclaimable under any double tax treaty will in most cases be nil. In particular, the amount of that tax credit reclaimable by a Holder resident in the U.S. and who is entitled to claim payment of part of that tax credit under the Treaty has been reduced to a negligible amount or to nil depending on the categorization of the Holder for purposes of that Treaty. It should also be noted that the United States and the United Kingdom have announced their intention to re-negotiate the terms of that Treaty.

(ii) Taxation of Chargeable Gains

A Holder who is not resident and not ordinarily resident for tax purposes in the U.K. will not normally be liable for U.K. 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 U.K. 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.

(iii) Inheritance Tax

(a) Ordinary shares and ADSs will be assets situated in the U.K. for the purposes of U.K. 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 U.K. inheritance tax. Such a charge may arise even if the Holder is neither domiciled in the U.K. nor deemed to be domiciled there for U.K. 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 U.S. for the purposes of the U.K./United States Estate and Gift Tax Convention (the "Estate Tax Treaty") and who is not a national of the U.K. for the purposes of the Estate

Tax Treaty will generally not be subject to U.K. 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 U.S. 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 U.K. or pertain to a fixed base in the U.K. 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 U.S. for the purposes of the Estate Tax Treaty and not a national of the U.K. for the purposes of the Estate Tax Treaty, the ordinary shares or ADSs will generally not be subject to U.K. inheritance tax (provided that the ordinary shares or ADSs are not part of the business property of a permanent establishment in the U.K. and do not pertain to a fixed base in the U.K. as mentioned above). In the exceptional case where the ordinary shares or ADSs are subject both to U.K. inheritance tax and to U.S. federal gift or estate tax, the Estate Tax Treaty generally provides for the tax paid in the U.K. to be credited against tax paid in the U.S. or for tax paid in the U.S. to be credited against tax payable in the U.K. based on priority rules set out in the Estate Tax Treaty.

2. U.K. Resident Holders

(i) Dividends

The following statements relate only to the U.K. tax treatment, under current U.K. tax legislation and published practice of the Inland Revenue, of dividends paid on ordinary shares and ADSs to persons who are resident in the U.K. for U.K. tax purposes. Subject to the above, the tax treatment of dividends paid by the Company should be as follows:

(a) NDS will not be required to withhold tax from dividend payments it makes.

(b) An individual Holder who is resident for tax purposes in the U.K. will generally be entitled to a tax credit in respect of any dividend received by him from NDS. The tax credit will be equal to one-ninth (11.11%) of the cash dividend (or 10% of the gross dividend). The tax credit will be available to set against the Holder's liability (if any) to U.K. income tax on the gross dividend, as described in the following paragraph.

(c) Dividends received by a basic or lower rate taxpayer will be taxed at a reduced rate of 10% of the gross dividend. Therefore, the tax credit associated with a dividend received by a basic or lower rate taxpayer will satisfy that individual's income tax liability in respect of the dividend. Dividends received by a higher rate taxpayer will be taxed at a rate of 32.5%. The effect of this will be that after taking into account the 10% tax credit a higher rate taxpayer will be required to pay additional income tax in respect of the dividend, in an amount equal to 25% of the cash dividend. However, save with very limited exceptions, it will not be possible for an individual resident for tax purposes in the U.K. to claim payment of any part of the tax credit from the Inland Revenue.

(d) A Holder which is a company resident for tax purposes in the U.K. and which holds the ordinary shares or ADSs as a capital investment will not normally be liable to corporation tax on any dividend received.

(e) Tax exempt pension funds will not be entitled to reclaim from the Inland Revenue tax credits attaching to dividend payments made by NDS. Further, no such repayment may be reclaimed by, inter alia, any tax exempt charities, heritage bodies and scientific research organizations. However, such charities, heritage bodies and scientific research organizations (but not pension funds) will, as a result of the withdrawal of the right of such bodies to reclaim tax credits in relation to dividends paid on or after 6 April 1999, be entitled to limited compensation for the loss of that right in relation to any dividends paid on or after 6 April 1999 but before 6 April 2004.

(ii) Taxation of Chargeable Gains

(a) A disposal or deemed disposal of ordinary shares or ADSs by a Holder who is resident or ordinarily resident in the U.K. for U.K. tax purposes or by a Holder who carries on a trade, profession or vocation in the

U.K. through a branch or agency where 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, may give rise to a chargeable gain or allowable loss for the purposes of U.K. taxation of capital gains depending on the individual circumstances of the Holder. An indexation allowance can be used for U.K. corporation tax purposes to reduce or eliminate a chargeable gain but not to decrease or increase an allowable loss. "Taper relief" (which provides relief from capital. gains tax according to the duration of ownership of the relevant asset i.e. the ordinary shares, or ADSs) may be available to reduce any capital gains tax charge suffered by an investor which is disposing of its ordinary shares but which is not subject to corporation tax (because it is not a "company" for the purposes of the Income and Corporation Taxes Act 1988).

(b) If an individual Holder, who was resident or ordinarily resident in the U.K. for some part of at least four of the immediately preceding seven tax years, becomes neither resident nor ordinarily resident in the U.K. on or after 17 March 1998, chargeable gains accruing to him on the disposal of ordinary shares while neither resident nor ordinarily resident in the U.K. may, if he is neither resident nor ordinarily resident for less than five complete tax years, be treated as accruing to him in the year of his return to the U.K. For this purpose, a "tax year" begins on 6 April and ends on 5 April in the following calendar year. The effect of this is that such an individual Holder may (subject to any available exemption or relief) be liable to U.K. tax in respect of any such chargeable gain.

(iii) Inheritance Tax

Ordinary shares and ADSs will be assets situated in the U.K. for the purposes of U.K. 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 U.K. inheritance tax. 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.

3. U.K. Resident Holders and non-resident Holders

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, with the exception that NDS will pay any U.K. SDRT and/or stamp duty arising as a result of the deposit by NDS of ordinary shares with the Custodian of the Depositary in connection with this offering.

(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 subsequent 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 U.K. 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 U.K., and provided further that any instrument of transfer or written agreement to is not executed in the U.K. 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 U.K. stamp duty. The amount of U.K. 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 U.S. Holder or registered Holder of an ADS upon cancellation of the ADS only a fixed U.K. 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 and that others may be liable at a higher rate or may, although not primarily liable for SDRT, be required to notify and account for it under the Stamp Duty Reserve Tax Regulations 1986.

