British Sky Broadcasting Group plc
Annual Report and Accounts 2002

Annual Report

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Delivering more

More subscribers. More income. More profits. Sky has matured to become a business delivering tangible results. As subscriber volume and revenue per subscriber grow, we are clearly on track to deliver on our targets. With the investment phase of our digital strategy successfully completed, we are on course to deliver sustained and profitable growth.

6.1m

Subscribers

Our customer numbers are rising. We're well on track to reach our goal of 7 million by 2003.

£347

Revenue per subscriber

Average revenue per subscriber is up 11% to a new high of £347.

20%

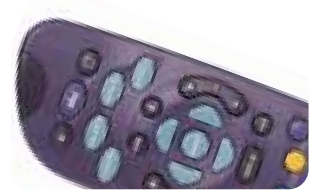
Operating profit before goodwill and exceptional items

Profits have increased by 20% year-on-year and we are now generating positive free cash flow.

04.
Chief Executive's Statement
Our leading position, with record subscriber levels, is now paying off, as – with the infrastructure in place – we're now generating positive free cash flow. We're delivering what our customers want and will continue to deliver more.

10.
Programming and content
The creativity and quality of our programming continue to delight our existing customers, as well as attract more and more new subscribers.

16.
Channel line-up
With more than 377 channels now available to Sky customers, we're making Sky more appealing every day.



17.
Accounts
For information on BSkyB's financial performance.

56.
Shareholder information
For details on how to access useful information, such as share price, share dealing services and shareholder details, please turn to the back of this report.

This document is also available online as a pdf, together with previous years', at www.sky.com/corporate. Here you can also check our share price, view announcements and key dates, as well as access other useful services.

Digital success
Driven by Sky's vision and commitment, the UK leads the world in its take-up of digital television.



The Group's success is thanks to the talent and creativity of Sky's employees and partners.

Sky continued to deliver on its operating and financial targets in the year to 30 June 2002, and to maintain its position as the market leader in the UK and Ireland.

Thanks largely to Sky, the UK now leads the world in its take-up of digital television, with over 6 million digital satellite homes and total digital penetration of 35%.

Sky's philosophy has always been to listen to what customers want and then to deliver it. This strategy has been consistently successful, and has been amply rewarded by a healthy increase in subscriber revenues and the continuing loyalty of Sky customers.

Sky's channels are thriving. Sky News' pioneering achievements in 24-hour news were recognised with a BAFTA award, Sky Sports achieved strong audiences, and Sky's other channels, including Sky One and Sky Movies, continued to grow their audiences. Interactive services from Sky and other channels are providing our subscribers with outstanding entertainment and information opportunities.

Despite turbulent times in the advertising market and the financial difficulties affecting third-party distributors, Sky's profitability and cash flow have increased this year. The management team and all of their colleagues deserve credit for achieving this growth. I am confident that an improvement in advertising and wholesale revenues, allied to the continuing success of the direct-to-home business, will create considerable scope for future increases in profitability.

As one of the UK's largest public companies, Sky recognises its responsibility to contribute to the community in which it operates. As well as constantly increasing its awareness of environmental issues, the Group supports a range of community initiatives focused on young people.

David Evans was appointed to the Board as an Independent Non-Executive Director on 21 September 2001. He brings a wealth of experience in media businesses, and is currently President and Chief Executive Officer of Crown Media Holdings. Our thanks go to Dr Dieter Hahn who resigned as a Director on 6 February 2002. Dr Hahn had been a Non-Executive Director of BSkyB since May 2000.

I would like to pay tribute to the talent and creativity of Sky's employees and partners. Their efforts have been the mainspring of the Group's successes to date, and they will continue to be an intrinsic part of its success in the future.

1. CRM centre – Dunfermline
2. Sky One publicity – Isleworth
3. Sky digital installer at work – London

Rupert Murdoch
Chairman

Digital take up
Britain leading the world

EU	11%
US	32%
UK & Eire	35%

Potential for real long-term growth

Another year of improving the financial strength of our business.

Sky has continued to make solid progress despite a challenging year for our industry. We ended the year with 6.1 million direct-to-home ("DTH") subscribers generating average revenue per subscriber ("ARPU") of £347. This subscriber and ARPU growth has delivered increased revenue and profits. With the investment phase of digital behind us, we have started to generate positive free cash flow and repay debt.

Subscriber growth
Almost four years after the launch of digital, Sky continues to enjoy healthy growth, ending the year to 30 June 2002 with 6.1 million DTH subscribers. We remain comfortably on track to meet our target of 7 million DTH subscribers by 31 December 2003.

Our position as UK leader in digital television was confirmed during the year when Sky's analogue service was switched off, some 15 months earlier than first targeted. Today, one quarter of all homes in the UK and the Republic of Ireland receive their television via digital satellite with a further 4.1 million households receiving Sky channels via cable.

Audiences are increasingly deserting the terrestrial networks for the greater choice we offer. For the first time ever, our channels accounted for more than 6% of the nation's total viewing time.

Sky Movies continues to gain audiences with its array of blockbuster films. Sky News and Sky One remain the most popular channels in their respective genres. The commencement of the 2001-2002 FA Premier League season, the first under the three year deal running to the end of the 2004 season, saw the largest Sky Sports audiences for many years, both in and out of home.

Our customers are passionate about our product and we continue to be passionate about customer service.

The benefits of our new Customer Relationship Management systems are starting to come online and a key result of this focus is that churn remains at an industry-leading low of around 10%.

Revenue
Strong growth in each component of our core business drove ARPU up 11% to a new high of £347. We are well on track to meet our target of £400 by the end of 2005. The majority of customers, both existing and new, continue to subscribe to our top tier package including all the premium sports and movie channels. This year we added pay per view FA Premier League football and Formula 1 to the existing range of pay per view services. The Tyson v. Lewis world heavyweight boxing championship pay per view event attracted a record 700,000 purchases.

Interactivity
The range and usage of Sky's interactive services has been transformed in the last 12 months, as we delivered on our promise to bring interactivity closer to the viewer. Revenues from games, betting, mobile phone downloads and voting grew substantially and contributed a much greater proportion of the £14 interactive ARPU than one year ago. There has also been significant growth in the number of third party channels offering interactive services via digital satellite, adding to our interactive revenue.

Profitability
This year's growth in subscribers and ARPU led to a 20% increase in operating profit before goodwill and exceptional items. The Group also began to generate positive free cash flow in the second half of the year, which is being applied to reduce net debt. We achieved these results despite the high profile difficulties of our wholesale partners.

The quality of Sky's offer – innovative, interactive, imaginative – across sport, news, movies and entertainment, has attracted 6.1 million subscribers.

1. Sky Sports – Isleworth
2. Sky News – Isleworth
3. On-air marketing – Isleworth

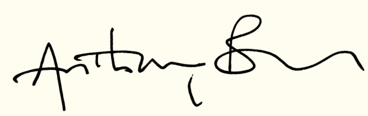
Creativity
In programming, interactive services and new technology, Sky demonstrates creativity and innovation. We not only have the most imaginative ideas, we have them first. Sky+, the UK's only integrated personal television recorder and decoder, received critical acclaim following its successful launch in September 2001.

Increasing potential
Sky welcomed the ITC's recent decision to re-award the multiplex licences previously held by ITV Digital, which will give digital terrestrial homes the chance to access some of Sky's content on a free-to-air basis.

Corporate responsibility
Sky rightly applies its energies to improving our community with support for a host of initiatives particularly focused on young people, education and sports. For the first time this year we have also published reports on Sky's environmental record and on corporate responsibility.

Outlook
Sky continues to demonstrate its potential for real long-term growth in its core business. Despite the tough times in the industry as a whole, we have seen another year of progress towards our subscriber and ARPU targets and another year of improving the financial strength of our business.

I would like to thank every one of our staff for their contribution to these results.



Tony Ball
Chief Executive

DTH subscriber growth
(millions)

00	4.5
01	5.5
02	6.1

Sky share of viewing*

00	5.3%
01	5.8%
02	6.2%

*Source: BARB

Digital business

Revenues and operating profit before goodwill and exceptional items have demonstrated significant year-on-year growth.

Summary of results

The continued growth in DTH subscribers over the past 12 months has meant that revenues and operating profit before goodwill and exceptional items have demonstrated significant year-on-year growth. Revenues were up 20% (£470 million) to £2,776 million, EBITDA was up 22% (£49 million) to £273 million and operating profit before goodwill and exceptional items was up 20% (£32 million) to £192 million.

The loss before tax and exceptional items of £22 million was £192 million lower than last year, principally due to a £32 million improvement in the operating result before goodwill and exceptional items and a reduction of £163 million in the Group's share of joint ventures' losses mainly due to the cessation of accounting for KirchPayTV as a joint venture from 8 February 2002 and the consolidation of BiB from 9 May 2001. After goodwill and exceptional charges of £1,254 million, principally the provision against the Group's investment in KirchPayTV, the Group recorded a loss before tax of £1,276 million. The loss after tax was £1,383 million compared to £539 million last year and the loss per share was 73.3p.

Turnover

Revenues grew by 20% to £2,776 million.

Subscription revenues, which account for 80% of total turnover, grew 20% year-on-year. DTH revenue, which accounts for 69% of total turnover, increased by 26% to £1,929 million, reflecting a 14% increase in the average number of DTH subscribers and growth in the average revenue per subscriber of 10%, driven largely by subscription price increases in January 2002, but also by the introduction of new products such as Sky+ and the second set-top box. Pay Per View ("PPV") income increased by £15 million to £89 million as a result of a greater volume of movies purchased and the inclusion of Football Association Premier League ("FAPL") and Formula 1 ("F1") revenues for the first time.

Wholesale revenue from cable and DTT subscribers fell by 7% to £279 million, due to a decline in the average number of premium channels taken by both cable and DTT subscribers, partly offset by a higher average number of cable subscribers. DTT revenues were level as compared to the prior year as no revenues were recorded after 30 April 2002 in respect of ITV Digital, following the termination of ITV Digital DTT operations on that date. As a result of this termination, the Group made an exceptional provision of £22 million at 30 April 2002 in respect of remaining unprovided programming debtors with ITV Digital.

Advertising revenue decreased by 7% to £251 million, principally reflecting the downturn in the advertising market.

Interactive revenues for the year were £186 million in total, of which £95 million related to betting via interactive television, the internet and the telephone. Sky portal and access control revenues comprised the majority of the other £91 million.

Other revenues for the year increased by 22% to £131 million, mainly due to increased installation revenue from the new Sky+ and second set-top box products.

Programming costs

Programming costs increased by £305 million to £1,439 million, principally as a result of the new FAPL contract and volume-related increases in movie and third party channel costs.

Sports costs, which represent 46% of total programming costs (2001: 37%), increased by £246 million (59%) to £663 million, driven by an increase of £192 million in football costs (mainly due to the new FAPL deal this year and the introduction of FAPL PPV matches), together with the costs of Rugby Union and Cricket Internationals.

An increase in movie costs of 7% (£24 million) to £360 million reflected the increase in the average number of movie subscribers, a greater proportion of "Megahit" titles and an increase in the number of subscribers buying Sky Box Office ("SBO") movies. Entertainment programming costs decreased by 5% (£5 million) to £85 million principally as a result of the closure of the .tv channel in September 2001 and a reduction in commissioned programming costs and Sky Business programming costs following the closure of the Automotive Channel in May 2001. These reductions were partly offset by increased Sky One acquired programming costs.

Revenue growth
Total revenue
(millions)

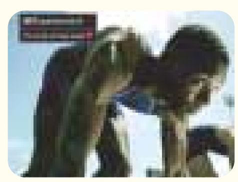
00	£1,847
01	£2,306
02	£2,776

Profit growth
Operating profit before goodwill and exceptionals (millions)

00	£85
01	£160
02	£192

This year total revenues have increased by 20%, driven largely by a 26% increase in DTH revenue.

Strong brands continue to be attracted to Sky and its audience profile.



SkyBet, formerly part of Surrey Sports, contributed to interactive gaming revenues of £95 million.

DTH distribution fees paid to third party channels rose by 16% (£41 million) to £297 million, due to the increased number of subscribers and contractual per subscriber fee increases.

Other operating costs

Transmission and related costs rose by £18 million to £147 million, mainly due to the inclusion of BiB transmission and related costs for the first time this year and the usage of an increased number of other transponders, offset by savings from the termination of the analogue service in September 2001.

Marketing costs increased by £38 million (10%) to £416 million, mainly due to consolidation by the Group of BiB's subsidy of the set-top box and to an increase in discounted installation offers. These increases were partly offset by reductions in above-the-line advertising spend and commissions paid, as more sales were made directly rather than through retail outlets.

Subscriber management costs (mainly subscriber handling and installation costs) increased by 20% to £291 million, driven by the higher number of digital subscribers and by the introduction of new products such as Sky+ and second set-top boxes. Partly offsetting this, call centre headcount and call volumes are down, reflecting improvements in the Group's billing and other customer support systems and subscribers' increasing familiarity with the Group's products.

Administration costs increased by £16 million to £203 million, due mainly to the consolidation of BiB costs for the first time this year and increases in other interactive costs and depreciation.

Gaming costs increased by £13 million to £88 million due to increased numbers of interactive TV, internet and telephone bets placed following the introduction of interactive betting in December 2000 and the relaunch of the Surrey Sports betting service in November 2001. These costs related to the Interactive gaming revenues of £95 million described on the previous page.

Goodwill
Goodwill amortisation included within operating profit increased by £74 million to £118 million as a result of the inclusion of a full year's amortisation charge for goodwill arising on the acquisition of BiB. Joint ventures' goodwill amortisation of £1,070 million shown below operating profit relates to the amortisation and subsequent impairment of the goodwill arising upon the acquisition of KirchPayTV.

Exceptional items
Total operating exceptional items of £18 million includes a provision of £22 million against the remaining unprovided programming debtors with ITV digital. The exceptional provision was made when the joint administrators of ITV Digital announced the closure of its pay TV services on the platform on 30 April 2002. This was partly offset by the release of the balance of the analogue termination provision of £4 million.

Non-operating exceptional charges (net) comprise a £2 million profit on disposal of Static 2358 Limited and a provision against minority equity investments in football clubs of £60 million. In addition, on 16 October 2001, the Group and Ladbrokes, the betting and Gaming division of Hilton Group plc, announced they had discontinued negotiations relating to a proposed joint venture to offer fixed odds betting on Sky Sports channels and other media. As a result, the provision for loss on disposal of the subsidiary, taken at 30 June 2001, was written-back, resulting in a non-cash exceptional profit of £10 million.

Joint ventures
The Group's share of net operating losses from joint ventures before exceptional items decreased from £239 million to £76 million. The Group's 22.03% share of KirchPayTV's operating losses decreased from £116 million to £70 million, as KirchPayTV's losses were only recognised until 8 February 2002.

KirchPayTV
As a result of an impairment review at 31 December 2001, the Group wrote-down the carrying value of its investment in KirchPayTV to nil. This resulted in an exceptional charge of £985 million to joint ventures' goodwill amortisation.

By 8 February 2002 the relationship between the Group and KirchPayTV had irrevocably changed and the Group has not exercised significant influence (as defined by UK Accounting Standards) since that date. Therefore from 8 February 2002 the Group no longer accounted for its interest in KirchPayTV as a joint venture (under UK GAAP) and ceased accounting for KirchPayTV's losses using the gross equity method from that date.

To match the Group's share of KirchPayTV's losses for the period from 1 January 2002 to 8 February 2002, an amount of £14 million was released from the impairment provision made at 31 December 2001.

On 8 May 2002, KirchPayTV filed for insolvency and on 13 May 2002, the Group exercised its put option to transfer the Group's 22.03% equity interest in KirchPayTV to Taurus Holding, KirchPayTV's majority shareholder. Due to liquidity issues, on 12 June 2002, Taurus Holding filed for insolvency. The Group continues to believe that if the liquidity issues of Taurus Holding are not adequately resolved it is unlikely to receive a significant amount, if any amount, in respect of its put option.

BiB
On 9 May 2001, BiB became a subsidiary of the Group and therefore from this date BiB has been fully consolidated as a subsidiary. Accordingly, BiB was not included within joint venture results for 2002.

Programming joint ventures
The Group's share of losses in other joint ventures increased by £2 million to £6 million principally due to the inclusion of the Group's share of attheraces results following the completion of the attheraces joint venture in July 2001.

Interest
Net interest costs of £137 million increased by £5 million compared to the prior year, mainly due to higher levels of net debt, which peaked at £1,833 million at 31 December 2001, and which had fallen to £1,528 million at 30 June 2002. The impact of the increased average debt level was partly offset by a decrease in average interest rates and a decrease in the Group's share of joint venture interest payable following the cessation of accounting for KirchPayTV as a joint venture and the consolidation of BiB as a subsidiary.

Taxation
The tax charge of £106 million principally comprises a write-off of a deferred tax asset (£83 million) following the impairment charge made in respect of KirchPayTV goodwill. Although the Directors expect the asset ultimately to be recovered in full, there is no longer sufficient evidence under FRS 19 to support the recognition of this asset.

Cash flow and balance sheet
The Group's operating cash inflow was £250 million in the year compared to an operating cash inflow of £39 million in the prior year, an improvement of £211 million driven by the increase in operating profitability. After capital expenditure of £101 million, net interest paid of £133 million, purchase of own shares of £27 million, consortium tax relief received of £23 million and other cash inflows of £6 million, the Group generated positive free cash flow of £18 million.

Net debt decreased to £1,528 million at 30 June 2002, having peaked at £1,833 million as at 31 December 2001. Total equity shareholders' deficit was £301 million at 30 June 2002, compared with funds of £1,061 million at 30 June 2001. The principal reason for the decrease was the £1,383 million retained loss for the year, primarily due to the £971 million net impairment charge taken against the carrying value of the investment in KirchPayTV and the resultant impairment of a deferred tax asset of £83 million.

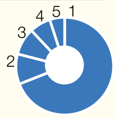
Financing
Revolving Credit Facilities ("RCF"s)
From March 2001, the Group has held a £300 million RCF in addition to the £750 million RCF entered into in June 1999, bringing the aggregate amount available to the Group under its syndicated bank credit facilities to £1,050 million. The £300 million facility has a maturity of June 2004, which is coterminous with the £750 million facility. Under the terms of the £300 million facility, interest will accrue at between 0.50% and 1.75% per annum above LIBOR, depending on the Group's credit rating. Under the terms of the £750 million facility, interest accrues at rates between 0.50% and 1.40% per annum above LIBOR, depending on the Group's credit rating.

Guaranteed Notes
At the year end, the Group had in issue US$300 million 7.300% Guaranteed Notes repayable in October 2006 for which swap transactions have been entered into 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. The remainder was fixed at 7.940% until April 2002, thereafter reverting to a floating rate. In January 2002 the Group entered into an interest rate swap transaction to fix this remaining floating exposure at a rate of 6.13% per annum for the remainder of the life of the Notes. At the year end the Group also had in issue US$600 million 6.875% Guaranteed Notes repayable in February 2009 for which swap transactions have been entered into to convert the proceeds into sterling, carrying an average fixed rate of interest of 8.204%. Finally, the Group also had in issue US$650 million and £100 million ten-year global Regulation S/144A bonds with SEC registration rights, both repayable in July 2009. The proceeds of the dollar bonds were swapped into sterling at a fixed semi-annual rate of 7.653% per annum. The sterling notes are at a fixed rate of 7.750% per annum.

Treasury policy and risk management
The Group's treasury function is responsible for raising finance for the Group's operations, together with managing foreign exchange, interest rate and counterparty risks. Treasury operations are conducted within a framework of policies and guidelines authorised and reviewed by both the Audit Committee and the Board, who receive regular updates of treasury activity. Derivative instruments are

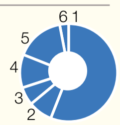
Analysis of turnover
2001-2002

1	Direct-To-Home	69%
2	Cable and DTT	10%
3	Advertising	9%
4	Interactive	7%
5	Other	5%



Analysis of operating costs
Before goodwill and exceptional items 2001-2002

1	Programming	56%
2	Administration	8%
3	Transmission	6%
4	Subscriber management	11%
5	Marketing	16%
6	Gaming	3%



ARPU
Quarterly annualised
2001-2002

Q1	£317
Q2	£331
Q3	£341
Q4	£347

Net debt
Year-on-year to June 2002
(millions)

00	£1,145
01	£1,547
02	£1,528

Churn rates
Year-on-year to June 2002

00	10.5%
01	10.0%
02	10.5%

transacted for risk management purposes only. It is the Group's policy that all hedging is to cover known risks and that no trading in financial instruments is undertaken.

