MASTER (12)

DRAFT: September 28, 2001 — U44397

When submitting changes please consider the following:—

- *Mark comments on the most recent version of the document.*
- *Avoid use of soft lead pencils, felt tipped pens or highlighters.*
- *Indicate minor changes with an "X" in the margin.*
- *Do not write on the reverse of a page.*
- *Avoid the use of scotch tape/sellotape and staples whenever possible.*
- *Indicate all Global Searches or Global Search and Replaces on a separate sheet at the front of the mark-up indicating specifically the search criteria (i.e. all lower case, initial caps only, etc.)*

CONFIDENTIAL

Please read carefully and tick the appropriate box:

☐ Do not blackline any corrections
☐ Blackline only the corrections made during the present cycle, keeping in file the previous blacklines
☐ Cumulative blacklining
☐ Blackline only the corrections made during the present cycle, and delete definitively the previous blacklines

Proofreaders' margin marks:

Take out character	
Insert space	#
Lower case	l.c.
Capitals	Caps
Italic	ital
Let it stand	STET
Start paragraph	¶
Insert period	⊙
Insert comma	^,

BOWNE

Bowne of London. 60, Queen Victoria Street, London EC4N 4TR. TEL: (0)20 7551-5000 FAX: (0)20 7551-5151

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended June 30, 2001

OR

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

For the transition period from ________ to ________

Commission file number: 1-13488

British Sky Broadcasting Group plc

(Exact name of Registrant as specified in its charter)

England & Wales

(Jurisdiction of incorporation or organization)

Grant Way, Isleworth, Middlesex, TW7 5QD, England

(Address of principal executive offices)

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

Title of each Class	Name of each exchange on which registered
Ordinary Shares (nominal value 50p per Share)	New York Stock Exchange[1]
American Depositary Shares, each of which represents six Ordinary Shares of British Sky Broadcasting Group plc (nominal value 50p per Share)	New York Stock Exchange

(1) The listing of Registrant's Ordinary Shares on the New York Stock Exchange is for technical purposes only and without trading privileges.

Securities registered or to be registered pursuant to Section 12(g) of the Act: NONE

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

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

Ordinary Shares (nominal value 50p per Share) 1,888,793,111

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

Yes ☒ No ☐

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

Item 17 ☐ Item 18 ☒

TABLE OF CONTENTS

		Page
PART I		
ITEM 1:	IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS	4
ITEM 2:	OFFER STATISTICS AND EXPECTED TIMETABLE	4
ITEM 3:	KEY INFORMATION	4
ITEM 4:	INFORMATION ON THE COMPANY	8
ITEM 5:	OPERATING AND FINANCIAL REVIEW AND PROSPECTS	35
ITEM 6:	DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES	48
ITEM 7:	MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	58
ITEM 8:	FINANCIAL INFORMATION	61
ITEM 9:	THE OFFER AND LISTING	61
ITEM 10:	ADDITIONAL INFORMATION	62
ITEM 11:	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	74
ITEM 12:	DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES	77
PART II		
ITEM 13:	DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES	78
ITEM 14:	MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS	78
ITEM 15:	RESERVED	78
ITEM 16:	RESERVED	78
PART III		
ITEM 17:	FINANCIAL STATEMENTS	78
ITEM 18:	FINANCIAL STATEMENTS	78
ITEM 19:	EXHIBITS	79

CERTAIN FORWARD LOOKING STATEMENTS

This Annual Report on Form 20-F contains certain forward looking statements. These forward looking statements are not historical facts, but rather are based on our current expectations, estimates and projections about our industry, our beliefs and assumptions.

Words such as ''anticipates'', ''expects'', ''intends'', ''plans'', ''believes'', ''seeks'', ''estimates'' and similar expressions are intended to identify forward looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements.

We operate in a competitive environment, and a number of factors could affect our ability to achieve our goals, including, but not limited to, the effects of government regulation upon our activities; our ability to continue to obtain exclusive rights to movies, sports events and other programming content; the risks associated with our introduction and operation of digital television transmission in the U.K. as well as our U.S. dollar / pound sterling exchange rate exposure.

These risks and uncertainties are described in Item 3 ''Key Information — Risk Factors'', Item 4 ''Information on the Company'', Item 5 ''Operating and Financial Review and Prospects'' and elsewhere in this Annual Report on Form 20-F. We caution you not to place undue reliance on these forward looking statements, which reflect our management's view only as of the date of this prospectus. The forward looking statements made in this Annual Report on Form 20-F relate only to events as of the date on which the statements are made.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

ITEM 3. KEY INFORMATION

SELECTED FINANCIAL DATA

Set forth below is selected financial data for the Company for each of the years in the five year period ended June 30, 2001 and as at June 30, 1997, 1998, 1999, 2000 and 2001.

The selected financial data for the Company presented in accordance with U.K. GAAP, for each of the years in the five year period ended June 30, 2001 and as at June 30, 1997, 1998, 1999, 2000 and 2001 has been excerpted or derived from the Consolidated Financial Statements of the Company, and notes thereto, included elsewhere herein, which have been audited by Arthur Andersen, and should be read in conjunction therewith.

The Consolidated Financial Statements have been prepared in accordance with U.K. GAAP, which differs in certain significant respects from U.S. GAAP. See Note 28 of Notes to Consolidated Financial Statements for a discussion of the principal differences between U.K. and U.S. GAAP. These tables should be read in conjunction with the accompanying notes.

	Year Ended June 30,							
	1997(5)	1998(5)	1999(5)	2000(5)	2001			2001(1)
	As restated	As restated	As restated	As restated	Before goodwill and exceptional items	Goodwill and exceptional items	Total	Total
	(in millions except per share data)							
Profit and Loss Account: Amounts in accordance with U.K. GAAP								
Direct-to-home subscriber revenues	£ 861	£ 968	£ 979	£1,189	**£1,537**	**—**	**£ 1,537**	**$ 2,158**
Cable revenues	191	228	253	303	**299**	**—**	**299**	**419**
Advertising revenues	150	195	217	242	**271**	**—**	**271**	**381**
Interactive revenues	—	—	—	5	**93**	**—**	**93**	**131**
Other revenues	47	43	96	108	**106**	**—**	**106**	**149**
Total revenues	1,249	1,434	1,545	1,847	**2,306**	**—**	**2,306**	**3,238**
Operating expenses, net	(875)	(1,093)	(1,360)	(1,762)	**(2,146)**	**—**	**(2,146)**	**(3,013)**
Goodwill amortization	—	—	—	—	**—**	**(44)**	**(44)**	**(62)**
Reorganization of Sky Interactive	—	—	—	—	**—**	**(23)**	**(23)**	**(32)**
Cost of abortive Man Utd bid	—	—	(6)	—	**—**	**—**	**—**	**—**
Transition provision	—	—	(450)	(58)	**—**	**—**	**—**	**—**
Analog termination provision	—	—	—	(41)	**—**	**—**	**—**	**—**
SHS reorganization provision	—	—	—	(6)	**—**	**—**	**—**	**—**
Operating expenses, net	(875)	(1,093)	(1,816)	(1,867)	**(2,146)**	**(67)**	**(2,213)**	**(3,107)**
Operating profit (loss)	374	341	(271)	(20)	**160**	**(67)**	**93**	**131**
Share of operating results of joint ventures	(10)	(17)	(58)	(122)	**(239)**	**(17)**	**(256)**	**(359)**
Joint ventures' goodwill amortization	—	—	—	(14)	**—**	**(101)**	**(101)**	**(142)**

	1997[5] As restated	1998[5] As restated	1999[5] As restated	2000[5] As restated	2001 Before goodwill and exceptional items	2001 Goodwill and exceptional items	2001 Total	2001[1] Total
				(in millions except per share data)				
Loss on sale of fixed asset investment	—	—	—	(1)	**—**	**—**	**—**	**—**
Share of joint venture's loss on sale of fixed asset investment	—	—	—	(14)	**—**	**(70)**	**(70)**	**(98)**
Amounts written off fixed asset investments	—	—	—	—	**—**	**(39)**	**(39)**	**(55)**
Provision for loss on disposal of subsidiary	—	—	—	—	**—**	**(10)**	**(10)**	**(14)**
Interest receivable and similar income	2	3	4	11	**18**	**—**	**18**	**25**
Interest payable and similar charges	(52)	(56)	(59)	(103)	**(153)**	**—**	**(153)**	**(215)**
Exceptional finance (charges) credits	—	—	(5)	—	**—**	**3**	**3**	**4**
Profit (loss) on ordinary activities before taxation	314	271	(389)	(263)	**(214)**	**(301)**	**(515)**	**(723)**
Taxation (charge) credit	(108)	(91)	103	65	**(23)**	**(1)**	**(24)**	**(34)**
Profit (loss) on ordinary activities after taxation and before dividends	206	180	(286)	(198)	**(237)**	**(302)**	**(539)**	**(757)**
Dividends[2]	(103)	(103)	(47)	—			**—**	**—**
Transfer to (from) reserves	103	77	(333)	(198)			**(539)**	**(757)**
Earnings (loss) per Share[3]	12.0p	10.5p	(16.6p)	(11.3p)	**(12.9p)**	**(16.3p)**	**(29.2p)**	**(41.0¢)**
Dividends per Share[2]	6.0p	6.0p	2.8p	—	**—**	**—**	**—**	**—**
Dividends per Share[2] (U.S. dollars at date of payment)	10.0¢	10.0¢	4.5¢	—	**—**	**—**	**—**	**—**

	1997	1998	1999	2000[6] As restated	2001	2001[1]
			(in millions except per share data)			
Amounts in accordance with U.S. GAAP						
Total revenues	£ 1,249	£ 1,434	£ 1,545	£ 1,799	**£ 2,263**	**$ 3,177**
Operating income (loss)	356	320	118	(247)	**(176)**	**(246)**
Income (loss) before income tax	294	259	2	(473)	**(660)**	**(927)**
Net income (loss)	311	173	(14)	(351)	**(625)**	**(878)**
Basic and diluted earnings (loss) per Share[3]	18.1p	10.0p	(0.8p)	(20.1p)	**(33.8p)**	**(47.5¢)**
Earnings (loss) per ADS[3]	108.6p	60.0p	(4.8p)	(120.6p)	**(202.8p)**	**(285.0¢)**

