



BRITISH SKY BROADCASTING GROUP PLC
ANNUAL REPORT 1999

THINKING OUTSIDE THE BOX

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OUR VISION REMAINS THE SAME.
BE THE FIRST. BE THE BEST. SEE
BEYOND THE HORIZON AND
REMOVE ALL OF THE BARRIERS.

THINK OUTSIDE THE BOX.

Chairman's Statement

1998/99 was a momentous year for BSkyB. The year in which we celebrated our tenth anniversary. Back in 1989, BSkyB pioneered a new age of television in Britain, providing four channels that offered competition and quality choice to viewers. **Just ten years later we launched Sky digital – the country's first digital television platform.**

RUPERT MURDOCH
CHAIRMAN



Sky digital has got off to a great start. After just ten months we attracted more than 1,000,000 digital customers, which is an enormous achievement. I would like to thank all our staff, whose creative and innovative spirit made it possible.

Results 1998/99 We made a huge investment in distribution and programming for the digital launch, an investment which has had an adverse impact on profits and cash flows this year, but which will prove extremely worthwhile. In May 1999 we announced a new strategy to drive subscriber growth by giving customers a free set-top box, discounted telephony and free Internet access. I am confident that this will create significant value for shareholders and bring the benefits of digital to more and more British homes. BSkyB operates in a fast-developing high-technology market. By investing in our business, we have unprecedented opportunities to achieve higher returns for shareholders. To make the most of these opportunities and maintain gearing at efficient levels, the Board has suspended dividend payments at this time. Cash generation from operating activities remains excellent and the effect of investment on profits should be seen in the light of the excellent digital customer numbers.

Our future At BSkyB we are determined to become the leading provider of entertainment, information and communication to British homes in the broadband age. Our aim is to bring Sky digital to every home in the country – as quickly as possible. How? By removing barriers to customer take-up with our free box offer, by creating programming that is unique and relevant to each customer and by developing an array of New Media services.

Our free box offer puts us in a strong position to attract new customers and transition existing customers to digital. Our investment in original production will provide our customers with the very best content available – whether they want movies, documentaries, drama or sports. We are also optimising New Media opportunities that will play a crucial role in our future success. We have

already built on the success of our website with the launch of our ISP, Skynow, and are currently introducing enhanced television, allowing interactive viewing of football. Open will allow home shopping and banking via the television.

Management There have been a number of changes to the Board during the year. On 31 May 1999, Mark Booth left his post as Chief Executive to run e-partners, a subsidiary of News Corporation. I would like to thank Mark for the excellent job he did at BSkyB, leading the most successful digital launch the world has seen. Tony Ball became Chief Executive on 2 June 1999, joining us from Fox/Liberty Networks. From 1993, Tony spent three years at BSkyB during which time he held the positions of Head of Production and Operations of Sky Sports and General Manager, Broadcasting. I am delighted that he accepted the challenge of continuing BSkyB's success in British television history. Sam Chisholm, Chief Executive from November 1990 to November 1997, retired as a Non-Executive Director on 5 May 1999. David Chance, Deputy Managing Director from January 1994 to December 1997 retired as a Non-Executive Director on 9 August 1999. Graham Parrott also retired as a Non-Executive Director on 29 October 1998. I thank them all for their enormous contribution to the success of BSkyB. I would also like to take this opportunity to welcome Morton Topfer and Letizia Moratti who joined the Board as Non-Executive Directors early in May 1999.

Outlook I would like to congratulate all our colleagues on their inspired and strong leadership in achieving the launch of digital and on developing the Company's strategy to take advantage of the opportunities of the broadband world. The success of the digital launch provides a strong foundation on which to build innovative New Media services. These will help to change our customers' lives for the better. They will also build the Sky brand in the new world of broadband entertainment, information and communication.



Chief Executive's Statement

During 1998/99 we reinvented BSkyB in order to play a leading role in the broadband age. By optimising the creativity and innovation that exist right across the Company, we are determined to become the leading provider of broadband entertainment, information and communication to British homes. **This has been a year of firsts. We launched the first digital platform in Britain, achieving the fastest launch of any digital platform anywhere in the world. Later in the year we announced a new strategy to accelerate digital take-up, reinventing ourselves by radically enhancing our customer proposition.**

TONY BALL
CHIEF EXECUTIVE



In the process we became the first broadcaster to offer free Internet access. We also announced plans to invest significantly in new technologies for the future, using our expertise in broadband technology to develop an array of innovative new products. Soon we will become the first broadcaster to offer enhanced television. We are also developing digital text. In short, we are leading change, not being led by it.

Financial perspective Turnover of £1,545 million was up 8% on last year. Advertising revenue increased by 11% to £217 million, outperforming the estimated growth in the market. Due to significant investment in programming and distribution for digital, the free box offer and BiB, profits were down on the previous year. Operating profits before exceptional items were down 46% at £185 million. Profit before tax and exceptional charges was £198 million lower at £73 million.

The digital launch At BSkyB we are changing the way people use and interact with their televisions, using digital technology to bring control and choice to our customers. Sky digital launched in October 1998 and the response was phenomenal.

At the beginning of May, when we launched our free offer, we had made over 550,000 digital sales. No other digital launch has been this successful. After four months, Direct TV in the US had around 200,000 subscribers in a substantially larger population; Canal Satellite in France had around 100,000.

Customer satisfaction So what do our customers think of Sky digital? Research tells us that, for them, digital is measurably more attractive than analogue. Satisfaction ratings of digital customers are a massive 25% higher than those of analogue customers, and the proportion of customers who think digital is good value for money has gone up by 30% compared with analogue. Customers are also actively taking advantage of the choice and control digital delivers. Because they believe digital offers better value, they're buying more premium packages. As a result, digital customers provide a higher, more reliable revenue stream than analogue customers. In fact, at 30 June 1999, the pay to basic ratio for digital was 319%, while for analogue it was 290%.

Free box offer Digital television is a huge consumer hit, and our aim is to bring digital to every home in the country, as quickly as possible because, by increasing the number of digital customers, we increase the value of our Company. Digital also offers us cost savings compared with analogue, as well as significant new revenue opportunities and lower churn.

Our strategy is simple. Remove any barrier to taking digital and introduce a raft of exciting new benefits. On 5 May 1999, we announced that we would give away the set-top box free, meaning that to connect to Sky digital, the only standard cost is a £40 installation fee and a monthly subscription. There is no monthly box rental, no connection charge and no other upfront cost.

We also introduced free Internet access through Skynow, our ISP, as well as 40% off BT basic rates, including Internet calls, through Skytalk, a telephony offer. This allows our customers to keep their BT line rental and security, but benefit from much cheaper calls. We are able to make these offers because we have enormous confidence in our product. Once they have Sky digital, we know our customers will want to keep it. Especially when it transforms the television into an interactive tool.

The new offer has had a dramatic effect on the take up of Sky digital. At the end of July 1999 there had been over 1.2 million sales and the Company had installed over 1 million digital customers. While sales in May 1999 were weighted towards existing analogue customers transitioning to digital ("transition customers"), the numbers sold to new customers have increased markedly as the new offer became available through retailers, rising to 54% of total sales in June 1999 and 55% in July 1999. The increase in demand from new customers will be reflected in customer numbers in July and August 1999.

Our capacity to use the Internet to attract customers will improve rapidly, as more and more consumers become used to using the Internet to buy products and services. We also hope to develop ways of using the Internet as a management tool.

DIGITAL SALES NUMBER OF SALES			
	Q2 TO 31/12/98	Q3 TO 31/3/99	Q4 TO 30/6/99
TOTAL	279,000	185,000	476,000
NEW	82,000	95,000	189,000

DIGITAL CUSTOMERS CUSTOMERS			
	Q2 TO 31/12/98	Q3 TO 31/3/99	Q4 TO 30/6/99
TOTAL	225,000	203,000	325,000
NEW	70,000	95,000	116,000

IMPACT OF NEW OFFER CUSTOMERS PER MONTH		
	PRE 5 MAY OFFER	POST 5 MAY OFFER
TOTAL	69,000	176,000
NEW	26,000	75,000





New technology; new services The world around us is changing fast. Broadband technology is revolutionising the delivery of entertainment and information across every type of hardware. We are determined that BSkyB will play a key role in this new world. Of course, we already have state-of-the-art broadband technology and so are well positioned to deliver innovative services that will change the way people live their lives forever.

Consider Open, the interactive television service. In a world that demands more choice, more convenience and more control, Open delivers in abundance. Open takes digital technology further than ever before. It allows customers to do what they want, when they want to, but without the constraints that limit e-commerce in its Internet form. Because Open is television-based it makes e-commerce a

mass market opportunity. Our customers will be able to play, learn, shop, bank, explore, respond to and communicate with the world, all through the most familiar and intensively used medium in the home – the television set.

We are taking advantage of the huge increases in bandwidth delivered by digital by expanding our enhanced television and Near-Video-On-Demand services. At the beginning of the 1999/00 football season in August, we will launch an innovative and exciting new service, Sky Sports Extra. This enables viewers to select highlights, replays, match statistics and an alternative camera angle, while keeping the live game in view. By enhancing sports coverage, we hope to drive subscriptions. Over the next few months, similar services will be introduced to Sky News and will be extended to other sports on Sky Sports.



From the autumn, our existing digital offering will be enhanced when we upgrade our pay-per-view movie service, Sky Box Office, from 48 to 72 screens.

Programming In our business, content is everything. Regardless of how we deliver services to our customers, they buy content, not technology. Last year we promised more choice and made a commitment to produce more of our own programming. This is because we know what our customers want to see. Our own original programming makes us less dependent on third party suppliers, and provides an excellent stream of revenue for the future.

Sky Pictures, which has now completed six feature films, gets us off to a good start. The first of these, Tube Tales, will be screened in November 1999. Our original series are also proving to be extremely popular. Ibiza Uncovered was sold to Channel Four after it first aired on Sky One and achieved huge ratings, beating established Channel Four favourites such as Brookside, The Word and NYPD Blue.

During the year we maintained the position of Sky One as the most popular entertainment channel in multi-channel homes, providing an enthralling range of first run and original programming. Sky News was widely acclaimed as providing the best coverage of the crisis in Kosovo. Our joint venture channels built audience share, proving their intrinsic value to the Company. Our relaunched movie channels – Sky Premier, Sky MovieMax and Sky Cinema – have proved hugely popular, helping to make Sky synonymous with film, while Sky Sports continues to be the benchmark against which all sports broadcasting is measured.

Distribution We have enhanced our call centres in Scotland further to provide the highest standards of customer service. Over the past year we have appointed a new management team and have recruited and are training an extra 3,000 Customer Service Representatives to deal with the massive increase in calls relating to the demand for digital. Across the country over 2,000 extra trained installers have been put in place to deliver digital faster.

BSkyB and the community Changing our customers' lives for the better is at the core of everything we do. Fundamental to this is our understanding that we must be

part of the communities we serve and, as a result, social issues are at the heart of our marketing activities. We believe that our contribution to the British public must have lasting value. Our focus is on encouraging young people to develop themselves through education, the performing arts, television and sports projects. Themes that reflect our intrinsic interests and values as well as making the most of our commercial experience.

This past year we have developed the Sky Soccer Roadshows which provide free professional soccer coaching to children from socially disadvantaged backgrounds across the country. Sky Television Production Workshops at the National Museum of Photography, Film and Television in Bradford offer families the unique opportunity to learn how a television programme is made. We also support various grass roots film, theatre and writing programmes such as The Script Factory, The Actor's Centre and Chicken Shed, as well as The Royal Court Theatre and RADA, and underwrite many national and local education programmes both for youths and adults.

BSkyB is also the Official Broadcast Sponsor of the Millennium Experience. Our millennium commitment has two elements. 'Reach for the Sky', our biggest social marketing programme to date, aims to provide young people nationwide with the tools to enable them to think about their talents and explore creative career options. In addition, we are host to Skyscape, the entertainment zone at the Dome. On Europe's largest cinema screens we will show a Sky television original short film as well as an exclusive millennium episode of Blackadder. This special Blackadder will then be shown exclusively on Sky in 2001. This is a major coup for BSKyB, reinforcing our commitment to the best of British talent.

Our future 1998 was the year digital technology changed television. 1999 is the year in which interactive television will begin to change the way we live our lives. Digital before interactivity was just the start, like PCs before the advent of the Internet. Our head start in the new digital world is due directly to the determination, passion and sheer hard work of our people. I would like to take this opportunity to congratulate them on their amazing achievement. I believe we can look forward to a rewarding and successful future, and can be confident of BSKyB's ability to succeed in the new broadband millennium.

Operating and Financial Review

The considerable investment associated with the launch of Sky digital and the free set-top box offer has meant that, whilst revenues continued to grow, operating profits before exceptional items were down 46% at £185 million. Profit before tax and exceptional charges of £73 million was £198 million lower, principally due to reduced operating profits and a £39 million increase in operating losses of British Interactive Broadcasting ("BiB"). After exceptional charges of £461 million, the Group recorded a loss before tax of £389 million.

MARTIN STEWART
CHIEF FINANCIAL OFFICER



Turnover Operating revenues grew by 8% to £1,545 million.

Subscriber revenues, which account for 80% of total turnover, grew 3% year-on-year. Direct-to-home revenue, which accounts for 63% of total turnover, increased by £11 million to £979 million, primarily reflecting increased yield per subscriber. Wholesale revenues, including, for the first time, digital terrestrial television ("DTT") revenues from ONdigital, rose 11% to £253 million, mainly due to a 15% increase in cable subscriber numbers. The yield per cable subscriber has continued to decline, as cable operators drive penetration using low cost entry packages comprising a few basic channels with a telephony service.

Advertising revenue increased by 11% to £217 million, outperforming the estimated revenue growth in the UK television market of 8%.

Programming costs have risen by £100 million (14%) to £787 million.

Sports costs, which represent 40% of total programming costs, have grown by 11% to £318 million. This has been driven by an increase of £27 million in football costs, mainly due to contractual increases in Premier League and Football League costs, together with the first season of the new Scottish Premier League contract. The increase was also attributable to the Cricket World Cup and to Sky Sports News, which was launched in August 1998.

Movie costs increased by 22% to £238 million, mainly due to an increase in output movies, the number of megahits, and new movie deals. These cost increases were partly offset by a slight decrease in the number of cable movie subscribers.

An increase in entertainment programming costs by 28% to £58 million reflects increased investment in commissioned programming, which accounted for 32% of Sky One costs. The cost of acquisition rights for popular US series also rose.

Carriage costs paid to third party channels rose by 7% to £139 million, following contractual increases in the rates paid per subscriber for the analogue service and the impact of new channel launches for the digital service.

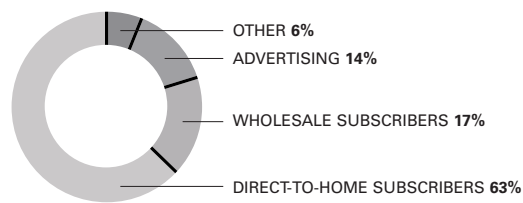
Other operating costs Marketing costs increased by £48 million to £216 million, driven by a £40 million increase in above-the-line expenditure to £69 million. This was due to the advertising campaign supporting the digital launch and the successful relaunch of the channels. The acquisition costs of new digital subscribers and the costs of transitioning analogue subscribers to the digital service up until the launch of the new offer, were offset by a decrease in analogue acquisition spend.

Subscriber related costs increased £62 million to £154 million, driven by the £38 million cost of digital set-top boxes before the new offer. The remaining £24 million was due to increased subscriber handling costs, together with increased infrastructure costs. The Group continues to invest in its subscriber management operations in order to provide the best service levels for its customers.

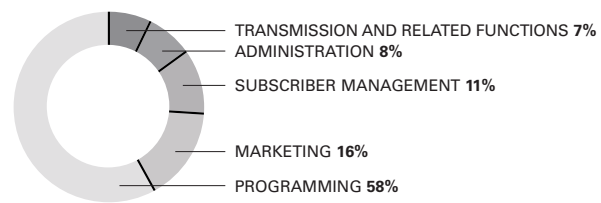
Transmission and related functions rose by £21 million to £91 million, due to the enlarged infrastructure required to support both analogue and digital services.

The expected step change in overheads occurred due to the additional infrastructure required for digital with overheads increasing by £36 million to £112 million.

SPLIT OF TURNOVER



SPLIT OF OPERATING COSTS



Operating margin (before exceptionals) decreased from 24% to 12%, with the growth in revenues being outstripped by the considerable investment in both programming and distribution associated with the roll out of Sky digital.

Exceptional items Pre-tax exceptional items comprise the digital transition provision of £450 million (£315 million post tax), £5 million of consequent financing costs and the costs relating to the aborted Manchester United PLC bid of £6 million.

Joint ventures The Group's share of net operating losses from joint ventures increased to £58 million. This was largely due to BiB as it started subsidising the cost of set-top boxes. The Group continues to invest in its programming joint ventures managed by its wholly owned subsidiary Sky Ventures. Whilst the performance of many of these channels is improving, this has been offset by losses from new ventures such as MUTV and Music Choice.

Interest Net interest costs (before exceptionals) of £55 million increased by £2 million compared to the prior year, due to the increase in average borrowings offset by a decrease in average interest rates payable.

Taxation The effective tax rate on ordinary activities excluding joint venture losses is 30%, before taking into account ACT and prior year adjustments. Full tax relief on exceptional items resulted in an overall tax credit of £104 million.

Dividends The Board is convinced that the policy to drive subscriber growth will create significant value for our shareholders. The Group operates in a fast developing and high technology market and currently has opportunities to achieve strong returns for its shareholders by the investment of funds in its businesses. These opportunities to invest in organic growth, together with the objectives of maintaining gearing at efficient levels, led to the Board's announcement in May, suspending dividend payments to shareholders. Accordingly, no final dividend is proposed.

The Board intends to return excess capital to shareholders through dividends and/or share re-purchases at the appropriate time.

Cash flow Following the significant investment in the digital roll out, operating cash flow decreased by £166 million to £238 million. This, combined with the purchase of an 11.1% stake in Manchester United (£67 million), net interest paid (£51 million), dividends and tax paid (£131 million), capital expenditure (£76 million) and joint venture funding (£68 million), resulted in a £147 million increase in net debt during the year, to £665 million at year end.

Capital expenditure Totalled £76 million in fiscal 1999 (1998: £82 million). The main areas of expenditure were continued investment in digital technology, the Sky Networks building, a studio for Sky Sports News and a new building in Scotland for telemarketing services.

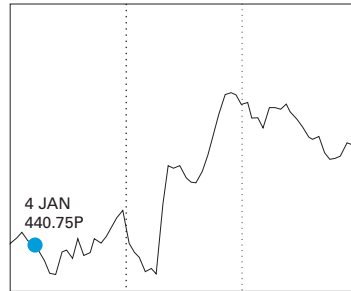
Financing The Group has refinanced its debt during the year and subsequent to the year end, to provide the flexibility to deal with the increased requirements for financing during the digital roll out period.

In February 1999 the Group issued a US\$600 million ten-year global bond. The proceeds, which were used to pay down bank debt, have been swapped into sterling at an average floating rate of six-month sterling LIBOR plus 127 basis points.

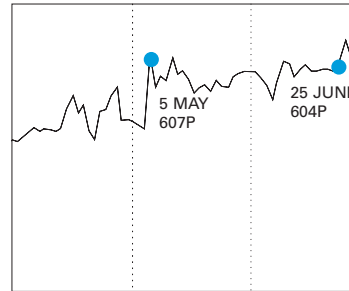
At the start of the new financial year, the Group's £1 billion revolving credit facility was cancelled and replaced by a new £750 million facility. The new facility will mature in five years, and interest will accrue at rates between 0.50% and 1.40% per annum above LIBOR, depending on the Group's credit rating.

In July 1999, the Group issued US\$650 million and £100 million of ten-year global Regulation S/144A bonds with SEC registration rights. The proceeds of the dollar bonds have been swapped into sterling at a fixed

SHARE PRICE HIGHS/LOWS
Q3 JANUARY – MARCH 1999



SHARE PRICE HIGHS/LOWS
Q4 APRIL – JUNE 1999



semi-annual rate of 7.65% per annum. The sterling notes are at a fixed rate of 7.75% per annum. The aggregate net proceeds of the bond issues of £512 million were used to repay the drawn down balance on the revolving credit facility, with the remaining cash balance to provide funding for the roll out of digital.

At the year end the Group also had in issue US\$300 million 7.30% Guaranteed Notes repayable in October 2006. Swap transactions were entered into which converted the proceeds to sterling, of which half carries a fixed rate of interest of 8.38% until maturity. The remainder is fixed at 7.94% until April 2002, thereafter floating at 62 basis points over six-month LIBOR.

Treasury Policy and Risk Management The main purpose of the Group's financial instruments is to raise finance for its operations. In addition, the Group enters into derivative transactions to manage both interest rate and currency risks arising from the Group's operations and its sources of finance. It is the Group's policy that foreign exchange transactions are restricted to fixed price instruments, that all hedging is to cover known risks and that no trading in financial instruments is undertaken. The amount of cash that can be placed with any one institution is restricted according to credit rating and regular and frequent reporting to management is required for all transactions and exposures.

The Group finances its operations through bank borrowings, the issue of long-term bonds and share capital. The Group borrows at both fixed and floating rates of interest and then uses interest rate swaps to manage exposure to interest rate fluctuations. It is the Group's policy to have an appropriate mixture of fixed and floating rates. At 30 June 1999, 42% of the Group's borrowings were at fixed rates after taking account of interest rate swaps (30 June 1998: 51%), moving to 75% after the re-financing of the Group's borrowings subsequent to the year end.

To ensure continuity of funding, the Group's policy is to ensure that its borrowings mature over a period of years.

At 30 June 1999, 79% of the Group's borrowings were due to mature in more than five years (1998: 34%), moving to 100% after the re-financing of the Group's borrowings subsequent to the year end.

The Group's revenues are substantially denominated in pounds sterling, although a significant proportion of operating costs is denominated in US dollars. In the year to 30 June 1999, 20% of operating costs (£270 million) were denominated in US dollars (1998: 24.5%). This relates mainly to the Group's long-term programming contracts with US suppliers.

The Group currently manages its US dollar/pound sterling exchange risk exposure primarily by the purchase of forward rate agreements for approximately one year. Future foreign exchange liabilities are substantially hedged up to one year ahead, using forward foreign exchange contracts. Occasionally, other financial instruments are employed to manage the exposure where these are more appropriate. All US dollar-denominated forward rate agreements and similar financial instruments entered into by the Group are in respect of firm commitments which exceed the value of such agreements and instruments. At 30 June 1999 the Group had outstanding commitments to purchase in aggregate US\$501 million at an average rate of US\$1.6406 to £1.00. The Group also incurs costs in Euros and Luxembourg francs relating to certain transponder rental costs; these payments are also covered by forward rate agreements. Although these financial instruments can mitigate the effect of short-term fluctuations in exchange rates, there can be no effective or complete hedge against long-term currency fluctuations.

The Group's debt exposure is currently denominated in sterling after taking foreign exchange swaps into account.

Going concern The Directors consider, on the basis of current financial projections and facilities available, that the Group has adequate resources to continue in operational existence for the foreseeable future and for this reason the going concern basis has been adopted in preparing the accounts.

THINKING OUTSIDE THE BOX

IT'S ABOUT CREATING INNOVATIVE NEW SERVICES. IT'S ABOUT SMART THINKING. LIKE REMOVING BARRIERS TO CUSTOMER TAKE-UP OF THOSE SERVICES. IT'S ABOUT GIVING CUSTOMERS WHAT THEY WANT. MORE CONTROL. MORE CHOICE. NOT JUST MORE, BUT BETTER. IT'S ABOUT BUILDING BSKYB TO BECOME THE LEADING PROVIDER OF ENTERTAINMENT, INFORMATION AND COMMUNICATION IN THE DIGITAL AGE. PUT SIMPLY, IT'S ABOUT DELIVERING OUR VISION NOW.

SETTING YOU FREE 1,200,000 DIGITAL SALES AND RISING.

Sky digital. The fastest, most successful digital launch ever. The most sophisticated digital platform in the world. Delivering digital quality pictures and sound. Offering excellent programming. Great value for money. And the widest choice of channels selected through an on-screen programming guide that takes seconds to access.

Our aim is to bring Sky digital to every home in the country – as quickly as possible. From May this year BSkyB offered customers a free box and a free dish. And free access to the Internet. And 40% off BT basic rates. The result? A threefold increase in monthly demand since the free offer was announced.





INCREASED INVESTMENT
CHOICE ISN'T ONLY ABOUT QUANTITY.
IT'S ABOUT YOU. SO WE ARE
DETERMINED YOU'LL FIND A CHOICE
THAT'S AS UNIQUE AS YOU ARE.
EVERY TIME YOU TURN TO SKY.

That's why we are making a significant investment in the British film industry. Sky Pictures will make top quality movies for first showing on Sky Premier. We're also investing in original programmes outside of

movies. Sky Productions is making original drama and comedy series for Sky Premier and original programmes for Sky One, ranging from the contentious to the cool.





A WHOLE NEW WORLD WE ARE MAKING THE MOST OF NEW MEDIA SO YOU CAN SEE AND DO THINGS DIFFERENTLY.