Regular and frequent reporting to management is required for all transactions and exposures and the internal control environment is subject to periodic review by the Group's Internal Audit and Risk Management function. The amount of cash placed with any one institution is restricted to ensure counterparty risks are minimised.

The Group's principal market risks are changes in interest rates and currency exchange rates, which arise both from the Group's sources of finance and from its operations. Following evaluation of those positions, the Group selectively enters into derivative financial instruments to manage these exposures. Interest rate swaps are used to hedge interest rate risks, forward rate agreements to hedge transactional currency exposures and cross-currency interest rate swaps to hedge exposures on long-term foreign currency debt.

Interest rate management
The Group has financial exposures to both sterling and US dollar interest rates, arising primarily from bank borrowings and long-term bonds. These exposures are managed by borrowing at fixed and variable rates of interest and by using interest rate swaps to manage exposure to interest rate fluctuations. The principal method of hedging interest rate risk is to enter into cross-currency swap arrangements, the effects of which are to fix the Group's sterling interest costs at certain rates. The majority of these arrangements relate to the Group's dollar denominated debt and provide for the exchange, at specified intervals, of fixed-rate amounts of dollars in return for fixed-rate amounts of sterling. All of the Group's debt exposure is denominated in sterling after cross-currency swaps are taken into account; however, at 30 June 2002, the split of aggregate net borrowings in its core currencies was US dollar 61% and sterling 39%. The Group also enters into sterling interest rate swap arrangements that provide for the exchange at specified intervals of the difference between fixed rates and variable rates calculated by reference to an agreed notional sterling amount.

It is the Group's policy to have an appropriate mixture of fixed and floating rates and for foreign exchange transactions to be restricted to fixed price instruments. At 30 June 2002, 87% of the Group's borrowings were at fixed rates after taking account of interest rate swaps (30 June 2001: 78%). The fair value of swaps held as at 30 June 2002 was approximately £60.2 million (30 June 2001: £91.8 million).

To ensure continuity of funding, the Group's policy is to ensure that borrowings mature over a period of years. At 30 June 2002, 56% of the Group's borrowings were due to mature in more than five years (30 June 2001: 61%).

Currency exchange rates
The Group's revenues are substantially denominated in pounds sterling, although a significant proportion of operating costs are denominated in US dollars. In the year to 30 June 2002, 15% of operating costs (£393.0 million) were denominated in US dollars (30 June 2001: 17% (£365 million)). These costs relate mainly to the Group's long-term programming contracts with US suppliers.

The Group currently manages its US dollar/pound sterling exchange risk exposure by the purchase of forward foreign exchange agreements for up to 18 months ahead, which substantially hedge the Group's future foreign exchange liabilities in that period.

The Group also incurs costs in euros relating mainly to certain transponder rentals. From 1 January 2000, revenues from the Group's Irish customers have provided a natural and growing offset for a portion of these costs, to the extent that small Euro surpluses are now generated each month.

All US dollar-denominated forward rate agreements entered into by us are in respect of firm commitments that exceed the value of such agreements and instruments. It is the Group's policy to hedge in excess of 90% of dollar denominated expenses for a period of up to 18 months forward. At 30 June 2002, the Group had outstanding commitments to purchase in aggregate US$920 million average rates of US$1.3856 to £1.00. 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.

Employee Share Option Schemes
The Group manages its risk in respect of certain BSkyB share option schemes through a dedicated Employee Share Option Trust which purchases the Company's shares in the open market from time to time. These shares are used to hedge outstanding share options. As at 30 June 2002, the Employee Share Option Trust held 6.6 million shares at an average value of £6.39 (30 June 2001: 3.4 million shares were held at an average value of £5.68).

The accounting policies in respect of market risk sensitive instruments are disclosed in the financial statements in Notes 1, 21 and 25.

Going concern
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.

M.D. Stewart

Martin Stewart
Chief Financial Officer

Programming and Content

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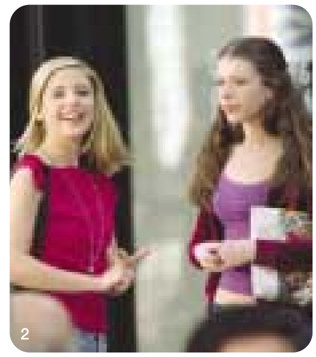
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3

Sky One
A 13% increase in audience share.


4

Sky News
Britain's most popular 24 hour news channel.


5


6


7


8

Sky One
Sky One's strong performance over the last year has once again enabled it to confirm its status as the core entertainment channel in the multi-channel environment. To put this achievement into perspective, it should be remembered that just three years ago Sky One was competing with 77 channels: today, that figure has risen to over 200 channels.

By commissioning innovative original productions and acquiring the best of US programming first, Sky One increased its audience share by 13% year-on-year in the first quarter of 2002 – more than any terrestrial channel. This success is also replicated in the core 16-34 age group, amongst whom Sky One's audience share increased by over 9% – again more than any terrestrial channel – despite direct competition from niche channels.

In the first half of 2002, Sky One rejuvenated and re-branded its schedule. Sky One's schedule now offers a wide range of innovative entertainment, original drama, compulsive factual programming, and the best from the US... first.

The channel's ongoing commitment to original programming in peak-time across all genres, with offerings such as Dream Team, The Villa, Kirsty's Home Videos and Uncovered, has ensured critical acclaim. This year, new long-running programmes such as Behaving Badly and Temptation Island (UK) instantly scored with audiences. These titles will be returning for new series alongside a range of new factual entertainment and drama titles.

Sky One continues to maintain its reputation for delivering the best acquired programming. The Simpsons, Buffy the Vampire Slayer, Angel and Malcolm in the Middle were all brought to the UK – first – by Sky One. This year Sky One has added to its schedule the top-rated US shows Enterprise, Alias, and Scrubs. Magician David Blaine's most daring stunt to date – Vertigo – aired exclusively first in the UK on Sky One, which will also show the final ever series of the X Files.

As a result of Sky One's innovative attitude to programming, audience ratings – particularly among the key 16-34 age group – have increased significantly.

Sky News
Since its launch in 1989, Sky News has established itself as a formidable and innovative force in the world of news broadcasting. It is Britain's most popular news channel.

Valued for fairness, balance and journalistic objectivity by both viewers and regulators, the channel has earned a reputation for the speed of its 24-hour coverage and flexibility in reporting live news.

During 2001-2002, Sky News won its first BAFTA for its coverage of the 11 September terrorist attacks. It was also singled out for praise by the Independent Television Commission for 'the most comprehensive coverage' of 11 September, as well as being named Royal Television Society News Channel of the Year 2001.

The awards underline Sky News' reputation as the channel of choice for breaking news: it was the first British broadcaster to break the news of the terrorist attacks on America, the subsequent US coalition bombing of Afghanistan and the death of the Queen Mother.

In terms of interactivity, Sky News Active has doubled its screens to eight, providing viewers with even more choice of how and when they watch the news. Pioneering Active chats were introduced and look set to prove as popular as Sky News Active's voting

Sky One
The mix of innovative original entertainment and first run shows from the US makes Sky One a leader in its market.

Sky News
Innovations, combined with an unrivalled expertise in breaking news, reinforce Sky News' position in the front rank of news broadcasting.

Our understanding of our customers means we provide more of what they want, whether it's light entertainment or hard hitting news from the Sky centre.

1 Angel – Sky One
2 Buffy the Vampire Slayer – Sky One
3 Scrubs – Sky One
4 The Simpsons – Sky One
5 The West Bank – Sky News
6 Sky News chat – Sky News Active
7 Sky News Bafta Award
8 Golden Jubilee Procession – Sky News

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Sky Sports
33,000 hours of sport broadcast to dedicated fans.

Sky Movies
2,000 film titles shown across 12 separate screens.

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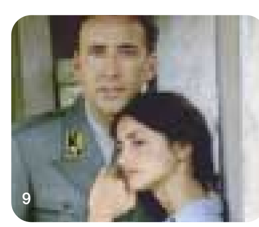

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service which so far has attracted more than 2 million votes. For people on the move, Sky News introduced SMS News Alerts via mobile phones, and a million unique users a month accessed www.sky.com/news during the year. These innovations, combined with an unrivalled expertise in breaking news as it happens, reinforce the channel's position in the front rank of news broadcasting in the years ahead.

Sky Sports
In the year to 30 June 2002, Sky Sports gave UK subscribers more live sport than ever across its five dedicated channels.

Among the most memorable moments were: England's 5-1 triumph over Germany, Arsenal's title-winning Premiership victory at Old Trafford, England's Rugby Union successes over South Africa and Australia, and the England cricket tours of New Zealand and India.

A number of major contracts were renewed, including England's autumn Rugby home internationals, the domestic Zurich Premiership, live domestic cricket and England One-Day internationals, live Scottish international and Cup football, and live tennis from the US Open.

Sky Sports News audiences increased 35% year-on-year as the channel broke major football stories such as David O'Leary's sacking from Leeds United, Sol Campbell joining Arsenal from Spurs, and Roy Keane's expulsion from the World Cup Finals.

Our award-winning interactivity was added to two new sports – NFL and Formula One – taking the total enhanced to ten. Interactive football was further improved with new graphics and a new audio option and live tennis was offered with a choice of up to five live matches at any one time.

Skysports.com recorded a 50% increase in unique users in the first half of 2002 and set a new record of unique users and page impressions in June. An online Video Lounge featuring Premiership highlights proved a great attraction and the technology has been tailored to support nine different Premier League club websites.

Looking ahead, the new football season sees Nationwide League and Worthington Cup football return to Sky Sports, September brings golf's premier event – the Ryder Cup – live and interactive, England's cricketers travel to Australia for the Ashes series in the autumn and our new international Rugby deal starts with South Africa, Australia and New Zealand live at Twickenham in November.

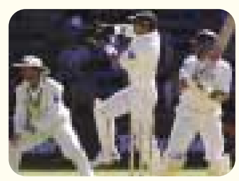
Sky Movies and Sky Box Office
The popularity of Sky Movies and Sky Box Office has continued to increase this year, thanks largely to the service's commitment to quality and choice. The addition of Sky Movies Active and a comprehensive movies website – skymovies.com – to this compelling offering, as well as a new on-air look, has also helped to strengthen customer loyalty and to increase revenues.

Sky Movies prides itself on providing the biggest and best selection of films on TV. In the past year, it has shown more than 2,000 titles on its three dedicated movie multiplexes, Sky Movies Premier, Sky Movies Max and Sky Movies Cinema, and a further 200 titles on the Sky Box Office service. Outside the US, this remains the most comprehensive movie offering on any TV service in the world.

Sky Movies Premier – Sky Movies' flagship channel – offers five screens, including a widescreen option. The channel's objective is to screen blockbuster movies that represent the cream of the Hollywood crop.

Behind the scenes at Sky Sports our staff are dedicated to providing our customers with the best action, angles and interactivity.

Sky Sports
With the best in live sport, award-winning interactivity and a great season ahead, Sky Sports is the choice of the true sports fan.



Sky Movies and Box Office
The biggest and best choice of films gives our customers what they want.

Top 5 Movies
June 2001-2002 season

1	Gladiator
2	End of Days
3	Mission Impossible 2
4	X-men
5	The Green Mile

1 Tyson vs. Lewis – Sky Box Office
2 England vs. Germany – Sky Sports
3 Arsenal Premiership Champions – Sky Sports
4 Shrek – Sky Movies
5 Cast Away – Sky Movies
6 Gladiator – Sky Movies
7 Chocolat – Sky Movies
8 Hannibal – Sky Movies
9 Captain Correlli's Mandolin – Sky Box Office

1

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Sky digital
Sustained customer growth is driven by Sky's choice and convenience.

Sky+
Records without video tape and pauses live TV.

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Highlights this year have included box office hits such as Gladiator, End of Days and Mission Impossible 2.

With five movie screens, Sky Movies Max presents a movie line-up of action, adventure, horror and comedy, as well as regular theme nights. The premiere of Kevin & Perry Go Large attracted Max's biggest audience since May 1999.

Sky Movies Cinema has two screens that showcase the greatest movies from the 1930s to the 1990s, celebrating iconic films from some of the world's finest directors. Classic films this year have included Ghost, Chinatown and The Sound of Music, demonstrating the breadth of the offering.

Sky Box Office has continued to go from strength to strength with an ever-expanding range of pay-per-view films, music and sports events. This year, the service showed 93 of the top 100 movies shown in UK cinemas last year – top movie titles included Meet the Parents, What Women Want and Castaway. The live broadcast of Lewis vs. Tyson set a new UK pay-per-view record and WWE events including Rebellion, Royal Rumble and Insurrextion drew high viewing figures. The highlights of the Live in Your Living Room music events were Steps and Oasis, each of which attracted a large audience and contributed to unprecedented value and choice for Sky digital subscribers.

Sky digital
Sustained growth during the year cemented Sky digital's position as the most popular digital television service in the UK and the Republic of Ireland.

Choice and convenience remain at the heart of Sky digital's appeal. Over 377 different channels and services are available to digital satellite viewers, including many aimed at audiences traditionally under-served by terrestrial broadcasters. Our DTH platform offers 17 children's channels and 13 non-English language channels.

In a highly competitive environment, Sky digital delivers value. Our offer of a free digibox and minidish has allowed millions to enjoy the benefits of digital television without buying new equipment.

The choice available to Sky customers continued to grow last year as more broadcasters took advantage of digital satellite distribution. ITV1 and ITV2 joined in November 2001, followed by Ireland's domestic terrestrial channels in April 2002. Other channels joining Sky digital included attheraces, FOX News, UK Food, Eurosport News, Magic, Chelsea TV and F1 Digital+.

Sky digital enhances the television experiences with a wide array of interactive services. Our interactive portal, Sky Active, allows viewers to vote, play games, place bets, shop, manage their finances and send emails. A growing number of third-party broadcasters – including the BBC, Channel 4, Disney, MTV, Nickelodeon and Discovery – are using our platform to add interactivity to their programming.

In September 2001, three years after we launched the UK's first digital television, we innovated again with the introduction of the integrated digital satellite decoder and personal video recorder Sky+. This ground-breaking product allows viewers to record without video tape and pause live TV. Its successful launch reinforces our belief in the potential of premium products that further enhance the choice and convenience of Sky digital.

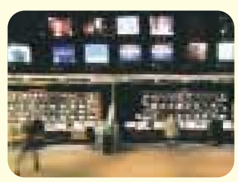
Attracting the right demographic
Our high quality, innovative programming means we have the customers advertisers want.

Top 10 Advertisers
2001-2002

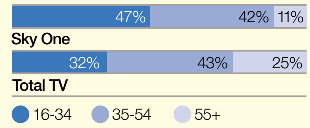
1	Ford
2	Procter & Gamble
3	COI
4	British Telecom
5	Unilever
6	Volkswagen Group
7	United Distillers
8	McDonalds
9	Nestlé
10	Cadbury Schweppes

Increased revenues in turn mean better programming and wider choice, attracting still more customers.

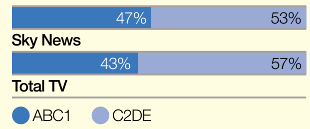
Investing more into content
Over 56% of our operating costs are invested into providing quality programming and content, all controlled from our high-tech digi suite based in Isleworth.



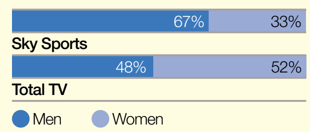
Sky One – Audience profile
Q4 2001-2002



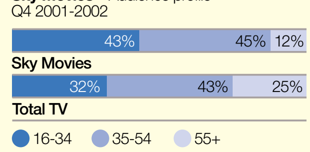
Sky News – Audience profile
Q4 2001-2002



Sky Sports – Audience profile
Q4 2001-2002



Sky Movies – Audience profile
Q4 2001-2002



1 The Sky+ digibox
2 Eight screens showing the top movies – Sky Movies Active
3 Interactive voting – Sky News Active
4 Email – Sky Active
5 Interactive games – Sky Active
6 Sky+ remote
7 Sky Sports Interactive – Sky Sports Extra
8 F1 Digital+ – new to Sky Sports
9 Interactive shopping – Sky Active

Channel line-up

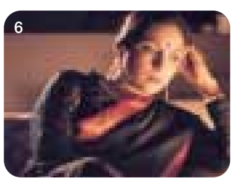
1 Interactive Screen – Sky News Active
2 Dirty Harry – Sky Cinema
3 The Simpsons – Sky One
4 FA Premiership – Sky Sports
5 Oasis – Sky Box Office
6 Star TV
7 National Geographic

377+

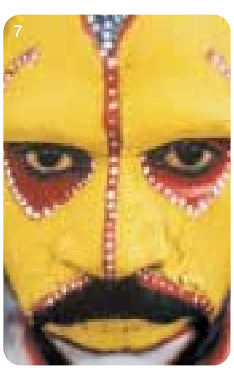
Digital channels delivering entertainment 24 hours a day, 365 days a year.

Digital channel line-up

Sky's great choice of channels brings enjoyment to 6.1 million subscribers throughout the UK and Ireland. With original and innovative entertainment, live sport, breaking news and the latest movies, Sky has secured a leading position in the market. We've invested heavily so we are able to offer our customers what they want – and what they never imagined. This is one of the reasons why subscribers are continuing to invite Sky into their homes.



Our customers love Sky One, Sky News, Sky Sports and Sky Movies, and our commitment to popular programming remains unchanged. But we also cater to audiences who are otherwise largely ignored by terrestrial broadcasters, such as minority groups within the UK, with channels such as Star, and to music fans, with live broadcasts.



60
Premium, à la carte & bonus channels
Sky Movies Premier (x 5)
Sky Movies Max (x 5)
Sky Movies Cinema (x 2)
Sky Sports 1
Sky Sports 2
Sky Sports 3
Sky Sports Extra
Disney Channel
Disney Channel (+1 hour)
Toon Disney
Playhouse Disney
FilmFour
FilmFour (+1 hour)
FilmFour Extreme
FilmFour World
MUTV
Chelsea TV
Star Plus
Star News
God Revival
God Channel
30 Music Choice channels

23
Entertainment channels
Sky One
UK Gold
UK Gold 2
Granada Plus
Challenge TV
Paramount Comedy
Sci-Fi
UK Drama
Hallmark
E4
Living
Bravo
Discovery Home & Leisure
Discovery Home & Leisure (+1 hour)
Granada Men & Motors
Sky Travel
Sky Travel +
UK Style
Discovery Health
ITV 2
Play UK
UK Food
QVC

10
Kids' channels
Cartoon Network
Cartoon Network Plus
Nickelodeon
Nickelodeon Replay
Nick Jr.
Trouble
Fox Kids
Fox Kids (+1 hour)
Discovery Kids
Nick Toons

20
News and documentary channels
Sky News
Fox News
Bloomberg
CNBC
Discovery Channel
Discovery Channel (+1 hour)
Discovery Travel and Adventure
Discovery Sci-Trek
Discovery Civilisation
Discovery Wings
Discovery Animal Planet
Discovery Animal Planet (+1 hour)
National Geographic Channel
National Geographic Channel (+1 hour)
Adventure One
The History Channel
The History Channel (+1 hour)
Biography
UK Horizons
UK Horizons (+1 hour)

23
Music channels
MTV
MTV Hits
MTV Base
MTV Dance
MTV 2
VH1
VH1 Classic
The Box
Kiss
Q
Rapture
Kerrang!
Smash Hits
Music Choice (10 audio)

9
Sports channels
Sky Sports News
British Eurosport
Eurosportnews
attheraces
Big Blue
The Villan
The Saint
Rampage
Talksport (UK, NI & Channel Isles)

83
Pay per view ("PPV") channels
60 SBO screens
1 SBO events screen
7 18+ screens
5 Adult Nightly channels
5 Red Hot adult channels
5 other PPV channels

60
Audio channels
60 Radio channels

73
Non-subscription channels
BBC ONE
BBC TWO
Channel 4
Channel 5
BBC CHOICE
BBC FOUR
S4C~ Digidol
BBC News 24
BBC Parliament
CNN
S42~ 2
CBBC
CBeebies
ITV1 London
The Travel Channel
Channel Health
Life TV
Showcase
Fashion TV
Game Network
You TV
AVAGO
TCM
gobarkingmad
Motors TV
Extreme Sports
Vibe TV
D-Classics TV
ITN News
Euro News
Boomerang
TV Travelshop
TV Travelshop 2
PIN
Ideal World
Screenshop
Shop America
Travel Deals
Simply Shop
Best Direct
Simply Health
Simply Jewel
Simply Holidays
HSE Shopping
Simply Shop +
TV Warehouse
bid-up.tv
Thomas Cook
letsgoshop+
Auction World
Shop on TV
Simply Home
Simply Music
Thane Direct
ShopSmart
Shop Aid TV
Shopping Genie
Shop 24/7
TBN Europe
TV Job Shop
Community
PCNE Chinese
Al Jazeera
mta-muslim TV
Alpha Punjabi
txt me
Pub Channel
CPD TV
Sky Box Office Preview Channel
Channel Line-up
Sky Welcome
Sky Customer Channel
Telsell

15
Other subscription channels
The Racing Channel
Dating Channel
B4U Movies
B4U Music
Sony TV Asia
Zee TV
Zee Music
Zee Cinema
Bangla TV
ARY Digital
Ekushey TV
Prime TV
Sirasa TV
SouthForYou
Playboy TV and the Adult Channel

17. Accounts

Accounts

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Corporate Shareholder Information

Directors' Biographies

Tony Ball (age 46)
Executive Director
Tony Ball was appointed as Chief Executive and Managing Director of the Company in June 1999. He was previously President and CEO of Fox/Liberty Networks. He also spent three years of his career with BSkyB as General Manager/Broadcasting. In September 2000, Mr Ball was appointed a Non-Executive Director of Marks and Spencer plc.