	1997[5] As restated	1998[5] As restated	1999[5] As restated	2000[5] As restated	2001	2001[1]
			(in millions)			
Balance Sheet:						
Amounts in accordance with U.K. GAAP						
Total assets	£ 906	£ 925	£ 1,187	£ 3,280	**£ 3,877**	**$ 5,443**
Long-term debt	(676)	(583)	(715)	(1,412)	**(1,768)**	**(2,482)**
Total liabilities	(1,181)	(1,148)	(1,735)	(2,483)	**(2,816)**	**(3,954)**
Net (liabilities) assets	(275)	(223)	(548)	797	**1,061**	**1,489**
Shareholders' (deficit) funds	(275)	(223)	(548)	797	**1,061**	**1,489**
Ratio of earnings to fixed charges[4]	7.23	6.08	—	—	**—**	**—**

	As at June 30,					
	1997	1998	1999	2000[6] As restated	2001	2001[1]
	(in millions)					
Amounts in accordance with U.S. GAAP						
Total assets	1,235	1,291	1,428	3,060	**4,209**	**5,910**
Long-term debt	(676)	(583)	(715)	(1,412)	**(1,768)**	**(2,482)**
Total liabilities	(1,111)	(1,078)	(1,327)	(2,379)	**(3,359)**	**(4,717)**
Net assets	124	213	101	681	**850**	**1,193**
Shareholders' funds	124	213	101	681	**850**	**1,193**
Ratio of earnings to fixed charges[4]	6.67	6.83	2.00	—	**—**	**—**

	As at June 30,		
	1999	2000	2001
	(in thousands)		
Operating Data:			
Direct-to-home subscribers	3,460	4,513	**5,453**
Cable subscribers	3,778	3,735	**3,486**
DTT subscribers	204	740	**1,105**
Total subscribers	7,442	8,988	**10,044**

(1) Solely for convenience, pounds sterling amounts for the year ended June 30, 2001 and as at that date have been translated into U.S. dollars at the noon buying rate on June 29, 2001 of U.S.$1.4041 per £1.00.

(2) An interim dividend of £47.2 million, representing 2.75p per Share and a final dividend of £55.7 million, representing 3.25p per Share, was paid for fiscal 1997. An interim dividend of £47.2 million, representing 2.75p per Share, and a final dividend of £55.9 million, representing 3.25p per Share, was paid for fiscal 1998. An interim dividend of £47.3 million, representing 2.75p per Share was paid for fiscal 1999. No final dividend was paid for fiscal 1999. No interim or final dividends have been paid or proposed for fiscal 2000 or 2001.

(3) Earnings (loss) per ADS has been calculated for each period using the weighted average number of ADRs outstanding on the basis of 1 ADR representing 6 Ordinary Shares.

(4) The ratios of earnings to fixed charges, which have been derived from the consolidated financial statements of the Company for the relevant period, are computed by aggregating (a) income from continuing operations before taxes on income and (b) fixed charges, and dividing the total by fixed charges.

After exceptional items under U.K. GAAP, for the year ended June 30, 2001, the deficiency of earnings coverage was £230.9 million ($324.2 million) (2000: £133.1 million ($186.9 million); 1999: £330.3 million ($550.9 million). After exceptional items, under U.S. GAAP, for the year ended June 30, 2001, the deficiency of earnings coverage was £376.0 million ($527.9 million) (2000: £348.4 million ($489.2 million); 1999: no deficiency).

(5) Financial information has been restated following the adoption of FRS 19, deferred taxation.

(6) Financial information has been restated following the adoption of SAB 101, see Item 19 — Note 28.

Exchange Rates

A significant portion of our liabilities and expenses associated with the cost of programming acquired from U.S. film licensors is denominated in U.S. dollars. For a discussion of the impact of exchange rate movements on our financial condition and results of operations, see Item 5. ''Operating and Financial Review and Prospects''.

Since any dividends that may be declared by us will be declared in pounds sterling, exchange rate fluctuations will affect the U.S. dollar equivalent of cash dividends received by holders of ADSs.

The following table sets forth, for the periods indicated, certain information concerning the noon buying rates in New York City for pounds sterling expressed in U.S. dollars per £1.00.

Month	High	Low
March 2001	1,4701	1.4212
April 2001	1.4441	1.4215
May 2001	1.4359	1.4150
June 2001	1.4161	1.3747
July 2001	1.4313	1.3987
August 2001	1.4600	1.4152

Year Ended June 30,	Average[(1)]
1997	1.6165
1998	1.6457
1999	1.6421
2000	1.5919
2001	**1.4509**

(1) The average rate is calculated by using the average of the noon buying rates on the last day of each month during the relevant year.

On September 24, 2001, the noon buying rate was U.S.$ 1.4601 per £1.00.

Risk Factors

Prospective investors should carefully consider the following risk factors associated with our Company. Our business, financial condition or results of operation could be materially adversely affected by any or all of these risks, or by other risks that we presently cannot identify.

We rely on intellectual property and proprietary rights, including programming content, which may not be adequately protected under current laws.

Our services are largely comprised of intellectual property content delivered through a variety of media, including programming, interactive television services, and the internet. We rely on trademark, copyright and other intellectual property laws to establish and protect our proprietary rights in these products. However, we cannot assure you that our proprietary rights will not be challenged, invalidated or circumvented. Third parties may be able to copy, infringe or otherwise profit from our proprietary rights without our authorization. These unauthorized activities may be more easily facilitated by the internet. In addition, the lack of internet specific legislation relating to trademark and copyright protection creates an additional challenge for us in protecting our proprietary rights relating to our on-line business processes and other digital technology rights.

We operate in a highly competitive environment that is subject to rapid change and we must continue to invest and adapt to remain competitive.

We face competition from a broad range of companies engaged in communications and entertainment services, including cable television, digital and analog terrestrial television, telecommunications providers, and home video products companies, as well as companies developing new technologies and other suppliers of news, information and entertainment. Although we have continued to develop our services through technological innovation and investment in content, we cannot predict with certainty the changes that may occur in the future and affect the competitiveness of our businesses. In particular, the means of delivering various of our services may be subject to rapid technological change.

Our ability to compete successfully will depend on our ability to continue to invest in acquiring, commissioning and producing programming content, and attractively package and offer it to our customers at competitive prices. We cannot assure you that third party program services will be available to us on acceptable terms, or at all, of if so available, that such program services will be acceptable to our subscribers. In addition, we cannot assure you that agreements to acquire program content will be obtained on favorable terms or at all.

Our business is heavily regulated and changes in regulations or failure to obtain required regulatory approvals could adversely affect our ability to operate.

We are subject to regulation primarily in the U.K. and the European Community. The regimes which principally affect our business are broadcasting, telecommunications, and competition (anti-trust) laws and regulations. The current government or subsequent government may enact additional or new regulations applicable to our business. Our business and business prospects could be adversely affected by the introduction of new laws, policies or regulations or changes in the interpretation or application of existing laws, policies and regulations. Changes in regulations relating to one or more of licensing requirements, programming transmission and spectrum specifications, consumer protection, or other methods, could have an adverse affect on our business and results of operation.

While we have generally been successful to date with respect to compliance with regulatory matters, we cannot assure that we will succeed in obtaining all requisite approvals in the future for our operations without the imposition of restrictions which may have an adverse consequence to us.

Our business is reliant on technology which is subject to change and development.

We are dependent upon satellites which are subject to significant risks that may prevent or impair proper commercial operations, including defects, destruction or damage, and incorrect orbital placement. Disruption of the transmissions from satellites that are already operational, or from our uplinking facility, could have material adverse affect on our business and operations. We employ encryption technologies which protect against unauthorized access to our services. Whilst these encryption technologies have so far been resilient to piracy, there can be no assurance that they may not be compromised in the future.

ITEM 4. INFORMATION ON THE COMPANY

HISTORY AND DEVELOPMENT OF THE COMPANY AND BUSINESS OVERVIEW

Introduction

British Sky Broadcasting Group plc and its subsidiaries operate one of the leading pay TV broadcasting services in the United Kingdom and Ireland. At June 30, 2001, we had approximately 10,044,000 subscribers to our services, including 5,308,000 digital DTH subscribers, a residual base of 145,000 analog DTH subscribers, 3,486,000 U.K. and Eire cable subscribers and 1,105,000 DTT subscribers. Our revenues in fiscal 2001, which were £2,306.0 million, were derived principally from subscription fees from DTH viewers, payments from cable operators and fees from advertising sales.

We aim to provide viewers with a broad range of programming options. Our investment in programming is an important factor in generating subscriptions to our channels by viewers. With respect to the channels we own and operate, we make significant investments to acquire exclusive pay TV rights to films, the exclusive rights to broadcast certain sports events live and rights to other general entertainment programming. In addition, we produce and commission original programming (including films). We have also acquired the rights to market other services to DTH viewers. Currently we operate and distribute 11 Sky Channels via our digital service (or 21 including multiplexed versions of channels and interactive channel services). We currently offer 4 channels in analog, 3 of which are Sky Channels. We are intending to switch off our analog service on September 27, 2001. We also market to DTH viewers 62 Sky Distributed Channels in digital (or 78 including multiplexed versions of channels). In addition to the Sky Distributed Channels, we market the digital audio services Music Choice and Music Choice Extra and 3 radio services to Sky digital subscribers.

As set forth herein, references to fiscal years are to our fiscal years which ended on the Sunday nearest to June 30, in each year. We publish our financial statements in British pounds sterling (£). References to years (e.g. 2000) are to calendar years, unless otherwise indicated. References herein to ''U.S. dollars'', ''dollars'', ''U.S.$'', ''$'' and ''¢'' are to currency of the U.S. and references to ''pounds sterling'', ''£'', ''pence'' and ''p'' are to currency of the U.K. Certain pounds sterling amounts stated herein have been translated into U.S. dollars at an assumed rate solely for the convenience of the reader and should not be construed as representations that such U.S. dollar amounts actually represent such pound sterling amounts or that such pound sterling amounts could be converted into U.S. dollars at the rate indicated or at any other rate. Unless otherwise stated herein, such U.S. dollar amounts have been translated from the corresponding pounds sterling amounts at the noon buying rate in The City of New York for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the ''noon buying rate'') on June 29, 2001, which was $1.4041 per £1.00. For information with respect to exchange rates, see Item 3. ''Key Information — Exchange Rates''.

Our Consolidated Financial Statements included herein are prepared in accordance with accounting principles generally accepted in the U.K.. U.K. GAAP differs in certain significant respects from accounting principles generally accepted in the U.S. A discussion of the principal differences between U.K. GAAP and U.S. GAAP is contained in Note 28 of Notes to Consolidated Financial Statements.

Certain terms used herein are defined in the Glossary which appears at the end of Item 4, ''Information on the Company''.

The Company was incorporated in England and Wales in April 1988. Our principal executive offices are located at Grant Way, Isleworth, Middlesex, TW7 5QD. England. Tel: +44(0)870 240 3000.