Our website is already the tenth most popular content site in Britain. We have developed this by becoming an Internet Service Provider ("ISP"), providing free Internet access via www.skynow.co.uk. We plan to deliver enhanced television with Sky Sports Extra in August 1999.

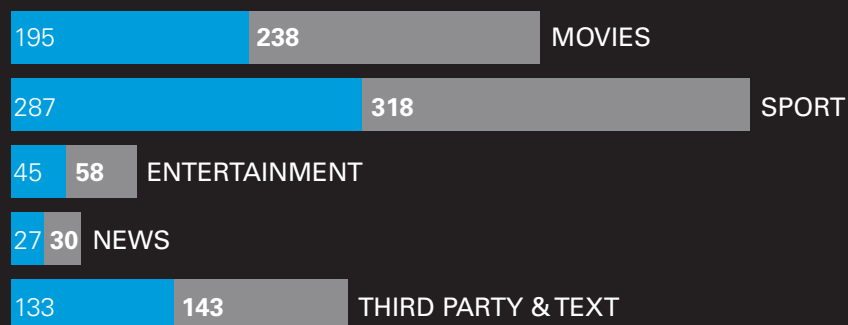
And this is just the beginning. Soon enhanced television will change the way we view Sky News too. Later in 1999, Open will take digital technology further than ever before, bringing interactive television to life.

OPERATIONAL REVIEW

INNOVATION AND CREATIVITY ARE AT THE HEART OF EVERYTHING WE DO – WHETHER WE'RE FOCUSED ON TECHNOLOGY OR CONTENT, DISTRIBUTION OR PROGRAMMING. NEW OPPORTUNITIES ARE CHANGING THE WORLD AROUND US. THE LINES BETWEEN TECHNOLOGY AND CONTENT ARE BLURRING. CREATIVE AND INNOVATIVE THINKING IN THE NEW WORLD ISN'T JUST DESIRABLE – IT'S ESSENTIAL.

PROGRAMMING INVESTMENT

£ MILLIONS



1998

1999

New Media

Broadband technology is dramatically changing the delivery of entertainment, information and communication across all types of hardware. Content and technology can no longer be considered separately, as broadband continues to blur the relationship between them. BSkyB has a key role to play in developing broadband services in the UK. We already use broadband technology to deliver Sky digital. We are also exploiting broadband technology to create an amazing range of new services.

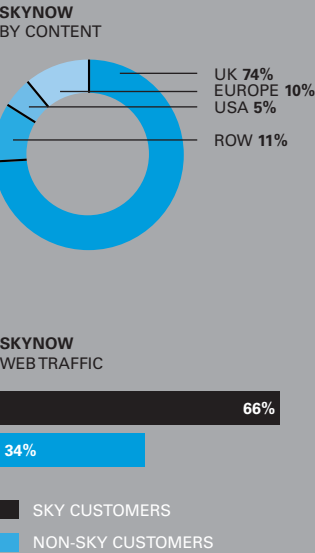
Full motion video is an important component of all broadband distribution systems. It is also what we do best. The challenge of broadband is to successfully integrate interactivity and video. To wrap video around interactive components to deliver content that is truly stimulating.

We are overlaying interactive applications on television to create Sky Sports Extra and have introduced full motion video on our website, bringing together broadband content and interactivity on both platforms.

Easy, exciting, affordable Internet We launched Skynow in June 1999 to build on the success of our website which was already the tenth most popular content site in Britain. Skynow provides our customers with free access to the world-wide web. Skytalk customers can also receive 40% off BT basic rates for calls to the Internet.

As a portal, Skynow is a gateway to the Internet. But as a ‘sticky site’ it is much more than that. By ‘sticky site’ we mean a place people want to stay, rather than just a way of getting on the Internet. People spend time on our website because it offers fantastic content sites created by Sky One, Sky Sports and Esquire Magazine. It provides easy-to-use navigational tools to help them get around the web, as well as e-mail, diary and help facilities. Of course, it also gives us the chance to promote great deals on BSkyB products and services.

Early in 1999 we agreed a mutually beneficial relationship with AOL, the world’s leading Internet service provider. We have already put in place other content and marketing arrangements and are now in the process of extending our relationship by working to develop broadband content.



NARROWBAND

NARROWBAND IS THE TRANSMISSION METHOD USED FOR TRADITIONAL TELEPHONY AND, IN MANY CASES, THE INTERNET. BECAUSE IT OPERATES AT A SLOWER SPEED THAN BROADBAND, THE AMOUNT OF DATA IT CARRIES AND THE QUALITY OF VOICE OR IMAGE THAT IT ACHIEVES ARE COMPARATIVELY RESTRICTED.

Online diary



Online e-mail



BROADBAND

BROADBAND IS A SUPERIOR METHOD OF TRANSMITTING DATA. IT IS CAPABLE OF CARRYING A WIDE RANGE OF FREQUENCIES AND OFFERS SIGNIFICANTLY ENHANCED CAPACITY. FOR EXAMPLE, DIGITAL COMPRESSION ENABLES US TO USE THE SEVEN CHANNELS TO SUPPORT SKY SPORTS EXTRA.

SKYNOW WAS LAUNCHED IN JULY 1999.
DIGITAL CUSTOMERS BENEFIT FROM FREE
ACCESS TO THE WORLD-WIDE WEB

SPECIAL FEATURES:
COMPREHENSIVE CONTENT
SIMPLE NAVIGATION TOOLS
HELP SERVICE

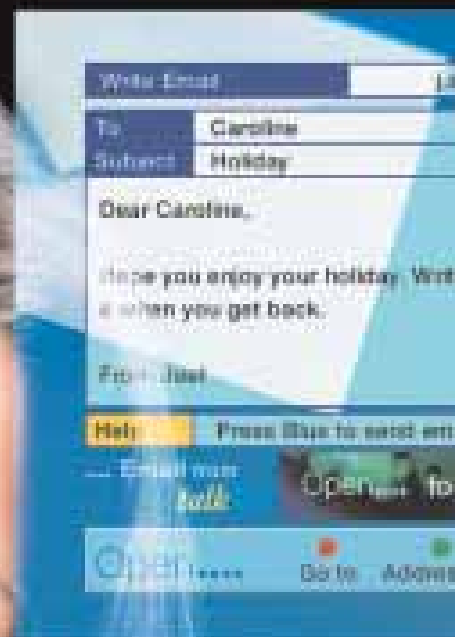
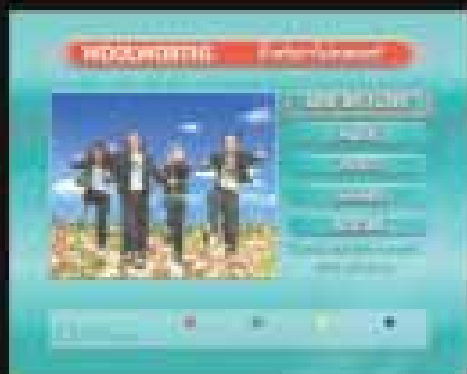
SKY OFFERS:
SKYTALK
POP3 E-MAIL ACCOUNT
ONLINE PLANNER & DIARY

BRITISH SKY BROADCASTING GROUP PLC 22 23



OPEN WILL BE LAUNCHED IN AUTUMN 1999. DIGITAL CUSTOMERS WILL BE ABLE TO PLAY, SHOP, BANK, EXPLORE, RESPOND TO AND COMMUNICATE WITH THE WORLD

OPEN WILL BE ONE OF THE MOST COMPREHENSIVE INTERACTIVE DIGITAL TV SERVICES IN THE WORLD



Interactive television Interactivity is changing television – and the way we live – forever, bringing a comprehensive range of interactive services right into the living room.

Developed by British Interactive Broadcasting ("BiB"), Open will be brought to you first by Sky digital. Open is a state-of-the-art interactive platform owned jointly by BSkyB, BT, HSBC and Matsushita, the owner of Panasonic. Open's preview service is now in all digital satellite households ahead of its autumn launch.

Open will enable Sky digital customers to play, shop, bank, explore, respond to and communicate with the world. All through the most familiar and intensively used medium in the home – the television set.

Abbey National, Argos, Carphone Warehouse, Dixons, Domino's Pizza, Going Places, HSBC, Iceland, Next, Somerfield, WHSmith and Woolworths are throwing open their doors to a mass TV audience. We are confident that many more retailers will follow. Over the coming months, Open will continue to develop, offering consumers e-commerce, TV banking, e-mail and interactive advertising.

Enhanced television BSkyB will be the first broadcaster in the UK to launch enhanced television. Once again, we will prove ourselves as television pioneers, by using the additional bandwidth available through digital to offer our customers more.

More personalised services, more choice and more information. In August 1999, we will launch enhanced television through Sky Sports Extra, only available on digital satellite. Soon enhanced television will change the way we view Sky News. Then our customers will be able to access highlights of the big match and watch the latest news headlines, whenever they like. All with their chosen programme in view and all at the touch of a button.

Developing new technologies At BSkyB, it is our aim to supply outstanding entertainment and information across all platforms.

We are currently investigating delivery through Asynchronous Digital Subscriber Lines ("ADSL") and Data Broadcast Networks ("DBN"). ADSL is a new technology that uses the existing telecommunications network to provide movies, full motion video, and super-fast, always-on Internet access. All down a standard telephone line. We are currently taking part in extended ADSL trials in West London with BT and with Kingston Communications in Hull.

We are also investigating the possibilities of DBN. DBN uses satellite to transmit large amounts of information to earth at speed and then distributes it using an existing copper wire infrastructure. For example, the technology will allow customers to access the Internet quickly and then download games and music almost instantly.

Interactive and enhanced television can be accessed through the Sky digital remote control. All at the touch of a button.



Enhanced television – Sky Sports Extra and soon Sky News

Launching in August 1999, using additional bandwidth delivered by digital, enhanced television will soon change the way we view Sky News and Sky Movies too.



Sky One

Sky One is BSkyB's key general entertainment channel and is the highest-rating non-terrestrial, general entertainment channel in satellite and cable homes. In April 1999, Sky One was once again voted Favourite Entertainment Channel at the Cable Guide Cable TV Awards. Its popularity is huge because it offers exciting and innovative original programming made by BSkyB in the UK and the nation's favourite US hit series – many of them first run.

Over the year we have raised Sky One's profile in original programming, working with the UK's best independent production houses to produce quality new content featuring top British talent.

Sky One now enjoys a greater share of viewing than Channel 5 in multi-channel homes and regularly outperforms Channel 4 and BBC2 in its target 16-34 age group. This success is driven by the popularity of our original programming and by exclusive, first run shows, both from home and the US. Top US series such as Friends, ER, The X-Files, South Park, The Simpsons, Buffy the Vampire Slayer and The PJs continue to captivate young audiences and develop loyal cult followings.

On the night of 15 April 1999, Sky One achieved its highest ever Thursday night audience share during a themed evening entitled 'One Emotional Night', which presented special episodes of Friends and ER. In Friends, Chandler went down on bended knee to ask Monica to marry him, while in ER, George Clooney made an emotional farewell in his last episode as the maverick Dr Doug Ross. Special classic episodes of The Simpsons and Friends rounded off the rest of the evening's primetime schedule.

That night, ER reached its largest live audience ever on Sky One with a peak of 1.06 million viewers. Friends achieved a peak of 1.87 million and a massive 21.4% audience share. In multi-channel homes, Friends took a 43% share among 16-24 year olds, and a 34% share among 16-34 year olds, beating every other channel.

Sky One's hugely successful drama series 'Dream Team' continues to draw a high number of viewers. During May 1999, fans saw Harchester United fulfil every footballer's dream by taking on Manchester United at Wembley, in a one hour special that broke ratings records. The series has already won six prestigious industry awards since it premiered in October 1997.

SKY ONE ADULT VIEWING PROFILE JULY 1998 – JUNE 1999

BY SEX

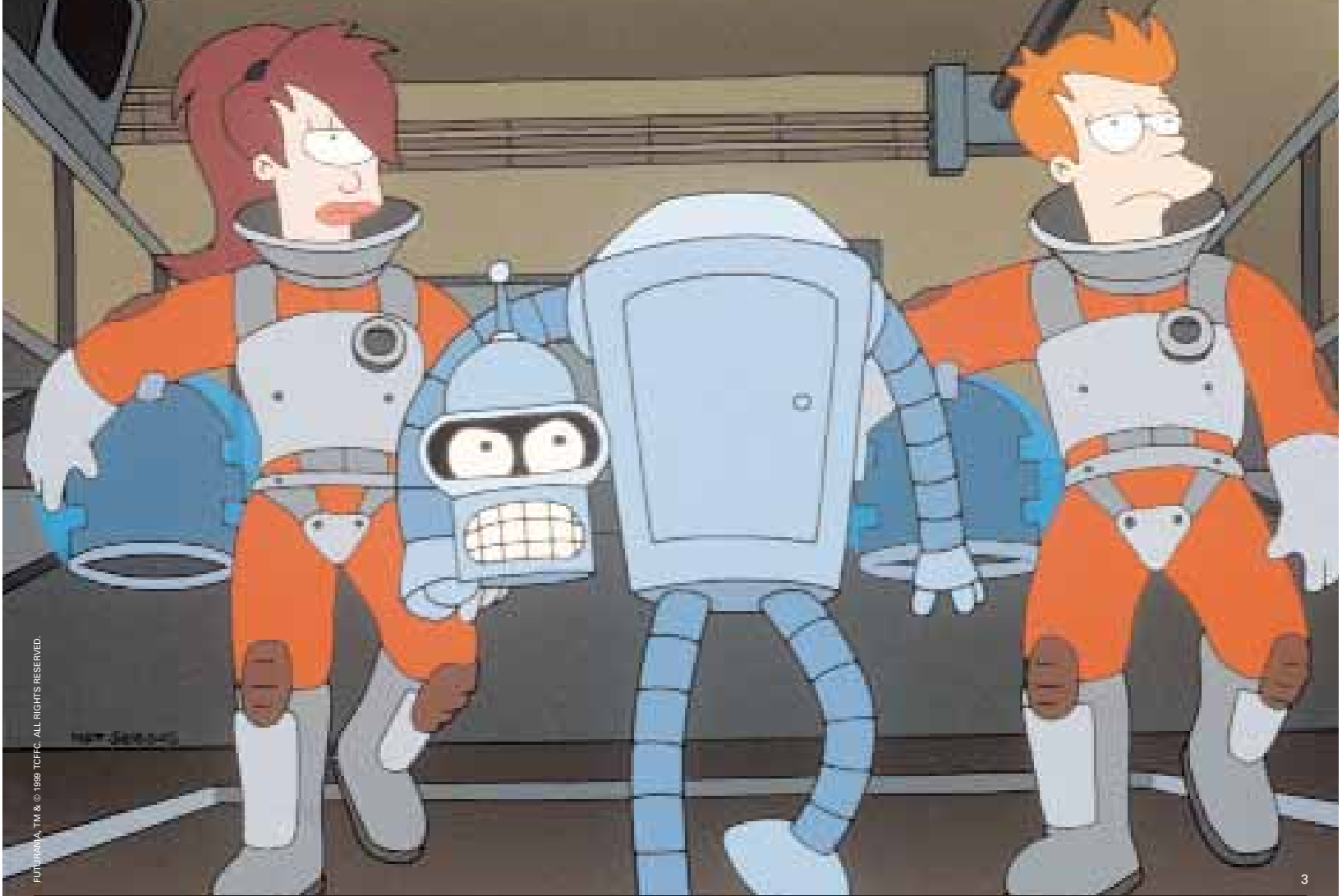


Source: TNS/BARB

Sky One's share within the core audience of 16-34 year olds rose by 10%.



THE HOTLY-ANTICIPATED NEW ANIMATED SERIES, FUTURAMA, FROM THE SIMPSONS' CREATOR MATT GROENING, WILL BE COMING EXCLUSIVELY TO SKY ONE FROM SEPTEMBER 1999. FUTURAMA FOLLOWS FRY, A NEW YORK PIZZA DELIVERY BOY WHO GETS THE CHANCE TO MAKE A NEW START 1,000 YEARS IN THE FUTURE.



FUTURAMA. TM & © 1999 TCFC. ALL RIGHTS RESERVED.

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1. ER – 'One Emotional Night'. George Clooney's final appearance – Sky One.

2. Friends – 'One Emotional Night'. Chandler and Monica – Sky One.

3. Futurama – First run on Sky One from September 1999.

Robbie Williams live at Slane Castle, Ireland in August 1999. Shown on Sky One and Sky Box Office. Also 'webcast' on the recently launched www.skyrocket.co.uk site – with an option for customers to choose from four different camera angles.





Sky News

Sky News has an outstanding reputation for breaking news. But the story doesn't end there. Digital satellite customers can choose from no less than five news channels – Sky News, CNN, CNBC, BBC News 24 and Bloomberg.

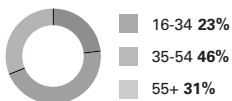
The digital age is enhancing our ability to deliver the news and information people want. Soon, customers will gain even more control. They'll have the option to switch between real-time programming, enhanced news and digital text services, to access the information that's most relevant to them.

The conflict in Kosovo Ten years on air and the conflict in Kosovo is probably the most important and demanding issue Sky News has covered. It also marks a peak in our development. The Gulf War saw Sky News come of age, while our coverage of the death and funeral of Diana, Princess of Wales showed we could match our competitors' programming output and quality. However, during the Kosovo crisis, we proved we could outperform them. Coverage by Sky News was widely acclaimed as the best by our peers and competitors alike, and was used as a primary source of information by leaders on both sides. The coverage was broadcast via satellite and cable in over 40 countries around the world. Under extreme circumstances, our reporting remained comprehensive, unflinching and honest, but also humane and sympathetic.

NATO troops finally swept into Pristina. Sky News delivered a new style of live, breaking-news coverage from four mobile satellite trucks. Of these, one broadcast live from the roadside while a second advanced with the troops, delivering immediate coverage unique to Sky News. Live broadcasting covered the liberation of the first villages, NATO's first meeting with KLA troops and the surrender of the first disarmed Serbs. By achieving rolling coverage on this scale, we gave our viewers a look at the future of news reporting. This was a world first for Sky News on the most crucial day of the campaign; a day that became the most important in Sky News' history.

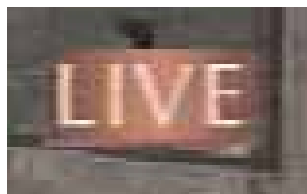
SKY NEWS ADULT VIEWING PROFILE JULY 1998 – JUNE 1999

BY AGE

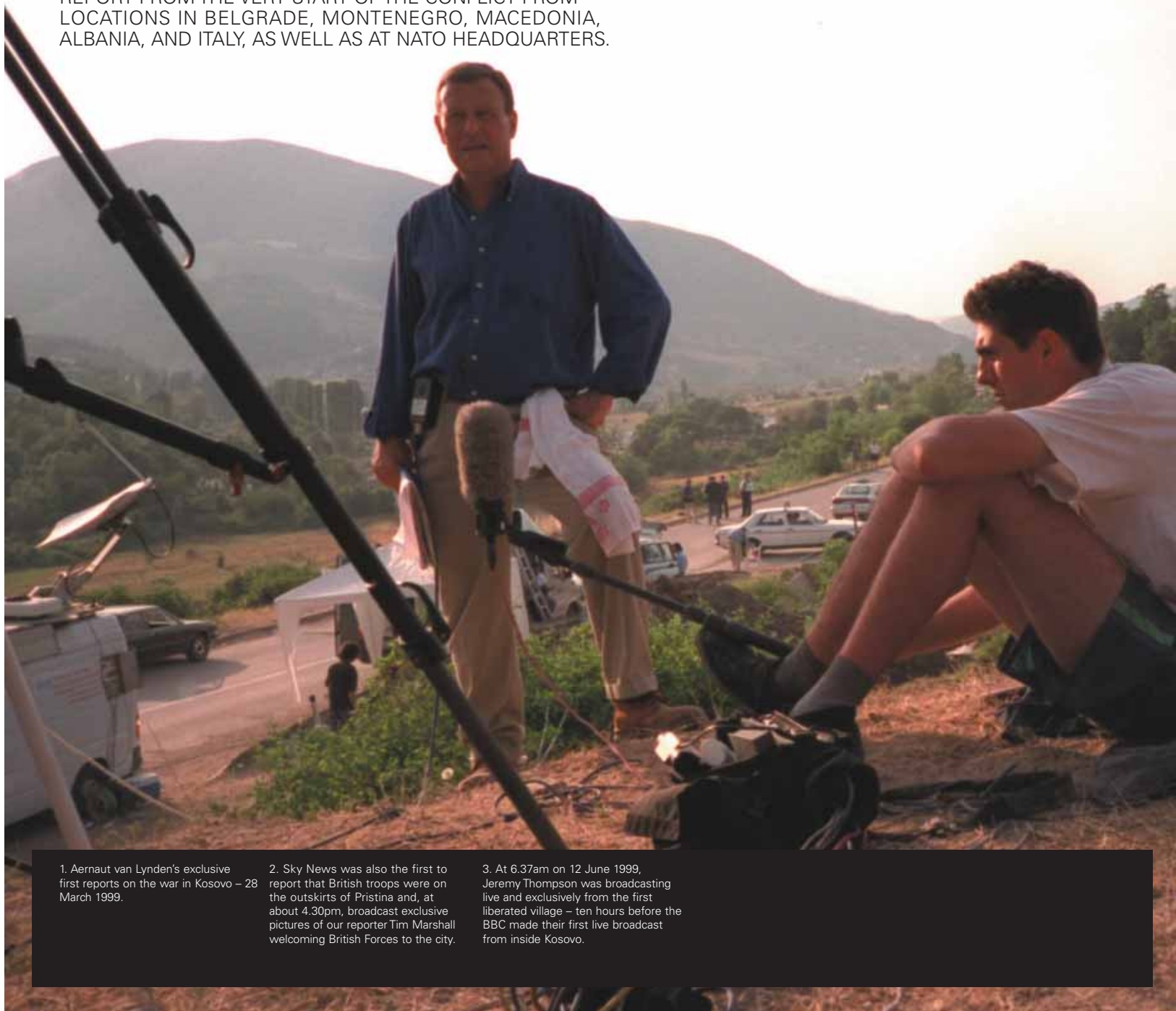


Source: TNS/BARB

Sky News achieved its highest ever audience share at the height of the Kosovo conflict with its exclusive coverage.



COVERAGE ON THIS SCALE WAS ONLY POSSIBLE BECAUSE WE HAD THE RIGHT TECHNOLOGY AND THE RIGHT PEOPLE IN THE RIGHT PLACE. SIGNIFICANT INVESTMENT ALLOWED US TO REPORT FROM THE VERY START OF THE CONFLICT FROM LOCATIONS IN BELGRADE, MONTENEGRO, MACEDONIA, ALBANIA, AND ITALY, AS WELL AS AT NATO HEADQUARTERS.



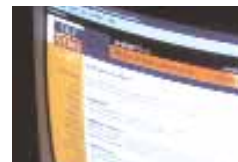
1. Aernaut van Lynden's exclusive first reports on the war in Kosovo – 28 March 1999.

2. Sky News was also the first to report that British troops were on the outskirts of Pristina and, at about 4.30pm, broadcast exclusive pictures of our reporter Tim Marshall welcoming British Forces to the city.

3. At 6.37am on 12 June 1999, Jeremy Thompson was broadcasting live and exclusively from the first liberated village – ten hours before the BBC made their first live broadcast from inside Kosovo.

Differing views of war

At the peak of the Kosovo conflict Sky News was also receiving around 8,000 e-mails a day from Serbia, Croatia, Bosnia, and Hungary. Each expressed vastly different views, giving an unprecedented insight into public opinion on the ground.



2



3

6:37 OPERATION JOINT GUARDIAN
SKY NEWS EXCLUSIVE: Inside Kosovo
First LIVE broadcast from the border

1



ITV ABANDONED NEWS AT TEN ON 5 MARCH 1999. SKY NEWS TOOK THE OPPORTUNITY TO ENHANCE ITS BROADCASTING BY TELEVISIONING 'SKY NEWS AT TEN' FROM 8 MARCH 1999. THE BULLETIN HAS BEEN AN ENORMOUS SUCCESS, ACHIEVING ITS HIGHEST RATING EVER AT THE HEIGHT OF THE KOSOVO CRISIS WHEN IT ATTRACTED AN AUDIENCE SIX TIMES LARGER THAN THAT OF LAST YEAR. SOON IT WAS ESTABLISHED AS THE PRIME TIME, PREFERRED PROGRAMME ON SKY NEWS.

1. Bob Friend and Anna Botting in the 'Sky News at Ten' studio.

2-4. Our on-air news programmes and online pages are kept constantly up-to-date by teams of dedicated and skilled staff.