Martin Stewart (age 38)
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 joining the Company, Mr Stewart was employed at Polygram for five years, latterly at Polygram Filmed Entertainment, where he was Finance Director for two years. In February 2001, Mr Stewart was appointed a Non-Executive Director of Michael Page International plc.

Philip Bowman (age 49)
Independent Non-Executive Director
Philip Bowman has been a Director of the Company since December 1994. He is Chief Executive of Allied Domecq plc and a member of the UK Industrial Advisory Board of Alchemy Partners. He was previously Chairman of Liberty plc, a Director of Coles Myer Ltd in Australia, an Executive Director of Bass plc and Chairman and Chief Executive of Bass Taverns Ltd. In June 2002, Mr Bowman was appointed a Director of Burberry Group plc.

David DeVoe (age 55)
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 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 has been a Director of NDS Group plc since 1996 and a Director of Sky Global Networks, Inc. since June 2001. Mr DeVoe is one of BSkyB Holdco, Inc.'s ("Holdco's") appointees as a Director of the Company.

David Evans (age 62)
Independent Non-Executive Director
David Evans was appointed a Director of the Company on 21 September 2001. He is President and Chief Executive Officer of Crown Media Holdings, Inc. He was previously President and Chief Executive Officer of Crown's predecessor, Hallmark Entertainment Networks, from 1 March 1999. Prior to that he was President and Chief Executive Officer of Tele-Communications International, Inc. ("TINTA") from January 1998. He joined TINTA in September 1997 as its President and Chief Operating Officer, overseeing the day-to-day operations of the company. Prior to joining TINTA, from July 1996, Mr Evans was Executive Vice President, News Corporation and President and Chief Executive Officer of Sky Entertainment Services Latin America, Inc.

Leslie Hinton (age 58)
Shareholder Appointee
Non-Executive Director
Leslie Hinton was appointed a Director of the Company on 15 October 1999. He was appointed President of Murdoch Magazines in 1990, two years later becoming Chief Executive of News America Publishing, Inc. In 1993 he was named Chairman and Chief Executive Officer of Fox Television Stations and in 1995 became Executive Chairman of News International plc, responsible for all the newspapers in the UK. Mr Hinton is a member of the News Corporation Executive Committee. In 1996 he joined the board of the Press Association in Britain. Mr Hinton is one of Holdco's appointees as a Director of the Company.

Allan Leighton (age 49)
Independent Non-Executive Director
Allan Leighton was appointed a Director of the Company on 15 October 1999. In March 1992, he joined ASDA Stores Limited as Group Marketing Director, in September 1996 he was appointed Chief Executive and in November 1999 he was appointed President and CEO of Wal-Mart Europe. He resigned all of these positions in September 2000. Mr Leighton is Chairman of Wilson Connolly Group plc, B.H.S. Ltd, Lastminute.com plc, Consignia plc and Cannons Group Ltd, he is Deputy Chairman of Leeds United plc and a Non-Executive Director of Dyson Ltd and George Weston.

Rupert Murdoch (age 71)
Shareholder Appointee
Non-Executive Director
Rupert Murdoch has been a Director of the Company since 1990 and was appointed Chairman in June 1999. Mr Murdoch has been an Executive Director, Managing Director and Chief Executive of News Corporation since 1979 and Chairman since 1991. 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 predecessor company, since 1953. Mr Murdoch has also served as a Director of FEG and its predecessor companies since 1985, Chairman since 1992 and Chief Executive Officer since 1995. He has also been a Director of STAR since 1993. Mr Murdoch is one of Holdco's appointees as a Director of the Company.

Martin Pompadur (age 67)
Shareholder Appointee
Non-Executive Director
Martin Pompadur was appointed a Director of the Company on 15 October 1999. Mr Pompadur has been Executive Vice President and Chairman of News Corporation Europe since January 2000. He joined News Corporation in June 1998 as President of News Corporation Eastern & Central Europe. Prior to this, in 1983, he joined RP Companies where he held the positions of Chairman, Chief Executive and Chief Operating Officer. He is also a principal owner of Caribbean International News Corporation. Mr Pompadur is one of Holdco's appointees as a Director of the Company.

Arthur Siskind (age 63)
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 Director 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, a Director of STAR since 1993 and Senior Executive Vice President, General Counsel and a Director of FEG since August 1998. He has been a member of the Bar of the State of New York since 1962. Mr Siskind is one of Holdco's appointees as a Director of the Company.

Lord St John of Fawsley (age 73)
Independent Non-Executive Director
Lord St John of Fawsley has been a Director of the Company since 1991. He is Non-Executive Chairman of Blackfriars Investments Ltd. He was a Director of the N.M. Rothschild Trust from 1990 to 1998. Lord St John is Chairman of the Royal Fine Art Commission Trust and was Chairman of the Royal Fine Art Commission from 1985 to 2000. He is a member of the Privy Council and holds the Order of Merit of the Italian Republic. He has held the offices of Minister of State for Education, Minister of State for the Arts, Leader of the House of Commons and Chancellor of the Duchy of Lancaster. Until recently and from 1991, Lord St John was Master of Emmanuel College, Cambridge. He has edited the works of Walter Bagehot for The Economist and is a regular commentator on television and radio.

John Thornton (age 48)
Independent Non-Executive Director
John Thornton has been a Director of the Company since 1994. He is President and co-Chief Operating Officer of the Goldman Sachs Group, Inc. Mr Thornton is a Director of the Ford Motor Company, the Pacific Century Group and Laura Ashley Holdings plc. He is also a Director or Trustee of several educational and philanthropic organisations.

Alternate director

Richard Linford (age 50)
Alternate Director to David DeVoe, Leslie Hinton, Martin Pompadur, 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.

Directors' Report

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' Report for the year ended 30 June 2002.

Activities

The Chairman's Statement on pages 2 and 3, the Chief Executive's Statement on pages 4 and 5 and the Operating and Financial Review on pages 6 to 9 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 2002 was £1,382.6 million (2001: loss of £538.6 million). On 5 May 1999 it was announced that the Board had decided to suspend dividend payments to shareholders. Accordingly, no dividend is proposed.

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 19 days' purchases outstanding at 30 June 2002 (2001: 10 days) based on the total amount invoiced by non-programme trade suppliers during the year ended 30 June 2002. 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 30 days (2001: 40 days). The Company has no trade creditors, so the number of creditor days outstanding at 30 June 2002 was nil (2001: nil).

Share capital

Details of changes in the share capital during the year are disclosed in note 23 to the accounts. On 30 July 2002 the following companies, or their subsidiary undertakings, held more than 3% of the Company's share capital:

BSkyB Holdco, Inc	36.23%

On 23 April 2002, as part of a group reorganisation, Sky Global Operations, Inc. transferred its shareholding in the Company to BSkyB Holdco, Inc.

Corporate governance

Details concerning the Group'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 Financial Services Authority are given on pages 20 and 21. The Report on Directors' Remuneration is on pages 22 to 24.

Charitable and political contributions and community activities

BSkyB developed a two-year corporate responsibility strategy, launched in October 2001. The goal of the strategy is to enhance the reputation of the Group through:

- community activities;
- a commitment to managing environmental impacts, and;
- managing the business in a responsible manner.

BSkyB is a member of the FTSE4Good and Dow Jones Sustainability Index. The Group continues to look at ways to develop and report on its business operations in the context of its commitments as a corporate citizen.

Community activity has become more focused. All activities, donations and sponsorships aim to deliver on our objective of supporting young people in achieving the best they can with their futures. BSkyB's Reach for the Sky initiative is our direct contribution to this. This year, we have:

- expanded the Reach for the Sky initiative;
- secured government funding for the Reach for the Sky initiative;
- launched Reach for the Sky On Tour, a roadshow for excluded young people, delivered by a charity, Weston Spirit, and co-funded by the Learning and Skills Council;
- continued our careers-focused initiative, Reach for the Sky Live, now delivered in partnership with TVYP (Television and Young People);
- adopted a youth-focused charity of the year, Weston Spirit;
- sponsored Business in the Community's Award for Excellence, the 'investing in potential award' (with the Department for Education and Skills);
- supported a series of youth focused initiatives such as the Guardian Student Media Awards (with Sky News);
- provided free televisions and Sky subscriptions to all the NSPCC youth centres in England.

Crucial to our success in this area is the involvement of our staff. This year, we have:

- launched a staff volunteering scheme;
- established employee forums in our sites in Scotland with devolved community budgets;
- promoted (and financially matched) payroll giving as well as match-funding other employee fundraising activities;
- provided opportunities for involvement as 'advisers' working with young people on Reach for the Sky Live.

We are confident that we are delivering a more focused and effective community programme – both for the business and the community.

Charitable contributions of the Group in the UK amounted to £948,000 during the year (2001: £566,000), and BSkyB has given additional value inkind through staff involvement, donations to schools and Sky merchandise and products. Political contributions of the Group in the UK amounted to nil during the year (2000: nil).

Directors

The Directors who served during the year are listed on page 18.

Tony Ball, Allan Leighton and John Thornton 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 22 to 24.

Equality of opportunity

BSkyB is an equal opportunities employer and takes steps to promote equality of opportunity within the workforce for all areas of society, regardless of gender, sexual orientation, race, ethnic background, faith or disability.

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. Adjustments, where reasonable, are made by BSkyB to ensure access to the selection process and subsequently, to ensure that disabilities are not barriers to employment. 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 or re-training is arranged. BSkyB upholds the principles of the Disability Discrimination Act by ensuring equal training, career development and promotion opportunities for all employees irrespective of disability. BSkyB actively participates in the Broadcasters' Disability Network, which aims to promote equality of opportunity for disabled people both on screen and in the workplace.

BSkyB also participates in the Cultural Diversity Network, which aims to promote equality of opportunity within the broadcast industry for people of all races, faiths and ethnic backgrounds.

Health and safety

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. Compliance with our policies is checked regularly via regular assessments and audits, supported by appropriate training courses and our high standards are recognised by external bodies such as the British Safety Council, which has awarded our London site with a four-star rating. The fall protection system which we have developed to safeguard our nationwide field installations engineers has gained national recognition within our industry in relation to safe ladder-work – since its introduction at BSkyB in February 2001, no accidents involving falls from heights have been recorded.

Our goal in relation to overall accident statistics is to achieve a year-on-year reduction of 10%. In 2001 we exceeded this target, achieving a reduction of 15% compared to 2000. We set similar targets in relation to the number of Employer Liability Claims against the Company, and have experienced over the last year a decrease of more than 30%.

Employee involvement and communication

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 typically on an informal basis where matters of specific interest are discussed. Consultation with employees occurs on a regular basis covering a broad range of areas such as pension provision and health and safety, and their views are taken into consideration when making decisions. The Group publishes an employee magazine covering a wide range of employee issues.

Training and development

Employees have the opportunity to participate in a range of training programmes in the fields of technology, the broadcast industry, professional skills and management and personal development. The Company is represented at Board level within the Broadcast Industry Sector Skills Council, Skillset, which promotes training and development opportunities across our industry.

Financial participation

The Group operates a Sharesave (discounted share purchase) scheme, a Company defined contribution pension scheme, and also a stakeholder pension scheme for the benefit of all eligible employees.

Environmental responsibility

The Group recognises the importance of environmental responsibility. Steps taken to date include:

- carrying out a full review of the Group's activities to understand where it impacts the environment in order to make and manage improvements;
- drafting an Environmental Policy, which lays out the Group's commitments in relation to protecting the environment, and promoting it to all Group employees through the in-house staff magazine;
- appointing an Environmental Committee to regularly discuss environmental issues and drive forward improvements in the Group's environmental performance;
- working with the Group's manufacturers and suppliers to help reduce the energy consumption of the consumer products with which the Group is associated.

The Group has completed its first Environmental Report and a complete version of this can be found in the corporate section on the Company's website, www.sky.com (as it does not form part of the Annual Report).

Insurance

The Company has an appropriate level of Directors' and Officers' Insurance cover.

Annual General Meeting

The notice convening the Annual General Meeting to be held on 8 November 2002 at 11.30am can be found in a separate notice accompanying the Annual Report.

Auditors

On 26 July 2002, Arthur Andersen resigned as auditors and Deloitte & Touche were appointed in their place. The Directors will place a resolution before the Annual General Meeting to appoint Deloitte & Touche as auditors for the ensuing year.

By order of the Board

David Gormley
Company Secretary
30 July 2002

Corporate Governance

BSkyB is committed to high standards of corporate governance and, except as noted below and within the Report on Directors' Remuneration, has complied throughout the year with the best practice provisions of Section 1 of the Combined Code on corporate governance ("the Code") appended to the Listing Rules of the Financial Services Authority.

The Board

The Board currently comprises 12 Directors, made up of two Executive Directors, five Shareholder Appointee Non-Executive Directors and five 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 page 18, which also clearly identify those Directors who are, in the view of the Board, 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. During the year the Company had not identified a Senior Non-Executive Director as required by the Code. The board has decided that during the 2003 financial year a member of the Board will be appointed as a Senior Non-Executive Director.

There is not a majority of Independent Non-Executive Directors as required by the Code. The Board has noted this requirement and is currently in the process, with the help of an executive recruitment consultancy, of recruiting additional Independent Non-Executive Directors to the Board.

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 members of News Corporation, major capital expenditure and the yearly business plan and budget.

The Board has also delegated specific responsibilities to Board committees, notably the Audit and the 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 Executive Directors and Non-Executive Directors who are not Shareholder Appointees comply with the requirement for Directors to retire and offer themselves for re-election at least once every three years.

The Shareholder Appointee Non-Executive Directors appointed by Holdco, a subsidiary of News Corporation, are not subject to election by shareholders, nor do they have to retire by rotation as required by the Code. The Articles of Association of the Company permit News Corporation or such subsidiary of News Corporation to appoint a number of Directors dependent on their shareholding in the Company. Holdco has the right to appoint five Directors. The right of Holdco to appoint Directors was 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 Officer and comprises the Chief Financial Officer and other senior executives from within the Group.

Board Committees

The Articles of Association contain certain rights for Holdco, dependent on its shareholding in the Company, to appoint and remove members of any standing Committee established by the Board. Holdco has the right to appoint two members to any Committee.

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 two Non-Executive Directors, both of whom are appointed by Holdco (David DeVoe and Rupert Murdoch). John Thornton, an Independent Non-Executive Director, acts as Chairman. The Company, whilst noting that the composition of the 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 Holdco to appoint members to the Committee. The Board have decided however that two more Independent Non-Executive Directors will be appointed to the Committee.

The Board also notes that the Remuneration Committee's objective on Executive Directors' service contracts does comply with the Code. This is more specifically discussed on pages 22 and 23.

The Report on Directors' Remuneration can be found on pages 22 to 24. The Company does not propose to put forward the report for approval by shareholders at the Annual General Meeting.

Audit Committee

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 John Thornton, an Independent Non-Executive Director, Allan Leighton, an Independent Non-Executive Director, and David DeVoe and Arthur Siskind, both of whom are Directors appointed by Holdco. It meets not fewer 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.

Nomination Committee

During the year the Company had no formal nomination committee as required by the Code. The Board has agreed that a Nomination Committee consisting entirely of Non-Executive Directors will be

Corporate Governance

continued

established during the 2003 financial year. This will ensure compliance with the Code going forward. The Company has, from time to time, engaged an executive search 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 and Chief Executive and other members of the Board. They are then put forward for consideration and appointment by the Board as a whole.

Appointment of Directors

David Evans, an Independent Non-Executive Director, was appointed to the Board on 21 September 2001.

The Company has made a number of changes to comply more fully with the Combined Code and will continue to consider opportunities to further improve its corporate governance compliance.

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 Company also makes presentations to analysts and fund managers following the half year and full year results of the Company, the slide presentations for which are available on the Company's corporate website.

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. The Company, in accordance with the Code, announces the number of proxy votes cast on resolutions at the Annual General Meeting.

Directors' Responsibilities

The responsibilities of the Directors are set out on page 25.

Internal control

The Directors have overall responsibility for the Group's systems of internal control and risk management and for reviewing the effectiveness of these systems. These systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and to provide reasonable but not absolute assurance against material misstatement or loss. An ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been established, in accordance with the guidance of the Turnbull Committee on internal control issued in September 1999. This process has been in place for the whole of the year ended 30 June 2002 and up to the date the financial statements were approved.

The Audit Committee, on behalf of the Board, considers the effectiveness of the operation of the Group's systems of internal control and risk management during the year and this review has been carried out during the year ended 30 June 2002. This review relates to the Company and its subsidiaries and does not extend to material joint ventures which the Group does not control.

There is a comprehensive budgeting process and the annual budget, which is regularly reviewed and updated, is approved by the Board. Risk assessment and evaluation take place as an integral part of this process. Performance is monitored against budget through weekly and monthly reporting cycles. Monthly reports on performance are provided to the Board and the Group reports to shareholders each quarter.

Each area of the business carries out risk assessments of its operations and ensures that the key risks are addressed. A Risk Management Committee, chaired by the Chief Financial Officer and comprising senior executives, reviews the management of risks in all areas of the business on a cyclical basis. The results of the Risk Management Committee's review are reported to the Audit Committee.

The Audit and Risk Management team provides objective assurance as to the effectiveness of the Group's systems of internal control and risk management to the Group's operating management and to the Board.

Use of auditors for non-audit services

The Group has a policy for the provision of non-audit services by the auditors, which categorises such services between:

- those which are acceptable for the auditors to provide;
- those which are unacceptable for the auditors to provide; and
- those for which specific approval is required before the auditors are permitted to provide the services.

The policy defines the types of services falling under each category and sets out the internal approval mechanisms required prior to any appointment. An analysis of the services provided by the auditors is reviewed by the Audit Committee at each meeting.

For the year ended 30 June 2002, the Audit Committee has discussed the matter of audit independence with Deloitte & Touche, the Group's external auditors, and has received and reviewed confirmation in writing that, in Deloitte & Touche's professional judgement, Deloitte & Touche are independent within the meaning of regulatory and professional requirements.

Report on Directors' Remuneration

Remuneration Committee
Independent Non-Executive member: John Thornton (Chairman). Shareholder Appointee Non-Executive members: Rupert Murdoch and David DeVoe.

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 with a basic salary of at least £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 and advice 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 Executive Directors.

Compliance
The Auditors' Report set out on page 25 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 14 of this report, as required by the Listing Rules.

1. Remuneration policy for the Executive Directors and Senior Executives
The Committee operates a policy of competitive remuneration packages to attract, retain and motivate Executive Directors and senior executives of the highest calibre.

A high proportion of Executive Directors' and senior executives' total compensation is performance related with an emphasis on the use of shares. The remuneration policy also recognises the dynamic and entrepreneurial environment and markets in which the Company operates.

For the long-term incentive element, performance conditions include both commercial measures which reflect key business drivers, as well as total shareholder return performance as compared with other companies in the media and telecommunications sector. This is to ensure that the development of a successful digital TV platform continues to be strongly aligned to the delivery of value to shareholders.

2. Total remuneration
Remuneration for Executive Directors and senior executives consists of basic salary, performance-related bonuses, share incentive schemes and benefits including pension, life assurance, medical insurance and, where appropriate, company cars.

3. Basic Salary
The basic salary for each Executive Director and senior executive is determined by the Committee upon the recommendation of the Chief Executive Officer, 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
Executive Directors and senior executives participate in a bonus scheme under which awards are made to participants at the discretion of the Committee, based on key indicators of their performance and that of the Company in the relevant financial year.

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
The Company operates a Long Term Incentive Plan ("LTIP") for Executive Directors and 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 Committee. Awards may be in a variety of forms with equivalent values. Awards are made on an annual basis, in line with the Combined Code's recommendation on phased grants.