U.S. Taxation

Taxation of Dividends

Distributions made with respect to ADSs and the ordinary shares (including the one ninth U.K. tax credit, as described below) will constitute dividends for U.S. federal income tax purposes to the extent paid out of current or accumulated earnings and profits of the Company as determined for U.S. federal income tax purposes. Distributions in excess of current and accumulated earnings and profits of NDS will be treated as a return of capital to the extent of the U.S. Holder's adjusted tax basis in the ADSs which will not be subject to tax, and thereafter as a gain from the sale or exchange of a capital asset. Dividends paid by NDS generally will be treated as foreign source dividend income and will not be eligible for the dividends-received deduction allowed to corporate shareholders under the U.S. Internal Revenue Code.

The amount of any distribution will generally equal the fair market value in U.S. dollars of the pounds sterling (or other foreign currency) or other property received on the date of payment, which in the case of a distribution paid in pounds sterling (or other foreign currency) will be based on the exchange rate on such date. A U.S. Holder will have a basis in any pounds sterling (or other foreign currency) distributed, for U.S. federal income tax purposes, equal to the dollar value of pounds sterling (or other foreign currency) on the date of payment. Any gain or loss recognized upon a subsequent disposition of pounds sterling (or other foreign currency) will generally be ordinary income or loss and will generally be U.S. source gain or less for foreign tax credit purposes.

Under the Treaty, the U.K. tax credit in respect of dividends (one ninth of the cash dividend) is treated as an additional distribution to U.S. Holders. U.S. Holders will not receive a cash payment for U.K. tax credit because the U.K. tax credit will, in effect, be reduced to zero by U.K. withholding tax as provided in the Treaty. Subject to certain complex limitations, the U.K. withholding tax will be treated for U.S. tax purposes as a foreign tax that may be claimed as a foreign tax credit against the U.S. federal income tax liability of the U.S. Holder. Alternatively, a U.S. Holder may claim the foreign tax paid as a deduction. A deduction does not reduce U.S. tax on a dollar basis like a credit. The deduction, however, is not subject to the limitations described above.

Taxation of Capital Gains

A U.S. Holder will, upon the sale or exchange of an ADS or an ordinary share, recognize a gain or a loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized upon such sale or exchange and the U.S. Holder's adjusted tax basis in the ADS or ordinary share. Such gain or loss will be a capital gain or loss if the ADS or ordinary share was a capital asset in the hands of the U.S. Holder and will be long-term capital gain or loss if the ADS or ordinary share was held by the U.S. Holder for more than one year immediately prior to such sale or exchange. Under most circumstances, gain or loss from the sale or exchange of ADSs or ordinary shares by the U.S. Holder will be treated as U.S. source gain or loss for foreign tax credit purposes.

Because U.S. Holders of ADSs will be treated as the owners of the ordinary shares for U.S. federal income tax purposes, as discussed above, the surrender of ADSs in exchange for ordinary shares will not be a taxable event for the purposes of U.S. federal income tax. Accordingly, U.S. Holders will not recognize any gain or loss upon such surrender.

Belgian Tax Considerations

Taxation of dividends

Dividends received by Belgian resident individuals who acquire and hold ordinary shares (or ADSs) as private investments will be subject to the Belgian withholding tax at the rate of (presently) 25%, computed on the dividend received, where the dividend is paid through a paying agent established in Belgium. The Company has irrevocably waived the benefit of the reduced rate of 15% — applicable to newly issued shares if certain conditions are met — in order to ensure the liquidity of the ordinary shares or ADSs. This withholding tax constitutes the final Belgian income tax.

Where the dividend is not paid through such, paying agent, no withholding tax will be due in Belgium, but the dividend must be declared in the annual tax return and the net amount received will be taxed at a rate of (presently) 25% increased by the municipal surcharge.

For Belgian resident individual investors who acquire the ordinary shares (or ADSs) for professional purposes, the Belgian withholding tax does not fully discharge their tax liability. Dividends received must be declared by the taxpayer and will be taxed at the progressive tax rates of personal income tax. Withholding tax retained at source may, in principle, be off-set against personal income tax (and is reimbursed to the extent that it exceeds the actual tax payable), provided that the taxpayer has full ownership of the shares at the time of payment or attribution of the dividends and provided that the dividend distribution does not give rise to a reduction in value of, or a capital loss on, the shares.

For Belgian legal entities subject to Belgian income tax on legal entities (such as non-profit organisations), Belgian withholding tax at the rate of (presently) 25% will be due on the dividend where the dividend is paid through a paying agent established in Belgium. This withholding tax constitutes the final Belgian income tax.

Where the dividend is not paid through such, a paying agent, such Belgian legal entities must pay the Belgian withholding tax themselves to the Belgian Treasury. This withholding tax constitutes the final Belgian income tax.

For Belgian resident companies and for companies with fiscal residence outside Belgium holding ordinary shares (or ADSs) through a permanent establishment or a fixed base in Belgium, the dividend will be taxed at the normal income tax rate in Belgium for companies (presently 40.17%). Where the corporate shareholder holds a participation of at least 5% or with an acquisition value of at least BEF 50 million, 95% of the dividend received will be deductible ("participation exemption"), provided that the distributing Company falls outside the scope of Article 203. §1 of the Belgian Income Tax Code 1992 (hereinafter referred to as "BITC/92"), which should be the case as the distributing company will be subject to a normal taxation regime in the UK.

This participation exemption also applies, even if the quantitative criteria are not fulfilled, if the corporate shareholder is identified as:

- A financial institution mentioned in Article 56, §1 of the BITC/92;
- An insurance company mentioned in Article 56, §2, 2, h of the BITC/92;
- A securities firm mentioned in Article 47 of the Law of April 6, 1995; or
- An investment company.

Capital Gains Tax

Belgian resident individuals holding ordinary shares (or ADSs) as a private investment will not, generally, be liable for Belgian income tax on capital gains realized upon the sale, exchange, redemption or other transfer of shares of NDS, unless the Belgian Tax Administration demonstrates that the capital gain is the result of speculation.

Belgian resident individuals holding ordinary shares (or ADSs) for professional purposes are taxable at the ordinary progressive income tax rates for business income on any capital gains realized on the disposal of such shares.

Belgian legal entities subject to the Belgian income tax on legal entities are not, generally, liable for Belgian income tax on capital gains realized upon the sale, exchange, redemption or other transfer of shares of NDS.

Belgian resident companies and companies with fiscal residence outside Belgium holding shares of NDS through a permanent establishment or a fixed base in Belgium, are generally not liable for Belgian income tax on capital gains realized upon the sale, exchange, redemption or other transfer of shares of NDS, provided that the distributing company falls outside the scope of Article 203, §1 of BITC/92, which should be the case since the distributing company will be subject to a normal taxation regime in the UK.