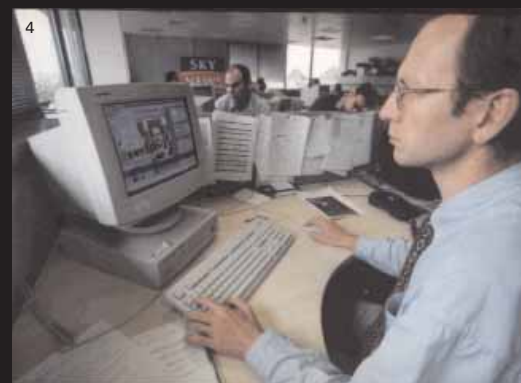
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Comprehensive Coverage Sky News' innovative coverage of global events continued with real-time, split-screen coverage of the House of Representatives voting on the impeachment of President Clinton and the bombing of Baghdad. Other major events covered during the year included the celebrations surrounding Manchester United's treble win, the remarkable story of the round the world balloon race, the Soho pub bombing, and the marriage of The Earl and Countess of Wessex.

Omagh Bombing The Omagh bombing was a defining moment in the history of Northern Ireland. During the weekend, Sky News was first to break the news of the developing story. Round the clock coverage continued throughout the week as the townspeople and the province came to terms with the tragedy.

Solar Eclipse Sky News mounted a major live broadcast to cover the solar eclipse. Hosted live from Falmouth, the broadcast was supported by satellite links to an RAF Hercules and a vessel in Falmouth Harbour.

Unofficial overnight ratings show that in UK multi-channel homes, Sky News' coverage of the eclipse was watched by a higher audience than any other terrestrial or non-terrestrial channel, except BBC1. Our coverage comprehensively beat BBC News 24 in cable homes. Sky News online, which carried the eclipse live, also proved hugely popular achieving four times the average daily traffic. This site can be found at www.skynews.co.uk.



5



Split Screen Coverage

President Clinton announces the launch of the offensive in the Gulf from The White House as the bombing begins in Baghdad



5. Totality – Solar eclipse – hosted live from Falmouth.

6. Soho pub bombing – London.



Enhanced Sky News

Digital technology provides a massive increase in bandwidth. Bandwidth that we're using to deliver accessible, up-to-the-minute news. Because it enables online services in real time, enhanced television is made for news broadcasting. Our service will be genuinely interactive with full quality pictures and audio available through the handset. It'll be available to all digital customers early in 2000.



Sky Ventures

Sky Ventures manages BSkyB’s interest in a number of joint venture channels and services. The portfolio comprises Nickelodeon, Nick Jr., Paramount Comedy Channel, National Geographic Channel, The History Channel, Granada Plus, Granada Breeze, Granada Men and Motors, Music Choice Europe, QVC, MUTV and Sky News Australia. Sky Ventures also has responsibility for two BSkyB wholly owned channels – [.tv] and Sky Travel.

Sky Ventures’ primary focus is to maximise the asset value of the portfolio by establishing profitable niche channels and services as well as identifying new joint venture opportunities which fulfil our financial and strategic criteria. Sky Ventures is interested in strong consumer brands which excel in their specific genre.

BSkyB is widely acknowledged to offer invaluable resources as a shareholder. Advertising sales, cable distribution management, programming, marketing and operational expertise – as well as market research and management support at the board level – are all drawn upon for our ventures.

All existing joint ventures have made a successful transition to the digital environment and are currently focused on how best to fully embrace all that the digital world has to offer. Over the next 12 months expect to see an investment in expanded hours, timeshifted services and new channels as well as compelling enhanced programming applications, interactive services and a strong online and e-commerce presence across a number of our ventures.

Channel specific highlights from 1998/99 are briefly outlined below. In addition, a degree of consolidation occurred across the portfolio last year with the closure of Sky Soap and the sale of our 30% interest in Playboy TV.

Our priorities over the coming year will be to further strengthen the position of our existing joint ventures within their respective genres; to support them in their original programming initiatives; to strengthen and broaden their distribution base; to firmly establish each venture’s presence within the digital environment and to increase awareness within the industry of the Sky Ventures portfolio of assets.

NATIONAL GEOGRAPHIC	NICKELODEON	NICK JR	THE HISTORY CHANNEL	PARAMOUNT COMEDY CHANNEL	QVC	MUTV
OWNERSHIP 50%	OWNERSHIP 50%	OWNERSHIP 50%	OWNERSHIP 50%	OWNERSHIP 25%	OWNERSHIP 20%	OWNERSHIP 33.33%
Last year saw National Geographic develop from a start up business to a pan-European channel broadcasting to 17 million customers across 29 countries in eight languages.	Nickelodeon puts kids first and remains the most watched kids’ channel. It is also the sixth most watched cable and satellite channel among all individuals.	Developed to complement the success of Nickelodeon, Nick Jr. is aimed at pre-school kids. It will inspire children’s imaginations, extending their knowledge and understanding of the world (launch date 1 September 1999).	In the past year The History Channel has increased its adult audience by 29% and ABC1 adults by 43% maintaining its position as a market leader among this audience. It has also doubled its weekly output from 28 to 56 hours.	Paramount Comedy has maintained its position as a market leader in the field of comedy and has the highest profile of young ABC1 viewers among all UK channels.	Five years from launch QVC experienced its best financial year ever in the year ended December 1998.	MUTV, a ground-breaking channel dedicated to one of the world’s greatest football clubs, was launched during the club’s most successful year ever.


MUSIC CHOICE EUROPE

OWNERSHIP 49%

[.TV]

OWNERSHIP 100%

GRANADA BREEZE

ECONOMIC INTEREST 49.5%*

GRANADA MEN & MOTORS

ECONOMIC INTEREST 49.5%*

GRANADA PLUS

ECONOMIC INTEREST 49.5%*

SKY TRAVEL

OWNERSHIP 100%

SKY NEWS AUSTRALIA

OWNERSHIP 33.33%

Since the launch of digital, Music Choice Europe has revolutionised the way people listen to music in the UK. It has also experienced success in Europe increasing its penetration and building a presence in key digital markets.

[.TV] has extended to 12 hours in digital. Programming highlights, such as an exclusive interview with Bill Gates, have helped to increase ratings.

Breeze delivers a highly valued demographic of ABC1 women and continues to enjoy distribution across all platforms.

Men and Motors continues to appeal to the 18-34 male audience and enjoys year on year growth in its ratings.

Now established as 'The Home of the Hits' Granada Plus experienced, year on year, an overall increase in its total audience and, among men in particular, an increase of 18%.

Sky Travel is well positioned to take a more prominent role in the on and off screen travel market and continues to provide a variety of insightful, quality holiday programmes.

Sky News Australia offers premier news coverage and a comprehensive array of information and entertainment shows.

*This represents BSKyB's economic interest. BSKyB has an 80% equity interest and a 49.5% economic interest in Granada Sky Broadcasting Limited. BSKyB has a 20% equity interest and a 49.5% economic interest in Granada Sky Broadcasting ("DTT") Limited.

Sky Sports



Sky Sports carries more sports programming than any other platform across a network of five sports services. Three daily channels are devoted to live action and highlights – Sky Sports 1, Sky Sports 2 and Sky Sports 3. Sky Sports News offers round-the-clock sports news, while the most recent addition, Sky Sports Extra, will feature the world's first interactive sports coverage.

In addition to the five Sky Sports channels, Sky digital also carries MUTV, the world's first daily television channel devoted to a single club – Manchester United and, since 1 August 1999, British Eurosport. The Racing Channel is also available on digital satellite. Off screen, Sky Sports Online hosts one of the most popular online services in Britain. During the Cricket World Cup, it attracted a record 27 million page impressions. The site can be found at www.skysports.co.uk.

Sky Sports strives to set the standards by which all sports coverage is judged. On-screen graphics, analysis, super-slow motion replays and virtual graphics technology are among the innovations pioneered by Sky Sports. This spirit will continue with the launch of enhanced football coverage on Sky Sports Extra. Our efforts have been rewarded by the industry with 18 production awards over the past four years, including four from the Royal Television Society and Sky's first BAFTA. Customers are attracted by the range as well as the quality of our sports programming. Our coverage of the major sports also benefits from support programming which showcases sport and its star players, educating, informing and entertaining our customers.

Football During 1999, our commitment to football was rewarded with the Royal Television Society's most prestigious award, Sports Broadcaster of the Year. The season brought 273 live matches, more than ever before. The climax of the FA Carling Premiership achieved the highest ratings ever for the season's final day as Manchester United and Arsenal went head-to-head across two different live channels. This season, Sky Sports has secured live rights to cover Tottenham Hotspur, Newcastle United, Leeds United and West Ham United home matches in the UEFA Cup.

In July 1999 the Restrictive Practices Court rejected the case brought by the Office of Fair Trading against the Premier League's collective and exclusive selling of television rights. Ruling in favour of the existing arrangement, the Court concluded that BSkyB's agreement with the Premier League is in the best interest of football clubs, supporters and customers. The decision means Sky Sports will continue with its acclaimed coverage of the FA Carling Premiership.

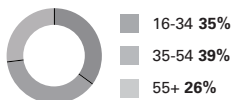
Cricket After the winter's Ashes tour came coverage of the cricket World Cup with 24 matches, including the final, live on Sky Sports. The domestic season brought a new format for the game and a new deal for Sky. In July, our first live coverage of an England domestic test match brought victory over New Zealand. During the coming winter, Sky Sports will cover England live in South Africa and, during the next domestic season, will add ten live one day internationals to its schedules.

SKY SPORTS ADULT VIEWING PROFILE JULY 1998 – JUNE 1999

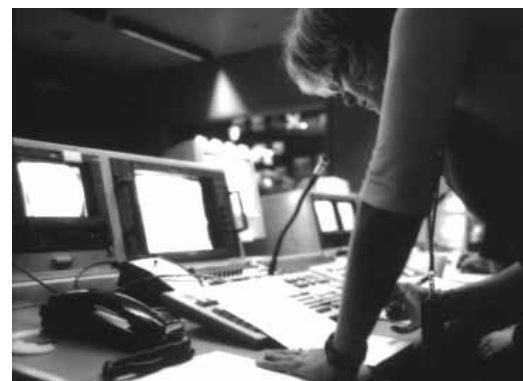
BY SEX



BY AGE



Source: TNS/BARB



MILLIONS HAVE CHOSEN TO WATCH SKY SPORTS' SUPERB, EXTENSIVE COVERAGE OF SPORT. WHY? BECAUSE WE TAKE THEM TO THE HEART OF THE ACTION.



1. Sky's comprehensive football coverage includes the FA Carling Premiership and the FA Cup.

2. Australia v South Africa, Cricket World Cup Semi-Final.

3. David Gower and Ian Botham, ex-England captains, form part of the Sky Sports cricket team, commentating during the Cricket World Cup.

4. Colin Montgomerie will be spearheading Europe's Ryder Cup challenge exclusively live on Sky in September 1999.

5. Jim White and Charlie Nicholas present Scottish Football.

6. Ray Wilkins and Nigel Spackman presenting Nationwide League Football.



Working together

Over 600 people work for Sky Sports every week to make over 500 hours of televised sport, a third of the programming live.



SKY SPORTS EXTRA WILL BE LAUNCHED IN AUGUST 1999. DIGITAL CUSTOMERS WILL BENEFIT FROM FOUR ADDITIONAL FEATURES WHICH PUT THEM IN CONTROL

SPECIAL FEATURES:
AN ALTERNATIVE VIEW OF THE MATCH
THE HIGHLIGHTS OF THE MATCH SO FAR
DETAILED MATCH FACTS AND STATISTICS
A REPLAY OF THE LIVE MATCH COVERAGE



- 1 MATCH CLOCK & SCORE
- 2 SPORTS TICKER
- 3 LIVE MATCH
- 4 MENU BAR



Angle Screen: this option means you can switch to a different camera angle while watching the standard broadcast at the same time.



Highlights Screen: gives you constantly updated highlights of the match so far.



Replay Screen: allows you to see the previous 30 seconds' action at the press of a button.



Statistics Screen: provides all the information you need about the match, the teams, the players, league tables, leading scorers and even soccer trivia.

And to keep you fully informed, the SPORTS TICKER gives you late-breaking news about the match and other major sports stories.

All accessed through the Sky digital remote control



Red button to access system

Back up button takes you back one screen

0 (zero) for full screen view

Golf New long-term deals were secured for the US Open and the new World Golf Championship, during a year in which over 100 live tournaments were screened on Sky Sports. In September 1999, Sky Box Office will screen the Ryder Cup exclusively live from Brookline, Massachusetts. During this, our third Ryder Cup, customers will see more live coverage than ever before and digital viewers will be able to get an additional service – American coverage of the event through Sky Sports Extra.

Rugby Union The Six Nations begins in 2000, with Italy joining the famous Five Nations line-up. Each of England's home matches will be screened live, exclusively on Sky Sports.

Sky Sports Extra Sky Sports Extra is a digital sports channel carrying enhanced programming. Once again, BSkyB is pioneering the future and changing the way people watch sport. Sky Sports Extra delivers personalised viewing, offering flexibility, choice and unrivalled content.

Sky Sports Active is the interactive element for enhanced TV coverage. The first event to be covered by Sky Sports Extra will be the Arsenal v Manchester United match on 22 August 1999. FA Carling Premiership, Nationwide League and England's home international matches will be covered throughout the football season. At launch, the service will offer an alternative viewing angle, match highlights and a 30 second delayed replay of the game. It also will give match statistics and other up-to-the-minute sports news, as well as a comprehensive range of statistics covering teams, tables and trivia. We will add further camera angles during the coming year and are looking to extend the service to other sports.

Sky Sports News Sky Sports launched Europe's first round-the-clock sports news channel in the autumn of 1998 – Sky Sports News. The rolling news channel was the first made-for-digital sports channel in the UK. Programming is created in a new purpose-built studio, with a network of regional bureaux and a new team of presenters.

Talent Sky Sports attracted new names and famous faces in the course of the year. Kirsty Gallacher became a well-known face on television after making her debut on Sky Sports News, while Jimmy Hill and Brian Moore joined Sky Sports from the BBC and ITV. Our cricket team also signed David Gower from the BBC and ex-England coach David Lloyd.

Sky Sports Summary

Football

Over the last year we broadcast over 270 live football games.

This season we will also broadcast exclusive UEFA Cup action involving Leeds United, Tottenham Hotspur, Newcastle United and West Ham United.

Golf

Over the last year we broadcast 100 tournaments including the US Open and US PGA Championship.

We have also secured a new deal which ensures exclusive coverage of each US Open Championship – the second Major of the season – for the next five years.

Cricket

Over the last year 42 World Cup cricket matches were shown, 24 of which were live.

From next year we will also broadcast ten one-day internationals live each summer.



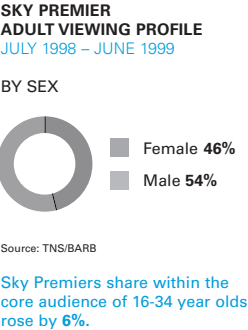
Sky Premier

Sky Premier is home to the biggest and best films and the broadest coverage of film-based programming. Sky Premier is now evolving even further, offering original film and quality drama and positioning itself as a 24-hour premium film channel. Sky Pictures and Sky Productions are creating an array of British-made, original programming for Sky Premier.

Every week ‘Barry Norman’s Film Night’ brings Britain’s favourite film critic to Sky Premier. No other television figure in Britain has such a prestigious reputation within the film world, which means our customers enjoy guaranteed exclusive interviews with some of the most famous film stars. In his own inimitable manner, Barry Norman reviews the latest films, covers the latest major events and compiles special reports exclusively for Sky Premier.

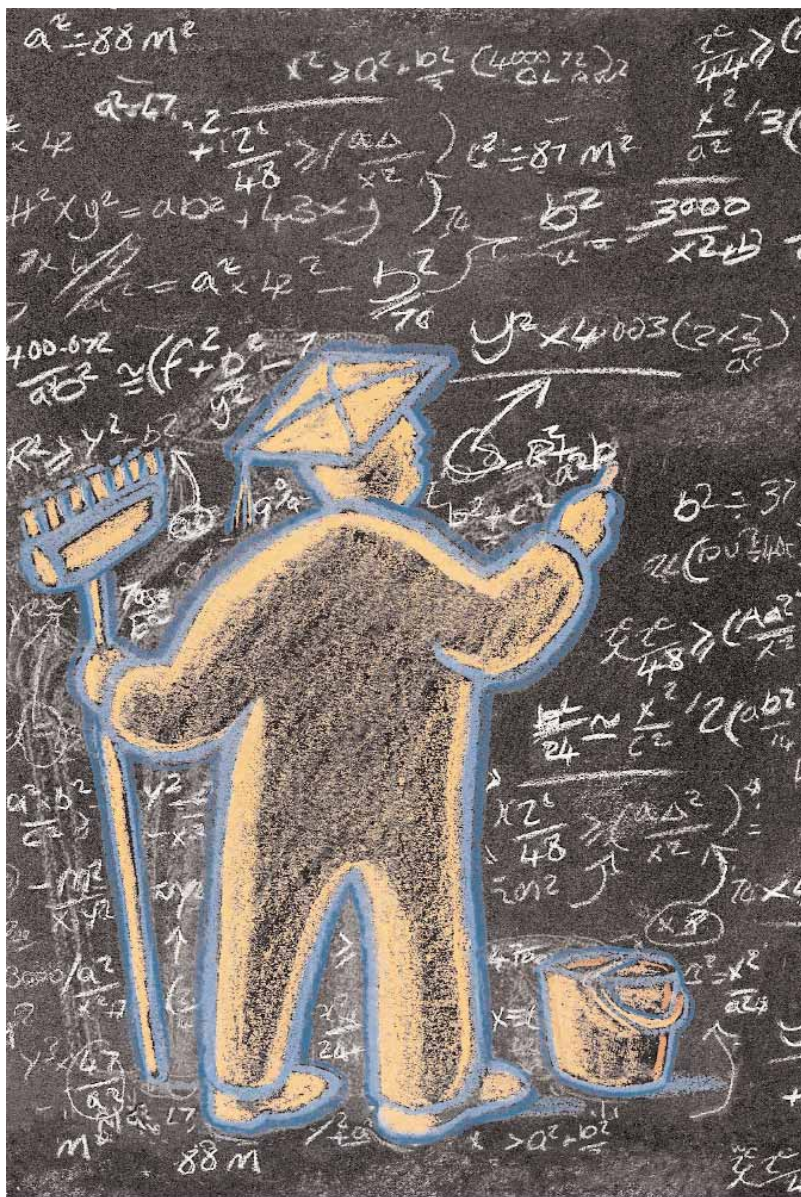
As well as ‘Barry Norman’s Film Night’, Sky Premier has also created new signature programming for all film fans. These include ‘Movie Talk’, a ground-breaking round table discussion show hosted by Richard Jobson, which embraces and connects film-makers in a way never before achieved on television.

Other signature programming includes ‘P:review’, with Jessica Whittaker, which helps the viewer to select the best premieres, film seasons and programming on the Sky movie channels during the week ahead. ‘Illuminations’ is a series in which leading figures in the film industry air their thoughts and views on a variety of film-related themes. It takes viewers on a fascinating journey through the world of cinema, from the days of silent film right through to the 90s’ renaissance, creating the ultimate guide to the history of the 20th century’s best-loved art form. Programming like this confirms our authority in film and shows that we share our viewers’ passion for movies.



1. Barry Norman's Film Night – Sky Premier

2. Movie Talk with Richard Jobson – Sky Premier



GOOD WILL HUNTING

1ST SHOWING: 10PM SATURDAY 28TH AUGUST.

PREMIER



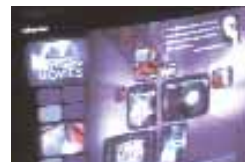
A stylish new advertising campaign launches in August 1999 to promote a first-run film every month on Sky Premier.

3. Men in Black – Sky Premier.

4. Bean – Sky Premier.

Voting for the Millennium Movie

'Millennium Movies', hosted by Lord Attenborough, gave viewers the chance to vote for their top three movies of all time. 160,000 took the opportunity and nearly half the votes were received through Sky Premier 'Millennium Movies' poll website.



TOP RATING MOVIES ON SKY TELEVISION JULY 1998 – JUNE 1999

	TVR'S	TVR'S PER 1000
01 MEN IN BLACK	10.34	2025
02 LOST WORLD: JURASSIC PARK	7.92	1544
03 THE FIFTH ELEMENT	6.04	1179
04 THE PATRIOT	5.98	1149
05 BEAN	5.83	1142
06 AIR FORCE ONE	5.7	1121
07 THE FULL MONTY	5.7	1121
08 VOLCANO	5.69	1122
09 METRO	5.33	1015
10 CON AIR	5.25	1024

Source: TNS/BARB



**SKY MOVIEMAX
ADULT VIEWING PROFILE**
JULY 1998 – JUNE 1999

BY SEX



Source: TNS/BARB



**SKY CINEMA
ADULT VIEWING PROFILE**
JULY 1998 – JUNE 1999

BY SEX



Source: TNS/BARB

Sky MovieMax

Sky MovieMax is the home of high-action, escapist entertainment. Sky MovieMax pulls no punches as the destination for the best in quality action, comedy and adventure featuring the biggest stars – Seagal, Van Damme, Chan and Willis. Sky MovieMax viewers know what they want – no nonsense, ‘chilling out’ movie entertainment.

Superb Sky MovieMax themed nights provide the best in action and adventure, including ‘Eco Warrior Night’ with four movies featuring action heroes fighting for the environment.

‘Cut-Short’ is a new competition from Sky MovieMax, which gives aspiring directors and movie-makers the chance to have their movies broadcast to a national television audience. ‘Cut-Short’ continues the Sky MovieMax commitment to provide an unpretentious platform for exciting and diverse films, giving 20 finalists the opportunity to showcase their work on the channel.

Sky Cinema

Sky Cinema continues to show classic films, packaging and scheduling them with the reverence and care that they deserve. This channel is the soul of film – an all embracing celebration of legends and movie classics. Sky Cinema spans five decades of Hollywood history-making, paying homage to the best-loved stars and their unforgettable creators.

The signature programming on Sky Cinema includes ‘Cinema Nation’, which offers viewers the chance to escape and explore the most important element of the film going experience – the cinema itself. Each week, John Walters journeys to some of Britain’s more interesting and eccentric cinemas, in search of an era long forgotten by the multiplex-visiting public. The series also looks at the cinema’s changing role in the community during this century, at how audience’s cinema-going habits have changed and at how some of the smaller, independent cinemas have managed to survive.

1. Mars Attacks – Sky MovieMax.

2. Spawn – Sky MovieMax.

3. The Italian Job – Sky Cinema.



major
celebs



minor
celebs



that bloke
from Dallas

If you want something highbrow, try a history book. **MT MOVIE MAX**

Powerful and ‘surprising’ advertising to promote Sky MovieMax as a ‘destination for escapism’ launches in August 1999.



Sky Box Office



Sky Box Office offers viewers the ultimate movie choice. What they want to watch. When they want to watch it. It offers an unrivalled range of the very best movies, each on a pay-per-view basis.

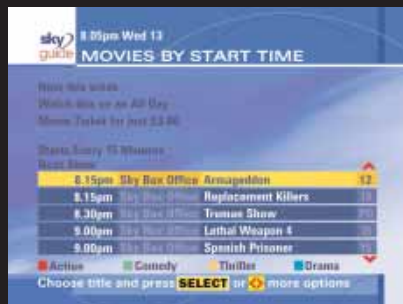
Thanks to digital technology, Sky Box Office is a Near-Video-On-Demand service, offering unrivalled choice, convenience, value and control.

In September 1999 the number of Sky Box Office screens will increase to 72, including two dedicated to widescreen. Customers can choose from up to 30 movies each night, some starting up to every 15 minutes. There is a dedicated preview channel showing movie trailers and supporting movie programming, often including interviews with the stars. We have also introduced ultimate flexibility with the All Day Movie Ticket for some films. Viewers pay £3.00 and get up to 24 hours to watch the movie of their choice. Then, if their viewing is interrupted, they can simply rejoin the action at a time that suits them.

Sky Box Office live events offers customers the chance to witness a broad variety of sell-out entertainment and sporting events that they would not otherwise be able to see. Shows that transport our customers to the stadium. During the year, the 'Live In Your Living Room' series delivered exclusively live concerts by Robbie Williams, Boyzone and The Spice Girls, complemented by commentaries from personalities and interviews with the stars.

Sky Box Office events also present sporting matches which customers might not be able to see because they are sold out or too far from home. During the year these ranged from Nationwide League football games to the historic boxing match between Evander Holyfield and Lennox Lewis in New York.

Forthcoming Sky Box Office events include Prince Naseem's unification bout on 22 October 1999 and a Steps special Halloween concert on 31 October 1999.



Sky Box Office movies

Launched in July 1999 this simple, striking advertising uses key Sky Box Office movies to encourage customers to purchase.

Sky Box Office events

Launching in October 1999 this advertising will focus on the event star to attract a fan's attention and give them the information needed to order the event.



Sky Box Office continues to bring major events as well as first run movies.

Sky Productions

Sky Productions develops, commissions and produces original non-film programming for first release on Sky One and Sky Premier. Our aim is to maintain Sky One’s market-leading position and develop Sky Premier as the premium entertainment channel.

Sky Productions for Sky One reflects the youthful vitality of the channel. Several new, original series have already been screened, including ‘Naked in Westminster’ and ‘Miami Uncovered’, which built on the success of ‘Ibiza Uncovered’. Around one third of Sky One’s budget will be spent on original programming next year, a tenfold increase on three years ago.