Launch of Sky digital

We launched Sky digital, our digital DTH service in October 1998, in addition to our existing analog DTH service, and are currently the largest provider of digital pay TV services in the U.K. We intend to cease transmitting our analog service on September 27, 2001. At June 30, 2001, new subscribers to Sky digital and subscribers transferring from our analog service in fiscal 2001 were 1,433,000 and 624,000, respectively, less digital churn of 332,000. We define churn as the number of DTH subscribers (in this case digital DTH subscribers) over a given period who terminate their subscription in its entirety, net of former subscribers who reinstate their subscription in that period.

Digital technology permits the compression and transmission of a digital signal which allows a broadcaster to transmit multiple channels through the equivalent of a single analog channel's bandwidth, giving broadcasters the potential to offer significantly more digital channels. This increased use of bandwidth also allows a broadcaster to develop and offer its viewers enhanced and interactive services as well as additional functionality, such as an electronic program guide which provides on-screen program listings.

Digital Satellite Equipment — British Interactive Broadcasting (''BiB'')

In order to receive our Sky digital service, viewers are required to have a digital satellite system which includes a small satellite dish, a digital set-top box and a remote control. When we launched Sky digital, the cost of this equipment to the customer without the benefit of any subsidy would have been approximately £400. With the benefit of a subsidy provided by BiB it was £199 (for new customers) or £159 (for existing Sky customers). In 1999, we began a new initiative to accelerate the take up of digital satellite. Our plan provides purchasers with a free digital satellite system (the additional subsidy being provided by Sky alone) and the purchaser agrees to pay an installation charge which (for standard installation) is now £50 for Sky digital subscribers subscribing to our biggest package of channels, Sky World, £70 for all other Sky digital subscribers and £100 for non-subscribers. There is currently no obligation for a purchaser of a digital satellite system to subscribe to Sky digital to take up the free equipment offer.

Open

Up until May 9, 2001 the Open interactive platform was operated through a joint venture, BiB, which was owned 32.5% each by us and by BT Holdings Limited (''BT''), 20% by HSBC Holdings Plc (''HSBC'') and 15% by Matsushita Electric Europe (Headquarters) Limited (''Matsushita''). On May 9, 2001, we completed the purchase of the shares of HSBC and Matsushita and on June 28, 2001, we completed the purchase of the shares of BT.

The consideration was as follows:

	Paid at completion	Payable 18 months from completion (approximately)
HSBC	£ 93,000,000	£ 75,000,000
Matsushita	£ 70,000,000	£ 56,000,000
BT	£127,000,000	£122,000,000

The payments made at completion were effected through the issue of new BSkyB Ordinary Shares. Amounts payable 18 months from completion will be paid through the issue of new BSkyB Ordinary Shares or loan notes, at the option of BSkyB.

HSBC, Matsushita and BT, have the benefit of an earn out clause which provides that if the valuation of BiB is £3 billion or more, based on agreed criteria, a further estimated £75 million will be payable by us to HSBC, £56 million to Matsushita and £122 million to BT, in January or July 2003, through the issue of new BSkyB Ordinary Shares or loan notes, at the option of BSkyB. In order to protect the earn out rights of HSBC, Matsushita and BT, we have undertaken that certain digital interactive television activities shall be carried out by BiB or a subsidiary of BiB until final determination of the earn out in 2003.

BiB, under the brand name Open (planned to be re-branded ''Sky Active'' from October 1, 2001) provides an interactive TV platform for the development and delivery of interactive services, such as home shopping, banking, travel, holiday and E-mail services. The customer's telephone line is the return path for these interactive services via a modem in the set-top box. Open is currently available free of charge to all digital satellite viewers. It derives revenues from (1) the fees charged to retailers that provide services on the platform, (2) revenue sharing in e-commerce transactions completed on the platform and (3) advertising.

Our Digital Infrastructure

We have built digital transmission and uplink facilities and have developed (in conjunction with others on a commissioned or licensed basis) a digital conditional access system, subscriber management systems, and the necessary electronic program guide and navigation technology as well as applications to permit the offering by us of interactive television programming. We have worked and continue to work closely with five selected manufacturers to develop digital satellite set-top boxes based upon our specifications. We also continue to work with a number of manufacturers to develop television sets containing integrated digital receivers.

At June 30, 2001, we had entered into agreements, committing us until the end of June 2002, with five manufacturers relating to our purchase of 1.4 million digital satellite set-top boxes with full capability to run interactive services.

We have extended our 2 year strategic alliance with TiVo Inc., the manufacturer of a personal video recorder, to September 30, 2003, under which we will continue to provide marketing and customer management support for TiVo's personal video recorder, which launched in the U.K. in October 2000.

We have also developed a new set-top box, Sky Plus (''Sky+''), which contains an integrated personal television recorder allowing for 20 hours of programming to be recorded directly onto a hard-disk recording facility contained within the set-top box. This enables digital satellite viewers to watch one live digital satellite program (or a previously recorded program) while simultaneously recording another, pause live TV and automatically record favorite series of programs; it went on sale to the general public at the end of August, 2001.

In fiscal 2001, we achieved an annual net growth of 1,725,000 digital DTH subscribers. Whilst over 97% of our DTH subscriber base now takes our digital service, the future demand and speed of take up will also depend upon the marketing initiatives adopted both by us and others and the competitive pressures resulting from the availability and launch of competing digital services such as digital terrestrial and digital cable television.

Programming

We wholly own and operate 11 Sky Channels in digital (excluding multiplexes and interactive channel services), currently only 3 Sky Channels in analog, and further market the Sky Distributed Channels to our digital subscribers. In addition in November 2000, we launched a wholly owned business to business channel: the ''Pub Channel'' for subscribers in the brewery industry.

We intend to switch off our analog service on September 27, 2001. Until then, we are offering our analog DTH subscribers three Sky Channels (Sky One, Sky Sports 2 and Sky Premier) in addition to the CNBC news channel (all of which are encrypted). For our digital DTH subscribers, the Sky Basic Channels and the Basic Sky Distributed Channels form a basic tier of programming called the ''Sky Family Pack''. Digital DTH subscribers can also choose from smaller packages of basic channels ranging from 5 to 59 television channels (excluding music audio and radio services). All of these basic packages are collectively called the ''Basic Packages''. Digital DTH subscribers either subscribe to one of the Basic Packages alone or receive one of the Basic Packages within the cost of any of the Sky Premium Channels that the Digital DTH subscriber receives. The Premium Channels, which include the movie channels, Sky Premier, Sky MovieMax and Sky Cinema, and the sports channels, Sky Sports 1, Sky Sports 2, Sky Sports 3 and Sky Sports Extra and the Sky Distributed Channels are encrypted in order to limit access to paying subscribers only.

We offer the Premium Channels, the Basic Packages, the stand-alone à la carte premium channels and the Sky Box Office Service and the Music Choice and Music Choice Extra services to DTH subscribers and the Sky Channels (including Sky Box Office events) and the Disney Channel to cable operators for re-transmission to cable subscribers. We also provide versions of six of the Sky Channels to ITV Digital (previously branded ONdigital) for distribution by ITV Digital to its subscribers via its U.K. digital terrestrial television service as well as offering ITV Digital Sky Box Office events.

The current Sky Channels (which we wholly own) are Sky Premier, Sky MovieMax (each of which in their digital form has 4 multiplex versions), Sky Cinema (which has a second multiplex version), Sky Sports 1, Sky Sports 2, Sky Sports 3, Sky Sports Extra, Sky Sports News (previously branded Sky Sports.comTV), Sky One, Sky News (which includes the enhanced Sky News Active service for digital DTH subscribers) and Sky Travel. A multiplex is any version of a primary channel on which the programs are the same as those on the primary channel but are transmitted at different times.

In addition to owning the Sky Channels, we hold significant equity interests in joint ventures that own eleven (excluding multiplexed versions) of the Sky Distributed Channels as well as Music Choice and Music Choice Extra. We have a 50% equity interest in Nickelodeon, Nick Jr., The History Channel, The Biography Channel, the National Geographic Channel and Adventure One, a 33.33% equity interest in MUTV (a television channel dedicated to Manchester United Football Club), a 20% equity interest in QVC and Chelsea Digital Media Limited (which owns and operates Chelsea TV, a television channel dedicated to Chelsea Football Club), a 25% equity interest in the Paramount Comedy Channel, attheraces (which is planning to launch an interactive broadcast channel on horse racing in May 2002), and the Sky News Australia Channel as well as a 49.5% economic interest in the Granada Channels (Granada Breeze, Granada Men and Motors and Granada Plus).

Of the Sky Distributed Channels (which we distribute but do not own), 13 (including multiplexes) are premium, à la carte and bonus channels, 21 (including multiplexes) are general entertainment channels, 18 are news and documentary channels, 14 are music channels, 9 (including multiplexes) are kids channels, 2 are sports channels, 34 are audio channels and 3 are radio services. We also market a further 12 television channels to our DTH subscribers, all of which are broadcast unencrypted.

According to surveys produced by the Broadcasters Audience Research Board, as of June 30, 2001, an estimated 39.9% of the estimated 24.4 million TV homes in the U.K. were either equipped with analog or digital satellite reception equipment (21.9%) or subscribed to a cable TV or SMATV package (14.9%) or digital terrestrial television (3.1%). For the year ended June 30, 2001, BARB estimates that 40.3% of all viewing in satellite and cable homes was of satellite and cable channels (i.e., channels other than the terrestrial channels) and that the balance was of the five analog terrestrial channels. According to BARB estimates, the Sky Channels accounted for an estimated 32% of satellite and cable channel viewing (an overall 12.9% viewing share within satellite and cable homes) during the same period and the Sky Distributed Channels accounted for the majority of the balance. Whilst homes with digital terrestrial reception equipment are now included in BARB surveys, they are not counted separately, but included within the data for total multi-channel viewing.

For the year ended June 30, 2001, BARB estimates that 46.5% of all viewing in homes with digital satellite reception equipment (''digital satellite homes'') was of satellite channels not available by an analog over-the-air signal. Sky Channels accounted for 36.4% of multi-channel viewing in digital satellite homes, with an overall 16.9% viewing share across all channels available (including the analog terrestrial channels) within digital satellite homes.

Premium Channels

Sky Premium Channels

Sky MovieMax, Sky Premier and Sky Cinema

Sky MovieMax and Sky Premier operate 24-hours per day, seven days a week, principally showing recent release movies and made-for-TV movies distributed by major Hollywood and independent U.S. and European licensors. Sky Cinema primarily features older or classic films seven days a week.