Capital losses realized upon the sale, exchange, redemption or other transfer of shares of NDS are generally, not tax deductible.

A non-resident shareholder who does not hold the shares through a permanent establishment or fixed base in Belgium, will not be subject to any Belgian income tax on capital gains realized upon the sale, exchange, redemption or other transfer of shares of NDS.

Belgian tax on stock market transactions

Investors purchasing or selling shares through a Belgian professional intermediary are subject to the tax on stock market transactions (*taxe sur opérations de bourse* "—'*TOB*'") in the amount of 0.17% (but limited to BEF 10,000 per transaction and per party) on the purchase and the sale in Belgium of existing shares of a company. The delivery of newly issued shares, through a Belgian professional intermediary, is subject to this tax in the amount of 0.35% (but limited to BEF 10,000 per order).

The tax is not due by:

- Professional intermediaries mentioned in article 2 of the Law of 6 April, 1995 acting for their own account;
- Insurance companies mentioned in article 2, §1 of the Law of 9 July, 1975 acting for their own account;
- Pension funds mentioned in article 2. §3 6° of the Law of 9 July, 1975 acting for their own account;
- Collective investment institutions mentioned in the Law of 4 December, 1990 acting for their own account;
- Non-residents, acting for their own account, upon delivery of a certificate of non-residence.

Belgian tax on the physical delivery of bearer securities

The physical delivery of bearer securities through an intermediary established in Belgium triggers a tax in the amount of 0.2% on the value of the shares.

Since book-entry settlement is mandatory for all financial instruments traded on EASDAQ, physical delivery triggering this tax should not occur.

SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of the offering, we will have 51,001,000 ordinary shares outstanding, assuming no exercise of the underwriters over-allotment option. Of these, 9,000,000 Series A ordinary shares will be freely transferable without restriction or further registration under the Securities Act unless they are held by affiliates of NDS as that term is used under the Securities Act and the regulations promulgated thereunder such act. In addition, up to 3,121,791 Series A ordinary shares may be issued pursuant to the exercise of outstanding options under our share option schemes.

The Series B ordinary shares beneficially owned by News Corporation were purchased from NDS in reliance on exemptions from the registration requirements of the Securities Act and may be restricted securities within the meaning of Rule 144 under the Securities Act.

The ordinary shares beneficially owned by News Corporation and the shares issuable under our share option schemes are eligible for sale in the U.S. public market subject to compliance with Rule 144 or Rule 701 under the Securities Act, and may be sold outside the U.S. without such compliance pursuant to Regulation S under the Securities Act. Any subsequent sale of a substantial number of ADSs by News Corporation in the public market following this offering could adversely affect the market price of the ADSs and may make it more difficult for us to sell our equity securities in the future at times and prices which we deem appropriate.

Rule 144

In general, under Rule 144 as currently in effect, a person, or persons whose shares are aggregated, whose shares were acquired from us or an affiliate at least two years prior to the date of sale, and an affiliate who has beneficially owned our shares for at least two years, is entitled to sell, within any three-month period, a number of ADSs (or Series A ordinary shares underlying such ADSs) that does not exceed the greater of:

(1) 1% of the then outstanding ordinary shares of NDS; or

(2) the average weekly trading volume in the ADSs on NASDAQ during the four calendar weeks preceding such sale, subject to the availability of certain current public information about NDS, notice requirements, and restrictions on the manner of sale set forth in Rule 144.

Rule 144(k)

A person, or persons whose shares are aggregated, who is not deemed an affiliate of NDS and who has not been an affiliate of NDS at any time during the 90 days preceding any sales, and who has beneficially owned shares for at least three years, is entitled to sell such ADSs and ordinary shares under Rule 144(k) without regard to the volume limitations and other restrictions described above.

Lock-Up Arrangements

NDS has agreed in the Underwriting Agreement and News Corporation and each of NDS' directors and executive officers has agreed not to offer, issue, sell, contract to sell or grant any option to purchase or otherwise dispose of, directly or indirectly, except as provided in such lock-up arrangements, any ordinary shares, ADSs or any securities of NDS substantially similar to the ordinary shares or ADSs, including but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, ordinary shares, ADSs, or any substantially similar securities for a period of 180 days after the effective date of the offering, in each case, without the prior written consent of Morgan Stanley & Co. Incorporated. See "Underwriting."

Prior to the offering, there has been no public market for the Series A ordinary shares or the ADSs and no predictions can be made of the effect, if any, that sales or the availability of Series A ordinary shares or ADSs for sale will have on the market price prevailing from time to time. Nevertheless, sales of a substantial number of ADSs in the public market, or the perception that such sales could occur, may adversely affect the prevailing market prices of the ADSs.

UNDERWRITERS

Morgan Stanley Dean Witter is acting as global coordinator on behalf of the various underwriters named below.

Under the terms and subject to the conditions contained in an underwriting agreement dated the date of this prospectus, the U.S. underwriters named below, for whom Morgan Stanley & Co. Incorporated, Allen & Company Incorporated and Merrill Lynch, Pierce, Fenner & Smith Incorporated are acting as the U.S. representatives, and the international underwriters named below, for whom Morgan Stanley & Co. International Limited, Allen & Company Incorporated and Merrill Lynch International are acting as international representatives, have severally agreed to purchase from us, and we have agreed to sell to them, an aggregate of 9,000,000 ADSs. The number of ADSs that each underwriter has agreed to purchase is set forth opposite its name below.

Name	Number of ADSs
U.S. Underwriters:	
Morgan Stanley & Co. Incorporated	
Allen & Company Incorporated	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Subtotal	
International Underwriters:	
Morgan Stanley & Co. International Limited	
Allen & Company Incorporated	
Merrill Lynch International	
Subtotal	
Total	9,000,000

The U.S. underwriters and the international underwriters, and the U.S. representatives and the international representatives, are collectively referred to as the "underwriters" and the "representatives", respectively. The underwriters are offering the ADSs subject to their acceptance of the ADSs from us and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the ADSs offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the ADSs offered by this prospectus if any such ADSs are taken. However, the underwriters are not required to take or pay for the ADSs covered by the underwriters' over-allotment option described below.

In the agreement between U.S. and international underwriters, sales may be made between U.S. underwriters and international underwriters of any number of ADSs as may be mutually agreed. The per ADS price of any ADSs sold by the underwriters is the public offering price listed on the cover page of this prospectus, in United States dollars, less an amount not greater than the per ADS amount of the concession to dealers described below.