We are currently in production with a number of new original programmes for first showing on Sky One, including our first original comedy show, ‘The Strangerers’, from the co-creator of Red Dwarf. ‘Guiding Stars’ delivers classic prime time Sunday evening viewing and David Seaman, Lawrence Dallaglio and Caprice are among the celebrities attempting to guide unknown amateurs to success. ‘Summer ‘99 Uncovered’ takes viewers to see young Brits playing away on the island of Tenerife.

‘Battle Stripes’ follows the army’s toughest training course and ‘Gun Law’ looks at all aspects of firearms in this country and abroad. On a less serious note, ‘The Villa’ is where sociology meets suntan oil, providing the scientific solution to dating dilemmas in the 90s. It takes eight young singles, all total strangers, and whisks them away to a Mediterranean villa. Also set in the Mediterranean, ‘Prickly Heat’ gives Julian Clary and Denise Van Outen a spicy taste of life in Mallorca.

Sky Productions for Sky Premier Over on Sky Premier we will continue to present all the best films, including those made by Sky Pictures, but will also introduce the best in quality original drama and comedy. During the coming year, Sky Premier will commission 40 hours of original drama, as well as 30-40 hours of comedy. This programming will be shown from September 2000.

Sky Productions for Sky Premier will include a wide range of original programming, designed to attract new audiences. These include Trevor Nunn’s filming of the Royal National Theatre’s hit production of the classic musical ‘Oklahoma!’, ‘The People’s Harry Enfield’, ‘The Tenth Kingdom’, an extraordinary fantasy drama in ten one-hour episodes; and ‘The Stretch’, starring Leslie Grantham and Anita Dobson, a London gangster thriller where family meets business with explosive results. This will go into production in October 1999.

SKY PRODUCTIONS
FOR SKY ONE
1999/00

- GUIDING STARS
- SUMMER ‘99 UNCOVERED
- BATTLE STRIPES
- GUN LAW
- THE VILLA
- DREAM TEAM
- THE STRANGERERS
- PRICKLY HEAT
- WEEKENDER
- 16
- CREAM

SKY PRODUCTIONS
FOR SKY PREMIER
1999/00

- OKLAHOMA!
- THE TENTH KINGDOM
- THE STRETCH
- THE PEOPLE’S HARRY ENFIELD

1. The Stretch – Sky Productions
for Sky Premier.

2. The Tenth Kingdom – Sky
Productions for Sky Premier.



TECHNOLOGY OR CONTENT. DISTRIBUTION OR PROGRAMMING. WHATEVER WE FOCUS ON, INNOVATION AND CREATIVITY ARE AT THE HEART OF EVERYTHING WE DO. ORIGINAL PRODUCTION IS THE AREA WHERE OUR EXPERTISE IN BOTH TECHNOLOGY AND CONTENT COME TOGETHER TO THE MOST STUNNING EFFECT.



3

3. The Strangerers – Sky Productions for Sky One.

4. Naked in Westminster – Sky Productions for Sky One.

5. Guiding Stars – Sky Productions for Sky One.

6. Dream Team – Sky Productions for Sky One.

7. Battle Stripes – Sky Productions for Sky One.



4



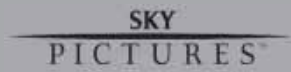
5



6



7



SKY PICTURES TITLES

COMPLETED TITLES:
TUBE TALES
MILK

IN POST PRODUCTION:
SAVING GRACE
BEST
WHEN THE SKY FALLS
PARANOIA (working title)



Sky Pictures

Sky Pictures is the powerhouse of our new film production. It will create high-quality, British feature films to be screened first on Sky Premier from November 1999. Each original feature film will be contemporary and have a distinctive British appeal, as well as the characteristics that bring international success. Working with partners, we are investing around £2 million in each film and, during the coming year, Sky Pictures is planning to make eight films.

An exciting range of films is currently in development or production. The titles cover a wide variety of genres and will feature the very best of British talent both in front of and behind the camera. Several films have been completed, including 'Tube Tales' and 'Milk'.

'Tube Tales' is a feature film comprising nine stylish and eclectic tales of life on the Underground. Based on real life stories, each 'Tube Tale' has a different, high-profile director and a unique cast.

'Milk' is a quirky black comedy set on a Wiltshire dairy farm during the 48 hours after the death of the matriarch of the family. It stars James Fleet, Dawn French, Phyllida Law and Francesca Annis.

'Saving Grace' brings together some of our best known stars, including Brenda Blethyn – as Grace – with Craig Ferguson and Phyllida Law. Grace's idyllic Cornish life is turned upside down when, following her husband's untimely death, she uncovers unpaid debts, a non-existent life insurance policy and a former mistress.

'Best' scores a hit charting the rise and fall of George Best – sporting icon. It stars John Lynch and Linus Roach.

1. Best – Sky Pictures for Sky Premier.

2. Saving Grace – Sky Pictures for Sky Premier.





EACH ORIGINAL FILM WILL HAVE BRITISH APPEAL, BUT ALSO THE ABILITY TO BE SUCCESSFUL INTERNATIONALLY.



3

3. Tube Tales – Sky Pictures for Sky Premier.

4. Milk – Sky Pictures for Sky Premier.

5. Ewan MacGregor on the set of Tube Tales.



4



5

7 Sports Channels



Sky Sports 1, 2 and 3 – on Sky bring you the very best live sports coverage, including all the award-winning coverage you have come to expect from Sky Sports' three dedicated sports channels.



Sky Sports Extra – A new enhanced sports channel free to residential Sky digital customers of both Sky Sports 1 and Sky Sports 2.



MUTV – The world's first seven-day channel dedicated to Manchester United football club. Bringing the players and staff who make the news closer.



Sky Sports News – Europe's first around-the-clock sports news service.



British Eurosport – Top-class international sport with a special focus on British achievement at home and abroad.

17 Entertainment Channels



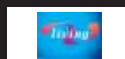
Sky One – Our No. 1 channel for family first-run entertainment and award-winning drama.



UK Gold – The best of British drama and comedy including Blackadder and Fawlty Towers.



UK Gold 2 – Offers viewers another chance to see favourite British comedy and drama, scheduled to complement UK Gold.



Living – The No. 1 channel for women, offering a slice of real life with programmes on topical living issues.



Disney Channel – Bringing its magic touch and outstanding quality to every area of entertainment; family movies, comedy, classic and brand new animation, Disney is the channel for kids.



Granada Plus – The very best of classic British television and popular programmes from around the world.



Challenge TV – Offering a stimulating mix of big-format game shows and interactive phone-in competitions.



Bravo – A mix of wicked movies, real-life TV, gritty documentaries, sex and comedy.



Paramount Comedy – Where every night is Friday night. Including favourites like Seinfeld, Frasier and Monty Python.



Sci-Fi – Provoking the imagination with popular sci-fi films and action series, plus news on new technology and space exploration.



Discovery Home & Leisure – Witty, informative and entertaining – bringing 'how to' programmes on DIY, cookery and outdoor activities to life.



Granada Breeze – Presents the ultimate guide to help women look good and feel fantastic.



Granada Men & Motors – Fast cars, fast bikes and fast women – the channel for men who like all the action.



Sky Tavel – Great holiday ideas, travel tips and documentary specials.



UK Style – Inspiration and entertainment for people who enjoy their leisure time.



UK Arena – An alternative short-cut to music, drama, film, popular arts and comedy.



Tara Television – Great all-round entertainment – live chat, soaps, sport, music and drama – from Ireland for Britain.

12 Movie Screens



Sky Premier – brings four 24-hour screens of box-office hits, award-winning movies and originally produced films – plus shows including Film Night with Barry Norman.



Sky MovieMax – provides four screens of variety, unadulterated fun and non-stop entertainment. It's the home for action, adventure, hilarious comedy and cutting-edge cinema. With up to 30 movie channel premieres a month, Sky MovieMax is a must for movie fans.



Sky Cinema – is devoted to the classics of the screen. It features the greatest stars and masterpieces of the greatest directors.



Film Four – The film channel from Channel 4 – the best in modern independent cinema.

Up to 48 Box Office Screens



Sky Box Office – Recent movie releases at the touch of a button, 24 hours with films starting up to every 15 minutes, plus exclusive live concerts and sporting events.

Non-Subscription Channels

Channels available on digital satellite to both subscribers and non-subscribers

Includes:



BBC1 – All your favourites coming to you bigger and better than ever.



BBC2 – The originality and diversity you expect, now with more widescreen broadcasts.



BBC News 24 – Full news bulletins on the hour, with headlines every 15 minutes, 24 hours a day.



BBC Choice – Gives viewers a wider, deeper view of their favourite programmes by building on BBC1 and BBC2.



BBC Parliament – Live, uninterrupted and unmediated coverage of the House of Commons and recorded-as-live coverage of the House of Lords.



BBC Knowledge – Documentary, debate and fast fun facts about the world around us. Also with specific Internet sites on everything from business to history and much, much more.

13 News & Documentaries



Sky News – The UK's first 24-hour award-winning service.



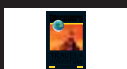
Bloomberg – Keep up to date with business and financial news, 24-hours a day.



CNBC – Global business news, analysis and features, 24-hours a day.



Discovery Channel – Entertaining factual programmes about adventure, science, nature and technology. Discovery (+1hr) Discovery's high-quality programmes shown one hour later.



Discovery Travel & Adventure – Thrilling programmes which explore our world, letting you experience it first hand.



Discovery Civilisation – Meet the people and see the crucial events which have shaped our past and present.



Discovery Sci-Trek – Innovative, fast-paced programming which shows the impact science is having on our lives.



National Geographic Channel – Award-winning spectacular images and compelling stories spanning natural history, people and places.



The History Channel – Informative, intelligent, entertaining and educational, exploring events and people that have shaped the world.



UK Horizons – The best of the BBC's factual entertainment about real people, nature, history, science, travel and adventure.



[.tv] – Covers IT news and analysis, testing and appraising, games, gadgets and gizmos, practical tutorials, digital culture, the Internet and much more!



Discovery Animal Planet – The first ever channel that's all about animals. Entertaining factual programming, real-life vet stories and animal dramas.

8 Kids Channels



Cartoon Network – Offers non-stop toon action for everyone who loves cartoons. Cartoon Network Plus. All Cartoon Network's toon action one hour later.



Nickelodeon – Award-winning cartoons, comedy and live action, including Rugrats and Kenan & Kel.



Nick Replay. Missed out on Nick? Watch it one hour later.



Nick Jr – Nick's popular pre-school section gets its own channel: loads of fun for young'uns. (Launches 1 September 1999).



Trouble – No. 1 youth channel offering an upfront mix of drama, soaps and music.



Fox Kids – Dedicated channel for children, with live-action and animated programmes, live presenters and daily competitions.

Fox Kids+ – Catch all those fantastic Fox Kids programmes – one hour later.

53 Music & Specialist Channels



MTV – The most famous music TV channel in the world – just for the UK and Ireland.



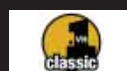
MTV Extra – The perfect companion to MTV UK, offering an alternative choice of programming and a chance to catch up on shows missed first time round.



MTV Base – The first music channel dedicated entirely to R&B and dance music.



VH1 – The music channel for adults – videos, documentaries, concerts and the biggest exclusives.



VH1 Classic – Classic hits from the Sixties, Seventies and Eighties.



M2 – The cutting-edge music channel from the makers of MTV.



The Box – Music television you control, 24 hours a day.



UK Play – Mixes all that sounds great about music with all that sounds dead funny about comedy.



QVC – The shopping channel at your service 24 hours a day.

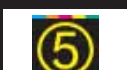
44 Audio



Music Choice – 44 channels of digital audio music available 24 hours a day without advertisements or interruptions. Ten channels are included in the Sky Entertainment packages. A further 34 channels can be added with Music Choice Extra, a Premium service.



Channel 4 – The terrestrial TV station with a mission to take television places it has never been before. Bold, challenging and controversial.



Channel 5 – Coverage of offbeat sports, a regular evening movie slot and a highly individual approach to the main evening news bulletin.



S4C – Welsh language channel with news, documentaries, entertainment, sport, music and drama.



CNN International – The world's leading television news channel, providing up-to-the-minute news coverage and feature programming to a global audience.

Advertising

BSkyB has evolved as a leading multimedia company. As a result, we have been able to develop a truly integrated multimedia advertising platform. No other UK broadcaster can offer such a comprehensive range of advertising opportunities. All from a single point of sale.

Although we operate in a highly competitive marketplace, we succeeded in growing advertising revenues to £217 million in the last year, outperforming the estimated revenue growth in the UK television market of 8%. In fact, we've increased advertising revenues by 96% in just three years. This achievement is due to the strength of our programming, the profile of our audience and the ability of our sales team.

A desirable environment Advertisers are attracted to BSkyB because our channels deliver viewers with a desirable demographic profile. We also create unique advertising opportunities that inspire enormous demand – whether they're through Premiership football, British television premiere episodes of Friends or the opportunities offered by Sky News. For example, the recently launched Sky News at Ten bulletin is particularly appealing to advertisers who find it increasingly difficult to target their customers using alternative television advertising.

Satellite and cable households are younger and more affluent than those in the UK as a whole. The Sky channels are particularly effective for advertisers that target traditionally elusive audience groups. Groups that are hard to reach on other television channels, such as young adults and upmarket men. Of course, we have a finite inventory of commercial audience to sell. The BSkyB sales team ensures that it is sold and apportioned to optimum effect in the manner that maximises revenue. As a result, we have a different category profile to the television advertising market as a whole. For example, our largest category is motoring while the food category is the biggest television spender overall.

Sponsorship sales We are also a market leader in sponsorship sales. In fact, sponsorship accounts for a greater proportion of BSkyB's advertising revenues than for any other major broadcaster. The most successful sponsorships are those that have a synergy between sponsor and programme. Our sponsorship department works hard to identify opportunities and the clients that will benefit from them most. Programme sponsorship can be a powerful tool. The sponsorship of 'The Simpsons' by Domino's Pizza increased sales by 29% and won a Gold Media Week award for media effectiveness.

TOP TEN ADVERTISERS
JULY 1998 – JUNE 1999

BASS PLC
BRITISH TELECOM
CADBURY SCHWEPES
CENTRAL OFFICE OF INFORMATION
FORD MOTOR COMPANY
MARS UK
PROCTER & GAMBLE UK
SCOTTISH COURAGE
UNILEVER PLC
VOLKSWAGEN GROUP UK

Source: BSkyB



Online advertising
Gillette in conjunction with their agency Bmpl and Sky Sales developed a concept to take their sponsored Soccer Saturday Show and turn it into an online experience. The site provides live football results on

Saturdays as well as carried a netcast of the discussions while also allowing viewers to email the programme while on air. The sponsorship started in October and the site is now so popular that it is averaging over 250,000 page views weekly.

Innovation BSkyB's reputation for innovation is certainly evident within the sales team. We use our expertise to find an advertising opportunity in virtually every technological development. Well over 60 key brands are regular users of the Sky Online Internet service. The June launch of the Skynow free ISP and the Internet portal has opened up even more opportunities. Growth in this sector is dynamic. The Sky Online Internet service began the year with 3 million weekly page impressions and ended with 8.5 million.

A further innovation came with the launch of a dedicated Sky Business channel for the pub industry in August 1999. This new service features the best Sky Sports live events, combined with programming tailor-made for the pub environment. It enables advertisers to communicate directly with pubgoers, who are predominantly young males, for the first time. Advertisers will be able to incorporate point of sale material to maximise impact. The next major development will be interactive advertising. This will begin within a few months of the launch of Open, which will allow viewers to respond directly to commercials, for example, requesting a brochure by using their SkyGuide remote control.

A strong and convincing offer Our strategy recognises that consumers are becoming increasingly sophisticated consumers of media. The most effective advertising will span media by working creatively to develop the strengths of each. BSkyB offers a variety of in and out of home advertising opportunities, embracing spot advertising, sponsorship, interactivity, Internet and magazines to form a single integrated advertising proposition. Together they create a strong and convincing offer.



Broadcast Sponsorship

The Ford Motor Company are in their seventh year as sponsors of the FA Carling Premiership on Sky Sports. Their involvement extends to Ryder Cup and Rugby Union and incorporates traditional spot advertising and all aspects of BSkyB's New Media opportunities.

On-air advertising

BSkyB's contribution to Anheuser-Busch's television campaigns in Britain has been significant over the years given the common target audience of young men. This relationship has also developed into the broadcast sponsorship arena, which again, has underlined BSkyB's value.

Distribution

Our aim is to bring Sky digital to every home in Britain as quickly as possible. We are working to achieve this by providing customers with an unbeatable proposition and by aiming to provide first class service whenever they make contact with BSKyB.

That means optimising the skill and expertise of our people right across the business in distribution, marketing, customer management, installation and training. This ensures that the people who are delivering digital to millions of homes across the country are true professionals.

Subscriber numbers Total paying subscribers increased by 543,000 during the year, resulting in a total number of cable, DTT and satellite customers of 7,442,000 at 30 June 1999. Of these, 6,853,000 are in the UK and 589,000 in Eire. In the fourth quarter total DTH customers increased 15,000 to 3,460,000. Excluding the effect of the sports promotion in the first quarter, annual churn was 13.4% compared to 15.1% at 30 June 1998. Only 1% of customers who have subscribed to digital since launch have churned. UK cable customers showed a net increase of 393,000 during the year compared to a 469,000 increase in 1997/98, reflecting the slow-down in the cable network build.

The DTH pay-to-basic ratio was 296% at 30 June 1999, up from 294% last year, with an analogue ratio of 290% and digital at 319%. The cable pay-to-basic has fallen from 144% last year to 124% this year. While total UK cable customers to Sky's channels have increased 393,000 in the year, the number taking Sky's basic channels has increased by 366,000 such that 56% now only take basic channels.

Customer management The huge task of dealing with the demand for digital is managed by our Customer Management Centres at Livingston and Dunfermline. BSKyB now operates the largest call centres in Scotland, providing a 24 hours a day service, seven days a week. We currently have a core staff of 3,000 people, of which 1,850 are Customer Service Representatives. In addition, temporary staff are brought in to cope with periods of high demand. For example, 1,750 temporary staff were recruited to deal with the massive response to digital, while the success of our free offer encouraged us to draft in 2,500 temporary Customer Service Representatives later in the year. We are now in the process of transferring 1,000 of those temporary staff to permanent positions. In April 1999, we employed around 850 fully trained technicians. Since then, we have employed an additional 2,200 installers around the country to deliver digital faster.



Sky Business develops non-domestic revenue. It provides flexible, cost-effective digital programming via cable and satellite to businesses. For example, Sky News is making queuing at the bank less tedious, Nickelodeon is making children's shoe shopping less stressful and Sky Sports continues to transform an evening at the pub.

Digital now gives us the opportunity to dedicate and create channels for different business sectors. The dedicated channel for pubs provides programming to staff and customers alike. Training programmes are broadcast to pub managers and staff.

Customer programming helps landlords attract and retain more customers. It also gives advertisers a fantastic opportunity to target 18-34 year old, male pub customers. Interactivity is enabling pub quiz leagues and tournaments to be developed across pub chains. In addition, special programmes are made for themed events focused on food and drink promotions throughout the year. On 31 December 1999, we will feature programming showing the new millennium celebrations in a variety of cities around the world.

Sky Homes delivers digital to thousands of communities around the country. It is also responsible for marketing BSkyB services to housing developers, local authorities, private landlords and tenants associations with enormous potential opportunities. Local authorities can lease or buy an Integrated Reception System, which distributes programming into each apartment in a block of flats. In the case of new homes, we plan to install digital as a basic service like electricity, gas and water. This is good for the homebuyer and it's good for the developer.



Customer Management

BSkyB now operates the largest call centres in Scotland, providing a 24 hour service, seven days a week.

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Tony Ball
Executive Director

Tony Ball was appointed as Chief Executive and Managing Director in June 1999. He was appointed President and CEO of Fox/Liberty Networks in October 1997, after serving as President and COO of Fox Sports International, where he oversaw channels in North America, Latin America, Asia and Australia. He spent three years of his career with BSkyB beginning in 1993, holding the positions of Head of Production and Operations of Sky Sports and General Manager/Broadcasting.

Martin Stewart
Executive Director

Martin Stewart was appointed as Chief Financial Officer and a Director of the Company in May 1998. He previously served the Company as Head of Commercial Finance from March 1996. Prior to moving to the Company, Mr Stewart was employed at Polygram for five years, latterly at Polygram Filmed Entertainment where he was Finance Director for two years.

Philip Bowman
Independent Non-Executive Director

Philip Bowman has been a Director of the Company since December 1994. He is Chairman of Liberty plc and Chief Executive of Allied Domecq plc. He was previously a Director of Coles Myer Ltd in Australia, an Executive Director of Bass plc and Chairman and Chief Executive of Bass Taverns Ltd.

David Chance
Non-Executive Director

David Chance joined Sky as Marketing Distribution Manager in April 1989. He served as Deputy Managing Director of the Company from January 1994 to December 1997. Since January 1998 he served as a Non-Executive Director of the Company. From November 1987 until April 1989, Mr Chance was employed by SES as UK Marketing Manager for Astra. Mr Chance is also a Non-Executive Director of Sunderland Plc. He resigned as a Director of BSkyB on 9 August 1999.

Michel Crépon
Shareholder Appointee
Non-Executive Director

Michel Crépon has been a Director of the Company since June 1991. Previously Group Treasurer of Chargeurs, he was appointed, in September 1992, Executive Vice-President of Chargeurs (Directeur Général Adjoint), in charge of certain entertainment activities of the Group. Following the demerger of Chargeurs on 21 June 1996 he became Executive Vice-President of Pathé. He is also a Director of BSB Holdings Limited (BSBH). Mr Crépon is Chairman of Pathé Entertainment Limited, which controls Pathé's movie production and distribution activities in the United Kingdom. Mr Crépon is one of Pathé's appointees as a Director of the Company.

David DeVoe
Shareholder Appointee
Non-Executive Director

David DeVoe has been a Director of the Company since December 1994. Mr DeVoe has been an Executive Director of News Corporation since October 1990; Senior Executive Vice-President of News Corporation since January 1996; Chief Financial Officer and Finance Director of News Corporation since October 1990 and Deputy Finance Director from May 1985 to September 1990; Director of News America Incorporated (NAI), News Corporation's principal subsidiary in the United States, since January 1991; and a Director of Star Television since July 1993. He has also been a Director of Fox Entertainment Group Inc. ("FEG") since 1991 and a Senior Executive Vice-President and Chief Financial Officer since August 1998. Mr DeVoe is one of News International Television Limited's ("NITLs") appointees as a Director of the Company.

Bruce McWilliam
Shareholder Appointee
Non-Executive Director

Bruce McWilliam has been a Director of the Company since April 1995. He is a partner in e-partners, an internet investment fund in which The News Corporation Limited is the main investor. He was formerly General Counsel of News International plc until 1999 and is a Director of News International Japan Limited, News Television Limited, Newscorp Europe srl, e-partners Capital Limited, e-Ventures Limited and is a Director of Vox and TM3, the German terrestrial television station. He is a solicitor admitted to practice in New South Wales and England and was a partner for seven years in the Australian firm Allen Allen and Hemsley. Mr McWilliam is one of NITLs appointees as a Director of the Company.

Letizia Moratti
Shareholder Appointee
Non-Executive Director

Letizia Moratti was appointed a Director of the Company in May 1999. She is Chairman of News Corporation Europe, and was formerly Chairman of RAI, the Italian State Broadcaster. Mrs Moratti is one of NITLs appointees as a Director of the Company.

Dame Anne Mueller
Independent Non-Executive Director

Dame Anne Mueller has been a Director of the Company since 1991. She was Second Permanent Secretary in Her Majesty's Treasury from 1987 to 1990 and previously Head of the Management & Personnel Office in the Cabinet Office.

Rupert Murdoch
Shareholder Appointee
Non-Executive Director

Rupert Murdoch has been a Director of the Company since 1990. He was appointed Chairman of the Company in June 1999. Mr Murdoch has been an Executive Director, and Chief Executive of News Corporation since August 1979. Mr Murdoch has been a Director of NAI since 1973; a Director of News International plc, News Corporation's principal subsidiary in the UK since 1969; and a Director of News Limited, News Corporation's principal subsidiary in Australia since 1953. Mr Murdoch has also served as a Director of Fox Entertainment Group, Inc. and its predecessor company since 1985, Chairman since 1992 and CEO since 1995. He has also been a Director of Star Television since 1993 and a Director of Philip Morris Company Inc. since 1989. Mr Murdoch is one of NITLs appointees as a Director of the Company.

Jérôme Seydoux
Shareholder Appointee
Non-Executive Director

Jérôme Seydoux has been a Director of the Company since December 1994, and was Chairman from May 1998 to June 1999. He was Chairman and Chief Executive Officer of Chargeurs from 1976 to June 1996. He is now Chairman and Chief Executive Officer of Pathé and Vice-Chairman of Chargeurs. He was previously Executive Vice-President (1970) and Chief Operating Officer of Schlumberger Ltd (1975-1976). He is also a Director of Danone and a member of the Supervisory Board of Accor. Mr Seydoux is one of Pathé's appointees as a Director of the Company.