In digital, these three movie channels, each offer a primary service and a number of multiplexed services. There are four Sky Premier multiplexed services. Three of these services operate 24-hours a day and the fourth currently offers at least two movies per night in a widescreen format. There is one Sky Cinema 24-hour multiplex, and four Sky MovieMax 24-hour multiplexes. In June 2001, we launched Sky Movies Active, an interactive service enabling viewers to select previews, synopsis and reviews of movies showing on our Sky digital service, to read reviews of movies currently being shown in cinemas as well as following the latest ''Hollywood gossip'' and enabling our subscribers to link to Open's services and purchase cinema tickets and other merchandise via their television set. From October 1, 2001, it will be available across all of our movie channels.

In fiscal 2001, our three movie channels broadcast 2,181 different movies. As of June 30, 2001, Sky MovieMax and Sky Premier had approximately 4.6 million and 4.7 million subscribers, respectively, and over 95.8% of movie subscribers subscribed to both Sky MovieMax and Sky Premier.

The majority of programming scheduled on Sky MovieMax and Sky Premier comes from our pay TV agreements which grant us exclusive pay TV rights to broadcast in the U.K. and Ireland current movie output (each called an Output Film) produced or distributed by each of the following major Hollywood film companies: Sony/Columbia, Disney (excluding animated films), Paramount, Twentieth Century Fox, MGM, Universal and Warner Bros (collectively, the ''Majors''). In our Output Film agreements with the Majors, as well as certain other independent U.S. and European licensors, we are granted exclusive rights to broadcast the licensor's output during the pay TV window (which follows, where applicable, the theatrical release, video release and pay-per-view/Video-on-demand (''VOD'') window of a movie, in that order). We believe that the loss of any individual Output Film agreement would not have a material adverse effect on our business operations.

Our pay TV agreements also grant us exclusive rights to broadcast in the U.K. and Ireland certain television movies and library films from the library catalogs of each of the Majors and from other film distributors. The remainder of the programming scheduled on our three movie channels is from agreements which grant us exclusive rights to broadcast in the U.K. and in Ireland certain other non-Output Film current movies as well as some movies that have been produced for theatrical distribution but acquired by us exclusively for exhibition in the U.K. and in Ireland.

We have also been involved in financing the production of feature films to be exploited on television including on our own movie channels.

During each movie's license period, we have the exclusive right to televise Output Films in analog and/or in digital.

Sky Sports 1, Sky Sports 2, Sky Sports 3 and Sky Sports Extra

Both Sky Sports 1 and Sky Sports 2 provide on average 20 hours or more of sports programming per day, including live coverage of certain popular sports events. Sky Sports 3 currently offers on average 88 hours of programming each week. Both Sky Sports 1 and Sky Sports 2 are premium channels for which additional fees are payable by DTH, DTT and cable subscribers, while Sky Sports 3 is available without extra cost to subscribers of Sky Sports 1 or Sky Sports 2. At June 30, 2001, there were approximately 5.0 million subscribers to either Sky Sports 1 or Sky Sports 2 and over 96% of these sports subscribers subscribed to both Sky Sports 1 and Sky Sports 2.

Our programming rights for the Sky Sports channels include exclusive rights to broadcast live in the U.K. and Ireland a number of important football (soccer), rugby, cricket, golf and boxing events (including three England rugby home internationals until 2005, English domestic cricket events until 2005 and European tour golf until 2003, including the next two Ryder Cups). In respect of soccer, we have retained exclusive live broadcast rights for Premier League football and certain FA Cup matches and England Internationals until the end of the 2003/04 season as well as securing DTH pay-per-view rights to a further 40 matches. In addition, we purchase rights to broadcast a wide range of additional sports programming on both an ad hoc and longer term basis.

Sky Sports Extra is an enhanced channel available as a bonus channel to subscribers to Sky Sports 1 and Sky Sports 2 and allows subscribers to view multiple camera angles covering the same event, select highlights, fanzone commentary and match statistics while keeping the fully produced live game in vision and to watch certain other sports events broadcast on the channel.

Premium Sky Distributed Channels

The Disney Channel

Under an agreement with The Walt Disney Company Limited, we have the exclusive rights to distribute the Disney Channel and three additional multiplexes to the core Disney channel in the U.K. and Ireland, both to analog and digital DTH subscribers as a bonus channel to those subscribers receiving both Sky MovieMax and Sky Premier and to other analog and digital DTH subscribers on an à la carte basis. We no longer distribute the Disney Channel to analog DTH subscribers. We also have the non-exclusive rights to authorize cable operators to distribute the Disney Channel (but not the multiplexes) as a bonus channel in a premium tier which contains (if carried) both Sky MovieMax and Sky Premier and, in addition, to offer the Disney Channel to such cable operators' subscribers on an à la carte basis.

Chelsea TV

In August 2001, we entered into a joint venture with Chelsea Village plc and Chelsea Digital Media Limited (we own 20%) to establish and operate a digital subscription pay TV channel dedicated to Chelsea Football Club. This channel launched on August 13, 2001.

MUTV

In September 1997, we entered into a joint venture with Manchester United PLC and Granada Media Group Ltd (each party owning 33.33%) to establish and operate a digital subscription pay TV channel dedicated to Manchester United Football Club. This channel launched on September 10, 1998.

FilmFour

FilmFour, a pay TV film channel operated by Channel 4, was launched on November 1, 1998. We distribute FilmFour to our digital DTH subscribers only.

Basic Packages

We market the Sky Basic Channels and the Basic Sky Distributed Channels as part of our Basic Packages to DTH subscribers.

Sky Basic Channels

Sky One is the general entertainment flagship channel of the Sky Channels. It is targeted at a young, middle-market family audience and has consistently achieved the highest U.K. viewing figures of all satellite and cable TV channels. Based upon BARB surveys during the 52 weeks ended June 30, 2001, Sky One was viewed by approximately 36.5% of individuals in U.K. satellite and cable TV homes each week.

Sky News provides 24-hour national and international news coverage. Sky News is unencrypted and can be seen by all DTH viewers capable of receiving transmissions from the Astra satellites, via which we broadcast our services. Sky News is also distributed by some cable operators in the U.K., and by certain third party operators outside the U.K. Sky News Active is available on the digital satellite platform only, offering Sky News viewers in digital the opportunity to select the news story they wish to follow.

In August 1998, we launched Sky Sports News as a 24-hour, sports news service which was rebranded Sky Sports.comTV in March 2000, but which has once again been rebranded Sky Sports News. Sky Sports News is available only to subscribers to Sky digital as part of the Sky Family Pack.

Sky Travel features travel related programming. At the end of August 2001, we ceased to broadcast our [.tv] technology channel.

Basic Sky Distributed Channels

We typically have the exclusive right to offer the basic Sky Distributed Channels to residential DTH viewers in the U.K. and Ireland. Our agreements with respect to the basic Sky Distributed Channels extend until between 2001 and 2010. We currently either generally pay the owners of the Sky Distributed Channels a monthly per DTH subscriber fee per channel or pay no fee at all to distribute certain of the Sky Distributed Channels. Under a number of these agreements, we guarantee payment against percentages of the total number of subscribers to our Basic Packages. QVC is the exception for which we receive a fee based upon net sales made by QVC to DTH viewers.

We currently act as a representative for The History Channel, The Biography Channel, MUTV, Granada Breeze, Granada Men & Motors and Granada Plus for the sale of these channels to cable operators in the U.K. and Ireland, and have the non-exclusive right to distribute the Disney Channel to cable operators, as described above. The owners of the Sky Distributed Channels generally sell their own advertising time on such channels, although we act as an advertising sales representative for the History Channel, the Biography Channel, the National Geographic Channel and MUTV on a commission basis.

Music Choice

In February 1998 we entered into a joint venture, Music Choice Europe, with Warner Music and Sony Digital Radio Europe. Music Choice Europe plc was admitted to the Official list of the London Stock Exchange in October 2000. We offer Music Choice, a 24-hour digital audio service consisting of 10 audio channels to all subscribers of Sky digital. This is included in each of our digital Basic Packages. In addition, Music Choice Extra, which consists of 34 digital audio channels, is available to subscribers of Sky digital as an à la carte premium service. Music Choice Europe also distributes packages of audio channels in other European countries.

Pay-per-view and Near Video-on-Demand

With our Sky Box Office service, we offer our digital DTH subscribers, 61 screens of TV premieres of movies on a near video-on-demand, pay-per-view basis and occasional live sports and other special events, such as live music concerts, on a pay-per-view basis.

We believe that the principal application for pay-per-view is in television premieres of movies and live sports and entertainment events. We have acquired certain rights from movie distributors which enable us to show their movies on our digital near video-on-demand services. In addition, following our purchase of pay-per-view rights to Premier League football matches, a further 40 matches (over and above those matches broadcast on our Sky Sports channels) are available on a pay-per-view basis, either for a pre-match price or for a one-off payment for all 40 matches. We also plan to continue to take up further pay-per-view opportunities in sport and music events to be shown on Sky Box Office.

Distribution

We contract directly with DTH subscribers to provide the Basic Packages and the Premium Channels. Cable subscribers, by contrast, contract with their local cable operators, which in turn acquire the rights to distribute certain of the Sky Channels from us. We also authorize ITV Digital to distribute versions of Sky MovieMax, Sky Premier, Sky Sports 1, Sky Sports 2, Sky Sports 3 and Sky One by means of digital terrestrial television.

Our DTH subscription revenues are a function of the number of subscribers, the mix of services taken and the rates charged. At June 30, 2001, we had a number of cable subscribers in Ireland, who are discussed separately below under ''— Cable Distribution — Ireland''. Whilst our digital DTH services have been available in Ireland since December 1998, in September 2000, we made the free set-top box initiative available to DTH subscribers in Ireland.

DTH Distribution

At June 30, 2001, DTH subscribers represented approximately 54% of the total number of U.K. and Eire subscribers to our services.

Both satellite equipment and Sky subscriptions are offered by us directly and by a variety of retailers. Among the major U.K. retailers appointed by us are Dixons, Comet, Currys and a subsidiary of Granada. Such retailers are known by us as Authorized Sky Agents or ASAs. The ASAs generally receive commissions from us in connection with subscriptions to Sky's services sold to customers. The level of sales of subscriptions varies depending upon the time of the year. When a customer purchases his satellite reception equipment, he or she typically will be able to obtain a copy of our digital subscription agreement from the retailer or directly from us. The smart card, which is used in the set-top box to decrypt the service, is supplied to the customer by one of our subsidiaries from our subscriber management centers and is generally activated over-the-air by the subscriber management centers once the installation is complete and the customer becomes a subscriber. Some retailers provide installation services to customers. We own Sky In-Home Service Limited, an installation company which, in fiscal 2001, installed approximately 2.1 million DTH systems in the U.K.