Awards may be made to any employee or full time Director of the Company at the discretion of the Committee. During the year, awards under the plan were made to Tony Ball and Martin Stewart. Further information on the awards to the Directors can be found in Section 13 of this report.

Other broadly similar arrangements are operated for key staff below Board level and excluding Executive Directors and senior executives under the terms of a Key Contributor Plan. Shares used to satisfy these awards are acquired in the market.

The performance targets selected for the Awards made to date have been based on a combination of 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 and international media and telecommunications sectors.

7. Additional Executive Bonus Scheme
The Company operates an Additional Executive Bonus Scheme in which beneficiaries who participate have the right to receive the growth in value on a number of notional shares. No awards have been made under this scheme since 1999 and the only existing awards are those made at that time to Tony Ball on his commencement of employment as Chief Executive Officer. Any exercise is subject to the Group achieving real earnings per share growth, or an alternative performance target where exercise is subject to an increase in the Company's operating profit but adjusted for digital costs. 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 may elect to transfer shares of equal value to the accrued gains to the holders, in satisfaction of the Company's obligation to pay any accrued gains.

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 have been normally only exercisable after the expiry of three years from the date of grant and lapse if not exercised within 10 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. This performance target was subsequently amended as the launch of the Company's free set-top box offer impacted upon the growth in the Company's earnings per share. Accordingly, in determining the extent to which the options granted in 1998 became exercisable, the Committee took into account the costs in connection with the development and launch of digital television. For options granted after 29 October 1999, the Company introduced the Alternative Performance Target which makes the exercise of options conditional on the achievement of certain commercial measures, including subscriber growth and profit-based targets.

The Company follows a policy of granting options to employees by reference to a multiple of salary. This is then subject to approval by the department heads who may recommend that the person receives an additional allocation dependent upon performance. The Company intends to continue with this policy and any recommendations that will result in an employee receiving a one-off grant of share options over four times salary (irrespective of their level of salary) will require the approval of the Committee. Options granted after November 2000 may be exercised over a phased period of years, provided that, in normal circumstances, no part of an option will be capable of exercise earlier than one year from the date of grant. Options granted during the year become capable of exercise over a period of four years, with 25% vesting annually for exercise by a participant.

Given the nature of the market in which the Company competes for talent, the Committee considers the circumstances merit this vesting profile and that this is, therefore, not inconsistent with paragraph 2 of Schedule A to the Combined Code.

The Company passes to the employee the cost of employers' National Insurance Contributions on the exercise of share options granted to UK employees under the Unapproved Executive Share Option Scheme subject to the consent of the employee. This treatment has been confirmed with the Inland Revenue. In order to compensate the employees for this extra cost, additional options are granted. Following the increase in National Insurance rates announced in the Budget in May 2002, the Company's policy of covering employees' National Insurance contributions via the grant of additional options is currently under review.

Options over 600,000 Ordinary Shares were granted to Tony Ball on 5 June 2002 at an exercise price of £7.35 as part of the arrangements agreed on the renewal of his service contract. No further options were granted to any of the Directors under the Executive Schemes during the year.

With the exception of special grants made to selected executives on hiring, grants under the Option Plan have been made and continue to be made on an annual basis.

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.

Report on Directors' Remuneration

continued

9. Service contracts

Tony Ball had an employment contract with the Company for a term of three years to 3 June 2002, which was subsequently extended during the year to 31 May 2004. 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 not entirely consistent with the provisions of the Combined Code and, for this reason, the Committee considered very carefully what was in the Company's interest. 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 most able management, the Committee concluded that this contract was in the interests of the shareholders. Tony Ball's remuneration consists of a base salary of £743,545, plus an annual cost of living provision and 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 had an employment contract with the Company which was 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 months' notice. Martin Stewart's remuneration consists of a base salary of £333,125 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.

10. Non-Executive Directors

The basic fees payable to the Non-Executive Directors are set by the Board of Directors and are currently £35,000 each per annum. It is intended that in future these will be increased on an annual basis by 5% or RPI, whichever is the greater unless the Board determines otherwise. The Independent Non-Executive Directors are paid an additional £5,000 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 £5,000 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 at 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 £	Benefits £	Total emoluments before pensions £	Pensions £	**Total emoluments including pensions 2002 £**	Total emoluments including pensions 2001 £
Executive							
Tony Ball	743,545	1,250,000	27,178	2,020,723	28,620	**2,049,343**	1,964,383
Martin Stewart	333,125	350,000	4,044	687,169	26,348	**713,517**	821,451
Non-Executive							
Philip Bowman	45,000	–	–	45,000	–	**45,000**	30,750
David Evans (i)	27,057	–	–	27,057	–	**27,057**	–
Dr Dieter Hahn (ii)	–	–	–	–	–	**–**	–
Allan Leighton	39,698	–	–	39,698	–	**39,698**	25,500
Lord St John of Fawsley	35,000	–	–	35,000	–	**35,000**	25,500
John Thornton	49,522	–	–	49,522	–	**49,522**	28,125
David DeVoe	–	–	–	–	–	**–**	–
Leslie Hinton	–	–	–	–	–	**–**	–
Martin Pompadur	–	–	–	–	–	**–**	–
Rupert Murdoch	–	–	–	–	–	**–**	–
Arthur Siskind	–	–	–	–	–	**–**	–
Former Directors	–	–	–	–	–	**–**	120,268
	1,272,947	1,600,000	31,222	2,904,169	54,968	**2,959,137**	3,015,977

(i) David Evans was appointed a Director of the Company on 21 September 2001.

(ii) Dieter Hahn resigned as a Director of the Company on 6 February 2002.

12. Executive bonuses

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

	Additional Executive Bonus Scheme (i) £	Senior Management Bonus Scheme (ii) £	**Total £**
Executive			
Tony Ball	–	1,250,000	**1,250,000**
Martin Stewart	–	350,000	**350,000**

i) Additional Executive Bonus Scheme

Tony Ball has rights over 600,000 notional shares which become exercisable from 12 August 2002 at an option price of £5.35 and may not exceed a price per notional share of £5.83 on exercise.

During the year to 30 June 2002 no shares (notional or actual) had been awarded or exercised under this scheme.

ii) Senior Management Bonus Scheme

The amounts shown above are those which have been approved by the Committee for the year ended 30 June 2002.

Report on Directors' Remuneration

continued

13. LTIP

Details of outstanding awards receivable under the LTIP are shown below:

	Number of shares under award							
	At 30 June 2001	Granted during the year	Exercised during the year	At 30 June 2002	Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
Name of Directors								
Tony Ball	600,000	–	600,000	–	£5.83	£9.15	n/a	n/a
	908,000	–	–	908,000	£10.04	n/a	03.11.02 (i)	03.11.10
	–	908,000	–	908,000	£8.30	n/a	01.08.03 (ii)	21.11.11
Martin Stewart	250,000	–	250,000	–	£5.02	£9.15	n/a	n/a
	454,000	–	–	454,000	£10.04	n/a	03.11.02 (i)	03.11.10
	–	454,000	–	454,000	£8.30	n/a	01.08.03 (ii)	21.11.11

Notes:

Awards under the LTIP take the form of a market value option with a cash bonus equal to the exercise price. All outstanding LTIP awards include shares awarded as part of an agreement to meet the employer's National Insurance obligations.

The balance of awards granted in November 1998 vested in full in November 2001 as to 600,000 shares (Tony Ball) and 250,000 shares (Martin Stewart).

The aggregate amount received by the Directors under the LTIP was £7,777,500 (2001: £8,430,300).

(i) 50% of the award granted in November 2000 will vest subject to meeting performance conditions in November 2002, with the remaining 50% plus any unvested portion from the first round being exercisable from November 2003, subject to similar performance conditions.

(ii) In 2001 awards were granted over performance periods ending in July 2003 and July 2004. Accordingly 50% of the award will vest subject to meeting performance conditions in July 2003, with the remaining 50% plus any unvested portion from the first round being exercisable from July 2004, subject to performance conditions.

14. Executive Share Options

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

	Number of options							
	At 30 June 2001	Granted during the year	Exercised during the year	At 30 June 2002	Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
Name of Directors								
Tony Ball	5,145	–	–	5,145	£5.83	n/a	12.08.02	12.08.09
	594,855	–	–	594,855	£5.83	n/a	12.08.02	12.08.06
	–	600,000	–	600,000	£7.35	n/a	05.06.05	05.06.12
Martin Stewart	2,096 (i)	–	–	2,096	£4.62	n/a	01.01.03	30.06.03

Notes:

(i) Options granted under the Company's Sharesave Scheme.

The aggregate gain made by Directors on the exercise of share options was nil (2001: nil).

During the year ended 30 June 2002 the share price traded within the range of £5.44 to £9.36 per share. The middle-market closing price on the last working day of the financial year was £6.29.

15. Share interests

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

	At 30 June 2002	At 30 June 2001
Lord St John of Fawsley	2,000	2,000

Except as disclosed in this report, no other 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 2002 and 30 July 2002.

The ESOP is interested in 6,599,637 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 15 of the accounts).

Rupert Murdoch, a Director of the Company, and members of his family 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 27 of the accounts.

Directors' Responsibilities

Accounts, including adoption of going concern basis

United Kingdom 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 Group and of the profit or loss of the Group for that period.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

In preparing the accounts, the Directors are required to: select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; and state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

Other matters

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

Auditors' Report

Independent Auditors' Report to the Members of British Sky Broadcasting Group plc

We have audited the financial statements of British Sky Broadcasting Group plc for the year ended 30 June 2002, which comprise the Profit and Loss Account, the Balance Sheets, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and Auditors

As described in the statement of Directors' Responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards, and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the Directors' Report is not consistent with the financial statements, 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 other members of the Group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' Report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and 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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 June 2002 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche
Chartered Accountants and Registered Auditors
Hill House
1 Little New Street
London EC4A 3TR

30 July 2002

Notes:
1. The maintenance and integrity of the British Sky Broadcasting Group plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Profit and Loss Account

for the year ended 30 June 2002

	Notes	Before goodwill and exceptional items £m	Goodwill and exceptional items £m	2002 Total £m	Before goodwill and exceptional items £m	Goodwill and exceptional items £m	2001 Total £m
Turnover: Group turnover and share of joint ventures' turnover		2,915.3	–	2,915.3	2,530.1	–	2,530.1
Less: share of joint ventures' turnover		(139.2)	–	(139.2)	(224.1)	–	(224.1)
Group turnover	2	2,776.1	–	2,776.1	2,306.0	–	2,306.0
Operating expenses, net	3	(2,584.6)	(136.5)	(2,721.1)	(2,145.8)	(67.4)	(2,213.2)
EBITDA	1	272.7	(18.2)	254.5	224.3	(16.1)	208.2
Depreciation		(81.1)	–	(81.1)	(64.1)	(7.0)	(71.1)
Amortisation		(0.1)	(118.3)	(118.4)	–	(44.3)	(44.3)
Operating profit (loss)		191.5	(136.5)	55.0	160.2	(67.4)	92.8
Share of operating results of joint ventures	5	(76.7)	–	(76.7)	(239.2)	(16.5)	(255.7)
Joint ventures' goodwill amortisation, net*	14	–	(1,069.9)	(1,069.9)	–	(101.1)	(101.1)
Profit on sale of fixed asset investments	4	–	2.3	2.3	–	–	–
Share of joint venture's loss on sale of fixed asset investment	4	–	–	–	–	(69.5)	(69.5)
Amounts written off fixed asset investments	4	–	(60.0)	(60.0)	–	(38.6)	(38.6)
Release of provision (provision) for loss on disposal of subsidiary	4	–	10.0	10.0	–	(10.0)	(10.0)
Profit (loss) on ordinary activities before interest and taxation		114.8	(1,254.1)	(1,139.3)	(79.0)	(303.1)	(382.1)
Interest receivable and similar income	6	11.1	–	11.1	18.2	2.7	20.9
Interest payable and similar charges	6	(148.0)	–	(148.0)	(153.3)	–	(153.3)
Loss on ordinary activities before taxation	7	(22.1)	(1,254.1)	(1,276.2)	(214.1)	(300.4)	(514.5)
Tax on loss on ordinary activities	9	(28.6)	(77.8)	(106.4)	(23.3)	(0.8)	(24.1)
Loss on ordinary activities after taxation		(50.7)	(1,331.9)	(1,382.6)	(237.4)	(301.2)	(538.6)
Equity dividends – paid and proposed	10			–			–
Retained loss	24			(1,382.6)			(538.6)
Loss per share – basic and diluted	11	(2.7p)	(70.6p)	(73.3p)	(12.9p)	(16.3p)	(29.2p)

Details of movements on reserves are shown in note 24.
The accompanying notes are an integral part of this consolidated profit and loss account.
All results relate to continuing operations.

*Included within joint ventures' goodwill amortisation of £1,069.9 million for the year is £971.4 million in respect of an impairment of KirchPayTV goodwill (see notes 4 and 14).

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 30 June 2002

	Notes	2002 £m	2001 £m
Loss for the financial year*	24	(1,382.6)	(538.6)
Net loss on deemed disposals	24	–	(20.7)
Translation differences on foreign currency net investment	24	1.4	(2.1)
Total recognised gains and losses relating to the year		(1,381.2)	(561.4)

*Included within the loss for the year is a £80.9 million loss (2001: £350.0 million loss) in respect of the Group's share of the results of joint ventures.

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

Consolidated Balance Sheet

as at 30 June 2002

	Notes		2002 £m		2001 £m
Fixed assets					
Intangible assets	12		657.4		789.3
Tangible assets	13		343.0		315.4
Investments:					
Investments in joint ventures: Share of gross assets		88.7		270.5	
: Share of gross liabilities		(68.5)		(248.3)	
: Joint ventures' goodwill		–		1,140.6	
: Transfer to creditors		1.6		0.9	
Total investments in joint ventures	14		21.8		1,163.7
Other fixed asset investments	15		107.1		142.2
Total investments			128.9		1,305.9
			1,129.3		2,410.6
Current assets					
Stocks	16		414.2		424.1
Debtors: Amounts falling due within one year	17		400.9		493.4
Debtors: Amounts falling due after more than one year	17		207.0		324.6
Cash at bank and in hand			50.3		223.6
			1,072.4		1,465.7
Creditors: Amounts falling due within one year					
– short-term borrowings	19		(1.5)		(2.1)
– other creditors	19		(903.9)		(988.7)
			(905.4)		(990.8)
Net current assets			167.0		474.9
Total assets less current liabilities			1,296.3		2,885.5
Creditors: Amounts falling due after more than one year					
– long-term borrowings	20		(1,576.9)		(1,768.0)
– other creditors	20		(16.0)		(13.9)
			(1,592.9)		(1,781.9)
Provisions for liabilities and charges	22		(4.1)		(43.0)
			(300.7)		1,060.6
Capital and reserves – equity					
Called-up share capital	23		946.7		944.4
Share premium	24		2,409.8		2,377.6
Shares to be issued	24		255.8		256.9
Merger reserve	24		266.7		340.8
Profit and loss account	24		(4,179.7)		(2,859.1)
	24		(300.7)		1,060.6

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

30 July 2002

Company Balance Sheet

as at 30 June 2002

	Notes	2002 £m	2001 £m
Fixed assets			
Tangible assets	13	1.9	2.1
Investments	15	5,033.4	6,239.7
		5,035.3	6,241.8
Current assets			
Debtors: Amounts falling due within one year	17	956.0	1,141.5
Debtors: Amounts falling due after more than one year	17	60.3	146.2
Cash at bank and in hand		0.1	–
		1,016.4	1,287.7
Creditors: Amounts falling due within one year	19	(466.5)	(830.3)
Net current assets		549.9	457.4
Total assets less current liabilities		5,585.2	6,699.2
Creditors: Amounts falling due after more than one year	20	(2,305.0)	(2,112.4)
		3,280.2	4,586.8
Capital and reserves – equity			
Called-up share capital	23	946.7	944.4
Share premium	24	2,409.8	2,377.6
Shares to be issued	24	255.8	256.9
Capital reserve	24	843.9	843.9
Profit and loss account	24	(1,176.0)	164.0
	24	3,280.2	4,586.8

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

30 July 2002

Consolidated Cash Flow Statement

for the year ended 30 June 2002

	Notes	2002 £m	2001 £m
Net cash inflow from operating activities	28a	**249.7**	38.9
Returns on investments and servicing of finance			
Interest received and similar income		**8.8**	4.6
Interest paid and similar charges on external financing		**(141.0)**	(118.6)
Interest element of finance lease payments		**(0.6)**	(1.7)
Net cash outflow from returns on investments and servicing of finance		**(132.8)**	(115.7)
Taxation			
Consortium relief received (paid)		**22.5**	(16.2)
Net cash inflow (outflow) from taxation		**22.5**	(16.2)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		**(100.8)**	(133.3)
Payments to acquire fixed asset investments		**–**	(25.5)
Receipt from sales of fixed asset investments		**0.4**	–
Receipt from sales of intangible assets		**0.6**	0.2
Purchase of own shares (ESOP)		**(26.9)**	–
Net cash outflow from capital expenditure and financial investment		**(126.7)**	(158.6)
Acquisitions and disposals			
Purchase of subsidiary undertakings		**–**	(27.3)
Net cash acquired with subsidiary undertakings		**–**	11.7
Funding to joint ventures		**(11.6)**	(137.3)
Repayments of funding from joint ventures		**4.8**	–
Net cash outflow from acquisitions and disposals		**(6.8)**	(152.9)
Net cash inflow (outflow) before management of liquid resources and financing		**5.9**	(404.5)
Management of liquid resources			
Decrease in short-term deposits	28c	**69.5**	85.0
Financing			
Proceeds from issue of ordinary shares		**14.3**	6.5
Payments made on the issue of ordinary shares		**(1.8)**	(3.5)
Capital element of finance lease payments	28b	**(1.7)**	(2.1)
Net (decrease) increase in total debt	28b	**(190.0)**	359.7
Net cash (outflow) inflow from financing		**(179.2)**	360.6
(Decrease) increase in cash	28c	**(103.8)**	41.1
Decrease (increase) in net debt	28c	**18.4**	(401.5)

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

Notes to Accounts

1. Accounting policies

The principal accounting policies are summarised below. All of these have been applied consistently throughout the year and the preceding year.

a) Basis of accounting

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.

b) Basis of consolidation

The Group accounts consolidate the accounts of the Company and all of 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 year 2002 this date was 30 June 2002, this being a 52 week year (2001: 1 July 2001, 52 week year).

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 result for the financial year determined in accordance with the Act is disclosed in note 24.

c) Acquisitions

On the acquisition of a business, fair values are attributed to the Group's share of separable net assets acquired. Adjustments are also made to bring the accounting policies into line with those of the Group. Where statutory merger relief is applicable, the difference between the fair value of the shares issued as purchase consideration and the nominal value of the shares issued as purchase consideration is treated as a merger reserve in the Group accounts. The results and cash flows relating to a business are included in the consolidated profit and loss account and the consolidated cash flow statement from the date of acquisition.

On disposal or closure of a previously acquired business, any goodwill previously written off to reserves will be included in calculating the profit or loss on disposal.

d) Goodwill and other intangible assets

Where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and capitalised on the Group balance sheet in the year of acquisition. Purchased goodwill arising on acquisitions from 1 July 1998 is capitalised. Prior to 1 July 1998, goodwill arising on acquisitions was eliminated against reserves. As permitted by FRS 10, this goodwill has not been restated on the balance sheet.

Other intangible assets which are controlled through custody or legal rights and could be sold separately from the rest of the business are capitalised, where fair value can be reliably measured.

Where capitalised goodwill and intangible assets are regarded as having a limited useful economic life, the cost is amortised on a straight-line basis over that life, of up to 20 years. Impairment reviews are carried out to ensure that goodwill and intangible assets are not carried at above their recoverable amounts. Any amortisation or impairment write-downs are charged to the profit and loss account.

e) Interests in joint ventures

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. Provision is made within creditors where the Group's share of a joint venture's losses exceeds the Group's funding to date.

f) Investments

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. Provision is made for any impairment.

The Company's shares held by the Employee Share Ownership Plan ("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. Provision is made for any permanent diminution in the value of shares held by the ESOP.

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") and the Key Contributor Plan ("KCP"), based on an assessment of the probability of the performance criteria under the LTIP and KCP being met. The charge is allocated on a straight-line basis over the performance periods of the LTIP and KCP.