Arthur Siskind
Shareholder Appointee
Non-Executive Director

Arthur Siskind has been a Director of the Company since June 1992. Mr Siskind has been a Senior Executive Vice-President of News Corporation since January 1996 and an Executive and Group General Counsel of News Corporation since 1991. He was an Executive Vice-President of News Corporation from February 1991 until January 1996. Mr Siskind has been a Director of NAI since 1991 and a Director of Star Television since 1993. Mr Siskind has also been Senior Executive Vice-President, General Counsel and a Director of FEG since August 1998. Mr Siskind has been a member of the Bar of the State of New York since 1962. Mr Siskind is one of NITLs appointees as a Director of the Company.

Directors’ Biographies
continued

Lord St. John of Fawsley
Independent Non-Executive Director

The Lord Stevenson of Coddendam
Independent Non-Executive Director

John Thornton
Independent Non-Executive Director

Morton Topfer
Independent Non-Executive Director

Alternate Directors

Richard Linford

Elisabeth Murdoch

Emma Rami

Peter Stehrenberger

Lord St. John of Fawsley has been a Director of the Company since 1991. He has been Master of Emmanuel College, Cambridge, since 1991, of which he is a Life Fellow, and Chairman of the Royal Fine Art Commission since 1985.

Lord Stevenson of Coddendam has been a Director of the Company since December 1994. He is Chairman of Pearson plc, AerFi Group plc and Halifax plc.

John Thornton has been a Director of the Company since 1994. He is a President and co-Chief Operating Officer of the Goldman Sachs Group, Inc. Mr Thornton is also a member of the Firm's board of Directors, its Management Committee and is co-Chairman of its Partnership Committee. Mr Thornton is a Director of the Ford Motor Company, the Pacific Century Group and Laura Ashley Holdings plc. He serves as a member of the Advisory Board of the Yale School of Management, the Asia Society Board of Trustees, and the Yale Investment Committee.

Morton Topfer was appointed a Director of the Company in May 1999. He serves as Vice Chairman of Dell Computer Corporation. He shares the office of the Chief Executive Officer with Michael S. Dell, Chairman and CEO of the company, and Kevin B. Rollins, Vice Chairman. Prior to being elected to his current position in May 1994, Mr Topfer served as Corporate Executive Vice President of Motorola, Inc. and President of Motorola's Land Mobil Products sector. Mr Topfer was conferred the Darjah Johan Negeri Penang State Award in July 1996 by Dr Tun, the Governor of Penang. He is also on the Board of Autodesk.

Alternate Director to David DeVoe, Bruce McWilliam, Rupert Murdoch, Arthur Siskind.
Richard Linford has been Chief Financial Officer of News International plc since January 1995. Previously he was Director of Finance at BSkyB from September 1991 to December 1994.

Alternate Director to David DeVoe, Rupert Murdoch, Arthur Siskind.
Elisabeth Murdoch joined the Company in March 1996 as General Manager, Broadcasting and became an alternate Director of the Company in June of the same year. In August 1998 she was appointed as Managing Director of Sky Networks. Prior to joining BSkyB, she was Chief Executive of EP Communications, which owned NBC affiliate television stations KSBW and KSBY in Northern California. Ms Murdoch began her career at The Nine Network in Australia.

Alternate Director to Michel Crépon and Jérôme Seydoux.
Emma Rami joined Pathé in May 1996 as Vice-President Controller. Ms Rami is also a Director of BSBH Limited and the French daily Libération.

Alternate Director to David DeVoe, Bruce McWilliam, Rupert Murdoch, Arthur Siskind.
Peter Stehrenberger has been an Executive Director of News International plc since March 1984 and Company Secretary since 1992.

Activities

The Directors present their Annual Report on the affairs of British Sky Broadcasting Group plc (BSkyB – the Company) and its subsidiary undertakings (the Group), together with the Accounts and Auditors' Reports for the year ended 30 June 1999.

The Chairman's Statement on pages 2 and 3, the Chief Executive's Statement on pages 4 to 7 and the Operating and Financial Review on pages 8 to 11 report on the principal activities of the Group, its financial and operating performance during the year and the future development of the business.

Results and dividends

The loss on ordinary activities after taxation for the year ended 30 June 1999 was £285.1 million (1998: profit of £249.2 million). An interim dividend of 2.75 pence was paid to Ordinary Shareholders on 6 April 1999. On 5 May 1999 it was announced that the Board had decided to suspend dividend payments to shareholders. The Board intends to return excess capital to shareholders through dividends and/or share re-purchases at the appropriate time.

Payment policy

The policy of the Group is to agree terms of payment with suppliers prior to entering into a contractual relationship. In the absence of a specific agreement it is the policy of the Group to pay suppliers on a monthly basis. The Group had 31 days' purchases outstanding at 30 June 1999 (1998: 31 days) based on the total amount invoiced by non-programme trade suppliers during the year ended 30 June 1999. Programme creditors include significant balances which are not yet contractually due. In respect of amounts both contractually due and invoiced the outstanding number of days' purchases is below 40 days (1998: 40 days).

Share capital

Details of changes in the share capital during the year are disclosed in note 21 to the accounts. On 10 August 1999 the following companies, or their subsidiary undertakings, held more than 3% of the Company's share capital:

News International Television Limited	39.75%
BSB Holdings Limited	11.80%
Pathé	12.67%

Pathé holds 33.10% of the Ordinary Share capital of BSB Holdings Limited. The total of its direct and indirect interests is thus 16.58%.

On 7 June 1999, Vivendi S.A. entered into an agreement with Pathé to propose a merger between the respective companies, subject to shareholder approval, and thereby acquired a notifiable interest in the Group of 12.67%.

On 22 July 1999, Granada Group plc and Pearson plc announced that they had entered into a formal agreement with Vivendi S.A. to dispose of their remaining indirect stakes in the Group (33.55% and 33.35% respectively in BSB Holdings Limited). This is conditional, principally on completion of Vivendi S.A.'s merger with Pathé and certain regulatory clearances being obtained.

Corporate governance

Details concerning the Company's arrangements relating to corporate governance and its compliance with the Combined Code of Best Practice and the Best Practice Provisions annexed to the Listing Rules of the London Stock Exchange are given on pages 57 to 59. The Report on Directors' Remuneration is on pages 61 to 65.

Charitable and political contributions and community activities

BSkyB endeavours to be part of the communities it serves, combining commercial activity with social benefits. The Group aims to encourage young people to pursue excellence in the performing arts, television and sports. Some major commitments are as follows:

- Sky Soccer Roadshows, which provide free professional soccer coaching to children of many ages from socially disadvantaged backgrounds across the country. The Group is also working with the National Council for School Sport.
- Sky Television Production Workshops at the National Museum of Photography, Film and Television in Bradford offer families the unique opportunity to go behind the scenes and learn how a television programme is made.
- Support for various British grass roots film, theatre and writing programmes e.g. The Script Factory, The Actor's Centre, Chicken Shed and The Royal Court Theatre and RADA.
- Under-writing of many Educational programmes including support for Youth Culture TV, Isleworth & Syon School sports college status, The National Film and Television School, Hounslow Adult Education and other various university scholarships.
- The Community Channel provides funds to help develop this charity channel and make best use of the band width available in digital.
- Reach for the Sky, which is part of the Group's commitment for the new millennium and is the Group's biggest social marketing programme to date. This initiative aims to provide young people with tools to enable them to think about their individual talents and to explore creative careers options.

Charitable contributions in the UK amounted to £487,000 during the year (1998: £319,000), and BSkyB has given additional value in kind through staff involvement, donations to schools and Sky merchandise and products.

During the year the Group made a £20,000 (1998: £nil) contribution in the form of sponsorship of the Labour Party Youth Party.

Year 2000

The Group is taking the risk of computer systems malfunction at the turn of the century very seriously. Key risks of Year 2000 include the immovable nature of the deadline, the requirement for skilled resource and the reliance on certain suppliers and customers to provide solutions within the required timescale.

A Year 2000 Programme has been established and there are detailed plans to ensure that all critical systems have been tested and put in place by the end of September 1999. Progress against the plans is monitored closely and reported to a Senior Management Steering Committee, responsible directly to the Company's Board of Directors. To date, the inventory and identification of the planned work have been completed and the fixing and testing is progressing in accordance with the planned timetable.

The Group determined that it would be required to modify some software and replace some hardware so that all systems function properly. However, the Group continues to believe that, with modifications to existing software, the Year 2000 issue is unlikely to pose significant operational problems for its computer systems.

The Group is also establishing safeguards and procedures in respect of suppliers from whom it obtains equipment or services. Key third party dependencies include the operator of the Astra satellites, the licensors of conditional access technology and the manufacturers of digital equipment.

All of the Group's departments are involved in the creation of contingency plans with the objective of ensuring business continuity through the several date change thresholds of this year. The Year 2000 Programme is co-ordinating this planning and will manage and co-ordinate the activation of any part of the plans at the appropriate time. At the point of date change a senior management team will be in place and on duty to co-ordinate the response to any failure. The team is in addition to the normal duty management and will report to the highest level.

The current estimate of the total cost of the Year 2000 Programme is £11 million, of which approximately 64% had already been incurred by the year end. The Group currently believes that it is on track to achieve compliance by the end of September 1999.

Directors

The Directors who served during the year are listed on page 63.

Tony Ball and Morton Topfer offer themselves for election in accordance with the Articles of Association. Dame Anne Mueller and Lord St. John of Fawsley retire from the Board by rotation and being eligible offer themselves for re-election.

Employment policies

The Directors' interests in the Ordinary Shares and options of the Company are disclosed within the Report on Directors' Remuneration on pages 64 and 65.

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

The health and safety of the Group's employees is a matter of primary concern. Accordingly, it is the Group's policy to manage its activities so as to avoid causing any unnecessary or unacceptable risk to the health and safety of its employees.

It is the policy of the Group to develop employee involvement throughout the organisation and to ensure that employees are aware of the financial and economic factors affecting the Company and its subsidiary undertakings. Communication meetings between management and employees' representatives are held both formally and informally, where matters of specific interest are discussed. Consultation with employees or their representatives occurs on a regular basis covering pensions and health and safety, and their views are taken into consideration when making decisions. The Company publishes an employee newspaper covering a wide range of employee issues. Employees also have the opportunity to participate in a range of training programmes. The Group operates a profit related pay scheme for the benefit of all eligible employees.

Environmental responsibility

The Group recognises the importance of environmental responsibility. The nature of its activities has a minimal effect on the environment, but where it does, the Group acts responsibly and is aware of its obligations at all times.

Annual General Meeting

The notice convening the Annual General Meeting to be held on 15 October 1999 at 11.30am can be found in a separate notice accompanying the Annual Report.

Auditors

The Directors will place a resolution before the Annual General Meeting to re-appoint Arthur Andersen as auditors for the ensuing year.

By order of the Board,
David Gormley
Company Secretary
10 August 1999

The Board

BSkyB is committed to high standards of corporate governance and, except as noted below, has complied throughout the year with the provisions and principles of Section 1 of the Combined Code on corporate governance ("the Code") appended to the Listing Rules of the London Stock Exchange.

The Board currently comprises fifteen Directors, made up of two Executive Directors, seven Shareholder Appointee Non-Executive Directors and six Independent Non-Executive Directors. The Non-Executive Directors of the Company bring a wide range of experience and expertise to the Company's affairs and they carry significant weight in the Board's decisions. Short biographies of each of the Directors are set out on pages 53 and 54, which also clearly identifies those Directors who are independent within the meaning of the Code.

The roles of the Chairman and Chief Executive are separate and have been so since the Company obtained its listing in 1994. The Company has to date not identified a member of the Board to act as a senior independent Director as specified by the Code; it believes that the composition of the Board is such that this appointment is not necessary.

The Board is scheduled to meet at least six times a year to review appropriate strategic operational and financial matters as required. A schedule of items reserved for the full Board's approval is in place, which includes, inter alia, the approval of annual and interim results, significant transactions, agreements or arrangements between the Group and either Principal Shareholder (News International or Pathé) or members of their Group, major capital expenditure and the yearly business plan and budget.

The Board has also delegated specific responsibilities to Board committees, notably the Audit and Remuneration Committees. Directors receive Board and Committee papers several days in advance of Board and Committee meetings and also have access to the advice and services of the Company Secretary. In addition, the Board members have access to external professional advice, although no advice has been sought to date.

Appointments of Independent Non-Executive Directors are for an initial term of three years subject to initial election by shareholders following appointment, subsequent re-election by shareholders, and Companies Act provisions relating to the removal of Directors. In addition, re-appointment for a further term is not automatic but may be made by mutual agreement.

The existing Articles state that one-third of the Directors who are subject to retirement by rotation... or the nearest number to one-third but not exceeding more than one-third, shall retire from office at the Annual General Meeting in every year. The Company notes that this Article does not fully comply with the Code which requires all Directors to retire and offer themselves for re-appointment by shareholders at least once every three years. The retirement of the Independent Non-Executive Directors at the 1999 Annual General Meeting will comply with this requirement and a resolution to bring the Company's Articles in line with the Code for such Directors will be proposed at that meeting. Further details are given in the Notice of Meeting which accompanies the Annual Report. The Chief Executive of the Company is also not subject to retirement by rotation and it is proposed that the Articles be changed to comply with the Code in this respect also.

The Shareholder Appointee Non-Executive Directors are not subject to election by shareholders, nor do they have to retire by rotation as requested by the Code. The Articles of Association of the Company permit the Principal Shareholders to appoint a number of Directors dependent on their shareholding in the Company. News International have the right to appoint five Directors and Pathé, two. BSB Holdings also have the right to appoint one Director but have not exercised that right. Mr Rupert Murdoch, a Non-Executive Director appointed by News International, was appointed Chairman of the Company during the year; the Chairman's role does not carry a casting vote at Board meetings. The rights of the Principal Shareholders to appoint Directors were agreed with the London Stock Exchange at the time of flotation.

The Group Executive Committee generally meets more regularly than the Board to allow prompt decision making and discussion of business issues. It is chaired by the Chief Executive and comprises the Chief Financial Officer and other senior executives from within the Group.

Board Committees

The Articles of Association contain certain rights for both News International and Pathé, dependent on their shareholding in the Company, to appoint and remove members of any standing Committee established by the Board. News International has the right to appoint two members to any such Committee and Pathé have the right to appoint one member.

Remuneration Committee

The Remuneration Committee, on behalf of the Board, is responsible for recommending to the Board the framework and policy for Executive Directors' remuneration and remuneration for any executive of the Company earning in excess of £250,000 per annum. The Committee has clearly defined terms of reference, meets not less than once a year and takes advice from the Chief Executive and independent consultants as appropriate in carrying out its work.

The Remuneration Committee comprises four Non-Executive Directors, two of whom are appointed by News International (David DeVoe and Rupert Murdoch) and another appointed by Pathé (Jérôme Seydoux). The Lord Stevenson of Coddanham, an Independent Non-Executive Director, acts as Chairman. The Company, whilst noting that the composition of the Remuneration Committee does not comply with the Code, which requires that all the members should be Independent Non-Executive Directors, does not intend to change the rights that exist for both News International and Pathé to appoint members to standing committees. The Company will however, in due course, seek to add another Independent Non-Executive Director to the Remuneration Committee.

The Board also notes that the Remuneration Committee's objective on Executive Directors' service contracts and method of granting awards under the Group's Long-Term Incentive Plan do not comply with the Code. This is more specifically discussed on page 61.

Corporate Governance

continued

Audit Committee

The Report on Directors' Remuneration can be found on pages 61 to 65. The Company does not propose to put forward the report for approval by shareholders at the Annual General Meeting.

The Audit Committee, which consists exclusively of Non-Executive Directors, has clearly defined terms of reference as laid out by the Board. The Committee is chaired by Philip Bowman, an Independent Non-Executive Director, and its members are Michel Crépon, a Director appointed by Pathé, and David DeVoe and Arthur Siskind, both of whom are Directors appointed by News International. It meets not less than four times a year to review all significant judgements made in the preparation of the quarterly, half yearly and annual financial results before they are submitted to the Board. It reviews with the external auditors the nature, scope and cost of their work, discusses with them the results thereof, and reviews the audit plans and findings of the Group's internal audit function, together with any related party transactions entered into by the Group. The Committee has the power to seek external advice as and when required. The Company notes that the composition of the Audit Committee does not comply with the Code, which requires that a majority of the members should be Independent Non-Executive Directors. The Company will, however, in due course, seek to add another Independent Non-Executive Director to the Committee.

Nomination Committee

The Company has not formally established a standing nomination committee as required by the Code. The Company has engaged an executive research company to assist in the recruitment of Independent Non-Executive Directors. Suitable candidates who are nominated to serve on the Board meet with the Chairman, the Chief Executive and other members of the Board. They are then put forward for consideration and appointment by the Board as a whole.

The Company is currently seeking to add further Independent Non-Executive Directors to the Board to comply with the Code, in that there should be a majority of Independent Non-Executive Directors on the Board.

Appointment of Directors

During the year, the Company has made three appointments to the Board of Directors.

The Chief Executive joined the Company on 2 June 1999 and his appointment was overseen by a Committee of the Board which consisted of Rupert Murdoch (Chairman of the Company), Jérôme Seydoux (former Chairman of the Company), The Lord Stevenson of Coddensham (Chairman of the Remuneration Committee), and Philip Bowman (Chairman of the Audit Committee). The appointment of the Chief Executive was then subsequently ratified at a meeting of the Board held on 12 June 1999.

Morton Topfer was recommended as a suitable candidate to the Board following assistance from an executive research company and met with Rupert Murdoch (Chairman of the Company), Jérôme Seydoux (former Chairman of the Company), and Mark Booth (former Chief Executive of the Company). Mr Topfer, after careful consideration by the Board, was appointed a Non-Executive Director of the Company on 4 May 1999 and attended his first Board meeting on 15 June 1999.

On 6 May 1999, following the resignation of Sam Chisholm, News International appointed Ms Letizia Moratti as a Director of the Company, pursuant to its rights under the Articles of Association.

Communication with Shareholders

The Board is keen to maintain a dialogue with institutional shareholders in order to ensure that the objectives of both the Company and the shareholders are understood. A programme of meetings with institutional shareholders, fund managers and analysts takes place each year.

The Board views the Annual General Meeting as an opportunity to communicate with private investors and sets aside time at these meetings for shareholders to ask questions of the Board. A presentation is made to the shareholders reviewing the previous year's activities of the Company and its plans for the forthcoming year. At the Annual General Meeting held in 1998, the Company announced the number of proxy votes cast on resolutions and will continue to do so at any shareholder meeting.

Directors responsibilities

The responsibilities of the Directors are set out on page 66.

Going Concern

After making enquires, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis in the preparation of the financial statements.

Internal financial control

The Code has introduced a new requirement that Directors review and report on the effectiveness of all internal controls, including operational controls. However, as allowed by the Stock Exchange this year, the Directors have only reported on internal financial control.

The Directors acknowledge that they are responsible for the Company's system of internal financial control and have reviewed its effectiveness. These controls are designed to provide the Board with reasonable assurance regarding the maintenance of proper accounting records, the reliability of the financial information used within the business and for publication and that assets are safeguarded.

There are inherent limitations in any system of internal financial controls and accordingly even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

Key features of the Company's system of internal control include:

- approval of the Group's long term plan and annual budget by the Board of Directors;
- comparing financial results and key performance indicators against the annual budget and prior period results on a weekly and monthly basis with corrective action being taken as necessary. Monthly information is provided to the Board of Directors and the quarterly results are published;
- well structured financial and administrative functions throughout the Group staffed by appropriately qualified personnel. These functions include Group accounting, central treasury management, company secretarial, legal and personnel;
- authority limits for the ordering of goods and services and for payments by the Company;
- procedures for the approval and monitoring of capital expenditure, with defined authority limits;
- treasury policies that have been established are reviewed and approved by the Audit Committee;
- detailed financial analysis and evaluation undertaken for all new business opportunities, including joint ventures; and
- division of responsibilities between the approval, execution and monitoring of business transactions.

The internal financial controls are monitored as follows:

- an internal audit team reviews key business risks, controls and procedures across the Group, reporting findings to the Audit Committee;
- the external auditors review the operation of certain controls as part of the annual audit, reporting the key findings to the Audit Committee.

Compliance Review

Each of the channels owned and operated by the Group broadcasts pursuant to licences granted by the ITC, the public body responsible for licensing and regulating commercial television services in the UK. All ITC licensees are required to comply with the rules laid out in, inter alia, the ITC Programme Code, the Code of Advertising Standards and Practice, the Rules on the Amount and Scheduling of Advertising, and the Code of Programme Sponsorship.

In addition, BSkyB's channels are, under the terms of their licences, subject to the jurisdiction of the BSC, the statutory body for both standards and fairness in broadcasting.

Compliance Committee

Independent Non-Executive members: Dame Anne Mueller, Lord St John of Fawsley

We are pleased to report that the Group has maintained the excellent compliance record established since its inception.

Regulatory requirements continue to be carefully considered and conscientiously applied. Despite the increasing number of Group-licensed channels and subscribers, complaints about BSkyB programming or promotional content continue to comprise a small proportion of the total number received by the Independent Television Commission (ITC) and Broadcasting Standards Commission (BSC), even after adjusting for the relative viewing shares of satellite and terrestrial services. Within the cable and satellite sector, the majority of viewer complaints registered with the ITC and BSC also continue to relate to services other than BSkyB.

Few complaints about BSkyB are upheld each year, and fewer still deemed to raise any serious regulatory issue. Where breaches occur, steps are taken to avoid so far as possible any recurrence.

In the year ended 30 June 1999 the ITC upheld complaints in respect of four programme and promotional items broadcast on BSkyB-licensed services. The BSC upheld complaints about two BSkyB programmes (one relating to a programme broadcast in the previous year). No complaint resulted in significant interventions or the imposition of a sanction by these regulatory bodies.

The Group's own internal systems for dealing with viewers' complaints have continued to operate to a high standard in speed and quality of response, and providing for viewers' complaints to be discussed with relevant senior staff within the Group.

Having observed the systems operated by the Group and the attitude of the staff for a number of years now, it is our view that BSkyB continues to take its compliance responsibilities with the utmost seriousness, and that its track record in this area remains second to none.

Remuneration Committee

Independent Non-Executive member: The Lord Stevenson of Coddensham (Chairman). Shareholder Appointee Non-Executive members: Rupert Murdoch, David DeVoe, Jérôme Seydoux.

The Remuneration Committee's (The "Committee's") terms of reference are principally concerned with the remuneration (in all its forms) of main Board Directors and other senior executives of the Company (whose basic salary exceeds £250,000 per annum – other than key production personnel or on-air talent). The Committee meets not less than once a year, has access to information provided from external sources and from sources within the Company and ensures that:

- a) the salary, benefits and pension arrangements of the Executive Directors are competitive, but fair;
- b) awards under the Company's Approved and Unapproved Executive Share Option Scheme, Additional Executive Bonus Scheme and Long-Term Incentive Plan ('LTIP') are consistent with the Group's overall performance and provide an additional incentive to management; and
- c) there is an objective and independent assessment of benefits granted to Directors.

Compliance

The Auditors' Report set out on page 67 confirms that the scope of their work covers the amounts disclosed relating to the emoluments, share options, LTIP interests and pension benefits of the Directors contained in sections 11 to 13 of this report as required by the Listing Rules.

1 Policy on remuneration of the Executive Directors and senior executives

The main aim of the Committee's policy is to satisfy itself that competitive remuneration packages are provided to attract, retain and motivate Executive Directors and executives of the highest calibre. Last year the Committee commenced, with the assistance of external consultants, a review of the Executive remuneration policy of the Company which resulted in the introduction of the LTIP, a change in the basis on which bonuses are paid during the year and share options are awarded.

2 Remuneration package

Remuneration for Executive Directors and executives consists of basic salary, plus other benefits such as performance related bonuses, share incentive schemes, pension benefits, life assurance, medical insurance and, where appropriate, company cars.

3 Basic salary

The basic salary for each Director and executive is determined by the Committee upon the recommendation of the Chief Executive, other than his own salary, and takes account of information provided from external sources relative to the industry sector in which the Company operates.

4 Senior management bonus scheme

Senior executives participate in a bonus scheme under which awards are made to participants at the discretion of the Remuneration Committee, based on key indicators of their performance and that of the Company as a whole in the relevant financial year. The Company's previous bonus scheme paid out fixed proportions of a bonus pool derived from the Group's profit on ordinary activities before taxation.

5 Pension benefits

The Group provides pensions to eligible employees through the BSkyB pension plan which is a defined contribution plan. The Group does not currently operate a Supplementary Pension Scheme in excess of the Inland Revenue earnings cap.

6 Long-Term Incentive Plan

During the year the Company introduced a LTIP for senior executives. An award under the LTIP comprises a Core Award and a Performance Award. The Core Award vests dependent on continued service with the Company for a specified period. The Performance Award vests, in full or in part, dependent on the satisfaction of certain performance targets. Awards are not transferable or pensionable and are made over a specified number of shares in the Company, determined by the Remuneration Committee. Awards may be in a variety of forms with equivalent values. These include grants as an option with an exercise price of nil; as a combination of an option with an exercise price equal to the market value of the Shares under option on the day immediately preceding the date of grant and a cash bonus for an equivalent amount, receivable on exercise of the option; and as a contingent right to acquire Shares at no extra cost.