DTH Subscribers

As at June 30, 2001 we had a total of 5,453,000 DTH subscribers, with the top tier Sky World package taken by nearly 60% of all Sky digital subscribers.

Churn in total was 10.0% in fiscal 2001 as compared to 10.5% in fiscal 2000 and 15.4% in fiscal 1999. The reduction in churn was, we believe, largely due to the quality of the digital product and the range of interactive services available in digital.

We review and change from time to time the DTH subscription fees. The progressive implementation of, and increase in, charges for our digital service are illustrated by the following table of DTH subscription fees (inclusive of VAT) per month. The reduced analog DTH service which we offered to September 27, 2001 was priced between £16 and £29.

DTH Subscription Fees[(1)]

	Digital		
	Effective from		
	October 1, 1998	June 1, 1999	January 1, 2001
Basic Package only	11.99	13.00	16.00
One Sky Premium Channel			
Sky Sports 1 or 2	20.99	23.00	24.00
Sky MovieMax	18.99	21.00	25.00
Sky Premier	22.99	25.00	25.00
Two Sky Premium Channels			
Sky MovieMax and Sky Sports 1 or 2	22.99	25.00	29.00
Sky Sports 1 and 2	24.99	27.00	28.00
Sky Premier and Sky MovieMax[(2)]	24.99	27.00	30.00
Sky Premier and Sky Sports 1 or 2	26.99	29.00	29.00
Three Sky Premium Channels			
Sky MovieMax and Sky Sports 1 and 2	26.99	29.00	31.00
Sky Premier, Sky MovieMax and Sky Sports 1 or 2[(2)]	27.99	30.00	32.00
Sky Premier and Sky Sports 1 and 2	28.99	31.00	31.00
Four Sky Premium Channels			
Sky Premier, Sky MovieMax and Sky Sports 1 and 2[(2)]	29.99	32.00	34.00

(1) Figures in this table are in £ sterling. In Ireland, a different price structure applies. The figures in this table assume that the Basic Package subscribed to is the Family Pack.

(2) Sky Cinema and the Disney Channel are currently provided free of charge only to subscribers to both Sky Premier and Sky MovieMax (although the Disney Channel is also available as a premium à la carte service).

Digital subscribers may buy the Sky Premium Channels through six types of basic packages. Subscribers who purchased Sky digital prior to the free equipment offer introduced in May 1999, were not affected by the June 1, 1999 price increases and had their subscription charges frozen until September 2001.

Digital subscribers are sheltered from any subscription fees increase within the first 60 days of their contract. In addition, we contractually commit with DTH subscribers not to increase any package price by more than 10% within the first 12 months of a subscriber's contract.

We provide to certain digital DTH subscribers a magazine as part of their subscriptions called *Sky Customer Magazine* (previously *Sky View*).

Cable Distribution

United Kingdom

Historically there has been a number of cable operators in the U.K. However, a significant number of acquisitions has resulted in two major cable operators, NTL, Inc. and Telewest Communications plc, holding most of the U.K. franchises. Both of these operators have launched a digital cable service across the majority of their cable systems.

We are currently a leading supplier of programming to cable operators in the U.K. We provide our Sky Channels to cable operators for re-transmission to cable subscribers, although not all cable operators carry all Sky Channels. We currently have contracts and/or arrangements with both of the major multiple systems cable operators in the U.K. for the re-transmission of Sky Channels to their subscribers. We estimate that, as of June 30, 2001, the subscribers to these cable operators' networks represented approximately 99% of all cable subscribers in the U.K. Both NTL and Telewest carry on their broadband cable networks the majority of the Sky Channels. Neither of them currently carries Sky Travel or Sky Sports News or Sky Sports Extra. Most narrowband cable networks have a more limited channel capacity and, therefore, do not generally carry all Sky Channels.

At June 30, 2001, there were approximately 2,865,000 U.K. cable subscribers (including broadband, narrowband and SMATV subscribers) to our programming. The growth in the overall level of cable subscribers has been driven primarily by the growth in the cable operators' networks and by the demand for cheap telephony offered by cable operators. A large majority of cable homes (broadband, narrowband and SMATV) in the U.K. currently receive at least Sky News and/or Sky One as part of the basic service package offered by their cable operator, and as at June 30, 2001 approximately 28% of these homes subscribed to one or more of the Sky Premium Channels.

Cable operators pay us a monthly per subscriber fee per channel in respect of their subscribers to the Sky Basic Channels and, for the Sky Premium Channels, a monthly per subscriber fee per package of channels calculated as a percentage of the relevant DTH retail price. For cable operators on our cable rate card, the applicable percentage payable by any particular operator depends upon the level of discount entitlement achieved by that operator according to a series of discounts set out in our rate card which are designed to incentivize sales of the Sky Channels.

Under the current cable rate card (applicable to carriage of the Sky Premium Channels only), whose discount structure was approved by the U.K. Office of Fair Trading, cable operators are able to select which of the two current discount structures they wish to apply. The first discount structure is referred to as the Pay to Basic Version and operators may achieve varying levels of discount depending on the pay channel to basic channel ratios they achieve, their historical subscriber volume and how their penetration compares with the rest of the industry. The second discount structure is referred to as the Premium Pay Units Version under which operators may achieve varying levels of discount based on the ratio of Sky Premium Channels units they have sold relative to the number of homes they have passed. Our cable rate card allows cable operators to offer their customers any choice or combination of the Sky Channels. Sky Premium Channels can be offered to cable subscribers without subscription to any of the Sky Basic Channels.

At June 30, 2001, U.K. cable operators (including Newtel in Jersey) were typically charged for Sky Premium Channels (excluding any Sky Basic Channels) at levels which were between 48% and a maximum of 57% of the DTH subscription price for Sky Premium Channels (when taken with the Family Pack).

With respect to the Sky Basic Channels (which are not included in our current cable rate card), we negotiate separate commercial arrangements with cable operators for the carriage by such operators of these channels.

The ratecard and the terms on which we supply the Sky Channels to cable operators are currently being reviewed by the Office of Fair Trading under the U.K. Competition Act. See — Government Regulation — U.K. Competition Law Regime — The Competition Act 1988.

Ireland

In Ireland, cable subscriber fees for Sky Premium Channel subscribers are charged on a per subscriber per channel basis. The level of prices charged to cable operators for most Sky Channels is lower than in the U.K. Some cable systems in Ireland are less technologically advanced than those in the U.K., and some subscribers are not provided with a decoder of the kind that would be needed in order to receive the Sky Premium Channels. In most cases, unlike in the U.K., a cable subscriber wishing to receive a Sky Premium Channel must, therefore, first purchase or rent a decoder from his cable operator, thereby adding to the cost of receiving Sky Premium Channels. Cable subscribers in Ireland are not included by us in our total subscriber numbers.

The two main cable operators in Ireland, ntl Ireland and Chorus, have both launched, albeit on a limited basis, digital cable services in Ireland.

DTT Distribution

ITV Digital (formerly ONdigital), the U.K.'s first digital terrestrial television broadcaster, launched its service on November 15, 1998. At June 30, 2001, 768,000 ITV Digital subscribers took a basic package only; 48,000 subscribers took one Sky Premium Channel; 155,000 subscribers took two Sky Premium Channels; 42,000 subscribers took three Sky Premium Channels and 92,000 subscribers took four Sky Premium Channels. 80% of ITV Digital subscribers received Sky One.

ITV Digital's services broadcast over-the-air in an encoded form, and in order to receive and decode ITV Digital's services, its subscribers must have a digital terrestrial set-top box or a digital TV with a conditional access module attached capable of decoding ITV Digital's signals.

Advertising

We continue to sell advertising for all of the 11 Sky Channels (including their multiplexes) and also act as the advertising representative for the National Geographic Channel, National Geographic Adventure 1, Tara TV, The Hallmark Channel, The History Channel, The Biography Channel and MUTV. We sell advertising time across all of our channels, but can sell on a specific channel basis where requested. We have also entered into an agreement to sell advertising across the 9 Discovery channels in the U.K. from 2002.

Across all U.K. multi-channel homes, our share of commercial audiences at June 30, 2001 was 18.0%, slightly down from 18.7% at the end of the previous fiscal year. Our subscribers' households tend to be younger and more affluent than the average U.K. household and reflect the 16-34 year old and ABC1 demographics sought by many advertisers. In April 2000, we were the first U.K. broadcaster to trial interactive advertising. Over the 12 months to June 30, 2001, more than 30 interactive advertising campaigns have run on the Sky Channels.

Competition

We are involved in the industry as a channel provider, a distributor of TV services and, to a limited extent (in administering through our subsidiary Sky Subscribers Services Limited, a population of DTH set-top box decoders), a DTH platform operator. We therefore compete with a number of communications and entertainment media both on a programming level, for the rights to certain programming, and on a distribution level.

Analog Terrestrial Television Channels

We compete with the five analog terrestrial channels broadcasting in the U.K. for the acquisition of programming, advertising sales and viewers. Each of the five terrestrial channels provides general entertainment television programming. BBC1 and BBC2 are funded by a license fee levied on all U.K. TV homes and do not sell advertising. ITV (Channel 3) is divided into a number of geographical and temporal franchises which are operated under license by a number of different broadcasters. ITV franchisees, Channel 4 and Channel 5 derive their revenues principally from advertising sales and the sale of programming to other broadcasters. Because we and the terrestrial channels all require films and sports, general entertainment and other programming to attract viewers, there have been and may in the future be bidding competitions which could increase our programming acquisition costs or mean that certain programming may not be available to us.

In the case of Output Films, we generally acquire different rights to those that are usually offered to terrestrial channels in accordance with the U.K. sequential distribution pattern. For example, licenses are usually offered to the terrestrial channels to show these films for a terrestrial TV window which typically commences only after the expiry of our exclusive pay TV window. With respect to sports programming, we have been able to secure a number of significant contracts granting us exclusive rights to broadcast live many popular events but, certain of the terrestrial broadcasters have also secured exclusive rights to broadcast live popular sporting events.

With respect to general entertainment programming for Sky One, we are often in direct competition with the terrestrial channels. Where direct competition has occurred, we have generally sought to acquire the first broadcast rights to such programming.