The underwriters initially propose to offer part of the ADSs directly to the public at the public offering price listed on the cover page of this prospectus and part to certain dealers at a price that represents a concession not in excess of $ per ADS under the public offering price. Any underwriter may allow, and such dealers may reallow, a concession not in excess of $ per ADS to other underwriters or to some dealers. After the initial offering of the ADSs, the offering price and other selling terms may from time to time be varied by the representatives.

Morgan Stanley & Co. Incorporated expects to deliver the ADSs to purchasers against payment on , 1999.

We have granted to the U.S. underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to an aggregate of 1,350,000 additional ADSs at the public offering price listed on the cover page of this prospectus, less underwriting discounts and commissions. The U.S. underwriters may exercise this option solely for the purpose of covering over allotments, if any, made in connection with the offering of the ADSs offered by this prospectus. To the extent the option is exercised, each U.S. underwriter will become obligated, subject to some conditions, to purchase about the same percentage of the additional ADSs as the number listed next to the U.S. underwriter's name in the preceding table bears to the total number of ADSs listed next to the names of all U.S. underwriters in the preceding table. If the U.S. underwriters' option is exercised in full, the total price to the public would be $, the total underwriters' discounts and commissions would be $ and the total proceeds to us would be $.

The underwriters have informed us that they do not intend sales to discretionary accounts to exceed five percent of the total number of shares of common stock offered by them.

The ADSs have been approved for quotation, subject to official notice of issuance, on the Nasdaq National Market under the symbol "NNDS" and on the European Association of Securities Dealers' Automated Quotation.

Pursuant to the agreement between U.S. and international underwriters, each international underwriter has represented and agreed that:

- it has not offered or sold and, prior to the date six months after the closing of the sale of the ADSs to the international underwriters, will not offer or sell, any ADSs to persons in the U.K. except to persons whose ordinary activities involve them in acquiring, holding, managing, or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances that have not resulted and will not result in an offer to the public in the U.K. within the meaning of the Public Offers of Securities Regulations 1995 or as otherwise permitted by those Regulations;
- it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Series A ordinary shares in, from or otherwise involving the U.K.; and
- it has only issued or passed on and will only issue or pass on in the U.K. any document received by it in connection with the offering of the Series A ordinary shares to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996, as amended, or is a person to whom such document may otherwise be lawfully issued or passed on.

We, each of our directors and executive officers and News Corporation have agreed that, without consent of Morgan Stanley & Co. Incorporated on behalf of the underwriters, none of us will, directly or indirectly, during the period ending 180 days after the date of this prospectus:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any ordinary shares, ADSs or any securities convertible into or exercisable or exchangeable for ordinary shares or ADSs; or
- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the ordinary shares or ADSs,

whether any transaction described above is to be settled by delivery of ordinary shares or such other securities, in cash or otherwise.

The restrictions described in this paragraph do not apply in certain circumstances, including the sale of the ADSs to the underwriters in this offering:

In order to facilitate the offering of the ADSs, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the ADSs. Specifically, the underwriters may over-allot in connection with the offering, creating a short position in the ADSs for their own account. In addition, to cover over-allotments or to stabilize the price of the ADSs, the underwriters may bid for, and purchase, ADSs in the open market. Finally, the underwriting syndicate may reclaim selling concessions allowed to an underwriter or a dealer for distributing the ADSs in the offering, if the syndicate repurchases previously distributed ADSs in transactions to cover syndicate short positions, in stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of the ADSs above independent market levels. The underwriters are not required to engage in these activities, and may end any of these activities at any time.

The underwriters and we have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act.

At our request, the underwriters have reserved for sale, at the initial offering price, up to 500,000 ADSs offered hereby for our directors, officers and employees and certain other persons. The number of ADSs available for sale to the general public will be reduced to the extent such persons purchase such reserved shares. Any reserved shares which are not so purchased will be offered by the underwriters to the general public on the same basis as the other shares offered by this prospectus.

Prior to this offering, there has been no public market for the ADSs. The initial public offering price will be determined by negotiations between the U.S. representatives and us. Among the factors to be considered in determining the initial public offering price will be our future prospects and our industry in general, as well as our sales, earnings and other financial operating information in recent periods, and the price-earnings ratios, price-sales ratios, market prices of securities and other financial and operating information of companies engaged in activities similar to ours. The estimated initial public offering price range set forth on the cover page of this preliminary prospectus is subject to change as a result of market conditions and other factors.

Certain of the underwriters have from time to time provided investment banking financial advisory services to News Corporation, us and our associated entities, for which they have received customary compensation, and may continue to do so in the future. Stanley S. Shuman, an Executive Vice President and Managing Director of Allen & Company Incorporated, is a director of News Corporation.

VALIDITY OF SECURITIES

The validity of the ordinary shares underlying the ADSs we are offering will be passed upon for us by Allen & Overy, London, England, English solicitors. The validity of the ADSs will be passed upon by Squadron, Ellenoff, Plesent & Sheinfeld, LLP, New York, New York, U.S. counsel to NDS, and by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York, U.S. counsel for the underwriters. Squadron, Ellenoff, Plesent & Sheinfeld, LLP and Skadden, Arps, Slate, Meagher & Flom LLP may rely, without independent verification, upon the opinion of Allen & Overy with respect to certain matters of English law.

EXPERTS

The consolidated financial statements as of June 30, 1999 and 1998 and for each of the three years in the period ended June 30, 1999 included in this prospectus and elsewhere in the registration statement have been audited by Arthur Andersen, independent chartered accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in accounting and auditing in giving said reports.

WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form F-1 under the Securities Act with the Commission, with respect to our offering of the ADSs. This prospectus does not contain all of the information in the registration statement. You will find additional information about us and the ADSs in the registration statement. For more information about statements in this prospectus relating to legal documents, we refer you to copies of the documents that are filed as exhibits to the registration statement.

You may read and copy the registration statement, the exhibits to the registration statement and the reports and other information filed by us in accordance with the Exchange Act, at the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington D.C. 20549; Seven World Trade Center, 13th Floor, New York, New York 10048; and 500 West Madison Street, Chicago, Illinois 60661. You may obtain copies of all or any portion of the material by mail from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington D.C. at prescribed rates or by request from NDS. Those reports, proxy statements and other information may also be inspected at the offices of Nasdaq Operations, 1735 K Street, N.W., Washington, D.C. 20006. Our filings will also be available to the public from commercial document retrieval services. You may obtain information on the operation of the Commissions public reference facilities by calling the Commission in the U.S. at 1-800-SEC-0330. The Commission also maintains a WebSite at http: www.sec.gov. that contains reports, proxy statements and information statements and other information regarding registrants that file electronically with the Commission.