Awards may be made to any employee or full time Director of the Company at the discretion of the Committee. During the year an award under the plan was made to Mark Booth, Martin Stewart, Elisabeth Murdoch and a limited number of senior executives. Further information on the awards to the Directors can be found in Section 12 of this report.

The performance targets selected for the initial grant of Awards are based on a combination of long range business measures derived from the Company's business plan, and the Company's relative total shareholder return performance against a range of comparable companies in the UK media and telecommunications sectors.

Depending on the extent to which the performance targets have been met, an award may be exercisable or vest in full or in part for a limited period from the third anniversary of the date of grant. If an award is not exercisable or does not vest in full, to the extent that performance has improved against the performance target, a further exercise or vesting may occur following the fourth or fifth anniversaries of the date of grant. In certain limited circumstances, including take-over and transfer of a participant overseas, awards may be exercised or vest early at the discretion of the Committee.

When the Committee introduced the LTIP, they considered whether the awards should be in the form of a block award, or phased over a period of time. It was agreed, given the focus on long-term strategic goals in the performance targets attached to the initial award and the need to motivate and tie in the Executive Directors and key senior executives to the long-term success of the Company, that the awards should be made in the form of a block award and hence this does not comply with the provisions of the Code.

Report on Directors' Remuneration

continued

7 Additional Executive Bonus Scheme

The Company operates an Additional Executive Bonus Scheme in which beneficiaries participate and have the right to receive the growth in value on a number of notional shares. Any exercise is subject to the Group achieving real earnings per share growth. There is no limit under the rules of the scheme as to the number of notional shares over which rights may be granted. Any rights not exercised after seven years from the date of grant will lapse. At exercise, the Company will pay a cash sum equal to accrued gains on the notional shares, subject to deduction of any tax. Accrued gains will be calculated by reference to the difference between the middle market price of the shares at the date of exercise and the price at which the notional shares were granted. Alternatively, the Company has the option to put shares of equal value to the accrued gains to the holders, in satisfaction of the Company's obligation to pay any accrued gains. The Company has covered all of its remaining obligations against further increases in the Company's share price via the British Sky Broadcasting Employee Share Ownership Plan (ESOP) (see note 13 to the accounts). There have been no options granted under the scheme during the year, nor during the preceding year.

8 Share option schemes

The Company operates both an Approved and an Unapproved Executive Share Option Scheme (the "Executive Schemes"). The Company also operates a Sharesave Scheme (the "Sharesave Scheme").

Under the Executive Schemes options are normally only exercisable after the expiry of three years from the date of grant and lapse if not exercised within ten years. Options are only exercisable if the pre-determined performance target of real growth in the Company's earnings per share over any three year period during the life of the option is achieved. No grant of options has been made to Directors during the year.

The Company's policy has been to grant options to senior executives upon recommendation from the Chief Executive. At the Company's Annual General Meeting held in October 1998, the rules of the Executive Schemes were amended following approval by the Company's shareholders. Under the unapproved part of the Executive Scheme, a participant may in addition to the four times earnings limit allow a participant to be granted options to subscribe for Shares each year with a market value of up to two times his earnings. In exceptional circumstances, a participant may also be granted additional options over existing Shares.

The Sharesave Scheme is open to all employees, including Executive Directors. Options are normally exercisable after either three, five or seven years from the date of grant. The price at which options are offered is not less than 80% of the middle-market price on the dealing day immediately preceding the date of invitation. It is the policy of the Company to make an invitation for the employees to participate in the scheme following the announcement of the end of year results.

9 Service contracts

Tony Ball has an employment contract with the Company for a term of 3 years to 3 June 2002. The contract can be terminated by the Company subject to the payment of two years' salary or, if the contract is not extended at expiry, of one year's salary. The Committee is aware that this is at odds with the provisions of the Combined Code and, for this reason, the Committee considered very carefully what was in the Company's interest and concluded that it was right to go against this provision of the Combined Code, taking into account the very competitive nature of the media industry for top executives and the need for the Company to have access to the ablest management. Tony Ball's remuneration consists of a base salary of £700,000, plus an annual cost of living provision, an annual bonus based on performance criteria to be agreed by the Committee but to be no less than £500,000 annually. Tony Ball is also entitled to other benefits, namely participation in the LTIP, Additional Executive Bonus Scheme and Executive Schemes, pension benefits, company car, life assurance equal to four times base salary and medical insurance.

Martin Stewart has an employment contract with the Company which is deemed to commence on 1 December 1998 and shall continue unless or until terminated by either party giving to the other not less than 12 month's notice in writing such notice to expire on or after 30 August 2001. Again before proceeding with an employment contract which does not fit the provision of the Combined Code, the Committee weighed up carefully what was in the interest of the Company and concluded that it was in the Company's interest to make a variation from the provisions of the Combined Code in this case. Martin Stewart's remuneration consists of a base salary of £250,000 per annum and an annual discretionary bonus to be agreed by the Committee. He is also entitled to other benefits, namely pension benefits, company car, life assurance equal to four times base salary and medical insurance. He also participates in the LTIP.

Elisabeth Murdoch does not have a service contract with the Company. Her current annual salary is £300,000. She also participates in the LTIP.

10 Non-Executive Directors

The basic fees payable to the Independent Non-Executive Directors are set by the Board of Directors and are currently £25,000 each per annum. The Independent Non-Executive Directors are paid an additional £2,500 per annum each for membership of each of the Audit Committee and the Remuneration Committee. The Chairman of the Audit Committee and the Chairman of the Remuneration Committee each receive an additional £2,500 per annum. The Shareholder Appointee Non-Executive Directors do not receive any fees in their roles as Directors of the Company. Each Independent Non-Executive Director is engaged by the Company for an initial term of three years after which time the individual and the Board will make a conscious decision regarding whether or not they should continue in their position.

11 Directors' emoluments

The emoluments of the Directors for the year are shown below:

	Salary and fees £	Bonus schemes (see next page) £	Other (viii) £	Benefits £	Total emoluments before pensions £	Pensions £	Total emoluments including pensions 1999 £	Total emoluments including pensions 1998 £
Executive								
Tony Ball (i)	58,333	42,000	–	15,000	115,333	2,265	117,598	–
Mark Booth (ii)	564,942	–	1,364,000	189,065	2,118,007	23,577	2,141,584	1,115,628
Martin Stewart	219,292	175,000	–	17,465	411,757	17,274	429,031	170,985
Alternate								
Elisabeth Murdoch	300,000	150,000	–	19,070	469,070	–	469,070	498,473
Non-Executive								
Philip Bowman	30,000	–	–	–	30,000	–	30,000	30,000
David Chance (iii)	25,000	81,229	94,760	76,469	277,458	19,238	296,696	1,027,593
Sam Chisholm (iv)	271,196	–	2,853,815	233,626	3,358,637	21,471	3,380,108	1,572,747
The Lord Stevenson of Coddanham	30,000	–	–	–	30,000	–	30,000	29,357
Dame Anne Mueller	25,000	–	–	–	25,000	–	25,000	25,000
Lord St. John of Fawsley	25,000	–	–	–	25,000	–	25,000	25,000
John Thornton	25,000	–	–	–	25,000	–	25,000	25,000
Morton Topfer (v)	4,070	–	–	–	4,070	–	4,070	–
Michel Crépon	–	–	–	–	–	–	–	–
David DeVoe	–	–	–	–	–	–	–	–
Bruce McWilliam	–	–	–	–	–	–	–	–
Letizia Moratti (vi)	–	–	–	–	–	–	–	–
Rupert Murdoch	–	–	–	–	–	–	–	–
Graham Parrot (vii)	–	–	–	–	–	–	–	–
Jérôme Seydoux	–	–	–	–	–	–	–	–
Arthur Siskind	–	–	–	–	–	–	–	–
Former Directors	–	–	–	–	–	–	–	1,111,856
Total emoluments	1,577,833	448,229	4,312,575	550,695	6,889,332	83,825	6,973,157	5,631,639

- (i) Tony Ball was appointed as a Director of the Company on 2 June 1999.
- (ii) Mark Booth resigned as a Director of the Company on 31 May 1999.
- (iii) David Chance resigned as a Director of the Company on 9 August 1999.
- (iv) Sam Chisholm resigned as a Director of the Company on 5 May 1999.
- (v) Morton Topfer was appointed as a Director of the Company on 4 May 1999.
- (vi) Letizia Moratti was appointed as a Director of the Company on 6 May 1999.
- (vii) Graham Parrot resigned as a Director of the Company on 29 October 1998.

In connection with the termination of Mark Booth's contract of employment, by mutual consent, in May 1999, and following advice received from the Company's external advisers, the Company agreed to pay a total of £1,364,000 comprising a bonus in respect of the period ending on his resignation in recognition of Mark Booth's role in the successful launch of Sky digital and in respect of the surrender of his share options, together with a payment for expenses incurred by Mark Booth relating to the installation of equipment in his home.

David Chance relinquished his role as Deputy Managing Director on 31 December 1997 and from that date provided his services as a consultant to the Company until 30 June 1999 for a per diem remuneration. In the year to 30 June 1999 £94,760 was paid to Mr Chance in respect of the consultancy agreement. No further payments have been made or are due, up to the period of his resignation from the Board.

Sam Chisholm's employment with the Company was terminated by mutual consent on 5 May 1999. In connection with the early termination of Sam Chisholm's contract (which was originally due to expire on 31 December 1999) and the surrender of his entitlements under the Executive Schemes, Additional Executive Bonus Scheme and his contracted bonus entitlement, Sam Chisholm was paid an amount of £2,853,815. In considering the amount that was paid to Sam Chisholm, the Committee sought advice from its external advisers to reach a settlement that was both fair and reasonable to both the Company and Sam Chisholm. The Committee is of the opinion that the amount paid to Mr Chisholm was fair and reasonable and adhered to good corporate practice.

Report on Directors' Remuneration

continued

11 Directors' emoluments continued

The amounts received by the Directors under bonus schemes are shown below:

	Additional Executive Bonus Scheme (i) £	Senior Management Bonus Scheme (ii) £	Total £
Tony Ball	–	42,000	42,000
Martin Stewart	–	175,000	175,000
Elisabeth Murdoch	–	150,000	150,000
David Chance	81,229	–	81,229

i) Additional Executive Bonus Scheme

During the year David Chance exercised his rights over 205,642 notional shares resulting in a gain of £81,229. David Chance currently has rights over a further 205,642 notional shares at an option price of £5.675 per share, which were granted on 15 May 1997. Following David Chance's resignation as a Director of the company on 9 August 1999, these options can be exercised at any time up to 9 August 2000. If they have not been exercised by that date they will lapse automatically.

Sam Chisholm held rights over 752,629 notional shares at an option price of £5.675 per share, which were granted on 15 May 1997 and were surrendered on 5 May 1999, following his resignation as a Director of the Company.

ii) Senior Management Bonus Scheme

The amounts shown above are those which have been approved by the Committee for the year ended 30 June 1999.

12 LTIP

Details of outstanding options held under the LTIP are shown below:

	Granted on 23 November 1998	At 30 June 1999
Mark Booth	1,200,000	–
Martin Stewart	350,000	350,000
Elisabeth Murdoch	350,000	350,000

Mark Booth's options lapsed on 31 May 1999.

Awards granted in the year ending 30 June 1999 were in the form of a combination of options with an exercise price of £5.02 and with a cash bonus of £5.02, receivable on exercise of each option.

No amounts were received, or became receivable, by the Directors during the year under the LTIP

Mark Booth's and Sam Chisholm's options were surrendered on 31 May 1999 and 5 May 1999 respectively.

Elisabeth Murdoch was granted options on 15 May 1997 at £5.675 per share. The options become exercisable three years from the date of grant.

David Chance was granted options on 15 May 1997 at £5.675 per share. Following his resignation as a Director of the Company these shares must be exercised before 15 November 2000 (a period three years and six months from the date of grant). If they are not exercised within this period they will lapse.

Martin Stewart was granted an option on 4 November 1996 over 2,110 ordinary shares at £4.62 per share under the Sharesave Scheme. This option becomes exercisable on 1 January 2000.

During the year ended 30 June 1999 the share price traded within the range of £4.13 to £6.21 per share. The mid-market closing price on the last working day of the financial year was £6.04.

The ESOP is interested in 4,842,687 Ordinary Shares in which the Directors who are employees are deemed to be interested by virtue of section 324 of the Companies Act 1985 (see note 13 to the accounts).

Except as disclosed in this report, no Director held any interest in the share capital including options, of the Company, or of any subsidiary of the Company, during the year. All interests at the date shown are beneficial and there have been no changes between 1 July 1999 and 10 August 1999.

Rupert Murdoch, a Director of the Company and members of his family, including Elisabeth Murdoch, his daughter and an alternate Director, have a significant interest in The News Corporation Limited, and therefore in companies within The News Corporation group of companies (The News Corporation Group). The News Corporation Group has certain significant transactions with the Group as set out in note 24 to the accounts.

13 Executive Share Options

Details of all outstanding options held under the Executive Schemes are shown below:

	At 30 June 1998	Surrendered	At 30 June 1999	Expiry Date
Mark Booth	6,586	(6,586)	–	–
	593,414	(593,414)	–	–
Total	600,000	(600,000)	–	–
Sam Chisholm	5,286	(5,286)	–	–
	747,343	(747,343)	–	–
Total	752,629	(752,629)	–	–
David Chance	5,286	–	5,286	15.11.2000
	405,998	–	405,998	15.11.2000
Total	411,284	–	411,284	
Elisabeth Murdoch	5,286	–	5,286	15.5.2007
	135,683	–	135,683	15.5.2004
Total	140,969	–	140,969	

14 Share interests

The interests of the Directors in the Ordinary Share capital of the Company during the year were:

	At 30 June 1999 and 1998
Dame Anne Mueller	1,953

Directors’ Responsibilities

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit of the Group for that year. In preparing the accounts the Directors are required:

- to select suitable accounting policies and then apply them consistently;
- to make judgements and estimates that are reasonable and prudent;
- to state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- to prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that these accounts comply with these requirements.

**Respective responsibilities of
Directors and Auditors****To the Shareholders of British Sky Broadcasting Group plc:**

We have audited the accounts on pages 68 to 90 which have been prepared under the historical cost convention, as modified by the revaluation of certain investments, and the accounting policies set out on pages 72 to 74. We have also examined the amounts disclosed relating to the emoluments, share options, long-term incentive plan interests and pension benefits of the Directors, which form part of the Report on Directors' Remuneration on pages 61 to 65.

The Directors are responsible for preparing the Annual Report including, as described on page 66, the accounts. Our responsibilities, as independent auditors, are established under statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company and the Group is not disclosed.

We review whether the statement on pages 57 to 59 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group at 30 June 1999 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Chartered Accountants and Registered Auditors
1 Surrey Street
London WC2R 2PS
10 August 1999

Consolidated Profit and Loss Account
for the year ended 30 June 1999

Details of movements in reserves are shown in note 22.

The accompanying notes are an integral part of this consolidated profit and loss account.

All activities relate to continuing operations.

	notes	Before exceptional items £m	Exceptional items (see note 4) £m	1999 Total £m	1998 Total £m
Turnover: Group and share of joint ventures		1,583.0	–	1,583.0	1,465.0
Less: share of joint ventures' turnover		(38.0)	–	(38.0)	(30.9)
Group turnover	2	1,545.0	–	1,545.0	1,434.1
Operating expenses, net	3	(1,359.7)	(456.3)	(1,816.0)	(1,093.5)
Operating profit (loss)		185.3	(456.3)	(271.0)	340.6
Share of operating results of joint ventures	5	(57.7)	–	(57.7)	(16.5)
Profit (loss) on ordinary activities before interest and taxation		127.6	(456.3)	(328.7)	324.1
Interest receivable and similar income		4.2	–	4.2	3.3
Interest payable and similar charges	6	(59.0)	(5.2)	(64.2)	(56.5)
Profit (loss) on ordinary activities before taxation	7	72.8	(461.5)	(388.7)	270.9
Taxation	9	(27.9)	131.5	103.6	(21.7)
Profit (loss) on ordinary activities after taxation		44.9	(330.0)	(285.1)	249.2
Equity dividends - paid and proposed	10			(47.3)	(103.1)
Retained (loss) profit				(332.4)	146.1
Earnings (loss) per share - basic and diluted	11	2.6p	(19.1p)	(16.5p)	14.5p

Consolidated statement of total recognised gains and losses
for the year ended 30 June 1999

There were no recognised gains or losses other than those included within the consolidated profit and loss account (1998: none).

Consolidated Balance Sheet
as at 30 June 1999

BRITISH SKY BROADCASTING GROUP PLC 68 69

	notes	1999 £m	1998 £m
Fixed assets			
Tangible assets	12	219.0	175.4
Investments:			
Investments in joint ventures :Share of gross assets		64.0	35.3
:Share of gross liabilities		(34.8)	(26.6)
:Transfer to creditors		0.4	7.3
Total investment in joint ventures	13	29.6	16.0
Other investments		91.5	27.5
Total investments	13	121.1	43.5
		340.1	218.9
Current assets			
Stocks	14	288.8	228.4
Debtors: Amounts falling due after more than one year	15	170.6	122.2
Debtors: Amounts falling due within one year	15	257.7	212.8
Cash at bank and in hand		50.2	64.7
		767.3	628.1
Creditors: Amounts falling due within one year			
– short-term borrowings	17	(0.1)	(0.1)
– other creditors	17	(580.7)	(520.8)
	17	(580.8)	(520.9)
Net current assets		186.5	107.2
Total assets less current liabilities		526.6	326.1
Creditors: Amounts falling due after more than one year			
– long-term borrowings	18	(715.0)	(582.9)
– other creditors	18	(31.1)	(43.7)
	18	(746.1)	(626.6)
Provisions for liabilities and charges	20	(405.4)	–
		(624.9)	(300.5)
Capital and reserves – equity			
Called-up share capital	21	863.0	861.7
Share premium	22	703.0	690.6
Profit and loss account	22	(2,190.9)	(1,852.8)
		(624.9)	(300.5)

The accompanying notes are an integral part of this consolidated balance sheet.

Signed on behalf of the Board

Tony Ball Chief Executive Officer

Martin Stewart Chief Financial Officer

10 August 1999

Company Balance Sheet
as at 30 June 1999

	notes	1999 £m	1998 £m
Fixed assets			
Tangible assets	12	2.5	2.5
Investments	13	5,011.2	4,910.2
		5,013.7	4,912.7
Current assets			
Debtors: Amounts falling due after more than one year	15	14.0	14.0
Debtors: Amounts falling due within one year	15	425.1	228.4
		439.1	242.4
Creditors: Amounts falling due within one year	17	(482.3)	(548.8)
Net current liabilities		(43.2)	(306.4)
Total assets less current liabilities		4,970.5	4,606.3
Creditors: Amounts falling due after more than one year	18	(1,997.7)	(1,630.5)
		2,972.8	2,975.8
Capital and reserves – equity			
Called-up share capital	21	863.0	861.7
Share premium	22	703.0	690.6
Profit and loss account	22	562.9	579.6
Other reserves	22	843.9	843.9
		2,972.8	2,975.8

The accompanying notes are an integral part of this balance sheet.

Signed on behalf of the Board
Tony Ball Chief Executive Officer
Martin Stewart Chief Financial Officer
10 August 1999

Consolidated Cash Flow Statement
for the year ended 30 June 1999

BRITISH SKY BROADCASTING GROUP PLC 70 71

	notes	1999 £m	1998 £m
Net cash inflow from operating activities	26a	238.3	403.6
Returns on investments and servicing of finance			
Interest received and similar income		4.2	3.3
Interest paid and similar charges on external financing		(54.8)	(50.6)
Interest element of finance lease payments		(0.5)	(0.4)
Net cash outflow from returns on investments and servicing of finance		(51.1)	(47.7)
Taxation			
ACT paid		(25.8)	(25.7)
UK corporation tax paid		(2.5)	–
Taxation paid		(28.3)	(25.7)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(76.2)	(82.0)
Payment for shares in Manchester United PLC		(66.9)	–
Receipt of government grants		1.1	1.2
Net cash outflow from capital expenditure and financial investment		(142.0)	(80.8)
Acquisitions and disposals			
Funding to joint ventures		(22.9)	(6.2)
Payments for shares in joint ventures		(45.4)	(38.9)
Net cash outflow from acquisitions and disposals		(68.3)	(45.1)
Equity dividends paid		(103.2)	(102.9)
Net cash (outflow) inflow before financing		(154.6)	101.4
Financing			
Proceeds from issue of ordinary shares		8.0	8.0
Increase (decrease) in total debt	26c	132.1	(104.1)
Net cash inflow (outflow) from financing		140.1	(96.1)
(Decrease) increase in cash	26c	(14.5)	5.3
(Increase) reduction in net debt	26c	(146.6)	109.4

The accompanying notes are an integral part of this consolidated cash flow statement.

a) Basis of accounting

1 Accounting policies

The principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, are summarised below:

The accounts have been prepared under the historical cost convention, modified to include the revaluation of certain investments, and in accordance with applicable financial reporting and accounting standards, including the following Financial Reporting Standards issued by the Accounting Standards Board which have come into force since the previous year end:

FRS 10 – Goodwill and Intangible Assets

Prior to 1 July 1998, goodwill arising on acquisition was eliminated against reserves. As permitted by FRS 10, this goodwill has not been restated in the balance sheet. On disposal or closure of a previously acquired business, the goodwill previously written off to reserves will be included in calculating the profit or loss on disposal. No goodwill has arisen in the year to 30 June 1999, as no acquisitions have been made in this period.

FRS11 – Impairment of Fixed Assets and Goodwill and FRS 12 – Provisions, Contingent Liabilities and Contingent Assets

Compliance with FRS 11 and FRS 12 has not given rise to any restatement of the Group's consolidated balance sheet at 30 June 1998.

FRS 13 – Derivatives and Other Financial Instruments: Disclosures

The Group uses a limited number of derivative financial instruments to hedge its exposures to fluctuations in interest and foreign exchange rates. Instruments accounted for as hedges are structured so as to reduce the market risk associated with the underlying transaction being hedged and are designated as a hedge at the inception of the contract. Receipts and payments on interest rate instruments are recognised on an accruals basis, over the life of the instrument. Gains and losses on contracts hedging forecast transactional cash flows are recognised in the hedged periods. Cash flows associated with derivative financial instruments are classified in the cash flow statement in a manner consistent with those of the transactions being hedged. If an instrument ceases to be accounted for as a hedge, if, for example, the underlying hedged position is eliminated, the instrument is marked to market and any resulting gain or loss recognised in the profit and loss account.

The Group does not hold or issue derivative financial instruments for speculative purposes.

The additional disclosures required by FRS 13 have been included within the Treasury Policy and Risk Management section of the Operating and Financial Review and note 19 to the accounts.

FRS 14 – Earnings per Share

Compliance with FRS 14 has not changed the published basic earnings per share figures for the year ended 30 June 1998.

The Group accounts consolidate the accounts of the Company and all its subsidiary undertakings. All companies are consolidated using acquisition accounting.

The Group maintains a 52-53 week fiscal year ending on the Sunday nearest to 30 June in each year. In fiscal 1999, this date was 27 June 1999, and in fiscal 1998 it was 28 June 1998. Both were 52 week years.

The Company has taken advantage of the exemption in section 230 of the Companies Act 1985 not to present its own profit and loss account. The Company's profit for the financial year determined in accordance with the Act is disclosed in note 22.

b) Basis of consolidation

c) Turnover

Turnover, which excludes value added tax, represents the invoiced value of advertising, pay channel subscriptions and other revenues.

d) Tangible fixed assets

Tangible fixed assets are stated at cost net of accumulated depreciation and any provision for impairment. Land is not depreciated.

Depreciation is provided to write off the cost, less estimated residual value, of each asset on a straight-line basis over its estimated useful life. Principal annual rates used for this purpose are:

Freehold buildings	4%
Leasehold improvements	Period of lease or life of the asset, whichever is less
Fixtures and fittings	10% - 20%
Computer equipment	20% - 33 1/3%
Technical equipment	10% - 20%
Motor vehicles	25%

e) Investments

1 Accounting policies continued

In the Company's accounts, investments in subsidiary undertakings are stated at cost, with the exception of the investment in Sky Television Limited (Sky) which is stated at valuation. Provisions are made for impairments in value.

The Company's shares held by the ESOP are included in the consolidated balance sheet as a fixed asset investment until such time as the interest in the shares is transferred unconditionally to the employees. In the event that those shares allocated against awards under the Additional Executive Bonus Scheme are not transferred to the employees on exercise of their options, the carrying cost is adjusted to the mid-market price on the date of exercise, with the excess over cost being offset against the cash cost of the bonus.

A charge is made in the profit and loss account in relation to the shares held by the ESOP for awards under the Long Term Incentive Plan ("LTIP"), based on an assessment of the probability of the performance criteria under the LTIP being met. The charge is allocated on a straight line basis over the performance period of the LTIP, currently 3 years.

Provision is made for any permanent diminution in the value of shares held by the ESOP.

The Group's other fixed asset investments are stated at cost, less any provision for permanent diminution in value.