Cable Operators

Competition in Programming

Whilst we are currently a leading supplier of programming to cable operators in the U.K., cable operators are potential competitors for programming rights such as exclusive live broadcast rights to certain sporting events. For example, NTL directly bid against us in its unsuccessful attempt to obtain the exclusive live broadcast rights to Premier League football until the end of the 2003/04 season. Further, competition between us and other channel providers or programming providers (including cable operators) may, from time to time, increase our programming costs. A consortium of cable operators launched a pay-per-view movie service in March 1998 called ''Front Row''. In October 2000, Front Row replaced the Sky Box Office movies service on the former Cable and Wireless Communications plc's cable systems, now owned by NTL, which previously carried the Sky Box Office movies service although they continue to receive certain pay-per-view events from our Sky Box Office service. On digital cable systems, Front Row has also launched a near-video-on-demand service similar to the service we offer to Sky digital subscribers.

Competition in Distribution

Cable operators, compete with us as an alternative service to DTH distribution and carry the majority of the Sky Channels. There are a limited number of areas where it may not be economically feasible to offer cable TV services, such as homes in some rural areas. Equally, there are also limited areas in the U.K., such as conservation areas, where, due to planning and local regulations, DTH satellite reception equipment may not be installed. Both NTL and Telewest have now launched digital cable services in the U.K.

Our current commercial view of cable distribution of the Sky Channels is largely a reflection of the fact that cable subscribers have represented a source of additional operating income. Although cable operators pay a per subscriber rate for our programming that is lower than the rate charged to DTH subscribers, a portion of this price differential reflects the fact that we do not incur subscriber management and marketing costs as cable subscribers are serviced by their cable operator rather than by our subscriber management centers.

Digital Terrestrial Television

Competition in Programming

ITV Digital (which launched as ONdigital on November 15, 1998) is currently the largest retailer of digital terrestrial television services in the U.K. It currently broadcasts its own pay-per-view service and the ITV Sport channel. We compete with it directly for live and exclusive rights to show certain sports events.

Competition in Distribution

ITV Digital competes with us in distribution by offering a range of program services on channels broadcast both by itself and by third party channel suppliers like ourselves. We are supplying ITV Digital with versions of Sky One, Sky Premier, Sky MovieMax, Sky Sports 1, Sky Sports 2 and Sky Sports 3. In addition to program services ITV Digital has been offering services such as internet access and E-mail via the digital terrestrial television platform.

The digital terrestrial set-top box required by ITV Digital's subscribers to decode ITV Digital's services is not compatible with digital satellite broadcast signals. Whilst all of ITV Digital's services are currently only available to approximately 70% of the U.K., we nevertheless compete with ITV Digital for subscribers at a distribution level.

Other Channels

In addition to competing for programming, advertising and viewers with the Sky Distributed Channels, the Sky Channels face similar competition from other TV channels broadcast via satellite and/or via cable and/or via DTT. Via satellite, these channels may be broadcast in an unencrypted form, automatically entitled encrypted form (in digital only) or may be independently distributed pay TV channels. Both the unencrypted form and the automatically entitled encrypted form channels (which together currently amount to in excess of 40 digital satellite channels) can be received by appropriate Astra satellite reception equipment without payment of a subscription fee. Some of these channels are also retransmitted by cable operators. Other than the digital satellite versions of the analog terrestrial channels, none of these channels has a viewing share in the U.K. that approaches the combined Sky Channels.

There are eighteen digital encrypted satellite pay TV services for DTH reception distributed independently of us. These are The PlayboyTV/Adult Channel, The Fantasy Channel, the Racing Channel, D-Classics TV, Sony TV Asia (south east Asian programming), B4U (Indian movies), Zee TV, Zee Music, Zee Cinema, Bangla TV, Pakistani Channel, Asia 1 TV, Prime TV, Lashkara, Guraji, Cee(1)TV, Anjuman, M31 and the three Red Hot adult PPV services.

Emerging Technologies

It is too early to tell to what extent, if at all, operators of emerging technologies such as video-on-demand (''VOD''), wireless application protocol (''WAP'') and digital subscriber loop (''DSL'') networks will compete with us, whether on a program or distribution level.

Home Videos

Home video sales and rentals have historically been strong in the U.K. In addition to offering viewers an additional source of programming other than that available on terrestrial, cable or satellite TV, the video window for new films generally starts before the pay TV window. The video window typically commences approximately six months following a film's U.K. cinema release and generally extends for a period of up to 12 months. We have been able to develop a significant subscriber base for our movie channels notwithstanding such competition from the home video industry.

Advertising

Our primary competitors for TV advertising sales are ITV (Channel 3), which includes ITV 2 after its launch on digital terrestrial television in December 1998, Channel 4 and Channel 5. Based upon BARB survey estimates, ITV (excluding ITV2) and Channel 4 were available to approximately 24.4 million TV homes in the U.K. (both digital and analog), with approximately 80% of these receiving an acceptable Channel 5 terrestrial analog signal. In addition, according to BARB, approximately 9.7 million U.K. homes have access to satellite, cable, or digital terrestrial television, on which some or all of the Sky Channels are available. Both ITV and Channel 4 have a significantly greater overall U.K. TV viewing share than any individual Sky Channel. As a result of the ability of ITV and Channel 4 to reach all U.K. TV homes, these channels can generate greater advertising revenues than we do. We also compete with the Sky Distributed Channels for TV advertising sales.

Within U.K. satellite and cable TV homes, however, the Sky Channels in aggregate, attract substantial viewing levels which are comparable to some of the terrestrial channels. This suggests to us that, as the number of satellite and cable TV homes increases, our competitive position with respect to advertising revenues may improve. The Sky Channels jointly have an overall viewing share (within U.K. satellite and cable TV homes) significantly greater than that of Channel 4 and Channel 5, although the Sky Channels' joint viewing share is still substantially less than that of ITV in these homes. However, in digital satellite homes, the viewing share of the Sky Channels is close to that of ITV. Based upon BARB surveys for the 52 weeks ended June 30, 2001, the viewing shares in U.K. satellite and cable homes of the 5 analog terrestrial channels and the combined Sky Channels were, respectively, ITV 21.6%, BBC1 19.9%, Channel 4 7.2%, BBC2 6.7%, Channel 5 4.2%, and the Sky Channels 12.9%, of which Sky One accounted for 29.5% of the Sky Channels' viewing share. The remaining 27.5% of viewing was of other satellite and cable channels.

Technology and Infrastructure

We control viewership through the software in smart cards which are inserted in a subscriber's decoder. A smart card is a plastic card, the size of a credit card, carrying an embedded computer chip that implements the secure management and delivery of decryption keys necessary to descramble encrypted TV channels and thereby enable and disable viewing according to whether the subscriber is authorized to receive a particular service. Access to encrypted programming decoded by a smart card can be controlled by us through an over-the-air addressing instruction included in the broadcast signal. Although we have made, and will continue to make, sufficient capital investments in our infrastructure to ensure the efficiency and effectiveness of our product, our overall capital expenditure represented less than 6% of revenues in fiscal 2001. Apart from the smart cards, we do not own the satellite reception equipment at DTH viewers' homes.

Encryption of Analog Services

The ability to receive via DTH virtually all encrypted analog pay TV channels broadcast for reception in the U.K. and Ireland, including all encrypted Basic Package channels and all Premium Channels, is presently controlled through the use of VideoCrypt, an analog proprietary conditional access technology. The rights to VideoCrypt are owned principally by NDS Group plc, a subsidiary of News International. We have acquired from NDS a license to use, and authorize others to use, VideoCrypt in the U.K. and Ireland, and to distribute smart cards in the U.K. and Ireland. Our rights to use VideoCrypt expire in 2004, although we may, at our option, renew the right to use and supply smart cards for an additional three years on the same terms and conditions. VideoCrypt is a strictly analog-compatible system and cannot be used for the decryption of digitally transmitted signals. Certain rights in the encoding and decoding technology used in association with the VideoCrypt conditional access technology are owned either by Thomson Consumer Electronics S.A. or jointly by NDS and Thomson.

Encryption of Digital Services

VideoGuard is a proprietary conditional access technology which can be used to control the ability to view encrypted digital services. We use it to control viewers' access to encrypted free-to-air channels and encrypted digital pay TV and audio channels broadcast on digital satellite for reception in the U.K. and Ireland. We commissioned NDS to design and develop some elements of the VideoGuard system as part of our digital satellite project, with additional scope to use the VideoGuard system to protect the provision of interactive services.

We use the VideoGuard technology and distribute smart cards in the U.K. and Ireland under an arrangement with NDS. Our arrangements include the exclusive use in the U.K. and Ireland of certain core security elements unique to our digital satellite service. NDS supplies smart cards for a fee payable by us and is jointly responsible with us for the on-going design, development and improvement of our version of the VideoGuard system.

Encryption of Third Parties

Any potential DTH broadcaster wishing to operate an encrypted TV service within the U.K. and Ireland in either analog or digital would need either to acquire an alternative encryption and conditional access technology from someone other than us and build its own decoder base capable of receiving transmissions encrypted using that technology, or contract with us for conditional access services in respect of the installed VideoCrypt / VideoGuard decoder base.

We make both analog and digital conditional access services available to third-party broadcasters with or without subscriber management services.

The only channel (apart from those Sky Channels which we are continuing to broadcast in analog until September 27, 2001,) currently using VideoCrypt for general analog reception in the U.K. and Ireland is The Fantasy Channel. It uses VideoCrypt under a license from us. We also provide The Fantasy Channel with subscriber management services through the subscriber management centers. As at July 31, 2001, there were 44 third party television channels (other than the Sky Channels and the Sky Distributed Channels) using VideoGuard for digital encryption of their channels for broadcast into the U.K. and Ireland and these include the BBC channels, S4C, Channel 4, Channel 5, The Racing Channel, The Fantasy Channel, The Playboy TV / Adult Channel, and a number of niche channels, such as Sony Entertainment Television Asia and the B4U movie channel. However, the u⟩direct film and sports PPV service, which accounted for 19 such channels, ceased broadcasting in August 2001.

The supply of digital conditional access services is regulated by the Director General of Telecommunication. See ''Government Regulation — European Community — Transmission Standards Directive''.

Encryption Generally

Transmissions using VideoCrypt or VideoGuard are encrypted prior to being uplinked, or transmitted, to the satellites. The signal from the satellite is received by a subscriber via a satellite dish and is decrypted via a smart card inserted into a set-top box. The smart card receives instructions as to whether to enable, disable, upgrade or downgrade a subscriber's level of service via the data stream sent to the decoder within the broadcast signal.

In the case of cable operators, a smart card is located at the site of the cable operator's feed into its cable transmission system, permitting decryption of the signal received from the satellite, which the operator in turn distributes to those of its subscribers who are authorized and equipped to receive the service.