Upon completion of the offering, we will become subject to the informational requirements of the Securities Exchange Act of 1934 that are applicable to a foreign private issuer. Accordingly, we will file with the Commission annual reports on Form 20-F within six months after the end of each financial year and reports on Form 6-K containing material information which we publicly provide to any stock exchange on which our securities are traded or which we distribute to our shareholders. As a foreign issuer, we will be exempt from the Exchange Act rules relating to short swing profits reporting and liability and regarding the content and furnishing of proxy statements to shareholders.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

We are a company incorporated under the laws of England and Wales and a substantial portion of our assets and those of certain of our subsidiaries are located outside of the U.S. In addition, some members of our board of directors and executive officers, and the independent auditors named in this prospectus, are residents of countries other than the U.S. and substantially all of the assets of such persons are located outside of the U.S. Although we have agreed to accept service of process in the U.S. by an agent designated for such purpose, it may not be possible for holders of the ADSs to:

(1) effect service of process upon some of our directors or officers or those of our subsidiaries; or

(2) enforce against such persons, in U.S. courts or courts of a foreign jurisdiction, the judgments of U.S. courts whether or not predicated upon the civil liability provisions of U.S. federal securities laws or other laws of the U.S. or any state thereof.

We have been advised by our English legal advisors, Allen & Overy, that there is doubt as to the enforceability in the U.K. against any of these persons in an original action or in an action for the enforcement of judgments of U.S. courts or civil liabilities predicated solely upon U.S. federal securities laws. There is currently no treaty between the U.S. and England providing for the reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. As a result, a final judgment for the payment of money obtained in a U.S. court, based on civil liability, whether or not predicated solely upon U.S. federal or state securities laws, would not necessarily be enforceable in England.

We have appointed Arthur M. Siskind, Esq. c/o The News Corporation Limited, 1211 Avenue of the Americas, New York, New York 10036, as our agent for service of process in any suit, action or proceeding with respect to the Series A ordinary shares or ADSs and for actions under U.S. federal or state securities laws brought in any U.S. federal or state court located in The City of New York, Borough of Manhattan, and we will submit to such jurisdiction.

ADDITIONAL INFORMATION

Approval of Belgian Banking and Finance Commission

This prospectus has been approved by the Belgian Banking and Finance Commission ("*Commissie voor het Banken Financiewezen/Commission Bancaire et Financière*") on , 1999 in accordance with Article 29ter, §1, par. 1 of Royal Decree No. 185 of 9 July 1935 and Article 11 of the Royal Decree of 31 October 1991 on the publication of prospectuses in connection with public issues of securities. The approval of this prospectus by the Belgian Banking and Finance Commission does not imply any judgments as to the appropriateness or the quality of this offering or the ADSs nor the situation of NDS. The notice prescribed by Article 29, §1, of Royal Decree No. 185 will appear in the financial press on or prior to , 1999.

Responsibility

The directors of NDS named in this prospectus accept responsibility for the information contained in this document and declare that, to the best of their knowledge, the information contained in this document is in all material respects in accordance with the facts and does not omit anything likely to affect the meaning of this prospectus in any material respect.

Authorization

On November 1, 1999, our board of directors approved the offering of the ADSs.

Listing

We have applied to list our ADSs on the Nasdaq National Market under the symbol "NNDS" and on the European Association of Securities Dealers Automated Quotation. The first day of trading is expected to be , 1999.

Availability of Information

Companies applying for admission to trading on EASDAQ are required to publish relevant financial and other information regularly and to keep the public informed of all events likely to affect the market price of their securities. Price sensitive information will be made available to investors in Europe through the EASDAQ-Reuters Regulatory Company Reporting System and other international information vendors. Investors which have no direct access to such information system should inquire with the financial intermediary with whom the investors have opened a securities account for the purposes of holding and trading ADSs, the terms on which such information will be provided to them by such financial intermediary.

On the completion of this offering, we will become subject to the informational requirements of the Securities Exchange Act of 1934 that are applicable to a foreign private issuer. We will file with the U.S. Securities and Exchange Commission annual reports on Form 20-F including annual audited consolidated financial statements within six months after the end of each financial year and reports on Form 6-K containing material information which we publicly provide to any stock exchange on which our securities are traded or which we distribute to our shareholders. Copies of that information may be obtained from the sources indicated under "Where You Can Find More Information" in this prospectus.

A copy of our memorandum and articles of association is filed as an exhibit to the registration statement of which this prospectus forms a part and can be obtained from the sources indicated under "Where You Can Find More Information" in this prospectus. Copies of our memorandum and articles of association will also be made available to any person upon written request addressed to Company Secretary, NDS Group plc, 1 Heathrow Boulevard, 286 Bath Road, West Drayton, Middlesex UB7 0DQ, England.

Settlement and Clearance

The ADSs will be represented by one global ADR certificate that will be deposited with DTC in the United States. Transactions in the ADSs executed in the U.S. will be settled by book-entry through financial institutions that are participants in DTC.

DTC is a limited-purpose trust company that was created to hold securities for its participants and to facilitate the clearance and settlement of transactions in such securities between DTC participants through electronic book-entry changes in accounts of DTC participants. DTC participants include securities brokers and dealers, banks and trust companies, clearing corporations and certain other organizations. Access to DTC's system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. Persons who are DTC participants may beneficially own securities held by or on behalf of DTC only through DTC participants or DTC indirect participants.

The ADSs will be quoted on EASDAQ in U.S. dollars. Transactions in the offered shares on EASDAQ will be settled in U.S. dollars or any other Euroclear or Cedelbank eligible currency through the Euroclear or Cedelbank System. Morgan Guaranty Trust Company of New York, Brussels Office, is operator of the Euroclear System. Cedelbank is a société anonyme under Luxembourg law. Euroclear and Cedelbank are DTC indirect participants. Investors in the ADSs on EASDAQ must have a securities account with a financial institution that directly or indirectly has access to Euroclear or Cedelbank.

Euroclear and Cedelbank hold securities and book-entry interests in securities for their direct participants and facilitate the clearance and settlement of securities transactions between their respective participants, and between their participants and participants of certain other securities intermediaries, including DTC, through electronic book-entry changes in accounts of such participants or other securities intermediaries.