Joint ventures are entities in which the Group holds a long-term interest and shares control under a contractual arrangement. These investments are dealt with by the gross equity method of accounting. In circumstances where the Group's investment in a joint venture has been fully provided against and where that investment is being funded by another party, with no recourse to the Group, no further share of losses of that undertaking is recognised. Provision is made within creditors where the Group's share of a joint venture's losses exceeds the Group's funding to date.

Stocks, apart from television programme rights, are stated at the lower of cost and net realisable value.

Television programme rights are stated at cost (including, where applicable, estimated escalation payments) less accumulated amortisation. Provisions are made for any programme rights which are excess to Group requirements or which will not be shown for any other reason. Direct costs of own productions are included within the cost of programme rights. Programme rights, and the related liability, are recorded at cost when the programmes are available for transmission.

Contractual obligations for programme rights not yet available for transmission are not included in the cost of television programme rights but are disclosed as contractual commitments (see note 23).

Programme payments made in advance of the Group having availability to transmit the related programmes are treated as prepayments.

Amortisation is provided to write off the cost of television programme rights as follows:

Sports and current affairs	100% on first showing
General entertainment.....	Reducing balance on each transmission at the following rates:
	One showing planned – 100%
	Two showings planned – 60%;40%
	Three showings planned – 50%;30%;20%
Movies	Straight-line basis over the period of transmission rights.
	Where movie rights provide for a second availability window, 10% of the cost is allocated to that window.

Payments made in advance to secure distribution channels on the Astra satellites have been recorded as prepaid transponder rentals. These payments are amortised to the profit and loss account over the period from commencement of broadcasting to the end of the rental period, normally between 5 and 10 years.

Corporation tax payable is provided at current rates on all taxable profits.

Deferred taxation is provided using the liability method at the rates ruling at the year end. Net deferred tax assets resulting from tax losses and other timing differences are not recognised except to the extent that it is assured beyond reasonable doubt that future taxable profits will be sufficient to recover them. Any deferred tax assets not recognised in the year that they arise are subsequently only recognised as they are realised.

Unrecovered Advance Corporation Tax on dividends paid or proposed at the balance sheet date is recognised to the extent it is foreseen that sufficient corporation tax will be assessed on the profits of succeeding accounting periods against which the Advance Corporation Tax is available for offset.

f) Interests in joint ventures

g) Stocks

h) Transponder rentals

i) Taxation

j) Deferred taxation

Notes to Accounts

continued

k) Foreign Currency

l) Pension costs

m) Leases

n) Government grants

All turnover is derived from the Group's sole class of business, being television broadcasting together with certain ancillary functions, and arises principally within the United Kingdom from activities conducted from the United Kingdom. Subscription revenue is recognised over the period to which it relates. In order to provide shareholders with additional information, the Group's turnover has been analysed as shown opposite.

Included in other turnover is £38.3 million (1998: £nil) representing sales of digital set-top boxes at cost. The corresponding cost is included within subscriber management costs.

*The amounts shown are net of £48.2 million (1998: £31.6 million) receivable from the disposal of programming rights not acquired for use by the Group, and £50.6 million (1998: £32.3 million) in respect of the provision to third party broadcasters of spare transponder capacity.

The exceptional operating items comprise principally marketing costs of £450.0 million and administrative costs of £6.3 million (see note 4).

1 Accounting policies continued

Trading activities denominated in foreign currencies are recorded in sterling at actual exchange rates as of the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign exchange contract or other hedging instrument. Monetary assets, liabilities and commitments denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end or, if hedged, at the appropriate hedged rate.

The results of overseas joint ventures are translated at the average rate of exchange during the period and the balance sheet at the rate ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas joint ventures and on foreign currency borrowings, to the extent that they hedge the Group's investment in this operation, are dealt with through reserves.

The Group provides pensions to eligible employees through the BSKyB pension plan which is a defined contribution plan. The assets of the plan are held independently of the Group.

The amount charged to the profit and loss account is based on the contributions payable for the year.

Assets held under finance leases are treated as tangible fixed assets, depreciation is provided accordingly and the deemed capital element of future rentals is included within creditors. Deemed interest, calculated on a sum of the digits basis, is charged as interest payable over the period of the lease.

The rental costs arising from operating leases are charged to the profit and loss account in the year in which they are incurred.

Government grants relating to tangible fixed assets are reported as deferred income and amortised over the expected useful life of the asset concerned. Other grants are credited to the profit and loss account as the related expenditure is incurred.

2 Turnover

	1999 £m	1998 £m
Direct-to-home subscribers	979.3	967.8
Cable and DTT subscribers	252.6	227.8
Advertising	216.5	195.0
Other	96.6	43.5
	1,545.0	1,434.1

3 Operating expenses, net

	1999 £m	1998 £m
Programming*	786.5	687.5
Transmission and related functions*	90.9	69.8
Marketing	215.5	167.9
Subscriber management (see note 2)	154.4	92.2
Administration	112.4	76.1
	1,359.7	1,093.5
Exceptional operating items (see note 4)	456.3	—
	1,816.0	1,093.5

On 5 May 1999 the Group announced a marketing promotion under which it committed to transitioning its existing analogue subscribers onto its digital service. The net costs associated with this transition process are estimated at £450 million, before taking account of tax relief of £135 million. (see notes 16 and 20).

Following the announcement of the promotion and the booking of the exceptional transition provision, the Group completed a refinancing of its borrowings. Immediately subsequent to the year end the £1,000 million revolving credit facility ('RCF') was cancelled and replaced with a £750 million RCF. The exceptional finance charges of £5.2 million are comprised of unamortised prepaid fees on the £1,000 million RCF and the mark-to-market of a floating-to-fixed interest rate swap over £100 million of the £1,000 million RCF which was no longer required.

The decision of the Monopolies and Mergers Commission ("MMC") in April 1999 to block the Group's bid for Manchester United PLC resulted in £6.3 million of costs associated with the bid being written off.

The exceptional tax credit of £131.5 million is after an ACT write-off of £7.0 million previously considered recoverable prior to the recognition of exceptional charges in the year ended 30 June 1999 (see note 9).

This relates to the Group's equity share of the operating results of the joint ventures listed in note 27.

4 Exceptional items

	Before taxation £m	Taxation (credit) charge £m	1999 After taxation £m	1998 £m
Estimated cost of transitioning analogue customers to digital service	450.0	(135.0)	315.0	–
Cost of aborted Manchester United PLC bid	6.3	(1.9)	4.4	–
	456.3	(136.9)	319.4	–
Finance charges	5.2	(1.6)	3.6	–
ACT written off	–	7.0	7.0	–
	461.5	(131.5)	330.0	–

5 Share of operating results of joint ventures

	1999 £m	1998 £m
British Interactive Broadcasting	44.4	5.4
Programming joint ventures	13.3	11.1
	57.7	16.5

6 Interest payable and similar charges

	1999 £m	1998 £m
On bank loans, overdrafts and other loans repayable within 5 years, not by instalments		
– £1,000 million revolving credit facility	33.3	38.4
US\$600 million 6.875% Guaranteed Notes due 2009 (see note 18)	8.2	–
US\$300 million 7.300% Guaranteed Notes due 2006 (see note 18)	15.4	15.4
Finance lease interest	0.9	0.9
Other interest payable and similar charges	1.2	1.8
	59.0	56.5
Exceptional finance charges (see note 4)	5.2	–
	64.2	56.5

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Amounts paid to the auditors for other services during the year were £2.4 million (1998: £1.2 million). These amounts relate principally to work associated with the Group's aborted bid for Manchester United PLC, and its referral to the MMC, together with other financial advisory work, corporate tax and VAT services.

The Company operates a defined contribution pension scheme, contributions to which are charged to the profit and loss account on an accruals basis. The pension charge for the year represents contributions payable by the Group to the fund and amounted to £5.4 million (1998: £4.0 million).

In 1999 the Group's UK Corporation Tax charge on ordinary activities (at 30.75%) was fully eliminated by tax credits on exceptional items. These exceptional tax credits resulted in a write-off of certain ACT previously considered recoverable in the year ended 30 June 1999.

In 1998 the Group fully utilised its remaining tax losses and for the first time incurred a UK Corporation Tax charge (at 31%) which was reduced by the write-back of some Advance Corporation Tax (ACT) written off in previous years.

Cumulative ACT of £71.3 million (1998: £62.0 million) has been written off and not yet been recovered.

7 Profit (loss) on ordinary activities before taxation

	1999 £m	1998 £m
The profit (loss) on ordinary activities before taxation is stated after charging (crediting):		
– depreciation (see note 12)	32.5	16.7
– auditors' remuneration	0.4	0.3
– rentals on operating leases and similar arrangements	88.4	63.6
– staff costs (see note 8)	190.9	115.9
– government grants	(1.8)	(1.4)

8 Staff costs

a) Employee costs for permanent and temporary employees and Executive Directors during the year amounted to:

	1999 £m	1998 £m
Wages and salaries	170.0	103.1
Costs of Additional Executive Bonus Scheme	0.1	0.4
Costs of Long Term Incentive Plan	2.9	–
Social security costs	12.5	8.4
Other pension costs	5.4	4.0
	190.9	115.9

The average number of persons employed by the Group during the year was as follows:

	1999 Number	1998 Number
Programming	751	568
Transmission and related functions	915	707
Marketing	117	84
Subscriber management	5,701	2,644
Administration	787	631
	8,271	4,634

b) Directors' emoluments

A detailed breakdown of remuneration by Director, the terms of their employment contracts and their rights under the Group's bonus schemes are given within the Report on Directors' Remuneration on pages 61 to 65.

9 Taxation

	1999 £m	1998 £m
Tax on profits before exceptional items:		
UK corporation tax	39.3	27.8
ACT written off (back)	2.3	(6.1)
Prior year adjustment	(3.9)	–
Share of joint ventures' tax credit	(9.8)	–
	27.9	21.7
Tax (credit) charge on exceptional items:		
Deferred tax asset	(88.8)	–
Carry back against prior year	(10.4)	–
Current year UK corporation tax	(39.3)	–
ACT written off (see note 4)	7.0	–
	(131.5)	–
	(103.6)	21.7

The ESOP has waived its rights to dividends.

Basic earnings per share represents the profit attributable to the equity shareholders in each year divided by the weighted average number of Ordinary Shares in issue during the year.

Diluted earnings per share is calculated on the basis of weighted average number of shares of 1,721,474,665 (1998: 1,718,250,040) which includes the dilution effect of the exercise of share options granted by the Company.

Earnings per share is shown calculated by reference to earnings both before and after exceptional items and related tax, since the Directors consider that this gives a useful additional indication of underlying performance.

Digital fixed assets were depreciated from 1 October 1999, the launch of the digital service.

Included in freehold land and buildings are assets held under finance leases with a net book value of £7.6 million (1998: £8.0 million). Depreciation charged during the year on such assets was £0.4 million (1998: £0.3 million).

Depreciation was not charged on £4.4 million of land (1998: £4.4 million).

The Company's only fixed assets relate to leasehold improvements at the Group's head office, which amount to £2.5 million (1998: £2.5 million). The movement during the year consisted of transfers from other Group companies of £0.2 million and depreciation charged of £0.2 million.

10 Dividends

	1999 £m	1998 £m
Paid and proposed per Ordinary Share		
Interim paid dividend of 2.75p (1998: 2.75p)	47.3	47.2
Final proposed dividend of nil (1998: 3.25p)	–	55.9
	47.3	103.1

11 Earnings (loss) per share

	Before exceptional items	Exceptional items	1999 After exceptional items	1998
Profit (loss) on ordinary activities after taxation	£44.9m	(£330.0m)	(£285.1m)	£249.2m
Weighted average number of Ordinary Shares	1,719,952,745	–	1,719,952,745	1,716,632,612
Earnings (loss) per share – basic and diluted	2.6p	(19.1p)	(16.5p)	14.5p

12 Tangible fixed assets

The movement in the year was as follows:

	Freehold land and buildings £m	Leasehold improvements £m	Equipment, fixtures and fittings £m	Total £m
Group				
Cost				
Beginning of year	22.5	65.6	216.4	304.5
Additions	4.2	7.5	64.5	76.2
Disposals	–	–	(0.7)	(0.7)
End of year	26.7	73.1	280.2	380.0
Depreciation				
Beginning of year	2.6	28.0	98.5	129.1
Charge	0.7	3.7	28.1	32.5
Disposals	–	–	(0.6)	(0.6)
End of year	3.3	31.7	126.0	161.0
Net book value				
Beginning of year	19.9	37.6	117.9	175.4
End of year	23.4	41.4	154.2	219.0

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During the year the Company wrote back the remaining part of its provision against the investment in Sky Television Limited ("Sky") following a profit in that company.

The investment in joint ventures excludes cumulative losses of £0.4 million (1998: £7.3 million), which represent losses in excess of the funding provided. The related obligation is recorded within creditors.

13 Investments

The following are included in the net book value of fixed asset investments:

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Subsidiary undertakings	–	–	4,944.3	4,910.2
Joint ventures	29.6	16.0	–	–
Own shares	24.6	27.5	–	–
Investment in Manchester United PLC	66.9	–	66.9	–
	121.1	43.5	5,011.2	4,910.2

Investment in subsidiary undertakings

The movement in the year was as follows:

	Company 1999 £m	Company 1998 £m
Cost or valuation		
Beginning and end of year	4,944.3	4,944.3
Provision		
Beginning of year	(34.1)	(89.5)
Provision against investment in Sky released	34.1	55.4
End of year	–	(34.1)
Net book value		
Beginning of year	4,910.2	4,854.8
End of year	4,944.3	4,910.2

Investment in joint ventures

The movement in the year was as follows:

	Group 1999 £m	Group 1998 £m
Cost and funding		
Beginning of year	48.0	32.4
Loans advanced to joint ventures, net	22.9	6.2
Subscriptions for shares in joint ventures	45.4	5.9
Acquisition of additional 9.5% stake in Granada Sky Broadcasting	–	35.8
Goodwill on acquisition written off to reserves	–	(32.3)
End of year	116.3	48.0
Share of results		
Beginning of year	(32.0)	(21.9)
Share of operating results of joint ventures	(57.7)	(16.5)
Share of interest receivable by joint ventures	0.8	–
Share of interest payable by joint ventures	(0.7)	(0.9)
Share of tax credits of joint ventures	9.8	–
Transfer (from) to creditors	(6.9)	7.3
End of year	(86.7)	(32.0)
Net book value		
Beginning of year	16.0	10.5
End of year	29.6	16.0

At the beginning of the year the ESOP held Ordinary Shares in the Company at a value of £5.68 per share, primarily to hedge substantially all the obligations of the Group then outstanding under the Additional Executive Bonus Scheme against further increases in the Company's share price.

During the year the ESOP subscribed for 2,646,543 new shares which were then transferred to employees on the exercise of options under the Executive and Sharesave Schemes.

At the year end 3,696,996 shares are held as a hedge against current obligations under the Additional Executive Bonus Scheme, the Long Term Incentive Plan ("LTIP") and Share Option Schemes. The remainder of shares held by the ESOP are not currently committed.

The carrying value of 1.75 million shares held to hedge against the LTIP was written down to £5.02 on 23 November 1998, the share price on the date of grant of the LTIP award. The remaining carrying value of £5.02 is being provided for over the three year vesting period to 23 November 2001.

The market value of the shares held by the ESOP at 30 June 1999 was £29.2 million (1998: £21.4 million), and the nominal value was £2.4 million (1998: £2.4 million).

At least 82 per cent of the existing television programme rights at 30 June 1999 will be amortised within one year. Included within raw materials and consumables is £10.4 million (1998: £nil) of digital set-top boxes.

13 Investments continued

Investment in own shares

The movement in the year was as follows:

	Number of Ordinary Shares	Group £m
Beginning of year	4,842,687	27.5
Provision made against LTIP awards	–	(2.9)
End of year	4,842,687	24.6

Investment in Manchester United PLC

During the year the Company purchased 28,884,374 shares (11.1%) in Manchester United PLC at a cost of £66.9 million.

The market value of the shares held by the Group at 30 June 1999 was £57.5 million.

14 Stocks

	Group 1999 £m	Group 1998 £m
Television programme rights	271.5	226.1
Raw materials and consumables	17.3	2.3
	288.8	228.4

15 Debtors: Amounts falling due within one year

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Trade debtors	98.5	89.3	–	–
Amounts owed by subsidiary undertakings	–	–	422.3	227.3
Amounts owed by joint ventures (see note 24)	7.1	11.9	–	–
Amounts owed by other related parties (see note 24)	1.4	11.2	–	–
Other debtors	2.9	5.5	–	0.4
Prepaid programme rights	39.3	31.4	–	–
Prepaid transponder rentals	19.6	23.1	–	–
Deferred tax (see note 16)	29.8	–	–	–
Other prepayments and accrued income	59.1	40.4	2.8	0.7
	257.7	212.8	425.1	228.4

Debtors: Amounts falling due after more than one year

Prepaid programme rights	14.5	27.4	–	–
Prepaid transponder rentals	80.2	75.0	–	–
Advance Corporation Tax	14.0	14.0	14.0	14.0
Deferred tax (see note 16)	59.0	–	–	–
Other prepayments and accrued income	2.9	5.8	–	–
	170.6	122.2	14.0	14.0

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The deferred tax asset has arisen as a result of certain exceptional items booked in the year (see note 4).

Included within trade creditors are £211 million (1998: £147 million) of US dollar-denominated programme creditors. At least 90 per cent (1998: 90 per cent) of these were covered by forward rate currency contracts (see note 23).

16 Deferred tax

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Included within debtors due within one year	29.8	–	–	–
Included within debtors due after more than one year	59.0	–	–	–
	88.8	–	–	–

17 Creditors: Amounts falling due within one year

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Short-term borrowings				
Obligations under finance leases	0.1	0.1	–	–
	0.1	0.1	–	–

Other

Trade creditors	263.9	171.5	–	–
Amounts due to subsidiary undertakings	–	–	470.2	463.9
Amounts due to joint ventures (see note 24)	2.5	1.7	–	–
Amounts due to related parties (see note 24)	47.5	53.0	–	–
ACT on paid and proposed dividends	–	25.8	–	25.8
UK corporation tax	2.4	9.9	–	–
VAT	36.5	34.1	–	–
Social security and PAYE	4.5	2.8	–	–
Other creditors	18.3	13.2	–	–
Proposed dividends	–	55.9	–	55.9
Accruals and deferred income	204.4	152.8	12.1	3.2
Government grants	0.7	0.1	–	–
	580.7	520.8	482.3	548.8
	580.8	520.9	482.3	548.8

Interest accrued on the £1,000 million revolving credit facility ("RCF") at rates varying between 0.225% and 0.75% per annum above LIBOR, depending on certain conditions, such as the drawn down balance. The Group repaid a net total of £235 million in the year (1998: £90 million). £100 million of the balance drawn down was swapped into fixed rate debt until September 2000 bearing an interest rate of 7.385% plus a margin. Due to the refinancing completed subsequent to the year end this swap is no longer required (see note 4).

In October 1996 the Group issued, in the US public debt market, US\$300 million of 7.300% Guaranteed Notes repayable in October 2006. The Group subsequently entered into swap transactions to convert the proceeds into sterling, half of which carries a fixed rate of interest of 8.384% per annum for the full ten years and the remainder of which is fixed at 7.940% per annum for five years until October 2002 and thereafter floating at 62 basis points above the six month LIBOR rate.

In February 1999 the Group issued, in the US public debt market, US\$600 million of 6.875% Guaranteed Notes repayable in February 2009. The proceeds, which were used to repay part of the balance on the RCF, have been swapped into sterling at an average floating rate of 127 basis points above the 6 month LIBOR rate.

Subsequent to the year end, the £1,000 million RCF was cancelled and replaced by a £750 million RCF repayable in full on 29 June 2004 and bearing interest at rates varying between 0.50% and 1.40% per annum above LIBOR, depending on the Group's credit rating. The Group also issued US\$650 million and £100 million 10 year global Regulation S/144A bonds with SEC registration rights. The aggregate proceeds of £512 million were used to repay the drawn down balance on the RCF and provide funding for the roll out of digital. The US\$650 million Notes carry a coupon of 8.200% payable semi-annually and are repayable on 15 July 2009. They have been swapped into sterling at a fixed rate of 7.653% payable semi-annually. The £100 million Notes carry a fixed coupon of 7.750% payable annually and are repayable on 9 July 2009.

AUS\$1 million was drawn down on a facility to fund the Group's ongoing investment in Australian News Channel Pty Limited. Interest accrues at AUS\$ LIBOR per annum. The loan is repayable in full on 30 April 2002.

18 Creditors: Amounts falling due after more than one year

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Long-term borrowings				
Bank loans				
– £1,000 million revolving credit facility	150.0	385.0	–	–
– AUS\$1million facility	0.4	0.4	–	–
US\$600 million of 6.875%				
Guaranteed Notes repayable in 2009	367.2	–	367.2	–
US\$300 million of 7.300%				
Guaranteed Notes repayable in 2006	189.2	189.2	189.2	189.2
Obligations under finance leases	8.2	8.3	–	–
Amounts due to subsidiary undertaking	–	–	1,441.3	1,441.3
	715.0	582.9	1,997.7	1,630.5
Other				
Accruals and deferred income	30.2	43.1	–	–
Government grants	0.9	0.6	–	–
	31.1	43.7	–	–
	746.1	626.6	1,997.7	1,630.5

Amounts due to subsidiary undertaking relates to an intercompany loan from Sky. Interest of 1.5% above LIBOR has been charged on the balance outstanding from 1 July 1997. No repayments are expected to be made in the foreseeable future. The loan is fully repayable on 30 June 2007.

Following the grant in December 1997 of the three digital terrestrial television licences to ONdigital, £60 million was received by the Group. This was credited to accruals and deferred income and is being released to income to match the associated costs, which include a shortfall arising on the sub-lease of the Marco Polo property. The net balance is being credited to other turnover over the 5 year period of programme supply.

Borrowings outstanding which include finance leases are repayable as follows:

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Amounts repayable:				
– on demand or within one year	0.1	0.1	–	–
– within one to two years	0.1	0.1	–	–
– within two to five years	151.0	385.9	–	–
– after five years	563.9	196.9	1,997.7	1,630.5
	715.1	583.0	1,997.7	1,630.5

Obligations under finance leases are repayable as follows:

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Amounts repayable:				
– within one year	0.1	0.1	–	–
– within one to two years	0.1	0.1	–	–
– within two to five years	0.6	0.5	–	–
– after five years	7.5	7.7	–	–
	8.3	8.4	–	–

Obligations under finance leases represent amounts drawn down in connection with the Subscriber Management Centre in Dunfermline. Repayments of £0.2 million (1998: £0.2 million) were made each quarter. A proportion of these payments has been allocated to the capital amount outstanding, based on the sum of the digits method. Interest accrues on the finance lease at a rate of 8.5%.

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Page 11 of the Operating and Financial Review provides an explanation of the role that financial instruments have had during the period in the management of the Group's funding, liquidity and foreign exchange rate risks.

As permitted by FR13, short-term debtors and creditors have been excluded from the FRS13 disclosures, other than the currency risks disclosures.

Further details of interest rates on long-term borrowings are given in note 18.

In addition, as at 30 June 1999, the Group has substantial US dollar commitments, as disclosed in note 23(a).

Subsequent to the year end, the Group completed a re-financing of its borrowings (see note 18), and the undrawn committed bank facilities were reduced to £750 million, expiring in more than 2 years.

The fair values of quoted borrowings are based on period-end mid-market quoted prices. The fair values of other borrowings and derivative financial instruments are estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the period end.

In addition to the fair value table, the Group held 11.1% of the equity share capital of Manchester United PLC. See note 13 for disclosure of its book and fair values.

The difference between book value and fair value reflects unrealised gains or losses inherent in the instrument, based on valuations as at 30 June 1999. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

19 Derivatives and other financial instruments

Interest rate risks

After taking into account interest rate swaps and forward foreign currency contracts entered into by the Group, the interest rate profile of the Group's financial liabilities at 30 June 1999 (not including the AUS\$ 1 million bank facility drawn down) was:

	Fixed	Floating	Total
£m	297.5	417.2	714.7
Weighted average interest rate	8.4%	6.4%	7.2%
Weighted average period for which the rate is fixed (years)	4.2	n/a	n/a
Weighted average term (years)	6.2	8.8	7.7

In addition, cash at bank and in hand of £50.2 million consists mainly of sterling deposits, in bank accounts or on money markets at call.

Immediately subsequent to the year end, the Group completed a re-financing of its borrowings (see note 18). The following table indicates how the table above would be changed by the re-financing.

	Fixed	Floating	Total
£m	810.0	267.2	1,077.2
Weighted average interest rate	7.9%	6.5%	7.5%
Weighted average period for which the rate is fixed (years)	7.9	n/a	n/a
Weighted average term (years)	8.4	9.6	8.7

Currency risks

The table below as at 30 June 1999 shows the Group's currency exposures after hedging that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the net monetary assets and liabilities of the Group that are not denominated in the functional currency of the operating unit involved, and principally consist of cash deposits and trade debtors.