In conjunction with NDS, we maintain a policy of refining and updating the VideoCrypt / VideoGuard technology in order to protect against unauthorized DTH reception of our services. Although there have been instances of unauthorized analog DTH reception, we believe that there has been no material loss over the past three fiscal years as a consequence. We believe that there are no VideoCrypt or

VideoGuard pirate devices at this time in the market. We take, and will continue to take, appropriate measures to counter unauthorized reception, including implementing effective over-the-air countermeasures and seeking all available legal remedies, both civil and criminal, reasonably available to us. We also periodically replace all smart cards in circulation with smart cards containing progressively more sophisticated technology. Such replacement has the effect of rendering useless all smart cards then in circulation, whether genuine or counterfeit. We are also seeking to work actively with cable companies in the U.K. and ITV Digital to investigate the use of any cable and/or digital terrestrial television piracy devices.

We also provide digital access control services for interactive services using a telephone return path to carry out transactions between supplier and viewer. These are also regulated by the Director General of Telecoms.

The Subscriber Management Centers and Sky In-Home Service

Our two existing subscriber management centers are based in Scotland and their functions include the handling of orders from subscribers, the establishing and maintaining of accounts, invoicing and revenue collection, telemarketing and customer service. These functions permit the centers to play a key role in managing the level of churn. We are currently refurbishing and upgrading both of our centers which we are financing [from our existing resources]. In analog, the centers also handle the administration and distribution of smart cards. We provide customer management services for the Sky Channels, the Sky Distributed Channels and 1 analog third-party channel. In digital the subscriber management centers interface with the subscriber card management system which handles the administration and distribution of smart cards and the encryption and entitlement of all digital channels. In addition to providing digital subscriber management services for the Sky Channels and the Sky Distributed Channels, we also currently provide, through one of our subsidiaries, digital customer management services for S4C, The Racing Channel, The Fantasy Channel, and the Open interactive television service.

The subscriber management centers also provide the distribution of ordered customer installations into Sky In-Home Service Limited which then provides a nationwide installation service of digital systems directly into customer homes. Sky In-Home Service Limited also provides an aftercare service to the DTH subscriber base.

Satellites

We lease the majority of the transponders that we use for digital transmissions from Société Européenne des Satellites S.A. (''SES''), the operator of the Astra satellites. SES is a Luxembourg company in which the Luxembourg government controls a significant stake. We also lease transponders for digital transmissions from Eutelsat.

We use some of the transponders that we have leased for the Sky Channels; some transponder capacity (and in some cases all of the capacity on a particular transponder) is subleased to third parties for the transmission of other channels or services, including certain of the Sky Distributed Channels. Four full transponders have been subleased by us to Open.

Transponders at 19.2 degrees East for analog transmissions are also leased from SES; however, the last of the analog transponder leases are to terminate by September 30, 2001.

For the transmission of the digital satellite service we have 28 transponders leased from SES on SES' satellites at 28.2 degrees East (''the second orbital location''). Currently we are using transponders on Astra 2A, 2B and 2D. Astra 1D, which had been temporarily moved from 19.2 degrees East to the second orbital location for use for digital transmissions, has been relocated to a new orbital location. Astra 2C, which was launched in June 2001, has been located by SES at 19.2 degrees East and is not used by us for digital transmissions.

Each digital lease will generally continue for a period of 10 years with varying end dates between 2005 and 2011, although we have certain rights to extend certain of the initial lease periods.

Eutelsat launched the Eurobird 1 satellite in March 2001. This satellite is located at 28.5 degrees East. We have leased from BT Telecommunications plc 4 transponders on this satellite. The term of the digital leases is anticipated to be 12.5 years from the operational service date of the satellite.

We have arrangements in place with SES pursuant to which back-up capacity may be available for some of our transponder frequencies based on an agreed satellite back-up plan.

To date, we have not experienced any significant disruption of our transmissions, and we consider it unlikely that if disruption of transmissions were to occur, it would affect more than one satellite at any time. However, the operation of both the Astra and Eutelsat satellites is outside our control and a disruption of transmissions could have a material adverse effect on our business, depending on the number of transponders affected and its duration.

We have been designated a ''non pre-emptible customer'' under each of our transponder leases. Where transponders are non pre-emptible, in the event of satellite or transponder malfunction, our use of these transponders cannot be suspended or terminated by another broadcaster which has preemption rights over capacity in preference to some other customers. Except to a very limited extent, we have not taken out any insurance with respect to our transponders or satellite failure.

Our transponder leases provide that our rights are subject to termination in the event that SES' franchise is withdrawn by the Luxembourg government.

Uplink Facilities

Our uplinking facility, located in Chilworth, provides uplinking capacity for our digital services to the Astra 2A, 2B and 2D satellites as well as Eutelsat's Eurobird satellite. The site has primary and backup uplinking capability for the Astra 2A and 2B services.

This facility also provides telemetry and tracking services for three satellites, including the two Marcopolo satellites sold by us in fiscal 1992 and fiscal 1994.

In respect of the digital services, the majority are delivered by land lines to the Chilworth site. The exception to this is our near-video-on-demand film services which are cached to the Chilworth facility prior to the films being due for broadcast and are then played out continuously over a 7 day period or longer.

We also have access to an alternative routing for the cable link between our principal office in west London and our uplink facility. This alternative line is provisioned in case of any malfunction in the cable link affecting any of our channels. For digital services we have agreed with third parties to provide uplinking facilities in respect of those services for which we also sub-lease transponder capacity.

We are currently constructing a second uplink facility at Fair Oak, approximately 10 miles east of Chilworth which we are financing from our existing resources. This site will initially provide back up uplinking facilities for the services on the Astra 2D and Eurobird satellites. This is expected to be operational by the end of 2001.

Emerging Technologies

We are currently looking at other possible means of distributing our services other than by DTH, cable and digital terrestrial television, such as DSL and WAP. We are also developing an application to work with the current set-top box which deploys a Wireless Markup Language (''WML'') based internet browser which will enable access to a secure environment containing internet content.

In July 2001, we reached an agreement with Ladbrokes, the betting and gaming division of Hilton Group plc, to form a 50:50 joint venture to develop and operate a fixed odds and pools betting business linked to the Sky Channels. The joint venture will also provide sports betting on our internet sites and via the telephone. We will contribute our own bookmaker, Surrey Sports, to the joint venture. The agreement is conditional upon full regulatory clearance having been obtained and agreement of the final documentation.

Minority Equity Investments

We intend to provide a variety of content to users wherever and whenever they want it in the U.K. including through televisions, personal computers and mobile telephones. In November 1999, we formed Sky New Media Ventures plc to invest in online ventures. In fiscal 2000, we made several investments in interactive and other Internet businesses. These now equate to: (1) an approximately 17.7% interest in Mykindaplace.com Limited, a website business aimed at adolescent girls; (2) a 7.8% interest in Streets OnLine Limited, an entertainment products Internet retailer; (4) a 7.5% interest in gameplay.com plc, a computer games portal and community; (5) an approximately 7.5% interest in Toyzone.co.uk Limited, an online toy retailer; (6) an approximately 1.6% interest in Sportal International Limited, a sports-focused Internet Company (7) an approximately 5.3% interest in Letsbuyit.com N.V. which operates a website designed to bring consumers together to benefit from savings on consumer products. Following our purchase of 100% of Open, we have inherited equity in several investments made by Open. These now equate to (1) a 16% interest in Kitbag Sports Group Limited, which operates Kitbag, a sports clothing website, (2) a 10% interest in Upmystreet.com Limited which operates a local information website, upmystreet.co.uk and (3) a further 7.5% interest in Toyzone.co.uk Limited. Toyzone.co.uk Limited ceased trading in February 2001. On July 2, 2001 we sold our approximately 9% stake in Static 2358 Holdings Limited to OpenTV Corp, in return for a combination of cash and OpenTV stock. We now hold approximately 0.5% of OpenTV Corp, an interactive tv and media technology and services supplier.

On July 12, 2000, we acquired Sports Internet Group plc, an AIM listed company that designs and maintains third party sports Web sites as well as its own Web sites. As a result, Sports Internet shareholders have received our shares in exchange for their shares in Sports Internet.

We have minority interests in four soccer teams that are competing in the Premier League this season: Manchester United, Chelsea, Leeds United and Sunderland, as well as a minority interest in Manchester City soccer club, who are competing in the First Division this season following their relegation from the Premier League at the end of the last season. We have also entered into a strategic media alliance with Leeds United plc (formerly Leeds Sporting Plc), the holding company of the soccer club Leeds United, whereby we will act as its exclusive media agent, excluding rights required to be negotiated collectively by the Premier League, for an initial period of five years. We have also entered into similar strategic media alliances with Chelsea, Manchester City and Sunderland soccer clubs. We have also entered into a joint venture with Chelsea, Chelsea Digital Media Limited, which is to carry on certain media, e-commerce, telecommunication and internet related activities of Chelsea Village plc (including the ownership and operation of the Chelsea TV channel).

New Markets

We examine and discuss with third parties, from time to time, acquisition possibilities and joint ventures in media-related areas in the U.K., continental Europe and elsewhere.

In April 2000 we acquired an equity interest of 24% in KirchPayTV which operates a pay-television platform in Germany. Following further investment in KirchPayTV by third parties, our equity interest has been reduced to 22.03%.

GOVERNMENT REGULATION

We are subject to regulation primarily in the U.K. and the European Community. The regimes which principally affect our business are broadcasting, telecommunications and competition (anti-trust) laws and regulation.

Broadcasting and Telecommunications Regulation

United Kingdom

Our Television Services Licenses

The broadcasting services provided by us are regulated by the U.K. Independent Television Commission (''ITC'') as satellite television services (''STS'') and digital programme services (''DPS'') pursuant to the United Kingdom Broadcasting Act 1990 as amended and supplemented by the Broadcasting Act 1996 (together, the ''Broadcasting Acts'').

We and our broadcasting joint ventures each currently hold an STS license for each of our respective channels and for a number of other broadcasting services. An STS license permits the operation of an STS service but does not confer on an STS licensee the right to use any specified satellite, transponder or frequency to deliver the service. STS licenses are granted for a period of ten years and new licenses must be issued by the ITC if certain minimum objective criteria are met. We have also been issued a DPS License, which is required for the distribution of our channels via DTT, and hold various ancillary service licenses, including that relating to the electronic programme guide for digital satellite services which are further discussed below.