Euroclear and Cedelbank provide their respective participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services. Euroclear and Cedelbank have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Cedelbank participants are investment banks, securities brokers and dealers, banks, central banks, supranationals, custodians, investment managers, foreign depositories, corporations, trust companies and certain other organizations and include certain of the underwriters.

Cedelbank and the Euroclear operator will not monitor any transfer and ownership restrictions.

Persons proposing to trade the ADSs on EASDAQ should inform themselves about the costs of such trading.

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NDS GROUP PLC

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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 (formerly News Digital Systems plc) as of 30 June 1999 and 1998 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 1999, all expressed in pounds sterling and prepared on the basis set forth 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 the NDS Group plc at 30 June 1999 and 30 June 1998 and the results of their operations and their cash flows for each of the three years in the period ended 30 June 1999, 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 forth in Note 28.

Arthur Andersen
Chartered Accountants

London, England
November 1, 1999

NDS GROUP PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	Notes	Year ended 30 June 1997	Year ended 30 June 1998	Year ended 30 June 1999
		£'000	£'000	£'000
Turnover				
Continuing operations		89,022	101,332	127,574
Discontinued operations		78,515	87,465	88,348
	2,3	167,537	188,797	215,922
Cost of sales	3	(89,256)	(90,276)	(101,020)
Gross profit		78,281	98,521	114,902
Operating expenses	3	(69,981)	(87,394)	(98,029)
Operating profit (loss)				
Continuing operations		5,742	8,137	18,734
Discontinued operations		2,558	2,990	(1,861)
	3	8,300	11,127	16,873
Finance charges (net)	4	(11,066)	(10,444)	(13,205)
Profit (loss) on ordinary activities before taxation	5	(2,766)	683	3,668
Taxation	6	312	(508)	(1,194)
Profit (loss) on ordinary activities after taxation		(2,454)	175	2,474
Minority interests	18	(527)	(293)	(356)
Profit (loss) for the financial year		(2,981)	(118)	2,118
Basic and diluted earnings (loss) per share	7	(7.1p)	(0.3p)	5.0p

The statement of movements in reserves and the reconciliation of movements in shareholders' funds are provided in Note 17 (c).

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

NDS GROUP PLC

CONSOLIDATED STATEMENTS OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	Year ended 30 June 1997	Year ended 30 June 1998	Year ended 30 June 1999
		£'000	£'000	£'000
Profit (loss) for the financial year		(2,981)	(118)	2,118
Foreign exchange translation	17c	(192)	(88)	398
Total recognised profit (losses) relating to the year		(3,173)	(206)	2,516

The accompanying notes form an integral part of this consolidated statement of total recognised gains and losses.

NDS GROUP PLC

CONSOLIDATED BALANCE SHEETS

	Notes	30 June 1998 £'000	30 June 1999 £'000
Fixed assets			
Intangible assets	9	34,928	32,652
Tangible assets	10	31,550	34,851
		66,478	67,503
Current assets			
Stocks	11	18,303	33,258
Debtors—due within one year	12	42,665	75,405
—due after one year	6	8,717	3,307
Cash at bank and in hand	13	4,214	2,690
		73,899	114,660
Creditors			
Amounts falling due within one year	14	(74,194)	(120,637)
Net current liabilities		(295)	(5,977)
Total assets less current liabilities		66,183	61,526
Creditors			
Amounts falling due after one year	15	(132,996)	(133,540)
Provisions for liabilities and charges	16	(20,322)	(12,120)
Net liabilities		(87,135)	(84,134)
Capital and reserves			
Share capital	17	264	264
Profit and loss account	17	(263,932)	(261,416)
Capital contribution	17	133,265	133,265
Total equity shareholders' funds		(130,403)	(127,887)
Non equity capital	17	42,000	42,000
Total shareholders' funds		(88,403)	(85,887)
Minority interests	18	1,268	1,753
Total capital employed		(87,135)	(84,134)

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

NDS GROUP PLC

CONSOLIDATED CASH FLOW STATEMENTS

	Notes	Year ended 30 June 1997	Year ended 30 June 1998	Year ended 30 June 1999
		£'000	£'000	£'000
Net cash inflow (outflow) from operating activities	19	14,971	39,707	(25,255)
Returns on investments and servicing of finance	20	(1,555)	(10,444)	(13,205)
Taxation	20	(980)	(2,193)	(1,612)
Capital expenditure and financial investment	20	(19,336)	(12,815)	(13,334)
Cash (outflow) inflow before financing		(6,900)	14,255	(53,406)
Financing	20	(6,005)	(57)	10,546
(Decrease) increase in cash in the year	21	(12,905)	14,198	(42,860)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting policies and principal activity

NDS Group plc (the "Company") is incorporated in England and Wales. It changed its name from News Digital Systems plc on 19 August 1999. The Company, together with its subsidiaries (the "NDS Group"), is engaged in the business of providing conditional access 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 26a). The results of that business are shown as discontinued operations in the accompanying financial statements.

Accounting standards and pronouncements which come into effect subsequent to 30 June 1999 include Financial Reporting Standard ('FRS') 15 "Tangible Fixed Assets" under U.K. GAAP and SFAS 133 'Accounting for Derivative Investments and for Hedging Activities' under U.S. GAAP. Compliance with these standards, to the extent that it is not already achieved, will be ensured in future periods. The main impact is likely to result in additional disclosures being made in the financial statements. We expect minimal disclosure impact from SFAS 133 because the Company has no instruments that fall within its scope. In addition, compliance with those standards which apply to entities with listed securities only, including FRS 13 "Derivatives and Other Financial Instruments: Disclosures" under U.K. GAAP will be ensured where appropriate.

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, all its subsidiary undertakings and NDS Americas Inc. (see below) drawn up to 30 June each year. All intercompany transactions and balances have been eliminated on consolidation.

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 immediate parent of the Company is Newscorp Investments which, together with its subsidiary undertakings, is referred to herein as "The Newscorp Investments Group".

The NDS Group has an operational presence in the USA, whose activities are carried out through NDS Americas Inc. which is a company not owned by the NDS Group, but by another entity within The News Corporation Group. NDS Americas Inc. is consolidated in these financial statements since, under U.K. GAAP and in accordance with section 258 of the Companies Act 1985, there is 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. is recorded under U.K. GAAP. Information about minority interests is disclosed in Note 18.

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. There were no acquisitions or disposals during the three years presented.

(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) *Research and development*

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

(e) *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

(f) *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 items, includes an appropriate proportion of production overheads. Provision is made for obsolete, slow-moving or defective items where appropriate.