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

g) Tangible fixed assets

Tangible fixed assets are stated at cost net of accumulated depreciation and any provision for impairment. Land and assets in the course of construction are 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	Lower of lease period or life of the asset
Equipment, fixtures and fittings:	
– Fixtures and fittings	10% – 20%
– Computer equipment	20% – 33 1/3%
– Technical equipment	10% – 20%
– Motor vehicles	25%

h) Stocks

Television programme rights

Programme rights are stated at cost (including, where applicable, estimated escalation payments) less accumulated amortisation. Provisions are made for any programme rights which are superfluous to Group requirements or which will not be shown for any other reason.

Contractual obligations for programme rights not yet available for transmission are not included in the cost of programme rights, but are disclosed as contractual commitments (see note 25). Programme payments made in advance of the Group having availability to transmit the related acquired and commissioned programmes are treated as prepayments.

Acquired and commissioned programme rights are recorded in stock at cost when the programmes are available for transmission.

Amortisation is provided to write off the cost of acquired and commissioned programme rights as follows:

Sports – 100% on first showing, or where contracts provide for sports rights for multiple seasons or competitions, the amortisation of each contract is based on anticipated sports revenue.
Current affairs – 100% on first showing.
General entertainment – Straight line basis on each transmission at the following rates:
– One showing planned – 100%
– Two showings planned – 60%; 40%
– Three showings planned – 50%; 30%; 20%
– Four showings planned – 40%; 30%; 20%; 10%
Movies – Acquired movies are amortised on a straight-line basis over the period of transmission rights. Where acquired movie rights provide for a second availability window, 10% of the cost is allocated to that window. Own movie productions are amortised in line with anticipated revenue over a maximum of five years.

Set-top boxes and related equipment

Set-top boxes and related equipment include digital set-top boxes, Low Noise Blockers ("LNBs") and mini-dishes. The stock of set-top boxes and related equipment is valued at the lower of cost and Net Realisable Value ("NRV") (which reflects the value to the business of the set-top box and the related equipment in the hands of the customer). Any subsidy is expensed on enablement.

Raw materials and consumables

Raw materials and consumables are valued at the lower of cost and NRV.

i) Transponder rentals

Payments made in advance to secure satellite capacity have been recorded as prepaid transponder rentals. These payments are amortised on a straight-line basis to the profit and loss account from commencement of broadcasting to the end of the rental period, normally ten years.

j) Taxation

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

Notes to Accounts

continued

1. Accounting policies continued

k) Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future periods has been entered into by the subsidiary.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

l) Foreign currency

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

m) Derivatives and other financial instruments

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 underlying transactions being hedged. If an instrument ceases to be accounted for as a hedge, for example, by the underlying hedged position being eliminated, the instrument is marked to market and any resulting gain or loss is recognised in the profit and loss account.

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

n) Turnover

Turnover, which excludes value added tax and sales between Group companies, represents the value of products and services sold. The Group's main sources of turnover are recognised as follows:

- Direct-To-Home subscription, wholesale and pay per view revenues are recognised as these services are provided.
- Advertising sales revenues are recognised when the advertising is broadcast.
- Interactive turnover includes income from gaming, online advertising, internet, e-commerce, interconnect, text services and Sky Interactive set-top box subsidy recovery. Revenues on transactional sales are recognised when the goods or services are delivered. Gaming revenue represents amounts receivable in respect of bets placed on events which occur in the year.
- Other revenue principally includes income from installations (net of any discount), service call revenues, warranty revenue, marketing contribution from third party channels and platform access fees. Other revenues are recognised, net of any discount given, when the relevant service has been provided.

o) Pension costs

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.

p) Leases

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 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.

q) Government grants

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.

r) EBITDA

EBITDA (earnings before interest, taxation, depreciation and amortisation) is calculated as operating profit before depreciation and amortisation of goodwill and intangible fixed assets.

2. Turnover

	2002 £m	2001 £m
Direct-to-home subscribers	**1,929.2**	1,536.7
Cable and DTT subscribers	**279.4**	299.1
Advertising	**250.7**	270.5
Interactive	**186.0**	93.0
Other	**130.8**	106.7
	2,776.1	2,306.0

All Group 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, with the exception of £23.0 million of turnover (2001: £65.2 million) which relates to activities conducted from the Channel Islands. In order to provide shareholders with additional information, the Group's turnover has been analysed as shown above.

All turnover arises from services provided within the United Kingdom, with the exception of £62.4 million (2001: £32.6 million) which arises from Eire.

The Group's loss before tax and its net assets relate to activities conducted in the United Kingdom, with the exception respectively of £1,143.5 million loss (2001: £292.4 million loss) and nil assets (2001: £1,142.1 million assets) which relate to activities conducted in Germany, and £0.3 million loss (2001: £1.2 million loss) and £0.3 million of net assets (2001: £1.5 million of net liabilities) which relate to activities conducted in the Channel Islands.

3. Operating expenses, net

	Before goodwill and exceptional items £m	Goodwill and exceptional items £m	2002 Total £m	Before goodwill and exceptional items £m	Goodwill and exceptional items £m	2001 Total £m
Programming (i)	**1,439.3**	**–**	**1,439.3**	1,133.8	–	1,133.8
Transmission and related functions (i)	**146.6**	**(4.1)**	**142.5**	128.6	–	128.6
Marketing	**416.6**	**–**	**416.6**	378.1	–	378.1
Subscriber management	**291.1**	**–**	**291.1**	243.4	–	243.4
Administration	**203.2**	**140.6**	**343.8**	186.6	67.4	254.0
Gaming	**87.8**	**–**	**87.8**	75.3	–	75.3
	2,584.6	**136.5**	**2,721.1**	2,145.8	67.4	2,213.2

(i) The amounts shown are net of £15.3 million (2001: £55.1 million) receivable from the disposal of programming rights not acquired for use by the Group, and £23.7 million (2001: £53.9 million) in respect of the provision to third party broadcasters of spare transponder capacity.

4. Exceptional items

	Charge (credit) before taxation £m	Taxation (credit) charge £m	2002 Total £m	Charge (credit) before taxation £m	Taxation charge £m	2001 Total £m
Estimated cost of reorganisation of Sky Interactive (h)	**–**	**–**	**–**	23.1	–	23.1
Provision against remaining unprovided ITV Digital programming debtors (a)	**22.3**	**(6.7)**	**15.6**	–	–	–
Release of analogue termination provision (b)	**(4.1)**	**1.2**	**(2.9)**	–	–	–
Exceptional operating items	**18.2**	**(5.5)**	**12.7**	23.1	–	23.1
Share of joint venture's operating exceptional item (i)	**–**	**–**	**–**	16.5	–	16.5
Joint ventures' goodwill amortisation, net (c)	**971.4**	**–**	**971.4**	–	–	–
Profit on sale of fixed asset investments (d)	**(2.3)**	**–**	**(2.3)**	–	–	–
Share of joint venture's loss on sale of fixed asset investment (j)	**–**	**–**	**–**	69.5	–	69.5
Amounts written off fixed asset investments (see notes 14 and 15) (g) (k)	**60.0**	**–**	**60.0**	38.6	–	38.6
(Release of provision) provision for loss on disposal of subsidiary (e) (l)	**(10.0)**	**–**	**(10.0)**	10.0	–	10.0
Finance credit (see note 6) (m)	**–**	**–**	**–**	(2.7)	0.8	(1.9)
Deferred tax asset write-down (f)	**–**	**83.3**	**83.3**	–	–	–
	1,037.3	**77.8**	**1,115.1**	155.0	0.8	155.8

Notes to Accounts
continued

4. Exceptional items continued

2002
Exceptional operating items

(a) ITV Digital
As of 27 March 2002, the date on which the ITV Digital DTT platform was put into administration, the Group had balances owed to it and unprovided for, in respect of programming licensed to ITV Digital, of £22.3 million. On 30 April 2002, the joint administrators of ITV Digital announced the closure of pay television services on the platform and their intention to close the administration. Accordingly, the Group made an exceptional operating provision against the whole of this balance effective 31 March 2002.

(b) Release of analogue termination provision
On 27 September 2001, the Group terminated its analogue operation. From the original exceptional operating provision of £41.0 million, taken at 30 June 2000, £4.1 million of provision has not been utilised and has therefore been released to the profit and loss account as an exceptional credit.

Other exceptional items

(c) Joint ventures' goodwill amortisation, net
The exceptional item of £971.4 million of joint ventures' goodwill amortisation, net, relates to the impairment charge taken against the carrying value of the Group's interest in KirchPayTV GmbH & Co KGaA ("KirchPayTV") of £984.9 million as at 31 December 2001, net of an amount of £13.5 million released from the provision matching the Group's share of losses for the period from 1 January 2002 to 8 February 2002, at which date the Group ceased to gross equity account for KirchPayTV's results (see notes 5 and 14).

(d) Profit on sale of fixed asset investments
During the year, the Group sold its investments in Static 2358 Limited and Gameplay plc realising a profit on disposal of £2.3 million (see note 15).

(e) Release of provision for loss on disposal of subsidiary
On 16 October 2001, the Group and Ladbrokes, the betting and gaming division of Hilton Group plc, announced that they had agreed not to pursue the proposed joint venture to offer a fixed-odds betting service on Sky Sports channels and other media. As a result, the provision for loss on disposal of the subsidiary, taken at 30 June 2001, has been written back, resulting in a non-cash exceptional profit of £10.0 million (see note (l) below). The Group continues to operate and develop interactive TV betting services through its wholly-owned bookmaker, Surrey Sports.

(f) Write down of deferred tax asset
Following the impairment charge made in respect of the Group's investment in KirchPayTV at 31 December 2001 (see note 14) there was insufficient evidence to support the recognition of a deferred tax asset arising on losses incurred by certain UK companies. Accordingly, the deferred tax asset of £95.6 million was written off in full as at 31 December 2001. Subsequent to this date £12.3 million of this amount has been written back due to the utilisation of tax losses. The Directors ultimately expect the remaining £83.3 million to be recovered in full.

(g) Amounts written off fixed asset investments
At 31 December 2001, £60.0 million was provided against the Group's minority investments in football clubs.

2001
Exceptional operating items

(h) Reorganisation of Sky Interactive
In May 2001, the Group announced the consolidation of all of its interactive and online activities within the 'Sky Interactive' division. The costs of reorganisation within Sky Interactive were estimated at £23.1 million and principally comprised the cost of termination of certain contracts, the closure of duplicate sites and a reduction in headcount. Of these costs, £7.0 million were included within fixed assets, £4.0 million were included within other creditors and the remainder within provisions.

Other exceptional items

(i) Share of joint venture's operating exceptional item
In April 2001, British Interactive Broadcasting Holdings Limited ("BiB") incurred exceptional operating costs of £16.5 million, which principally comprised the cost of the write-down of the current platform. Of these costs, £13.1 million were included within fixed assets and the remainder within provisions.

(j) Share of joint venture's loss on sale of fixed asset investment
On 31 August 2000, KirchPayTV disposed of their remaining 58 million holding of BSkyB shares. The Group's share of the loss on disposal was £69.5 million. The loss was calculated as the Group's share of the difference between the balance sheet value of the 58 million shares at £15.21 per share (based on the value of the shares at the date of acquisition of 24% of KirchPayTV by the Group) and the net proceeds realised by KirchPayTV of £10.05 per share.

(k) Amounts written off fixed asset investments
At 30 June 2001, £38.6 million was provided against the Group's minority investments in new media companies (see note 15).

(l) Provision for loss on disposal of subsidiary
On 11 July 2001, the Group and Ladbrokes, the betting and gaming division of Hilton Group plc, reached agreement to form a 50:50 joint venture to develop and operate a fixed-odds and pools betting business linked to Sky channels on Sky digital. The agreement was for the Group to contribute its wholly-owned bookmaker, Surrey Sports, to the joint venture and a provision was made in the year to 30 June 2001 for the adjustment to existing goodwill which would have been necessary when Surrey Sports was transferred to the new joint venture. This provision was subsequently reversed when the Group and Ladbrokes agreed not to pursue the proposed joint venture in October 2001 (see note (e) above).

(m) Finance credit
An exceptional accrual was made in June 1999 in respect of the mark-to-market of a floating-to-fixed interest rate swap over £100 million of the £1,000 million revolving credit facility ("RCF") which was no longer required when the RCF was cancelled and replaced with a £750 million RCF. The swap was closed out in September 2000, and the remaining accrual of £2.7 million was released.

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5. Share of operating results of joint ventures

This relates to the Group's equity share of the operating results of the Group's joint ventures.

	Before exceptional items £m	Exceptional items £m	2002 Total £m	Before exceptional items £m	Exceptional items £m	2001 Total £m
KirchPayTV (see note 14)	**70.0**	**–**	**70.0**	116.0	–	116.0
BiB	**–**	**–**	**–**	118.9	16.5	135.4
Programming joint ventures, net	**6.7**	**–**	**6.7**	4.3	–	4.3
Total losses	**76.7**	**–**	**76.7**	239.2	16.5	255.7

KirchPayTV
The Group ceased accounting for KirchPayTV's losses using the gross equity method from 8 February 2002, on which date the Group announced that it had written down its investment in KirchPayTV to nil, effective 31 December 2001. The Group considered that, by 8 February 2002, the relationship between the Group and KirchPayTV had irrevocably changed and that the Group has not exercised significant influence since that date.

As the Group has no intention of providing any future funding to KirchPayTV and the Group, on a consolidated basis, has no financial commitments, outstanding financial liabilities or contingent liabilities in respect of KirchPayTV, an amount of £13.5 million was released from the impairment provision made at 31 December 2001, in order to match the Group's share of KirchPayTV's losses for the period from 1 January 2002 to 8 February 2002.

BiB
The Group recognised 32.5% of the results of BiB up until November 2000. From this date, to 9 May 2001, 100% of BiB's losses were recognised due to the agreement dated 17 July 2000, under which the Group agreed to provide 100% of BiB's funding after existing funding had been utilised. From 9 May 2001, the Group fully consolidated BiB as a subsidiary.

6. Interest

(a) Interest receivable and similar income

	2002 £m	2001 £m
Interest receivable on short-term deposits	**8.2**	3.8
Share of joint ventures' interest receivable	**2.0**	3.5
Interest receivable on funding to joint ventures	**0.3**	10.4
Other interest receivable and similar income	**0.6**	0.5
	11.1	18.2
Exceptional finance credit (see note 4)	**–**	2.7
	11.1	20.9

(b) Interest payable and similar charges

	2002 £m	2001 £m
On bank loans, overdrafts and other loans repayable within five years, not by instalments:		
– £300 million RCF	**10.8**	0.8
– £750 million RCF	**46.3**	38.5
US$650 million of 8.200% Guaranteed Notes repayable in 2009	**31.6**	31.6
£100 million of 7.750% Guaranteed Notes repayable in 2009	**7.8**	7.8
US$600 million of 6.875% Guaranteed Notes repayable in 2009	**30.1**	30.1
US$300 million of 7.300% Guaranteed Notes repayable in 2006	**15.1**	15.5
Finance lease interest	**1.0**	0.9
Share of joint ventures' interest payable	**4.9**	27.8
Other interest payable and similar charges	**0.4**	0.3
	148.0	153.3

Notes to Accounts
continued

7. Loss on ordinary activities before taxation

	2002 £m	2001 £m
The loss on ordinary activities before taxation is stated after charging (crediting):		
– depreciation (see note 13)		
– owned assets	**79.5**	70.8
– assets held under finance leases	**1.6**	0.3
– amortisation of intangible assets (see note 12)	**118.4**	44.3
– joint ventures' goodwill amortisation, net (see note 14)	**1,069.9**	101.1
– amounts written off fixed asset investments (see notes 14 and 15)	**60.0**	38.6
– profit on disposal of fixed asset investments	**(2.3)**	–
– rentals on operating leases and similar arrangements		
– land and buildings	**8.2**	7.2
– plant and machinery	**76.4**	112.2
– staff costs (see note 8)	**276.9**	260.9
– Government grants	**–**	(0.1)

Amounts payable to the auditors are analysed below:

	2002 £m	2001 £m
Audit services	**0.7**	0.6
Taxation advice	**0.4**	0.6
Other	**0.8**	0.4
Audit and audit related services	**1.9**	1.6
Website development	**0.5**	6.0
Call centre development	**4.8**	4.9
Other	**1.0**	1.9
Non-audit related services	**6.3**	12.8

In addition to the amounts disclosed above, the Group understands that during the year its auditors indirectly received from the Group a further £4.0 million (2001: £2.9 million), through the performance of sub-contracted services for one of the Group's call centre consultants.

8. Staff costs

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

	2002 £m	2001 £m
Wages and salaries	**227.1**	213.2
Costs of LTIP, KCP and other share-related bonus schemes	**17.2**	14.0
Social security costs	**22.0**	25.4
Other pension costs	**10.6**	8.3
	276.9	260.9

The Group 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 scheme and amounted to £10.6 million (2001: £8.3 million).

The average monthly number of full time equivalent persons (including temporary employees) employed by the Group during the year was as follows:

	2002 Number	2001 Number
Programming	**1,131**	1,134
Transmission and related functions	**1,274**	1,071
Marketing	**193**	173
Subscriber management	**5,432**	6,472
Administration	**965**	872
Gaming	**88**	226
	9,083	9,948

(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 22 to 24 which form part of these accounts.

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continued

9. Taxation

(a) Analysis of charge in year

	2002 £m	2001 £m
Tax charge on profit before exceptional items:		
Current tax	–	–
Deferred tax	27.3	23.3
Share of joint ventures' tax charge (see note 14)	1.3	–
	28.6	23.3
Exceptional tax (credit) charge:		
Deferred tax credit on operating exceptional items (see note 4)	(5.5)	0.8
Exceptional deferred tax charge (see note 4) (i)	83.3	–
	77.8	0.8
	106.4	24.1

(i) An exceptional deferred tax charge of £95.6 million was made at 31 December 2001, against which £12.3 million has been written back at 30 June 2002 as a result of the utilisation of tax losses.

(b) Factors affecting the current tax charge for the year
The current tax charge for the year is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2002 £m	2001 £m
Loss on ordinary activities before tax	(1,276.2)	(514.5)
Less: Share of joint ventures' loss before tax	79.6	350.0
Group loss on ordinary activities before tax	(1,196.6)	(164.5)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	(359.0)	(49.4)
Effects of:		
Write-down of KirchPayTV not deductible for tax purposes	291.4	–
Other expenses not deductible for tax purposes (primarily goodwill amortisation)	77.8	63.9
Other timing differences	19.2	(2.9)
Utilisation of tax losses	(30.6)	(11.3)
Consortium relief	1.2	(0.3)
Current tax charge for the year	–	–

(c) Factors that may affect future tax charges
A deferred tax asset of £167.6 million (2001: £102.4 million), arising principally from losses in the Group, has not been recognised. These losses can be offset only against taxable profits generated in the entities concerned. Although the Directors ultimately expect sufficient profits to arise, there is currently insufficient evidence to support recognition of a deferred tax asset relating to these losses. The losses are available to be carried forward indefinitely under current law. For similar reasons, estimated deferred tax assets of £63.7 million (2001: £47.7 million) have not been recognised in respect of losses in the Group's German holding companies of KirchPayTV and nil (2001: £52.0 million) have not been recognised in respect of the Group's share of losses of KirchPayTV.

10. Dividends

The Directors do not propose an interim or final dividend for the financial year (2001: nil). At 30 June 2002, the Company had negative reserves of £1,176.0 million (see note 24). The Company is currently not in a position to pay a dividend.

The ESOP has waived its rights to dividends.

11. Loss per share

	2002 Before goodwill and exceptional items	2002 Goodwill	2002 Exceptional items	2002 After goodwill and exceptional items	2001 Before goodwill and exceptional items	2001 Goodwill	2001 Exceptional items	2001 After goodwill and exceptional items
Loss on ordinary activities after taxation	£50.7m	£216.8m	£1,115.1m	£1,382.6m	£237.4m	£145.4m	£155.8m	£538.6m
Loss per share – basic and diluted	2.7p	11.5p	59.1p	73.3p	12.9p	7.9p	8.4p	29.2p

Basic and diluted loss per share represents the loss attributable to the equity shareholders in each year divided by the weighted average number of Ordinary Shares in issue during the year of 1,887,375,018 (2001: 1,847,057,433).