Net foreign currency monetary assets (liabilities) (£m)				
Functional currency of Group operating unit	USD	Irish punts	Euros	Total
Sterling	0.9	2.6	1.1	4.6

Liquidity risks

The profile of the Group's financial liabilities, other than short-term creditors, is shown in note 18.

The Group's undrawn committed bank facilities as at 30 June 1999 were as follows:

	1999 £m
Expiring in one year or less	–
Expiring in more than 1 year but less than 2 years	–
Expiring in more than 2 years	850.0
Total	850.0

Fair values

Set out below is a comparison by category of the book values and the estimated fair values of the Group's financial assets and financial liabilities, and associated derivative financial instruments as at 30 June 1999:

	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations		
Short-term financial liabilities and current portion of long-term borrowing	(0.1)	(0.1)
Bank borrowings	(158.6)	(158.6)
Quoted bond debt	(556.4)	(531.5)
Cash deposits	50.2	50.2
Derivative financial instruments held to manage the interest rate and currency profile		
Combined interest and exchange rate swaps	–	(19.1)
Forward foreign currency contracts	–	7.6

19 Derivatives and other financial instruments continued

Hedges

The Group's policy is to hedge the following exposures:

- interest rate risk, using interest rate swaps
- transactional currency exposures, using forward foreign currency contracts
- exposures on long term foreign currency debt

Gains and losses on instruments used for hedging are not recognised until the hedged position is recognised. Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows;

	Gains £m	Losses £m	Total net (losses) gains £m
Unrecognised gains and losses at 1 July 1998	6.3	(9.2)	(2.9)
Gains and losses arising in previous years that were recognised in the year to June 1999*	–	8.9	8.9
Gains and losses arising before 1 July 1998 that were not recognised in the year to June 1999	6.3	(0.3)	6.0
Gains and losses arising in 1999 that were not recognised in the year to June 1999	3.8	(21.3)	(17.5)
Unrecognised gains and losses on hedges at 30 June 1999	10.1	(21.6)	(11.5)
Of which:			
Gains and losses expected to be recognised in the year to June 2000	10.1	(2.5)	7.6
Gains and losses expected to be recognised in July 2000 or later	–	(19.1)	(19.1)

*Included in the loss is the exceptional cost of marking-to-market the floating-to-fixed interest rate swap discussed in note 4.

20 Provisions for liabilities and charges

During the year, the Group announced a marketing promotion, effective for the remainder of its analogue transmission period, which committed to transition its existing analogue subscribers onto its digital service, and the expected net costs of this promotion were provided for. The movement during the year on the provision was as follows:

	Group 1999 £m
Beginning of year	–
Transition provision established	(450.0)
Utilised during the year	44.6
End of year	(405.4)

These transition costs comprise the cost of the set-top box, installation costs and various other costs to be incurred to enable a subscriber to use the digital service less any upfront income received from the subscriber. The provision is calculated on the basis of the number of analogue subscribers at 5 May 1999 less allowance for churn (i.e. customers ceasing DTH subscriptions). The provision utilised during the year of £44.6 million is net of £5.8 million of installation income received from subscribers. It is assumed that the provision will be fully utilised by 31 December 2002.

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Movements in share capital in the year ended 30 June 1999 are described in note 22.

Options under the Executive Schemes will normally only be exercisable after the expiry of three years from the date of the grant, and lapse if not exercised within ten years under the Approved Scheme and within seven years under the Unapproved Scheme. Options are only exercisable if the pre-determined performance target of real growth in the company's earnings per share over any three year period during the life of the option is achieved.

Options over 648,207, 364,483, 479,604, 906,145 and 327,078 Ordinary shares were in existence at 30 June 1999 under the Sharesave Scheme, with the exercise prices being 205p, 302p, 372p, 378p and 462p respectively. The options will normally be exercisable after either three, five or seven years from the date of grant.

21 Called-up share capital

	1999 £	1998 £
Authorised 3,000,000,000 Ordinary Shares of 50p	1,500,000,000	1,500,000,000
Allotted, called-up and fully paid – equity Ordinary Shares – 1,725,987,067 (1998: 1,723,340,524) of 50p	862,993,534	861,670,262

Allotted during the year

	Number
Allotted and fully-paid up at start of year	1,723,340,524
Options exercised under the Executive Share Option Scheme at between £2.560 and £5.675	2,623,238
Options exercised under the Sharesave Scheme at between £2.050 and £4.620	23,305
Allotted and fully-paid up at end of year	1,725,987,067

Share option schemes

Options in existence at 30 June 1999 under the Executive Schemes are shown in the table below.

Date of grant	Number of Ordinary Shares	Option price £	Exercisable from
08-Dec-94	500,505	2.560	08-Dec-97
18-Aug-95	20,289	3.450	18-Aug-98
16-May-96	84,862	4.360	16-May-99
20-Aug-96	13,270	5.350	20-Aug-99
27-Aug-96	44,636	5.780	27-Aug-99
18-Sep-96	66,263	5.795	18-Sep-99
04-Nov-96	213,881	5.690	04-Nov-99
15-May-97	1,378,083	5.675	15-May-00
10-Jun-97	38,491	5.795	10-Jun-00
18-Aug-97	13,728	4.370	18-Aug-00
18-Aug-97	321,266	4.420	18-Aug-00
14-Nov-97	7,308	4.105	14-Nov-00
14-Nov-97	166,253	4.030	14-Nov-00
04-Feb-98	8,298	3.615	04-Feb-01
04-Feb-98	111,261	3.685	04-Feb-01
09-Mar-98	14,050	4.270	09-Mar-01
09-Mar-98	238,805	4.355	09-Mar-01
01-Dec-98	7,275,161	5.010	01-Dec-01
11-Feb-99	80,042	4.747	11-Feb-02
25-Mar-99	140,077	5.140	25-Mar-02

At 30 June 1999 the cumulative goodwill written off directly to reserves amounted to £523.8 million (1998: £523.8 million)

During the year the Company issued shares with a market value of £13.7 million in respect of the exercise of options awarded under various share option plans, with £8.0 million received from employees.

Of the commitments for television programme rights, some £1,237 million (1998: £788 million) relates to commitments which are payable in US dollars and are for periods of up to 8 years. At 30 June 1999 the US dollar creditors and commitments have been translated at the year end rate of £1.5897:£1 (1998: £1.6679:£1), except for \$501 million covered by forward rate contracts or other hedging instruments, where the average forward or hedged rate of US\$1.6406:£1 (1998: \$1.6306:£1) has been used.

According to the terms of certain of the movie programme rights contracts, the minimum contracted amount is subject to price escalation clauses. The extent of the escalation, and hence of the commitments, is dependent both upon the number of subscribers to the relevant movie channel and upon the audience achieved on US theatrical release. If subscriber numbers were to remain at 30 June 1999 levels, the commitment in respect of subscriber escalation would be some £185 million (\$293 million) (1998: £269 million (\$449 million), and would be in addition to the figures shown opposite.

Certain contracts may be extended at the licensor's option depending on subscriber levels to the relevant movie channel.

22 Reconciliation of movements in shareholders' funds

Movements in shareholders' funds includes all movements in reserves:

	Share capital	Share premium	Profit and loss account	Total shareholders' funds
	£m	£m	£m	£m
Group				
As at 1 July 1997	860.1	678.1	(1,960.5)	(422.3)
Issue of share capital	1.6	12.5	(6.1)	8.0
Goodwill	–	–	(32.3)	(32.3)
Profit for the financial year	–	–	249.2	249.2
Dividends	–	–	(103.1)	(103.1)
As at 1 July 1998	861.7	690.6	(1,852.8)	(300.5)
Issue of share capital (see note 21)	1.3	12.4	(5.7)	8.0
Loss for the financial year	–	–	(285.1)	(285.1)
Dividends	–	–	(47.3)	(47.3)
As at 30 June 1999	863.0	703.0	(2,190.9)	(624.9)

Included in the Company's reserves at 30 June 1999 is a capital reserve of £843.9 million. There was no movement on the capital reserve during the year. The Company's profit for the year was £30.6 million less dividends of £47.3 million, resulting in a transfer from reserves of £16.7 million. The Company has distributable reserves of £562.9 million at 30 June 1999 (1998: £579.6 million).

23 Guarantees and other financial commitments

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
a) Future expenditure				
Contracted for but not provided for in the accounts				
– television programme rights	1,940.7	1,678.8	–	–
– capital expenditure	5.5	20.4	–	–
	1,946.2	1,699.2	–	–

Under the terms of the completion agreement signed in 1998 for the British Interactive Broadcasting (BiB) Limited joint venture, the shareholders agreed to meet a funding requirement of £275 million, according to their shareholdings, of which the Group's share is £89.4 million. Since the agreement was signed the Group has funded £55.2 million to BiB and accordingly is committed to funding a further £34.2 million to this joint venture.

As at 30 June 1999, the Group had made or contemplated commitments to manufacturers, in relation to the supply of set-top boxes up to a maximum of £384 million (1998: £254 million). This amount includes the subsidies which have been committed to by BiB.

Notes to Accounts

continued

The Group leases certain land and buildings on short-term and long-term leases. The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. In addition the Group has agreements for the use of transponders on the Astra satellites.

The Group has forward rate contracts to purchase 57 million Euros and 431 million Belgian francs ("BEF"), covering certain commitments in relation to the Astra satellites and other transponder rental costs, at average rates of Euros 1.4614 and BEF 56.0550 respectively to £1.

In addition to the amounts shown opposite, the Company remains liable for leases for up to 16 years, in respect of certain of its former premises which have been sublet and for the use of two transponders which have been fully sublet on similar terms to those entered into by the Group. The Group's additional commitment should the sub-lessee default in respect of the premises amounts to some £1.3 million and in respect of the transponders £7.0 million per annum.

23 Guarantees and other financial commitments continued

b) Contingent liabilities

The Group has contingent liabilities by virtue of its investments in unlimited companies, or partnerships, which include Nickelodeon UK, The History Channel (UK), Paramount UK, QVC and National Geographic Channel UK.

The Directors do not expect any material loss to arise from the above contingent liabilities.

c) Guarantees

The Company and certain subsidiaries have given joint and several guarantees in relation to the £1,000 million Revolving Credit Facility ("RCF"), and, subsequent to the year end, in relation to the £750 million RCF which replaced it (see note 18).

d) Lease and similar commitments

	Group property £m	Group transponder, computer and technical equipment £m	Company property £m
The minimum annual rentals under these arrangements are as follows:			
30 June 1999			
Operating leases and similar arrangements which expire:			
– within one year	0.1	1.1	–
– within two to five years	0.4	63.5	–
– after five years	6.7	15.9	1.0
	7.2	80.5	1.0
30 June 1998			
Operating leases and similar arrangements which expire:			
– within one year	0.1	1.0	–
– within two to five years	0.4	38.5	–
– after five years	4.8	18.0	0.5
	5.3	57.5	0.5

24 Transactions with related parties and major shareholders

a) Transactions with major shareholders

The Company and Group conduct business transactions on a normal commercial basis with, and receive a number of services from, shareholder companies or members of their groups and associated undertakings.

A number of transactions are conducted with members of The News Corporation Group. These companies include 20th Century Fox, News Digital Systems Limited ("NDS") and Broadsystems Limited with which the Group has significant contracts. 20th Century Fox supplied programming with a total value of £27.6 million in the year (1998: £28.7 million), the majority of which is supplied under arrangements which have been extended to December 2004, with a variable annual value dependent on the number of films supplied. NDS supplied smart cards and encryption services with a value of £26.6 million in the year (1998: £24.7 million) under a contract extending to 2004. The Group also has a number of contracts with NDS for the supply of digital equipment of which £5.7 million (1998: £13.2 million) was paid during the year. The Group also purchased sports rights from subsidiaries of The News Corporation for £6.8 million during the year (1998: £8.2 million). During the year £8.2 million (1998: £7.1 million) was earned from Fox Kids Europe Limited and ZeeTV (a channel aimed at Asian consumers) for the provision of transponder capacity and subscriber and support services respectively. Carriage fees of £6.4 million were paid to Ventura Film Distributors B.V. (the supplier of Fox Kids, a children's television channel) (1998: £6.4 million).

Certain other related party transactions are entered into with shareholders, also in the normal course of business. These include advertising by the Group in media owned by shareholders of £4.6 million (1998: £3.1million) and revenue earned by the Group for the sale of airtime to shareholders of £1.1 million (1998: £2.4 million). The acquisition of programmes from Guild, a subsidiary of Pathé, cost £4.3million (1998: £3.6 million).

Balances as at 30 June 1999 payable to members of The News Corporation Group, a major shareholder, analysed by activity:

	£m
Programming	31.2
Encryption services	12.6
Capital expenditure	0.6
Other	3.1
	47.5

Balances as at 30 June 1999 receivable from members of The News Corporation Group, a major shareholder, analysed by activity:

	£m
Transponders	0.2
Other	1.2
	1.4

b) Transactions with joint ventures

All transactions with joint ventures are in the normal course of business.

	£m
Revenue	20.1
Operating costs	29.6

Revenues are primarily generated from the provision of transponder capacity, marketing and support services together with commissions receivable. Operating costs represent fees payable for channel carriage.

	£m
Funding to joint ventures (see note 13)	116.3
Amounts owed by joint ventures (see note 15)	7.1
Amounts due to joint ventures (see note 17)	2.5

During the year BiB offered customers acquiring digital set-top boxes and dishes the benefit of an "interactive discount" if the customer agreed to enter into an interactive discount contract with BiB and to connect his set-top box to an operational telephone line for a minimum period of 12 months. The interactive discount reduced the price of the set-top box and dish to new and transition customers. Interactive discounts payable by BiB for 1998/99 were £109.6 million (1997/98: £nil).

24 Transactions with related parties and major shareholders continued

c) Other transactions with related parties

John Thornton is a Non-Executive Director of BSkyB Group plc and is also President and Co-Chief Operating Officer of the Golman Sachs Group Inc. and a member of their Board of Directors. Fees and expenses totalling £1.6 million were paid to the Golman Sachs Group Inc. relating to BSkyB's bid for Manchester United PLC.

25 Financing arrangements

At 30 June 1999 the Group's balance sheet showed net liabilities of £624.9 million. The Directors consider that the operating cash flows of the Group, together with its own bank facilities, will be sufficient to cover the Group's projected operating requirements and to settle or refinance the Group's other liabilities as they fall due. Accordingly the accounts are prepared on a going concern basis.

26 a) Reconciliation of operating profit to net cash inflow from operating activities

	Before exceptional items £m	Exceptional items £m	1999 Total £m	1998 Total £m
Operating profit (loss)	185.3	(456.3)	(271.0)	340.6
Depreciation (see note 12)	32.5	–	32.5	16.7
Loss on disposal of fixed assets	0.1	–	0.1	–
Amortisation of government grants	(0.2)	–	(0.2)	(1.4)
Adjustment to investment in own shares	2.9	–	2.9	–
(Increase) decrease in debtors	(5.2)	–	(5.2)	13.1
Increase in creditors	134.2	–	134.2	49.7
Increase in stock	(60.4)	–	(60.4)	(13.3)
Utilisation of provisions	–	–	–	(1.8)
Transition provision not utilised	–	405.4	405.4	–
Net cash inflow (outflow) from operating activities	289.2	(50.9)	238.3	403.6

b) Analysis of changes in net debt

	As at 1 July 1998 £m	Cashflow £m	As at 30 June 1999 £m
Cash at bank and in hand	11.3	24.1	35.4
Overnight deposits	53.4	(38.6)	14.8
Short term investments and cash	64.7	(14.5)	50.2
Debt due within one year	(0.1)	–	(0.1)
Debt due after one year	(582.9)	(132.1)	(715.0)
Total debt	(583.0)	(132.1)	(715.1)
Net debt	(518.3)	(146.6)	(664.9)

c) Reconciliation of net cash flow to movement in net debt

	notes	1999 £m	1998 £m
(Decrease) increase in cash		(14.5)	5.3
Cash (inflow) outflow resulting from (increase) decrease in debt and lease financing		(132.1)	104.1
(Increase) reduction in net debt		(146.6)	109.4
Net debt at beginning of the year		(518.3)	(627.7)
Net debt at end of the year	26b	(664.9)	(518.3)

27 Principal Group investments

The investments of the Company and the Group which principally affect the consolidated results and net assets of the Group are as follows:

Name	Country of incorporation/ operation	Description and proportion of shares held (%)	Principal activity
Direct holdings			
British Sky Broadcasting Limited	England and Wales	10,000,002 ordinary shares of £1 each (100%)	The transmission of the Group's English language satellite television broadcasting services
Sky Television Limited	England and Wales	13,376,982 ordinary shares of £1 each (100%)	Investment holding company
BSkyB Finance Limited	England and Wales	2 ordinary shares of £1 each (100%)	Finance company
Indirect holdings			
Sky Subscribers Services Limited	England and Wales	2 ordinary shares of £1 each (100%)	Providing ancillary functions supporting the satellite television broadcasting operations of the Group
Sky In-Home Service Limited	England and Wales	1,176,000 ordinary shares of £1 each and 400,000 deferred shares of £1 each (100%)	The supply, installation and maintenance of satellite television receiving equipment
Sky Ventures Limited	England and Wales	912 ordinary shares of £1 each (100%)	Holding company for joint ventures
British Sky Broadcasting SA	Luxembourg	12,500 ordinary shares of £12 each (100%)	Digital satellite transponder leasing company
Joint Ventures			
Nickelodeon UK	England and Wales	104 B shares of £0.01 each (50%)	The transmission of a children's satellite television service
The History Channel (UK)	England and Wales	50,000 A shares of £1 each (50%)	The transmission of an historical programme channel
Paramount UK (i)	England and Wales	Partnership interest (25%)	The transmission of a general entertainment channel
Australian News Channel Pty Limited	Australia	1 ordinary share of Aus\$1 (33.33%)	The transmission of a 24 hour news channel
QVC	England and Wales	1 B share of £1 (20%)	The transmission of a home shopping channel
Granada Sky Broadcasting Limited (ii)	England and Wales	800 B shares of £1 each (80%)	The transmission of general entertainment channels
Granada Sky Broadcasting (DTT) Limited (iii)	England and Wales	200 B shares of £1 each (20%)	The transmission of general entertainment channels for distribution on DTT
British Interactive Broadcasting Holdings Limited	England and Wales	44,655 ordinary shares of £1 each (32.5%)	The transmission of interactive services
MUTV	England and Wales	100 B shares of £1 each (33.33%)	The transmission of Manchester United football channel
National Geographic Channel UK (iv)	England and Wales	Partnership interest (50%)	The transmission of a natural history channel
Sky Five Text Limited	England and Wales	1 ordinary share of £1 (50%)	The transmission of a text service for Channel 5
Music Choice Europe Limited	England and Wales	2,293,733 A shares of £1 each (49%)	The transmission of audio music channels

Notes

(i) The registered address of Paramount UK is 15-18 Rathbone Place, London, W1P 1DF.

(ii) The economic interest held in Granada Sky Broadcasting Limited is 49.5%.

(iii) The economic interest held in Granada Sky Broadcasting (DTT) Limited is 49.5%.

(iv) The registered address of National Geographic is Grant Way, Isleworth, Middlesex, TW7 5QD.

Five Year Summary

	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Consolidated results					
DTH subscriber revenues	979	968	861	728	582
Cable and DTT revenues	253	228	191	122	75
Advertising revenues	217	195	150	110	92
Other revenues (i)	96	43	47	41	27
Operating revenues	1,545	1,434	1,249	1,001	776
Operating expenses, net (i)	(1,360)	(1,093)	(875)	(686)	(539)
Exceptional operating costs	(456)	–	–	–	–
Operating (loss) profit	(271)	341	374	315	237
Share of results of joint ventures	(58)	(17)	(10)	(4)	(3)
Loss on sale of assets	–	–	–	–	(1)
Net interest payable	(60)	(53)	(50)	(54)	(78)
(Loss) profit on ordinary activities before taxation	(389)	271	314	257	155
Taxation	104	(22)	(26)	(23)	(19)
(Loss) profit after taxation	(285)	249	288	234	136
Statistics					
(Loss) earnings per share (ii)	(16.5p)	14.5p	16.8p	13.6p	8.7p
Dividend per share - post flotation					
– interim	2.75p	2.75p	2.75p	2.5p	–
– final	–	3.25p	3.25p	3.0p	2.5p
Capital expenditure (£m)	76	82	42	33	22
Direct-to-home subscribers ('000)	3,460	3,547	3,532	3,247	2,893
Cable subscribers ('000)	3,189	2,796	2,327	1,775	1,270
DTT subscribers ('000)	204	–	–	–	–
Total UK subscribers ('000)	6,853	6,343	5,859	5,022	4,163
Average number of full-time equivalent employees	8,271	4,634	4,580	4,205	3,054
	£m	£m	£m	£m	£m
Capital employed					
Fixed assets	340	219	148	97	47
Working capital	5	76	150	44	26
Provisions, tax and dividends	(305)	(78)	(92)	(90)	(72)
Net debt	(665)	(518)	(628)	(659)	(769)
Net liabilities	(625)	(301)	(422)	(608)	(768)

i) Other revenues and operating expenses for 1995 to 1997 have been restated. Amounts receivable from the disposal of programming rights not acquired for use by the Group and the provision to third party broadcasters of spare transponder capacity are now classified within operating expenses, not other revenues.

ii) Weighted average number of shares used in the calculation assumes the reclassification of shares held by the Company's shareholders prior to the flotation.

Board of Directors

Rupert Murdoch (Chairman)
 Tony Ball (Chief Executive Officer & Managing Director)
 Philip Bowman (Audit Committee Chairman)
 The Lord Stevenson of Coddendam (Remuneration Committee Chairman)
 Martin Stewart (Chief Financial Officer)

Michel Crépon	David DeVoe	Bruce McWilliam
Letizia Moratti	Dame Anne Mueller	Jérôme Seydoux
Arthur Siskind	Lord St. John of Fawsley	John Thornton

Morton Topfer

Alternate Directors

The NITL Directors have appointed each of the other NITL Directors to serve as alternate Directors and in addition have appointed Richard Linford and Peter Stehrenberger as their alternates. The Pathé Directors have appointed each other to serve as alternate directors and have also appointed Emma Rami as their alternate. Elisabeth Murdoch has been appointed as an alternate Director to Rupert Murdoch, David DeVoe and Arthur Siskind.

Company Secretary

David Gormley

Financial calendar

First quarter 1999/2000 results.....Oct 1999
 1999 Annual General MeetingOct 1999
 1999/2000 Half year results.....Feb 2000
 1999/2000 Third quarter resultsMay 2000
 Preliminary results for 1999/2000.....Aug 2000
 2000 Annual General Meeting Nov 2000

Company information

Registered office: Grant Way, Isleworth, Middlesex TW7 5QD. Telephone 0171 705 3000

Internet address

<http://www.sky.co.uk>

Registrars

Lloyds Bank Registrars, The Causeway, Worthing, West Sussex BN99 6DA. Telephone 01903 502541

ADR Depositary

Citibank Shareholders Services, PO Box 2502, Jersey City, New Jersey 07303-2502 USA. Telephone 1-877-248-4237

Auditors

Arthur Andersen, 1 Surrey Street, London WC2R 2PS

Principal Bankers

Barclays Bank plc, 27 Soho Square, London W1 4WA

Solicitors

Herbert Smith, Exchange House, Primrose Street, London EC2A 2HS

Company registration number

2247735

Shareholders’ Service

Share Price Information

Share Dealing Service

Shareholder Enquiries

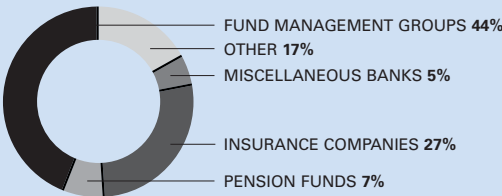
The Company's share price is broadcast on SkyText on the Sky News channel on page 360, BBC Ceefax page 222 and on Channel 4 Teletext page 511, all under the prefix BSkyB. It also appears in the financial columns of the national press.

The latest BSkyB share price is available from the Financial Times Cityline Service, on 0336 434816.

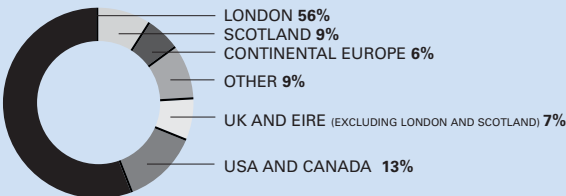
The Company has arranged with Charles Schwab Europe to provide shareholders with a simple, low cost method of buying and selling its shares. To take advantage of this service, call 0870 601 4500.

All administrative enquiries relating to shareholdings, such as queries concerning dividend payments, notification of change of address or the loss of a share certificate, should be made to the Company's registrars whose address is given on the previous page.

BREAKDOWN OF SHAREHOLDERS AS AT 30 JUNE 1999
BY TYPE*



BREAKDOWN OF SHAREHOLDERS AS AT 30 JUNE 1999
BY LOCATION*



*Excluding founder shareholders (News International Television Limited, BSB Holdings Limited, Pathé).

British Sky Broadcasting Group plc,
Grant Way, Isleworth, Middlesex TW7 5QD England.
Telephone 0207 705 3000 Facsimile 0207 705 3030
www.sky.co.uk

Registered in England No: 2247735