(g) *Debtors*

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

(h) *Foreign currency*

The reporting currency and principal functional currency of the NDS Group is UK pounds sterling. However, 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.

Normal trading activities denominated in foreign currencies are recorded in sterling 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.

(i) *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 recognized.

(j) *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 television broadcasters and content providers. Conditional access systems enable such customers to manage and control the distribution of programs and information and to protect such content from signal theft. The NDS Group 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 PC's. 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, NDS 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 the 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 are included within the profit and loss account as part of cost of sales.

—Development contracts

Some of the NDS Group's development contracts have characteristics of long-term contracts as defined in Statement of Standard Accounting Practice No. 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 total contract value completed, ascertained by reference to percentage of technical completion.

The duration of development contracts undertaken 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, no 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.

—Royalty income

Royalty income is recognised in the period in which it is earned.

—Broadcast products

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

(k) *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.

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 shown as either accruals or prepayments in the balance sheet

(l) *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.

(m) *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.

(n) *Leases*

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

(o) *License agreements*

The NDS Group has the right to use certain intellectual property under various license agreements. Royalties payable under these 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. One of these agreements is with a related party.

(p) *Use of estimates*

The preparation of the consolidated 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) *Geographical destination*

Turnover may be analysed by geographical destination as follows:

	Year ended 30 June 1997	Year ended 30 June 1998	Year ended 30 June 1999
	£'000	£'000	£'000
UK	36,476	49,631	73,334
Europe excluding UK	30,083	30,427	27,965
USA	53,768	59,350	76,700
Americas excluding USA	16,818	22,336	16,555
Asia – Pacific	30,392	27,053	21,368
	167,537	188,797	215,922

(b) *Geographical origin*

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 1997	Year ended 30 June 1998	Year ended 30 June 1999
	£'000	£'000	£'000
UK	166,360	178,117	188,414
USA	1,177	10,680	27,508
	167,537	188,797	215,922

(ii) Profit (loss) on ordinary activities before taxation

	Year ended 30 June 1997	Year ended 30 June 1998	Year ended 30 June 1999
	£'000	£'000	£'000
UK	(3,293)	236	3,120
USA	527	447	548
	(2,766)	683	3,668

(iii) Net assets (liabilities)

	30 June 1998	30 June 1999
	£'000	£'000
UK	(88,403)	(85,887)
USA	1,268	1,753
	(87,135)	(84,134)

(iv) Fixed assets

		30 June 1998	30 June 1999
		£'000	£'000
Intangible assets:	UK	34,928	32,652
	USA	—	—
		34,928	32,652
Tangible assets:	UK	28,933	32,141
	USA	2,617	2,710
		31,550	34,851
Total fixed assets:	UK	63,861	64,793
	USA	2,617	2,710
		66,478	67,503

(c) *Business segments*

The Group has two business segments being the provision of integrated broadcasting system software and the development and manufacture of digital compression products (the discontinued operation). A number of revenue streams are associated with the former segment.

These two business segments have separate operational management, operate from different locations and offer distinct products and services, which require 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 the digital compression products segment are shown in Note 3. The digital broadcasting business, which consisted solely of this segment, was sold on 1 July 1999. The net assets of this disposed segment are shown in Note 26a.

(d) *Principal customers*

Turnover from related parties is disclosed in Note 24b. Turnover from the principal third party customer of the continuing operations (defined as a customer accounting for greater than 10% of total turnover) is £28,240,000 (1998 : £17,165,000; 1997: £19,484,000).

Substantial revenues are derived from businesses in which The News Corporation Group has an equity interest (see Note 24).

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 1999*

	Continuing operations	Discontinued operations	Total
	£'000	£'000	£'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 and Goodwill amortization)	(55,297)	(28,736)	(84,033)
Trading profit	20,103	10,766	30,869
Royalties	—	(11,720)	(11,720)
Goodwill amortization	(1,369)	(907)	(2,276)
Operating profit (loss)	18,734	(1,861)	16,873
Operating expenses comprise:			
Sales and marketing	(7,012)	(7,210)	(14,222)
Research and development	(36,050)	(12,732)	(48,782)
General and administration	(13,794)	(8,794)	(22,588)
Gain on foreign exchange movements	1,559	—	1,559
	(55,297)	(28,736)	(84,033)

(b) *Year ended 30 June 1998*

	Continuing operations	Discontinued operations	Total
	£'000	£'000	£'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 and Goodwill amortization)	(43,101)	(27,637)	(70,738)
Trading profit	9,506	18,277	27,783
Royalties	—	(14,380)	(14,380)
Goodwill amortization	(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)	(11,292)	(34,168)
General and administration	(11,285)	(10,374)	(21,659)
Loss on foreign exchange movements	(2,405)	—	(2,405)
	(43,101)	(27,637)	(70,738)

(c) *Year ended 30 June 1997*

	Continuing operations	Discontinued operations	Total
	£'000	£'000	£'000
Turnover	89,022	78,515	167,537
Cost of sales	(49,003)	(40,253)	(89,256)
Gross profit	40,019	38,262	78,281
Operating expenses (excluding Royalties and Goodwill amortization)	(32,908)	(21,607)	(54,515)
Trading profit	7,111	16,655	23,766
Royalties	—	(13,190)	(13,190)
Goodwill amortization	(1,369)	(907)	(2,276)
Operating profit	5,742	2,558	8,300
Operating expenses comprise:			
Sales and marketing	(2,310)	(2,339)	(4,649)
Research and development	(20,555)	(10,992)	(31,547)
General and administration	(8,109)	(8,276)	(16,385)
Loss on foreign exchange movements	(1,934)	—	(1,934)
	(32,908)	(21,607)	(54,515)

4. Finance charges (net)

	Year ended 30 June 1997	Year ended 30 June 1998	Year ended 30 June 1999
	£'000	£'000	£'000
Net interest payable on amounts due to The News Corporation Group (see Notes 14 & 15)	11,345	10,378	13,262
Other interest receivable	(365)	(8)	(57)
Other interest payable	86	74	—
	11,066	10,444	13,205

All the finance charges are attributable to the continuing operations.