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

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12. Intangible fixed assets

The movement in the year was as follows:

	Goodwill £m	Other intangible fixed assets £m	Total £m
Group			
Cost			
Beginning of year	842.6	1.0	843.6
Fair value adjustments to BiB provisional goodwill (a)	(22.9)	–	(22.9)
Disposals	–	(0.6)	(0.6)
End of year	**819.7**	**0.4**	**820.1**
Amortisation			
Beginning of year	54.2	0.1	54.3
Charge	118.3	0.1	118.4
Release of provision for loss on disposal of subsidiary (see note 4)	(10.0)	–	(10.0)
End of year	**162.5**	**0.2**	**162.7**
Net book value			
Beginning of year	788.4	0.9	789.3
End of year	**657.2**	**0.2**	**657.4**

Goodwill

Goodwill of £272.4 million arising on the acquisition of Sports Internet Group plc (“SIG”) is being amortised over a period of seven years on a straight-line basis.
Goodwill of £542.0 million (after fair value adjustments) arising on the acquisition of BiB is being amortised over a period of seven years on a straight-line basis.
Goodwill of £5.2 million arising on the acquisition of WAP TV Limited (“WAP TV”) is being amortised over a period of seven years on a straight-line basis.

(a) Adjustments to BiB’s provisional fair values are shown below:

	Provisional fair value to Group of 100% of BiB 2001 £m	**Fair value adjustments 2002 £m**	**Final fair value to Group 2002 £m**
Tangible fixed assets	26.7	**–**	**26.7**
Other non-current assets	3.2	**1.2**	**4.4**
Current assets	102.7	**19.9(i)**	**122.6**
Current liabilities	(120.5)	**–**	**(120.5)**
Other non-current liabilities	(156.0)	**–**	**(156.0)**
Net (liabilities) assets	(143.9)	**21.1**	**(122.8)**
Purchase consideration (iii)	421.0	**(1.8)(ii)**	**419.2**
Goodwill arising on the acquisition of BiB	564.9	**(22.9)**	**542.0**

(i) Consortium relief received of £22.5m, net of a pre-existing consortium relief receivable of £2.6m.
(ii) Stamp duty on the issue of the shares as consideration for the acquisition of BiB.
(iii) Purchase consideration excludes contingent consideration (see note 25(d)).

In accordance with FRS 11, impairment reviews at the end of the first full financial year after acquisition were performed on the carrying values of BiB and SIG goodwill balances as at 30 June 2002. These reviews showed that no impairment was identified in either case. Consistent with the Group strategy, the business plans on which these reviews have been based reflect significant projected increases in gaming and other interactive revenues over the next five years.

Other intangible fixed assets

Other intangible fixed assets comprised domain names and betting shop licenses which were being amortised over a period of seven years on a straight-line basis. During the year the Group disposed of the betting shop licences.

13. Tangible fixed assets

The movement in the year was as follows:

	Freehold land and buildings £m	Short leasehold improvements £m	Equipment, fixtures and fittings £m	Assets in course of construction £m	Total £m
Group					
Cost					
Beginning of year	29.9	80.5	481.5	7.0	598.9
Additions	8.0	3.0	75.8	27.9	114.7
Disposals	–	(0.2)	(7.9)	–	(8.1)
Transfers	–	–	5.0	(5.0)	–
End of year	**37.9**	**83.3**	**554.4**	**29.9**	**705.5**
Depreciation					
Beginning of year	5.0	39.7	238.8	–	283.5
Charge	1.0	3.7	76.4	–	81.1
Transferred from provisions	–	–	4.5	–	4.5
Disposals	–	(0.1)	(6.5)	–	(6.6)
End of year	**6.0**	**43.3**	**313.2**	**–**	**362.5**
Net book value					
Beginning of year	24.9	40.8	242.7	7.0	315.4
End of year	**31.9**	**40.0**	**241.2**	**29.9**	**343.0**

Included in freehold land and buildings are assets held under finance leases with a net book value of £6.7 million (2001: £7.0 million). Depreciation charged during the year on such assets was £0.3 million (2001: £0.3 million).

Included in equipment, fixtures and fittings are assets held under finance leases with a net book value of £3.6 million (2001: £3.9 million). Depreciation of £1.3 million (2001: nil) was charged during the year on these assets.

Depreciation was not charged on £9.4 million of land (2001: £6.1 million).

The Company's only tangible fixed assets relate to leasehold improvements at the Group's head office, the cost and net book value of which amounted to £3.2 million (2001: £3.2 million) and £1.9 million (2001: £2.1 million) respectively. The depreciation charged during the year on the Company's tangible fixed assets was £0.2 million (2001: £0.2 million).

14. Investments in joint ventures

The following are included in the net book value of investments in joint ventures:

	Group 2002 £m	Group 2001 £m	**Company 2002 £m**	Company 2001 £m
Joint ventures:				
– KirchPayTV	**–**	1,142.1	–	–
– Programming joint ventures	**21.8**	21.6	–	–
Total investments in joint ventures	**21.8**	1,163.7	–	–

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14. Investment in joint ventures continued

The movement in the year was as follows:

	Group 2002 £m	Group 2001 £m
Cost and funding, excluding goodwill		
Beginning of year	217.9	345.9
Loans advanced to joint ventures	11.6	138.3
Loans repaid by joint ventures	(4.8)	(1.0)
Release of deferred consideration	–	(3.6)
Disposal of BiB as a joint venture – equity and debentures	–	(129.8)
Disposal of BiB as a joint venture – other loans	–	(131.9)
End of year	224.7	217.9
Transfer to creditors	1.6	0.9
Movement in share of underlying net assets		
Beginning of year	(195.7)	(192.1)
Share of operating results of joint ventures (see note 5)	(76.7)	(255.7)
Share of joint venture's exceptional loss on sale of fixed asset investment (see note 4)	–	(69.5)
Share of joint ventures' interest receivable (see note 6)	2.0	3.5
Share of joint ventures' interest payable (see note 6)	(4.9)	(27.8)
Share of joint ventures' tax charges (see note 9)	(1.3)	–
Share of joint ventures' amounts written off investments	–	(0.5)
Disposal of BiB as a joint venture – cumulative losses	–	282.1
Group transition provision utilised	–	(23.2)
Deemed disposals	–	89.6
Exchange adjustments	1.4	(2.1)
Transfer of KirchPayTV to other fixed asset investments	70.7	–
End of year	(204.5)	(195.7)
Goodwill		
Beginning of year	1,140.6	1,358.0
Amortisation	(98.5)	(101.1)
Amounts provided, net (see note 4)	(971.4)	–
Deemed disposals	–	(110.3)
Acquisition costs adjusted	–	(6.0)
Transfer of KirchPayTV to other fixed asset investments	(70.7)	–
End of year	–	1,140.6
Net book value		
Beginning of year	1,163.7	1,512.3
End of year	21.8	1,163.7

The investment in joint ventures excludes cumulative losses of £1.6 million (2001: £0.9 million), which represent losses in excess of the funding provided. The related obligation is recorded within creditors.

KirchPayTV

As at 31 December 2001, the Directors believed that the Group's investment in KirchPayTV was impaired. The ongoing losses experienced by KirchPayTV, the Group's concerns over the adequacy of funding in place to support KirchPayTV's business plan and the Group's evaluation of limited information it had received from KirchPayTV regarding the expected financial effects of certain strategic, operational and management decisions made by KirchPayTV, did not provide the Group with sufficient confidence that the value of KirchPayTV was able to support the carrying value of the Group's investment in KirchPayTV.

As the Group had the right to exercise a put option in respect of its stake in KirchPayTV, it considered whether the put option could be used to support the carrying value of the Group's investment in KirchPayTV as at 31 December 2001. The put option was exercisable from 1 October 2002, or earlier in certain circumstances, if no initial public offering of KirchPayTV has occurred before then. On exercise, Taurus Holding (formerly known as Kirch Holding), KirchPayTV's largest shareholder, would be required to pay EUR 1.3 billion in cash, an amount equal to the cost of acquisition at the time the Group entered into the investment agreement, plus compound interest at 12%.

As at 31 December 2001, the Group was not able to obtain any evidence to its satisfaction that the resources of Taurus Holding would be sufficient to satisfy the put option if exercised. Due to the lack of sufficient information from any source over the realisability of contractual payments specified by the put option, the Directors were unable to determine the amount, if any, likely to be received in the event of exercising the put option.

Given the uncertainties described above, as at 31 December 2001, the Directors considered the most appropriate accounting treatment was to write down the carrying value of its investment in KirchPayTV to nil resulting in an exceptional charge to joint ventures' goodwill amortisation of £984.9 million.

By 8 February 2002, the Group considered that its relationship with KirchPayTV had irrevocably changed and that the Group has not exercised significant influence since that date. Therefore, the Group believed that from 8 February 2002 it was no longer appropriate to account for its interest in KirchPayTV as a joint venture, and ceased accounting for KirchPayTV's losses using the gross equity method from that date. On 8 February 2002, the Group's investment in KirchPayTV was transferred to fixed asset investments.

As the Group has no intention of providing any future funding to KirchPayTV, and the Group, on a consolidated basis, continues to have no financial commitments, outstanding financial liabilities or contingent liabilities in respect of KirchPayTV, an amount of £13.5 million was released from the provision against the carrying value of the investment made at 31 December 2001, matching the Group's share of KirchPayTV's losses for the period from 1 January 2002 to 8 February 2002.

On 8 May 2002, KirchPayTV filed for insolvency. KirchPayTV management had informed the Group that Taurus Holding, was unable to continue to make funding support available to KirchPayTV and none of the other existing shareholders, banks or new investors were willing to provide funding to KirchPayTV to avoid an insolvency filing.

14. Investment in joint ventures continued

KirchPayTV continued

On 13 May 2002, the Group exercised its put option to transfer the Group's 22% equity interest in KirchPayTV to Taurus Holding. Taurus Holding rejected the exercise of the put as it did not consider that the conditions for exercising the put had occurred. However, based on the information available to the Group, the Group continues to believe the put option was exercisable at that time. On 12 June 2002 Taurus Holding filed for insolvency. The Group continues to monitor the situation carefully insofar as it relates to its interest in KirchPayTV and its put option to Taurus Holding and will continue to take such action, from time to time, as it considers appropriate in order to seek to realise value from the put option, recognising that Taurus Holding may oppose such action in the future. The Group continues to believe that, unless the liquidity issues of Taurus Holding are adequately resolved, it is unlikely to receive a significant amount, if any amount, in respect of the put option.

The following information is given in respect of the Group's share of all joint ventures:

	Group(ii) 2002 £m	Group(i) 2001 £m
Turnover	**139.2**	224.1
Fixed assets	**3.6**	139.7
Current assets	**85.1**	130.8
Liabilities due within one year	**(66.0)**	(124.2)
Liabilities due after more than one year	**(2.5)**	(124.1)

(i) This includes the Group's share of BiB's turnover up until BiB was consolidated as a subsidiary from 9 May 2001.

(ii) This includes the Group's 22% share of KirchPayTV's turnover up until it ceased to be treated as a joint venture on 8 February 2002.

	Group's share of KirchPayTV (as adjusted) 1 April 2001 to 8 November 2001 £m	Group's share of KirchPayTV (as adjusted) Year to 31 March 2001 £m
Turnover	**66.5**	117.4
Operating loss	**(70.0)**	(116.0)
Loss on sale of fixed asset investment (see note 4)	**–**	(69.5)
Net interest payable	**(3.6)**	(9.7)
Loss before taxation	**(73.6)**	(195.2)
Taxation	**–**	–
Loss after taxation	**(73.6)**	(195.2)
Fixed assets	**–**	135.5
Current assets	**–**	67.9
Liabilities due within one year	**–**	(110.8)
Liabilities due after more than one year	**–**	(91.1)

As KirchPayTV ceased to be treated as a joint venture from 8 February 2002, no joint venture balance sheet disclosure has been provided for 2002.

In the absence to date of KirchPayTV results for the period from 1 July 2001 to 8 February 2002, the results for a similar period, the period from 1 April 2001 to 8 November 2001, have been used. In June 2001, due to the absence of results for KirchPayTV for the year from 1 July 2000 to 30 June 2001, the results for a similar period, the year to 31 March 2001, were used. The 2000 results were adjusted to include the loss from the sale by KirchPayTV, on 7 June 2000, of 20 million of its holding of BSkyB shares. Consequently this loss has been excluded from the 2001 results.

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15. Other fixed asset investments

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

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Investments in subsidiary undertakings (a)	–	–	4,972.2	6,118.5
Investment in own shares (b)	42.2	19.1	–	–
Other investments (c)	64.9	123.1	61.2	121.2
	107.1	142.2	5,033.4	6,239.7

(a) Investment in subsidiary undertakings
The movement in the year was as follows:

	2002 £m	2001 £m
Company		
Cost or valuation		
Beginning of year	7,490.9	6,464.6
Additions (i)	–	1,026.3
End of year	7,490.9	7,490.9
Provision		
Beginning of year	1,372.4	–
Provision against investment in Sky (ii)	–	1,004.7
Provision against investment in KirchPayTV (iii)	1,146.3	367.7
End of year	2,518.7	1,372.4
Net book value		
Beginning of year	6,118.5	6,464.6
End of year	4,972.2	6,118.5

(i) In 2001 additions principally related to the acquisition by the Group of 67.5% of BiB in May and June 2001 and 100% of SIG in July 2000. Additionally, during the year a £556.4 million loan to BSkyB Finance Limited was capitalised.

Since 30 June 1994, excluding provisions, the Company's investment in Sky has been carried at a Directors' valuation of £994.6 million (an increase of £930 million), being Sky's net asset value at that date.

(ii) In 2001 the provision against the investment in Sky was made to reduce the carrying value of this investment to the underlying net asset value, following the waiver by Sky of £1,087.8 million of a loan to the Company.

(iii) The provisions against the investment in KirchPayTV aligned the value of the indirect investment in KirchPayTV in the Company's balance sheet with the carrying value of KirchPayTV in the Group's balance sheet.

(b) Investment in own shares
The movement in the year was as follows:

	Number of Ordinary Shares	Group £m
At beginning of year	3,354,512	19.1
Share options exercised during the year	(654,875)	(3.8)
Shares purchased during the year	3,900,000	26.9
At end of year	6,599,637	42.2

During the year, the Trustees of the Group's ESOP as authorised by the Board, purchased 3.9 million of the Company's Ordinary Shares in the open market, funded by a loan from the Company. These shares will be utilised, together with shares already held by the ESOP, to satisfy the exercise of employee share options and share awards under the Group's LTIP and KCP.

As at 30 June 2002, the ESOP held 6.6 million Ordinary Shares in the Company (2001: 3.35 million) at an average value of £6.39 per share (2001: £5.68 per share). The 0.7 million Ordinary Shares utilised during the year relate to the grants of shares under the KCP.

The cost to the Group of the LTIP and KCP shares hedged by the ESOP is accrued over the relevant vesting periods of these schemes. An amount of £19.3 million is included within accruals (2001: £9.8 million).

The market value of shares held by the ESOP as at 30 June 2002 was £41.5 million (2001: £22.9 million), and the nominal value was £3.3 million (2001: £1.7 million).

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15. Other fixed asset investments continued

(c) Other investments

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Cost				
Beginning of year	161.2	120.8	121.2	81.3
Additions	3.2	40.4	–	39.9
Previously classified as a joint venture	971.4	–	–	–
Disposals	(15.9)	–	–	–
End of year	1,119.9	161.2	121.2	121.2
Provision				
Beginning of year	38.1	–	–	–
Disposals	(14.5)	–	–	–
Previously classified as a joint venture	971.4	–	–	–
Provided during the year	60.0	38.1	60.0	–
End of year	1,055.0	38.1	60.0	–
Net book value				
Beginning of year	123.1	120.8	121.2	81.3
End of year	64.9	123.1	61.2	121.2

2002
On 2 July 2001, the Group disposed of its unlisted investment in Static 2358 Limited for total consideration of £3.7 million comprising a mixture of cash and shares in Open TV. The Group made a profit on disposal of £2.3 million. The investment in Open TV shares is included as an addition to other investments in the period.

At 31 December 2001, the Group made a provision against its minority equity investments in football clubs, leading to a non-cash exceptional charge of £60.0 million.

On 26 February 2002, the Group sold its listed investment in Gameplay plc for total consideration of £0.03 million, realising a profit on disposal of £0.03 million. The Group's investment in Gameplay plc was held at cost of £12.3 million less provision of £12.3 million. These amounts were written back upon disposal of the Group's investment in Gameplay plc.

On 7 June 2002, the Group disposed of its listed investment in Toyzone plc following the liquidation of this entity. The Group's investment in Toyzone plc was held at cost of £2.2 million less provision of £2.2 million. These amounts were written-back upon disposal of the Group's investment in Toyzone plc.

The Group's investment in KirchPayTV was treated as a joint venture until 8 February 2002, after which date the Group considered that it was no longer able to exercise significant influence over KirchPayTV. The investment is now treated as a fixed asset investment and was transferred from "Investments in joint ventures" to "Other investments" on 8 February 2002 at a net book value of nil. Further details on the Group's investment in KirchPayTV are given in note 14.

2001
On 3 March 2000, the Group entered into arrangements with Chelsea Village Plc ("Chelsea Village") to subscribe for ordinary and preference shares in Chelsea Village and to become its exclusive media agent, for total consideration of £40.0 million. Of the £40.0 million consideration, £15.0 million was paid during the prior year and the remaining £25.0 million was paid on completion on 14 July 2000. Shares acquired in Chelsea Village represent 9.9% of its enlarged share capital.

At 31 December 2000, £24.5 million was provided against minority investments in new media companies. An additional £15.5 million was provided against these investments at 31 March 2001. This brought the carrying value of the Group's investment in new media companies to nil. At 30 June 2001, the provision was reduced by £1.4 million to reflect the post year end disposal of the Group's investment in Static 2358 Limited (see note 4).

Further analysis of listed investments is shown below:

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Listed investments included above (i)	49.4	106.2	46.2	106.2
Aggregate market value at end of year	40.1	51.9	39.4	51.6

(i) Including investments traded on OFEX.

No tax liability would arise on the sale of these listed investments at the market value shown above as no gains would arise.

Notes to Accounts
continued

16. Stocks

	2002 £m	2001 £m
Group		
Television programme rights	367.3	364.6
Set-top boxes and related equipment	42.2	55.4
Raw materials and consumables	4.7	4.1
	414.2	424.1

At least 77% (2001: 71%) of the existing television programme rights at 30 June 2002 will be amortised within one year.

17. Debtors

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Debtors: Amounts falling due within one year				
Trade debtors	177.5	231.7	–	–
Amounts owed by subsidiary undertakings	–	–	952.2	1,139.2
Amounts owed by joint ventures (see note 27)	15.2	11.2	–	–
Amounts owed by other related parties (see note 27)	1.0	1.9	–	–
Other debtors	8.5	29.0	–	–
Prepaid programme rights	80.5	51.4	–	–
Prepaid transponder rentals	15.5	25.1	–	–
Advance corporation tax	18.2	–	–	–
Deferred tax assets (see note 18)	13.9	68.9	–	–
Prepaid media rights	3.7	3.0	–	–
Other prepayments and accrued income	66.9	71.2	3.8	2.3
	400.9	493.4	956.0	1,141.5
Debtors: Amounts falling due after more than one year				
Prepaid programme rights	38.6	78.2	–	–
Prepaid transponder rentals	55.6	61.8	–	–
Advance corporation tax	67.1	85.3	55.9	77.3
Deferred tax assets (see note 18)	24.9	75.0	–	63.2
Prepaid media rights	12.8	11.9	–	–
Other prepayments and accrued income	8.0	12.4	4.4	5.7
	207.0	324.6	60.3	146.2

18. Deferred tax asset

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Included within debtors due within one year:				
– tax losses carried forward	11.7	68.9	–	–
– accelerated capital allowances	2.2	–	–	–
	13.9	68.9	–	–
Included within debtors due after more than one year:				
– accelerated capital allowances	24.9	6.3	–	–
– tax losses carried forward	–	63.2	–	63.2
– other	–	5.5	–	–
	24.9	75.0	–	63.2
	38.8	143.9	–	63.2
Deferred tax asset				
Beginning of year	143.9	168.0	63.2	51.7
Adjustment in respect of prior year	–	–	20.1	–
(Charge) credit in the profit and loss account during the year	(105.1)	(24.1)	(83.3)	11.5
End of year	38.8	143.9	–	63.2

The deferred tax asset of £38.8 million recognised at 30 June 2002 (30 June 2001: £143.9 million) arose principally as a result of losses and certain exceptional items booked in 1999 and 2000 which were associated with the launch of digital television and the termination of analogue operations.

Following the impairment charge made in respect of the Group's investment in KirchPayTV (see note 14), there is insufficient evidence to support the recognition of part of the deferred tax asset previously recognised. During the year £83.3 million was written off the asset as an exceptional item, although the Directors ultimately expect this amount to be recovered in full (see note 4 (f)).

Given recent and forecast trading, the Directors are of the opinion that the level of profits in the foreseeable future is more likely than not to be sufficient to recognise the remaining deferred tax asset.