5. Profit (loss) on ordinary activities before taxation

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

	Year ended 30 June 1997	Year ended 30 June 1998	Year ended 30 June 1999
	£'000	£'000	£'000
Depreciation of tangible fixed assets	5,718	8,852	11,045
Amortisation of goodwill	2,276	2,276	2,276
Foreign exchange losses (gains)	1,934	2,405	(1,559)
Primary auditors remuneration:			
—Audit services	125	115	115
—Non-audit services	92	172	35
Secondary auditors remuneration:			
—Audit services	13	15	17
Release of deferred capital government grants	(353)	(287)	(672)
Management fees payable to The NewsCorp Investments Group	600	600	656
Operating lease costs	1,901	3,165	3,598
Directors' emoluments (including pension contributions)	404	561	612
Employee costs (see Note 5b)	34,321	45,880	54,814

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

(b) *Employee costs*

The average monthly number of employees (including executive directors) was:

	Year ended 30 June 1997	Year ended 30 June 1998	Year ended 30 June 1999
	Number	Number	Number
Development and manufacture of digital compression products	411	518	594
Provision of integrated broadcasting system software	450	623	717
	861	1,141	1,311

An analysis of total employee costs is as follows:

	Year ended 30 June 1997	Year ended 30 June 1998	Year ended 30 June 1999
	£'000	£'000	£'000
Wages and salaries	31,345	42,191	50,429
Social security costs	1,760	2,235	2,697
Pension costs	1,216	1,454	1,688
	34,321	45,880	54,814

(c) *Pensions*

The group provides pension arrangements to 103 full-time employees through a defined benefit scheme and the related costs are assessed in accordance with the advice of professionally qualified actuaries.

The main assumptions used in the most recent actuarial valuation of the scheme, which was conducted as at 1 December 1998, are as follows:

long-term investment yield	7% p.a.
rate of increase in salaries	5.5% p.a.
rate of increase in pensions in payment	3.5% p.a.

The market value of the scheme assets estimated as at 30 June 1999 was £11,279,000 which represents a level of funding of 91%. The deficit should be eliminated by increased contributions in the future. 81 of the members were transferred with the digital broadcasting business and the NDS Group will not be liable for any deficit attributable to these employees.

The pension cost for the year was:

	Year ended 30 June 1997	Year ended 30 June 1998	Year ended 30 June 1999
	£'000	£'000	£'000
Defined contribution scheme	554	753	1002
Defined benefit scheme	662	701	686
	1,216	1,454	1,688

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

6. Taxation

	Year ended 30 June 1997	Year ended 30 June 1998	Year ended 30 June 1999
	£'000	£'000	£'000
UK Corporation tax at 30.75% (1998 31.0%; 1997 32.5%)	(1,773)	3,617	(5,768)
Movement on deferred taxation	1,111	(3,640)	5,410
Overseas taxation	350	531	1,552
	(312)	508	1,194

The charge (credit) for U.K. Corporation tax represents amounts surrendered by (to) The Newscorp Investments Group in respect of tax group relief.

The Group is subject to taxation on the profits of its overseas subsidiaries. All profits arise on transactions with UK Group companies. It is also subject to taxation on certain remittances from overseas subsidiaries and 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 1997	Year ended 30 June 1998	Year ended 30 June 1999
	£'000	£'000	£'000
Profit (loss) on ordinary activities before taxation	(2,766)	683	3,668
Prima facie tax rate	32.50%	31.00%	30.75%
Prima facie tax charge (credit)	(899)	212	1,128
Tax charge (credit)	(312)	508	1,194
Difference	(587)	(296)	(66)
Difference due to:			
Different tax rates on profits earned outside of U.K.	1,006	839	856
Effect of changes in tax rate	(339)	(319)	—
Permanent differences			
Non-deductible goodwill	(740)	(706)	(700)
Non-deductible expenses	(514)	(110)	(222)
	(587)	(296)	(66)

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 1998	30 June 1999
	£'000	£'000
Short term timing differences on accrued expenses	5,240	1,304
Long term timing differences on fixed assets	580	803
Timing differences attributable to royalty payments	2,897	1,200
	8,717	3,307

There were no unrecognised deferred tax assets or liabilities at 30 June 1999 or 30 June 1998, with the exception that potential deferred tax assets arising from the indexation of certain assets of the Group's operations in Israel.

The tax charge (credit) may be analysed between continuing and discontinued operations as follows:

	Year ended 30 June 1997	Year ended 30 June 1998	Year ended 30 June 1999
	£'000	£'000	£'000
UK Corporation tax			
Continuing operations	(994)	(821)	(2,925)
Discontinued operations	(779)	4,438	(2,843)
	(1,773)	3,617	(5,768)
Movement on deferred tax			
Continuing operations	(834)	(446)	2,801
Discontinued operations	1,945	(3,194)	2,609
	1,111	(3,640)	5,410
Overseas taxation			
Continuing operations	350	531	1,552
Discontinued operations	—	—	—
	350	531	1,552
Total tax charge (credit)			
Continuing operations	(1,478)	(736)	1,428
Discontinued operations	1,166	1,244	(234)
	(312)	508	1,194

The NDS Group's Israeli subsidiary has been granted "approved enterprise status" for certain of its investment and expansion programmes under Israeli law. As at 30 June 1999 five programmes were applicable to the group.

Two of the programmes are entitled to receive grants of 38% of the cost of the approved fixed assets and will be subject to 10% company tax on the proportion of taxable income arising from the programmes for a period of ten years commencing with the first year of taxable income (subject to certain time limits). The period of benefits relating to these programmes will expire no later than the years ending 30 June 2002 and 30 June 2005.

The other programmes are to receive grants of 24% of the costs of the approved fixed assets. The company is entitled to a tax holiday from the first two years and to 10% company tax on the proportion of taxable income arising from the programmes for the subsequent eight years (also subject to certain time limits). The period of benefits relating to two of these programmes will expire no later than the years ending 30 June 2006 and 30 June 2007. The benefit period for the latest programme not yet fully implemented, has not commenced.

If the company fails to comply with the conditions of the approval, it will be required to refund the amount of the grants, in whole or in part, with interest from the date of receipt of the grants. The company has registered a floating charge on its plant and equipment in favour of the State of Israel to secure compliance with the terms of the grants.

Any cash dividends paid out of profits derived from an approved enterprise are generally subject to a witholding tax of 15%. Cash dividends paid out of income, which has benefited from the aforementioned tax holiday, would result in the company having to pay corporate tax, at the above mentioned reduced rate, on the amount distributed.

In the event of distribution of cash dividends from income taxed at zero rate, a reduced tax rate in respect of the amount distributed would have to be paid. As of June 30, 1999, a distribution of all accumulated profits as a cash dividend would result in an additional tax expense which would approximate $560,000 as the tax rate which applies to such distribution would be 10%. Effectively such dividend distribution would be reduced by the amount of the tax.