19. Creditors: Amounts falling due within one year

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Short-term borrowings				
Obligations under finance leases	1.5	2.1	–	–
	1.5	2.1	–	–
Other				
Trade creditors	311.1	457.4	–	–
Amounts due to subsidiary undertakings	–	–	418.0	776.5
Amounts due to related parties (see note 27)	20.4	18.3	–	–
UK corporation tax	4.7	4.7	–	–
VAT	86.2	62.3	–	–
Social security and PAYE	7.0	6.2	–	–
Other creditors	42.0	8.4	–	–
Accruals and deferred income	432.5	431.3	48.5	53.8
Government grants	–	0.1	–	–
	903.9	988.7	466.5	830.3
	905.4	990.8	466.5	830.3

Included within trade creditors are £243.6 million (2001: £291.9 million) of US dollar-denominated programme creditors. At least 90% (2001: 90%) of these were covered by forward rate currency contracts (see note 25).

20. Creditors: Amounts falling due after more than one year

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Long-term borrowings				
£750 million RCF (a)	500.0	690.0	500.0	690.0
£300 million RCF (a)	–	–	–	–
US$650 million of 8.200% Guaranteed Notes repayable in 2009 (b)	412.5	412.5	412.5	412.5
£100 million of 7.750% Guaranteed Notes repayable in 2009 (b)	100.0	100.0	100.0	100.0
US$600 million of 6.875% Guaranteed Notes repayable in 2009 (b)	367.2	367.2	367.2	367.2
US$300 million of 7.300% Guaranteed Notes repayable in 2006 (b)	189.2	189.2	189.2	189.2
Obligations under finance leases	7.8	8.9	–	–
Amounts due to subsidiary undertakings (c)	–	–	736.1	353.5
Other borrowings	0.2	0.2	–	–
	1,576.9	1,768.0	2,305.0	2,112.4
Other				
Accruals and deferred income	15.2	13.1	–	–
Government grants	0.8	0.8	–	–
	16.0	13.9	–	–
	1,592.9	1,781.9	2,305.0	2,112.4

(a) RCFs

The £750 million RCF is repayable in full on 29 June 2004 and bears interest at rates between 0.50% and 1.40% per annum above LIBOR, depending on the Group's credit rating. £500.0 million was drawn on this facility at 30 June 2002. The £300 million facility is repayable in full on 29 June 2004 and bears interest at rates between 0.50% and 1.75% per annum above LIBOR, depending on the Group's credit rating. There were no drawings on this facility at 30 June 2002.

For a core £300 million of borrowings under the £750 million RCF, the Group's exposure to LIBOR has been removed via an interest rate swap transaction, which fixes the rate at 6.415% (excluding the margin described above). This arrangement expires in January 2003.

(b) Guaranteed Notes

In July 1999, the Group issued in the US public debt market US$650 million and £100 million 10-year global Regulation S/144A bonds, which are SEC registered. The US$650 million Notes carry a coupon of 8.200% payable semi-annually and are repayable on 15 July 2009. The dollar proceeds were 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.

In February 1999, the Group issued, in the US public debt market, US$600 million of 6.875% Guaranteed Notes repayable on 23 February 2009. The proceeds were swapped into sterling at a fixed rate of 8.200% payable semi-annually.

In October 1996, the Group issued, in the US public debt market, US$300 million of 7.300% Guaranteed Notes repayable on 15 October 2006. The proceeds were swapped into sterling, half of which carries a fixed rate of interest of 8.384% payable semi-annually for the full 10 years, and the remainder of which was fixed at 7.940% per annum for five years until April 2002, thereafter floating at 0.62% above the six month LIBOR rate. A further swap transaction was entered into on 16 January 2002 to fix this remaining exposure for the remainder of the life of the bond, at a rate of 6.130% payable semi-annually.

(c) Amounts due to subsidiary undertakings

In 2001, amounts due to subsidiary undertakings related to an intercompany loan from Sky to the Company. Interest of 1.5% above LIBOR was charged on the balance outstanding from 1 July 1997 to 25 July 2000 on which date Sky waived £1,087.8 million of the loan. From this date the interest rate applicable on the balance was the HSBC base lending rate plus 1.5%. The loan was fully repaid on 12 February 2002.

On 12 February 2002, BSkyB Finance Limited, a subsidiary undertaking, loaned the Company £736.1 million. The loan is interest free and repayable in full on 30 June 2007. This loan was used to repay the loan and accrued interest to Sky.

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20. Creditors: Amounts falling due after more than one year continued

Borrowings outstanding, which exclude finance leases, are repayable as follows:

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Amounts repayable:				
– on demand or within one year	–	–	–	–
– within one to two years	500.0	–	500.0	–
– within two to five years	189.2	690.1	925.3	690.0
– after five years	879.9	1,069.0	879.7	1,422.4
	1,569.1	1,759.1	2,305.0	2,112.4

Obligations under finance leases are repayable as follows:

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Amounts repayable:				
– within one year	1.5	2.1	–	–
– within one to two years	0.4	1.2	–	–
– within two to five years	0.8	0.8	–	–
– after five years	6.6	6.9	–	–
	9.3	11.0	–	–

Obligations under finance leases represent amounts drawn down in connection with the Subscriber Management Centre in Dunfermline and various IT assets. Repayments of £0.8 million (2001: £0.8 million) were made against the Subscriber Management Centre lease and repayments of £2.4 million (2001: £1.0 million) were made against the IT asset leases. A proportion of these payments has been allocated to the capital amount outstanding. The Subscriber Management Centre leases and the IT assets leases bear interest at rates of 8.5% and 0% respectively.

21. Derivatives and other financial instruments

On pages 8 and 9, the Operating and Financial Review provides an explanation of the role that financial instruments have had during the year in the management of the Group's funding, liquidity and foreign exchange rate risks.

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

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 was:

	Fixed	Floating	2002 Total	Fixed	Floating	2001 Total
£m	1,378.2	200.2	1,578.4	1,379.9	390.2	1,770.1
Weighted average interest rate	7.7%	5.4%	7.4%	7.6%	6.3%	7.3%
Weighted average period for which the rate is fixed (years)	5.1	n/a	n/a	5.8	n/a	n/a
Weighted average term (years)	5.5	2.0	5.0	6.5	3.0	5.7

Further details of interest rates on long-term borrowings are given in note 20.

In addition, cash at bank and in hand of £50.3 million (2001: £223.6 million) consists mainly of sterling deposits, in bank accounts or on money markets at call. At 30 June 2002, £0.5 million (2001: £70.0 million) relates to sterling time deposits which expire within 14 days of year end (average interest rate of 3.75%). The remaining sterling cash deposits comprise deposits placed on the money market at three-day rates and in sterling currency accounts.

Currency risks

The table below 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, trade debtors and trade creditors.

	Net foreign currency monetary assets (£m)					
Functional currency of Group operating unit	USD	Euros	2002 Total	USD	Euros	2001 Total
Sterling	1.5	7.4	8.9	4.4	17.0	21.4

As at 30 June 2002 and 30 June 2001, the Group also held open various currency forward contracts that the Group had taken out to hedge expected future foreign currency commitments (see note 25).

Notes to Accounts
continued

21. Derivatives and other financial instruments continued

Liquidity risks
The profile of the Group's financial liabilities, other than short-term creditors, is shown in note 20.
The Group's undrawn committed bank facilities, subject to covenants, were as follows:

	2002 £m	2001 £m
Expiring between one and two years	550.0	–
Expiring in more than two years	–	360.0
Total	**550.0**	360.0

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 2002 and 30 June 2001:

	2002 Book value £m	2002 Fair value £m	2001 Book value £m	2001 Fair value £m
Primary financial instruments held or issued to finance the Group's operations				
Bank borrowings	(500.2)	(500.2)	(690.2)	(690.2)
Quoted bond debt	(1,068.9)	(1,067.8)	(1,068.9)	(1,148.8)
Finance leases	(9.3)	(9.3)	(11.0)	(11.0)
Cash deposits	50.3	50.3	223.6	223.6
Derivative financial instruments held to manage the interest rate and currency profile				
Combined interest and exchange rate swaps	–	60.2	–	91.8
Forward foreign currency contracts	–	(50.3)	–	(1.8)

The fair values of quoted bond debt are based on period-end mid-market quoted prices. The fair values of other borrowings are estimated by discounting the future cash flows to net present value. The fair values of derivative financial instruments are estimated by calculating the difference between the contracted rates and the appropriate market rates prevailing at the period ends.

In addition to the financial instruments in the above fair value table, the Group had holdings in the equity share capital of other listed investments at 30 June 2002 and 30 June 2001. See note 15 for disclosure of their 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 2002 and 30 June 2001. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

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:

	2002 Gains £m	2002 Losses £m	2002 Total net gains (losses) £m	2001 Gains £m	2001 Losses £m	2001 Total net gains (losses) £m
Unrecognised gains and losses at beginning of the year	113.7	(23.7)	90.0	45.3	(21.5)	23.8
Gains and losses arising in previous years that were recognised in the year	(13.1)	4.0	(9.1)	(17.4)	1.1	(16.3)
Gains and losses arising before the start of the year that were not recognised in the year	100.6	(19.7)	80.9	27.9	(20.4)	7.5
Gains and losses arising in the year that were not recognised in the year	(26.8)	(44.2)	(71.0)	85.8	(3.3)	82.5
Unrecognised gains and losses on hedges at the end of the year	73.8	(63.9)	9.9	113.7	(23.7)	90.0
Of which:						
Gains and losses expected to be recognised in the next year	0.1	(37.7)	(37.6)	25.7	(4.0)	21.7
Gains and losses expected to be recognised after the next year	73.7	(26.2)	47.5	88.0	(19.7)	68.3

Notes to Accounts

continued

22. Provisions for liabilities and charges

	Analogue termination provision (a) £m	Transition provision (b) £m	Sky In-Home Service Limited reorganisation provision (c) £m	Sky Interactive reorganisation provision (d) £m	Provision for closure of Sky Pictures (e) £m	Total £m
As at 1 July 2000	30.7	192.9	1.9	–	–	225.5
Charged to profit and loss account	–	–	–	12.1	0.3	12.4
Subsidiary acquired	–	–	–	3.4	–	3.4
Utilised in year	(22.5)	(174.3)	(1.5)	–	–	(198.3)
As at 30 June 2001	**8.2**	**18.6**	**0.4**	**15.5**	**0.3**	**43.0**
Utilised in year	(4.1)	(18.6)	(0.2)	(7.1)	(0.3)	**(30.3)**
Released in year	(4.1)	–	–	–	–	**(4.1)**
Transferred to fixed assets	–	–	–	(4.5)	–	**(4.5)**
As at 30 June 2002	**–**	**–**	**0.2**	**3.9**	**–**	**4.1**

(a) The analogue termination provision principally comprised the cost of early termination of analogue transponder leases and various other costs incurred in terminating the Group's analogue operation. £4.1 million of the provision was utilised during the year (2001: £22.5 million). The remaining £4.1 million of provision was released during the year as an operating exceptional item.

(b) The remaining transition provision utilised during the year of £18.6 million (2001: £174.3 million) is net of £2.2 million (2001: £21.2 million) of installation income received from subscribers. The transition provision comprised the cost of the set-top box, installation costs, Sky Interactive set-top box subsidy costs and various other costs incurred in enabling a subscriber to use the digital service, less any upfront income received from the subscriber.

(c) The remaining Sky In-Home Service Limited reorganisation provision principally comprises the costs of onerous lease contracts and is expected to be utilised by June 2005.

(d) The Sky Interactive reorganisation provision related to costs associated with the reorganisation and consolidation of all interactive and online activities within the division 'Sky Interactive' (see note 4). The remaining provision principally comprises the cost of onerous contracts and is expected to be utilised by June 2009.

(e) The Sky Pictures provision principally comprised the cost of a reduction in headcount.

23. Called-up share capital

	2002 £m	2001 £m
Authorised		
3,000,000,000 Ordinary Shares of 50p	**1,500.0**	1,500.0
Allotted, called-up and fully paid – equity		
Ordinary Shares – 1,893,428,580 (2001: 1,888,793,111) of 50p	**946.7**	944.4

Allotted during the year

	Number
Allotted and fully-paid up at start of year	1,888,793,111
Options exercised under the Executive Share Option Scheme at between £2.560 and £6.385	2,485,046
Options exercised under the Sharesave Scheme at between £2.050 and £4.620	597,298
Options exercised under the LTIP	1,383,750
Shares issued in respect of the acquisition of WAP TV (see note 24)	169,375
Allotted and fully-paid up at end of year	**1,893,428,580**

Movements in share capital in the year ended 30 June 2002 are described in note 24.

Share option schemes

Total options in existence at 30 June 2002 are as follows:

Scheme	Number of Ordinary Shares
Approved and Unapproved Executive Share Options (a)	32,522,881
Sharesave Scheme Options (b)	3,113,822
LTIP Options (c)	6,043,875
KCP (d)	1,165,000
	42,845,578

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23. Called-up share capital continued

(a) Approved and Unapproved Executive Share Options
Options in existence at 30 June 2002 under the Executive Schemes are shown in the table below:

Date of grant	Number of Ordinary Shares	Option price £	Exercisable from
8-Dec-94	180,595	2.560	8-Dec-97
15-May-97	266,078	5.675	15-May-00
10-Jun-97	15,061	5.975	10-Jun-00
18-Aug-97	6,864	4.370	18-Aug-00
18-Aug-97	21,809	4.420	18-Aug-00
14-Nov-97	7,308	4.105	14-Nov-00
14-Nov-97	36,253	4.030	14-Nov-00
4-Feb-98	8,298	3.615	4-Feb-01
1-Dec-98	4,110,819	5.010	1-Dec-01
7-May-99	1,147	0.500	7-May-02
7-May-99	4,589	4.350	7-May-02
12-Aug-99	600,000	5.830	12-Aug-02
18-Oct-99	123,120	0.980	18-Oct-02
29-Oct-99	4,771,902	6.385	29-Oct-02
1-Nov-99	214,231	6.535	1-Nov-02
22-Nov-99	107,775	6.495	22-Nov-02
1-Mar-00	31,222	16.270	1-Mar-03
5-Apr-00	41,517	13.970	5-Apr-03
12-May-00	32,355	12.980	12-May-03
22-May-00	21,842	10.530	22-May-03
23-May-00	126,529	9.800	23-May-03
12-Jun-00	34,993	11.430	12-Jun-03
30-Jun-00	100,931	12.880	30-Jun-03
26-Jul-00	46,077	12.370	26-Jul-03
30-Aug-00	282,446	11.400	30-Aug-03
23-Nov-00	5,886,786	9.900	23-Nov-01
1-Dec-00	4,234,000	9.840	1-Dec-03
4-Jan-01	59,534	10.750	4-Jan-02
26-Feb-01	114,919	9.340	26-Feb-02
6-Mar-01	92,416	9.290	6-Mar-02
14-Mar-01	121,289	8.950	14-Mar-02
21-May-01	74,644	7.190	21-May-02
4-Jun-01	94,480	7.165	4-Jun-02
26-Jul-01	184,815	7.080	26-Jul-02
6-Nov-01	9,672,276	7.940	6-Nov-02
13-Nov-01	26,668	8.360	13-Nov-02
4-Jan-02	88,057	7.890	4-Jan-03
14-Feb-02	12,479	7.005	14-Feb-03
26-Feb-02	20,343	6.850	26-Feb-03
14-May-02	32,689	6.820	14-May-03
5-Jun-02	600,000	7.350	5-Jun-03
28-Jun-02	13,725	6.180	28-Jun-03
	32,522,881		

Further details regarding the Approved and Unapproved Executive Share Options can be found in the Report on Directors' Remuneration on pages 22 to 24.

(b) Sharesave Scheme Options
Options in existence at 30 June 2002 under the Sharesave Scheme are shown in the table below:

Date of grant	Number of Ordinary Shares	Option price £	Exercisable from
8-Dec-94	7,037	2.050	1-Mar-02
25-Oct-95	42,215	3.020	1-Feb-03
2-Nov-96	11,940	4.620	1-Jan-02
2-Nov-96	19,641	4.620	1-Jan-04
27-Oct-97	110,158	3.720	1-Jan-03
27-Oct-97	31,270	3.720	1-Jan-05
28-Sep-98	79,754	3.780	1-Dec-01
28-Sep-98	175,798	3.780	1-Dec-03
28-Sep-98	103,401	3.780	1-Dec-05
18-Oct-99	386,568	4.620	1-Jan-03
18-Oct-99	183,943	4.620	1-Jan-05
18-Oct-99	63,306	4.620	1-Jan-07
3-Oct-00	340,076	9.710	1-Jan-04
3-Oct-00	153,137	9.710	1-Jan-06
3-Oct-00	41,216	9.710	1-Jan-08
28-Sep-01	983,244	6.110	1-Jan-05
28-Sep-01	291,982	6.110	1-Jan-07
28-Sep-01	89,136	6.110	1-Jan-09
	3,113,822		

Further details regarding the Sharesave Scheme can be found in the Report on Directors' Remuneration on pages 22 to 24.

23. Called-up share capital continued

(c) LTIP Options
Options in existence at 30 June 2002 under the LTIP are shown in the table below:

Date of grant	Number of Ordinary Shares	Option price £	Exercisable from
3-Nov-00	1,532,250	10.040	3-Nov-02
3-Nov-00	1,532,250	10.040	3-Nov-03
21-Nov-01	1,489,686	8.300	31-Jul-03
21-Nov-01	1,489,689	8.300	31-Jul-04
	6,043,875		

Further details regarding the LTIP can be found in the Report on Directors' Remuneration on pages 22 to 24.

(d) KCP Options
Options in existence at 30 June 2002 under the KCP are shown in the table below:

Date of grant	Number of Ordinary Shares	Option price £	Exercisable from
21-Nov-01	567,500	8.300	31-Jul-02
21-Nov-01	567,500	8.300	31-Jul-03
4-Mar-02	15,000	7.175	31-Jul-02
4-Mar-02	15,000	7.175	31-Jul-03
	1,165,000		

24. Reconciliation of movement in shareholders' funds

Movement in shareholders' funds notes for both Group and Company include all movements in reserves.

(a) Group

	Share capital £m	Share premium £m	Shares to be issued £m	Merger reserve £m	Profit and loss account £m	Total equity shareholders' funds (deficit) £m
As at 1 July 2000	912.9	2,209.9	–	–	(2,325.9)	796.9
Issue of share capital	31.5	171.2	–	378.1	(9.1)	571.7
Shares to be issued	–	–	256.9	–	–	256.9
Share issue costs	–	(3.5)	–	–	–	(3.5)
Loss for the financial year	–	–	–	–	(538.6)	(538.6)
Net loss on deemed disposals	–	–	–	–	(20.7)	(20.7)
Transfer from merger reserve	–	–	–	(37.3)	37.3	–
Translation differences on foreign currency net investment	–	–	–	–	(2.1)	(2.1)
As at 1 July 2001	**944.4**	**2,377.6**	**256.9**	**340.8**	**(2,859.1)**	**1,060.6**
Issue of share capital	2.3	34.0	(1.1)	–	(13.5)	21.7
Share issue costs	–	(1.8)	–	–	–	(1.8)
Loss for the financial year	–	–	–	–	(1,382.6)	(1,382.6)
Transfer from merger reserve	–	–	–	(74.1)	74.1	–
Translation differences on foreign currency net investment	–	–	–	–	1.4	1.4
As at 30 June 2002	**946.7**	**2,409.8**	**255.8**	**266.7**	**(4,179.7)**	**(300.7)**

As at 30 June 2002, the cumulative goodwill written off directly to reserves amounted to £523.8 million (2001: £523.8 million).

During the year the Company issued shares with a market value of £35.2 million (2001: £15.6 million) in respect of the exercise of options awarded under various share option plans, with £14.3 million (2001: £6.5 million) received from employees.

2002
In June 2002, the Company issued 169,375 new BSkyB Ordinary Shares, which were used to satisfy part of the contingent consideration in respect of the acquisition of the remaining 5% minority interest in WAP TV Limited in May 2001. A further 338,755 new BSkyB Ordinary Shares are expected to be issued in September 2003 to satisfy the remaining contingent consideration.

During 2002, £35.6 million relating to the amortisation of BiB goodwill and £38.5 million relating to the amortisation of SIG goodwill was transferred from the Group merger reserve to the Group profit and loss account reserve.

2001
During 2001, a Group merger reserve was created in relation to 21.6 million shares issued during the period as consideration for the acquisition of 100% of SIG and in relation to 19.1 million shares issued during the period as part consideration for the acquisition of the remaining 19.9% of BiB.

In May and June 2001, the Company issued a total of 39,674,765 shares with a total value of £290.9 million, which were used as consideration in respect of the acquisition of the remaining 67.5% interest in BiB. A further £253.2 million of deferred consideration may be issued as shares or loan notes and is included in shareholders' funds within shares to be issued.

In May 2001, the Company issued 169,375 shares which were used as consideration in respect of the acquisition of the remaining 5% minority interest in WAP TV Limited. A further 169,375 and 338,755 new BSkyB Ordinary Shares comprised the contingent consideration of £3.7 million, to be issued on 30 June 2002 and 30 September 2003 respectively.

24. Reconciliation of movement in shareholders' funds continued

(b) Company

	Share capital £m	Share premium £m	Shares to be issued £m	Capital reserve £m	Profit and loss account £m	Total equity shareholders' funds £m
As at 1 July 2000	912.9	2,209.9	–	843.9	539.5	4,506.2
Issue of share capital	31.5	171.2	–	–	–	202.7
Shares to be issued	–	–	256.9	–	–	256.9
Share issue costs	–	(3.5)	–	–	–	(3.5)
Loss for the financial year	–	–	–	–	(375.5)	(375.5)
As at 1 July 2001	**944.4**	**2,377.6**	**256.9**	**843.9**	**164.0**	**4,586.8**
Issue of share capital	2.3	34.0	(1.1)	–	–	35.2
Share issue costs	–	(1.8)	–	–	–	(1.8)
Loss for the financial year	–	–	–	–	(1,340.0)	(1,340.0)
As at 30 June 2002	**946.7**	**2,409.8**	**255.8**	**843.9**	**(1,176.0)**	**3,280.2**

The Company has no distributable reserves (2001: £164.0 million).

25. Guarantees, contingencies and other financial commitments

a) Future expenditure

	Group 2002 £m	Group 2001 £m	**Company 2002 £m**	Company 2001 £m
Contracted for but not provided for in the accounts				
– set-top boxes and related equipment	**126.9**	110.0	**–**	–
– television programme rights (i)	**2,165.6**	2,839.1	**–**	–
– capital expenditure	**5.9**	17.3	**–**	–
	2,298.4	2,966.4	**–**	–

(i) Of the commitments for television programme rights, some £1,005 million (2001: £1,147 million) relates to commitments which are payable in US dollars and are for periods of up to seven years. At 30 June 2002 the US dollar commitments have been translated at the year end rate of US$1.5347:£1 (2001: US$1.4041:£1), except for US$585 million (2001: US$462m) covered by forward rate contracts or other hedging instruments, where the average forward or hedged rate of US$1.3856:£1 (2001: US$1.4281:£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 2002 levels, the commitment in respect of subscriber escalation would be some £251 million (US$386 million) (2001: £377 million (US$529 million)), and would be in addition to the figures shown above. Certain contracts may be extended at the licensor's option depending on subscriber levels to the relevant movie channel.

At 30 June 2002, the Group had outstanding forward rate contract commitments to purchase in aggregate US$920 million (2001: US$885 million) at an average rate of US$1.3856:£1 (2001: US$1.4281:£1).

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, National Geographic Channel UK.

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

c) Guarantees
Two of the Group's subsidiary undertakings, British Sky Broadcasting Limited and Sky Subscribers Services Limited, have given joint and several guarantees in respect of the Company's obligations under £300 million and £750 million revolving credit facilities and the $650 million, $600 million, $300 million and £100 million Guaranteed Notes (see note 20).

d) Contingent consideration
BiB
A further 67.5% of the issued share capital of BiB was acquired on 9 May 2001 and 28 June 2001, increasing the Group's interest to 100%. If the valuation of BiB, based on agreed criteria, is £3 billion or greater, either at January 2003 or July 2003, an estimated further £75 million, £56 million and £122 million will be payable to HSBC, Matsushita and BT respectively through the issue of new BSkyB Ordinary Shares or loan notes. Due to the degree of uncertainty, these amounts have not been recognised.

WAP TV
On 29 May 2001 the Group acquired the 5% minority interest in WAP TV Limited for a total consideration of £5.0 million. The consideration comprised 169,375 new BSkyB Ordinary Shares issued on 29 May 2001, contingent consideration which was satisfied by the issue of a further 169,375 new BSkyB Ordinary Shares on 30 June 2002, and contingent consideration which will be satisfied by the issue of 338,755 new BSkyB Ordinary Shares on 30 September 2003. The contingent consideration is contingent upon the vendors remaining continuously in the employment of a member of the Group from completion until the date the deferred consideration is due. The remaining contingent consideration has been recognised as it is considered probable that these criteria will be fulfilled.

25. Guarantees, contingencies and other financial commitments continued

e) Lease and similar commitments

	Group property £m	Group transponder computer and technical equipment £m	Group total £m	Company property £m
The minimum annual rentals under these arrangements are as follows:				
30 June 2002				
Operating leases and similar arrangements which expire:				
– within one year	**0.8**	**0.5**	**1.3**	**–**
– within two to five years	**0.9**	**14.6**	**15.5**	**–**
– after five years	**9.2**	**43.1**	**52.3**	**1.0**
	10.9	**58.2**	**69.1**	**1.0**
30 June 2001				
Operating leases and similar arrangements which expire:				
– within one year	0.3	4.7	5.0	–
– within two to five years	2.5	3.8	6.3	–
– after five years	8.6	66.5	75.1	1.0
	11.4	75.0	86.4	1.0

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 and Eutelsat satellites.

At 30 June 2002, the Group had no forward rate contracts to purchase Euros. At 30 June 2001 the Group had forward rate contracts to purchase Euros 43 million, covering certain commitments in relation to transponder rental costs, at average rates of Euros 1.6175: £1.

26. Regulatory update

Office of Fair Trading (“OFT”)

The OFT announced its current investigation of the Group on 11 January 2000. The investigation initially commenced under the Fair Trading Act 1973.

On 5 December 2000, the OFT indicated that it wished to continue its inquiry under the Competition Act, and on 17 December 2001, the OFT announced that it had issued a Rule 14 Notice to the Group and proposed to make a decision that the Group had behaved anti-competitively, infringing UK competition law. The Group maintained that it had not infringed the Competition Act and welcomed the opportunity to put its case to the OFT.

On 18 January 2002, the Group informed the cable companies and ITV Digital that it was modifying its wholesale prices for its premium channels to be consistent with the OFT’s new position on wholesale pricing set out in its Rule 14 Notice. The modifications addressed, but in no way implied acceptance of, the allegations made by the OFT against the Group in its Rule 14 Notice. The effect of these new prices was expected to be broadly neutral on the Group’s wholesale revenue.

In April and May 2002, the Group submitted written and oral representations to the OFT on its Rule 14 Notice and is now waiting for the OFT to respond. Latest indications from the OFT are that no response is likely to be forthcoming before late summer 2002. An adverse decision would be appealable to the Competition Commission Appeal Tribunal.*

EC investigation

The European Commission is in the preliminary stages of an investigation into certain agreements, decisions or practices leading to the acquisition of broadcasting rights to football events within the EEA, including the sale of exclusive broadcast rights to Premier League football by The Football Association Premier League Limited (“FAPL”). It is too early to assess whether the investigation will have any impact on the Group’s current agreements for FAPL rights, which were notified to the European Commission on 21 June 2002 seeking either a clearance or exemption from Article 81 of the EC Treaty. The FAPL has also notified the rules of the FAPL.*

*Where a company infringes the Competition Act 1998 through abusing a dominant position it may be fined up to 10% of its total UK turnover for each year it is found to be in breach, up to a maximum of three years. If a company infringes Article 81 of the EC Treaty, it may be fined up to 10% of total annual group worldwide turnover. In addition, third parties may be entitled to seek damages where they have suffered loss as a result of an infringement of UK or EC competition law.

27. 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"), Broadsystems Ventures Limited ("BVL"), Fox Kids Europe Limited (acquired by Walt Disney Corporation in October 2001), STAR Television Group ("STAR") and Asia Today Limited (formerly Zee TV Limited) with which the Group has significant contracts.

20th Century Fox supplied programming with a total value of £55.9 million in the year (2001: £44.8 million), the majority of which is supplied under arrangements extending 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 £44.5 million in the year (2001: £46.1 million) under a contract extending to September 2004. The Group also has a number of contracts with NDS for the supply of digital equipment of which £5.1 million (2001: nil) was paid during the year.

BVL supplied telephony services with a value of £2.0 million during the year (2001: £2.2 million). The Group also earned £1.0 million (2001: nil) from BVL in respect of telephony services.

The Group purchased sports rights from subsidiaries of the News Corporation Group for £3.4 million during the year (2001: £3.0 million).

During the year £2.2 million (2001: £2.4 million) was earned from Fox Kids Europe Limited and Asia Today Limited for the provision of transponder capacity and subscriber and support services respectively. Carriage fees of £10.0 million (2001: £9.3 million) were paid for the supply of Fox Kids, a children's television channel, pursuant to an agreement with Fox Kids Europe Properties SARL and Fox Kids Europe Limited.

During the year £0.9 million (2001: £0.4 million) was earned from STAR for the provision of transponder capacity, and carriage fees of £1.2 million (2001: £0.3 million) were paid to STAR for the supply of programming.

Certain other related party transactions are entered into with shareholders, also in the normal course of business. These include the purchase of advertising in media owned by shareholders of £4.9 million (2001: £5.8 million), digital transponder and uplink revenues received totalling £0.4 million (2001: £0.2 million), programming in related fees received of £0.2 million (2001: £0.9 million), rent paid on premises of £0.4 million (2001: £0.4 million) and £1.1 million (2001: £1.8 million) earned by the Group for the sale of airtime to shareholders.

Balances payable to members of The News Corporation Group, a major shareholder, analysed by activity:

	2002 £m	2001 £m
Programming	18.2	10.8
Encryption services	2.2	5.8
Other	–	1.7
	20.4	18.3

Balances receivable from members of The News Corporation Group, a major shareholder, analysed by activity:

	2002 £m	2001 £m
Transponders	0.4	0.9
Other	0.6	1.0
	1.0	1.9

b) Transactions with joint ventures

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

	2002 £m	2001 £m
Revenue	23.0	25.9
Operating costs	53.9	43.4

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

	2002 £m	2001 £m
Funding to joint ventures (see note 14)	224.7	217.9
Amounts owed by joint ventures (see note 17)	15.2	11.2

c) Other transactions with related parties

Elisabeth Murdoch is the daughter of a Director of the Company, Rupert Murdoch, and owns 64% of the ordinary share capital of Shine Entertainment Limited. During 2001, the Group acquired 3,400 Ordinary Shares in Shine Entertainment Limited at an initial cost of £0.5 million as part of a production agreement to 31 December 2003. The Group also has an option over a further 3,400 Ordinary Shares if the production agreement is extended for a further two years. During the year the Group incurred development and production costs for television of £1.3 million (2001: £0.3 million). As at 30 June 2002 there were no outstanding amounts due to or from Shine Entertainment Limited.

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28. Notes to consolidated cash flow statement

(a) Reconciliation of operating profit (loss) to operating cash flows

	Before goodwill and exceptional items £m	Goodwill and exceptional items £m	2002 Total £m	Before goodwill and exceptional items £m	Goodwill and exceptional items £m	2001 Total £m
Operating profit (loss)	191.5	(136.5)	55.0	160.2	(67.4)	92.8
Depreciation (see note 13)	81.1	–	81.1	64.1	7.0	71.1
Amortisation of goodwill and other intangible fixed assets (see note 12)	0.1	118.3	118.4	–	44.3	44.3
Amortisation of government grants	(0.1)	–	(0.1)	(0.1)	–	(0.1)
Deferred revenue released	(0.7)	–	(0.7)	(4.2)	–	(4.2)
Decrease (increase) in stock	9.9	–	9.9	(43.1)	–	(43.1)
Decrease (increase) in debtors	77.9	22.3	100.2	(23.4)	–	(23.4)
(Decrease) increase in creditors	(79.7)	–	(79.7)	64.1	–	64.1
Provision (utilised) provided, net	(0.3)	(34.1)	(34.4)	0.3	(162.9)	(162.6)
Net cash inflow (outflow) from operating activities	279.7	(30.0)	249.7	217.9	(179.0)	38.9

b) Analysis of changes in net debt

	As at 1 July 2001 £m	Cash flow £m	As at 30 June 2002 £m
Overnight deposits	91.9	(53.2)	38.7
Other cash	61.7	(50.6)	11.1
	153.6	(103.8)	49.8
Short-term deposits	70.0	(69.5)	0.5
Cash at bank and in hand	223.6	(173.3)	50.3
Debt due after more than one year	(1,759.1)	190.0	(1,569.1)
Finance leases	(11.0)	1.7	(9.3)
Total debt	(1,770.1)	191.7	(1,578.4)
Total net debt	(1,546.5)	18.4	(1,528.1)

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

	Note	2002 £m	2001 £m
(Decrease) increase in cash		(103.8)	41.1
Decrease in short-term deposits		(69.5)	(85.0)
Cash outflow (inflow) resulting from decrease (increase) in debt and lease financing		191.7	(357.6)
Decrease (increase) in net debt		18.4	(401.5)
Net debt at beginning of year		(1,546.5)	(1,145.0)
Net debt at end of year	27b	(1,528.1)	(1,546.5)

d) Major non-cash transactions

2002
Impairment of investment in KirchPayTV
Effective 31 December 2001, the Group wrote down the carrying value of its investment in KirchPayTV to nil (see note 14). The write-down resulted in a net non-cash exceptional charge to the profit and loss account of £971.4 million.

2001
Acquisition of 67.5% of BiB
During 2001, the Group acquired a further 67.5% of BiB, 47.6% on 9 May 2001 and 19.9% on 28 June 2001, increasing the Group's interest to 100%. The consideration was satisfied by the issue to HSBC, Matsushita and BT of 39,674,765 new BSkyB shares, with a fair value of £290.9 million and deferred consideration of new BSkyB shares or loan notes, with a fair value of £253.2 million, payable 18 months after the date of acquisition.

Acquisition of 100% of SIG
In July 2000, the Group acquired 100% of SIG. The consideration was satisfied by the issue to SIG shareholders of 21,633,099 new BSkyB shares, with a fair value of £267.3 million.

Acquisition of 5% of WAP TV
In May 2001, the Group acquired the remaining 5% minority interest in WAP TV. The consideration was satisfied by the issue of 169,375 new BSkyB shares, with a fair value of £1.3 million and contingent consideration of 508,130 new BSkyB shares with a fair value of £3.7 million.

Notes to Accounts

continued

29. Financing arrangements

At 30 June 2002 the Group's balance sheet showed net liabilities of £300.7 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.

30. 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
Subsidiaries: 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%)	Holding company
Sports Internet Group Limited	England and Wales	38,247,184 Ordinary Shares of 5p each (100%)	Providing sports content, statistics, gaming and e-commerce services
British Interactive Broadcasting Holdings Limited (i)	England and Wales	651,960 Ordinary Shares of £1 each (100%)	The transmission of interactive services
Subsidiaries: 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
Sky New Media Ventures plc	England and Wales	12,500 Ordinary Shares of £1 each (100%)	Holding company for new media investments
Joint ventures: Indirect holdings			
Nickelodeon UK	England and Wales	104 B Shares of £0.01 each (50%)	The transmission of children's television services
The History Channel (UK)	England and Wales	50,000 A Shares of £1 each (50%)	The transmission of history and biography television services
Paramount UK (ii)	England and Wales	Partnership interest (25%)	The transmission of a general entertainment comedy 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 (iii)	England and Wales	800 B Shares of £1 each (80%)	The transmission of general entertainment channels
MUTV	England and Wales	100 B Shares of £1 each (33.33%)	The transmission of Manchester United football channel
National Geographic Channel (iv)	England and Wales	Partnership interest (50%)	The transmission of a natural history channel
Music Choice Europe plc	England and Wales	44,001,120 A Shares of £1 each (35.95%)	The transmission of audio music channels
Attheraces plc	England and Wales	1,000 Ordinary Shares of £1 each (33.33%)	The transmission of a horse racing service and related on-line activities

Notes

(i) 80.1% directly held by British Sky Broadcasting Group plc and 19.9% held by British Sky Broadcasting Limited.

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

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

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

Five Year Summary

Consolidated results	2002 £m	2001 £m	2000 £m	1999 £m	1998 £m
DTH subscriber revenues	**1,929**	1,537	1,189	979	968
Cable and DTT subscriber revenues	**279**	299	303	253	228
Advertising revenues	**251**	271	242	217	195
Interactive revenues	**186**	93	5	–	–
Other revenues	**131**	106	108	96	43
Turnover	**2,776**	2,306	1,847	1,545	1,434
Operating expenses, net	**(2,584)**	(2,146)	(1,762)	(1,360)	(1,093)
Goodwill amortisation and exceptional operating items	**(137)**	(67)	(105)	(456)	–
Operating profit (loss)	**55**	93	(20)	(271)	341
Share of operating results of joint ventures	**(76)**	(256)	(122)	(58)	(17)
Joint ventures' goodwill amortisation	**(1,070)**	(101)	(14)	–	–
Profit (loss) on sale of fixed asset investment	**2**	–	(1)	–	–
Share of joint venture's loss on sale of fixed asset investment	**–**	(70)	(14)	–	–
Amounts written off fixed asset investments	**(60)**	(39)	–	–	–
Release of provision (provision) for loss on disposal of subsidiary	**10**	(10)	–	–	–
Net interest payable	**(137)**	(132)	(92)	(60)	(53)
(Loss) profit on ordinary activities before taxation	**(1,276)**	(515)	(263)	(389)	271
Tax on (loss) profit on ordinary activities (i)	**(107)**	(24)	65	103	(91)
(Loss) profit on ordinary activities after taxation	**(1,383)**	(539)	(198)	(286)	180
Statistics					
(Loss) earnings per share (i)	**(73.3p)**	(29.2p)	(11.3p)	(16.6p)	10.5p
Dividend per share					
– interim	**–**	–	–	2.75p	2.75p
– final	**–**	–	–	–	3.25p
Capital expenditure (£m)	**101**	133	58	76	82
Direct-to-home subscribers ('000)	**6,101**	5,453	4,513	3,460	3,547
Cable subscribers ('000) (ii)	**4,091**	3,486	3,735	3,778	3,352
DTT subscribers ('000)	**–**	1,105	740	204	–
Total subscribers ('000) (ii)	**10,192**	10,044	8,988	7,442	6,899
Average number of full-time equivalent employees	**9,083**	9,948	10,730	8,271	4,634
Capital employed	**£m**	£m	£m	£m	£m
Fixed assets	**1,129**	2,411	1,886	343	219
Working capital	**(17)**	15	32	2	76
Provisions, tax and dividends (i)	**115**	182	24	(228)	–
Net debt	**(1,528)**	(1,547)	(1,145)	(665)	(518)
Net (liabilities) assets	**(301)**	1,061	797	(548)	(223)

i) The taxation (charge) credit for 2000, 1999 and 1998 was restated following the adoption by the Group of FRS 19, Deferred tax in the year ended 30 June 2001. Adoption of FRS 19 resulted in the recalculation of (loss) earnings per share for 2000, 1999 and 1998.

ii) The cable subscribers disclosure for 2000, 1999 and 1998 was restated in the year ended 30 June 2001 to include Eire subscribers.

Shareholders' Service

Share price information

The Company's share price is broadcast on SkyText on the Sky News channel on page 116, BBC Ceefax page 221 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 0906 843 4816.

Share dealing service

The Company has arranged with NatWest stockbrokers to provide shareholders with a single, low cost method of buying and selling its shares. To take advantage of this service, call 0870 6002050.

Shares online

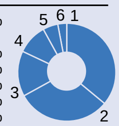
Shareholders can also access their shareholdings online and find a range of other services at the Lloyds TSB Registrars Shareholder website, www.shareview.co.uk.

Shareholder enquiries

All administrative enquiries relating to shareholders, 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 next page.

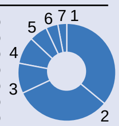
Breakdown of shareholders
as at 30 June 2002
By type

1	BSkyB Holdco, Inc.	36%
2	Fund management groups	31%
3	Other	15%
4	Insurance companies	10%
5	Miscellaneous banks	5%
6	Pension funds	3%



Breakdown of shareholders
as at 30 June 2002
By location

1	BSkyB Holdco, Inc.	36%
2	London	32%
3	Other	10%
4	USA & Canada	9%
5	Continental Europe	6%
6	Scotland	4%
7	Rest of UK and Eire	3%



British Sky Broadcasting Group plc
Grant Way, Isleworth,
Middlesex TW7 5QD, England
Telephone +44 (0)870 240 3000
Facsimile +44 (0)870 240 3060
www.sky.com
Registered in England No. 2247735