ITC Powers

The ITC has authority to impose fines, shorten the license period or revoke a license if the licensee breaches or fails to remedy a breach of any license condition or to comply with any direction which the ITC lawfully gives. In common with all television licenses issued by the ITC, our licenses impose on us an obligation to comply with the Codes and Directions issued by the ITC from time to time. The Codes include requirements as to impartiality and accuracy of news programming, requirements as to taste and decency and the portrayal of sex and violence and restrictions on the quantity and content of advertisement.

The ITC may revoke a license in order to enforce the restrictions contained in the Broadcasting Acts on the ownership of media companies or in the event that the characteristics of the licensee change so that it would not be granted a new license. The ITC may also vary the conditions of licenses issued under the Broadcasting Acts. In addition, the Broadcasting Acts prohibit ''disqualified persons'' from holding licenses. Disqualified persons include any bodies whose objects are wholly or mainly of a political or religious nature and advertising agencies.

Audience Share

Television companies (other than the BBC as the state-owned public service broadcaster) are not entitled to expand their activities so as to exceed 15% of total television audience share in the U.K. If this audience share were exceeded, then the Broadcasting Acts empower the ITC to take steps to reduce this audience share to below 15%. The ITC's ultimate sanction is license revocation. We are currently well within the 15% limit.

Media Ownership

The U.K.'s rules in respect of media ownership, which are contained in the Broadcasting Acts, continue to preclude us (for as long as the Group is owned as to over 20% by News International Television Limited or another member of the same group) from acquiring more than a 20% interest in the principal U.K. commercial public service licences (which include Channel 3 regional licences or a Channel 5 licence) or in certain radio businesses.

Digital Terrestrial Television

The Broadcasting Act 1996 established a framework for the development of digital terrestrial television (''DTT'') broadcasting. ITV Digital offers a commercial DTT service using 3 of the 6 available ''multiplex'' frequencies. Most of the capacity on the other three multiplexes has been allocated to public service broadcasters. Versions of five of the Sky Channels are supplied via ITV Digital to DTT viewers under our DPS licence.

Listed Events — Limits on Exclusive Distribution Rights

The Broadcasting Act 1996 provides that no U.K. broadcaster can enter into a contract for the acquisition of the exclusive live rights to broadcast certain sporting or other events of national interest designated by the Secretary of State from time to time (''listed events''), whether on a free-to-air or subscription basis without the previous consent of the ITC. The effect of these rules is that many leading sports events cannot be shown live exclusively on pay-TV. In addition, each of our STS licenses forbid the showing of listed events on a pay-per-view basis.

Our Telecommunications Licenses

We operate under a number of class licences under the Telecommunications Act 1984 in relation to the technical side of our transmissions. The most important of these licences relate to conditional access and access control services for digital transmissions. These are discussed further in the context of the U.K.'s implementation of European Community legislation under the heading *''Transmission Standards Directive''*.

European Community

The Television Without Frontiers Directive

The EC Television Without Frontiers (''TWF'') Directive 1989, as revised in 1997, sets forth basic principles for the regulation of broadcasting activity in the EC. In essence, it provides that each EC broadcasting service should be regulated by the authorities of one Member State (the ''home Member State'') and that certain minimum standards should be required by each Member State of all broadcasting services which the Member State's authorities regulate. The U.K., which is our home ''Member State'', has adopted a variety of statutory and administrative measures to give effect to the requirements of the TWF Directive. The EC Commission is responsible for monitoring compliance and can initiate infringement proceedings against Member States which fail properly to implement the TWF Directive. The European Commission has announced that it intends to re-examine all the provisions of the TWF Directive in 2002, in consultation with all interested parties.

Programme Quotas

The TWF Directive required Member States to ensure ''where practicable and by appropriate means'' that broadcasters reserve ''a majority proportion of their transmission time'' for European works. However, the term ''where practicable and by appropriate means'' has not been defined in the TWF Directive and there is uncertainty about its proper application. In applying this rule, broadcast time covering news, games, advertisements, sports events, teletext and teleshopping services are excluded.

Sky News and Sky Sports 1, 2 and 3 currently devote a majority of relevant transmission time to works of European origin. Although the majority of programming on Sky One is not currently of European origin, we are taking steps progressively to increase the number of European works which we broadcast on that channel. Our movie channels consist largely of English language box office movies, supplied principally by U.S. film studios.

Independent Productions

The TWF Directive also requires that Member States ensure ''where practicable and by appropriate means'' that broadcasters reserve at least 10% of their transmission time (excluding time covering news, sports events, games, advertising, teletext and teleshopping services) or, at the option of the Member State, 10% of their programming budget, for European works created by producers who are independent of broadcasters. An adequate proportion of the relevant works should be works produced within the five years preceding their transmission. We believe that we are capable, without material adverse effect, of meeting any requirements as to independently produced works which may be imposed on us pursuant to these provisions of the TWF Directive.

Transmission Standards Directive

The EC has adopted a Directive on the use of standards for the transmission of television signals (the ''Transmission Standards Directive''). The Transmission Standards Directive requires Member States to impose transmission standards on broadcasters of digital television services; to implement rules governing the provision of conditional access services to broadcasters wishing to provide encrypted digital television services; and to regulate the licensing of conditional access technology to manufacturers of digital decoders.

Technical Standards

The requirements on technical standards are administered by the ITC under the Broadcasting Act 1996. We believe that we are able to comply with the standards that have been laid down.

Conditional Access Services and Technology

The Advanced Television Services Regulations 1996 (the ''Television Services Regulations'') implement the conditional access aspects of the Transmission Standards Directive in the U.K. The regulation of conditional access for digital television services is by way of a class license issued under the Telecommunications Act 1984 by the Secretary of State for Trade and Industry, and administered by the Director General of Telecommunications (the ''DG Telecoms'').

The principal requirements of this regime are:

- that the provision of conditional access services to other broadcasters should be on fair, reasonable and non-discriminatory terms;
- that providers of conditional access services should co-operate with the cable industry regarding transcontrol at the cable headend; and
- that, where conditional access technology is licensed to manufacturers of digital decoders, such licences should be on fair, reasonable and non-discriminatory terms.

Access Control Services

The provision of access control services (services other than conditional access services for digital television which control access via digital services) is also regulated by way of a class licence issued under the Telecommunications Act 1984 by the Secretary of State for Trade and Industry. This class licence is also administered by the DG Telecoms and adopts similar principles to the class licence for digital conditional access services, although access control services are not referred to in the Transmission Standards Directive. SSSL is designated a regulated supplier under this class licence in respect of its activities in providing on-line verification services to third parties on the digital satellite platform and it is subject to the obligation to provide access control services on fair reasonable and non-discriminatory terms and not to favour related companies.

Regulation of Electronic Program Guides

The ITC's 1997 Code of Conduct on Electronic Program Guides is binding on broadcasters licensed by the Independent Television Commission to provide electronic program guide services. The Group has been licensed by the ITC to provide a digital electronic program guide, Sky Guide, for its digital satellite service. The DG Telecoms asserts certain regulatory responsibilities in this area under his power to regulate conditional access services.

Regulation of Competition (Anti-Trust)

We are subject to the EC competition law regime (administered by the EC Commission and by civil courts in each Member State) and to individual national regimes in the countries where we operate, of which the principle country is the U.K. We are also subject to specific competition regulation by the ITC under powers contained in the Broadcasting Acts.

U.K. Competition Law Regime

The Competition Act 1998

On March 1, 2000, the Competition Act 1998 came into force. It is designed to align U.K. domestic competition law with EC law, in particular Articles 81 and 82 of the EC Treaty. As a result of this new Act the U.K., previously one of the less regulated countries in the world in relation to anti-trust matters, is now one of the most heavily regulated.

Anti-competitive agreements

The Chapter I prohibition of the Competition Act 1998, based on Article 81 of the EC Treaty (formerly Article 85) prohibits agreements which have the object or effect of preventing, restricting or distorting competition in the U.K. The anti-competitive nature of an agreement is judged according to its effects or intended effects on competition.

There are serious consequences for infringing the Chapter I prohibition:

- The Director General of Fair Trading (''the DGFT'') can impose fines of up to 10% of the U.K. turnover of the parties for each year they are found to be in breach, up to a maximum of three years;
- Agreements in breach are void and unenforceable in whole or in part; and
- Third parties who have suffered loss from the operation of agreements or conduct in breach may be entitled to seek damages or other remedies in the courts.

Agreements which breach the Chapter I prohibition are capable of exemption where their beneficial effects in improving production or distribution or promoting technical or economic progress outweigh their restrictive effects provided that consumers receive a fair share of the benefit, that competition will not be substantially eliminated and that no unnecessary restrictions are accepted by the parties.

Abuse of a Dominant Position

The Chapter II prohibition of the Competition Act 1998 is based closely on Article 82 (formerly Article 86) of the EC Treaty and prohibits anti-competitive behaviour by dominant firms. Where a company infringes the Chapter II prohibition it may be penalised with fines of up to a maximum of 10% of its total U.K. turnover for each year it is found to be in breach, up to a maximum of three years. Third parties such as customers and competitors may be able to seek from the court an injunction to prevent conduct in breach of the Chapter II prohibition. As above, third parties may be entitled to seek damages where they have suffered loss as a result of conduct in breach of the Chapter II prohibition.

Effect on Us

On December 5, 2000, the OFT announced that it was to conduct a Competition Act inquiry into BSkyB's activities, in particular its supply of wholesale pay-TV in the UK. This inquiry follows an OFT review of undertakings given by BSkyB in 1996 to meet concerns then identified by the OFT about the wholesale supply of BSkyB's channels. The OFT is still in the information gathering phase of its inquiry and has not yet concluded that it has sufficient grounds to take the inquiry to the next formal stage. Should the DGFT reach an adverse finding he has, as noted above, a range of different sanctions available to him. If the DGFT reaches an adverse finding BSkyB has an automatic right of appeal to the

Competition Commission Appeal Tribunal and a right of appeal from the Competition Commission Appeal Tribunal to the UK Court of Appeal on points of law and on the level of penalties. It is too early for BSkyB to determine the outcome of the inquiry or whether it will have a material effect on BSkyB's business.

Fair Trading Act 1973

Monopolies

The monopoly provisions of the Fair Trading Act 1973 provide for the review of markets by the DGFT to identify enterprises which alone (''scale monopoly''), or together with others (''complex monopoly''), supply or acquire over 25% of the goods or services of any description in the U.K. or in any part of the U.K. The Competition Act 1998 confers ''search and seize'' powers on the DGFT in relation to his monopoly jurisdiction.

References on monopolies may be made to the Competition Commission (''CC'') by the DGFT (or, on telecommunications matters by the DG Telecoms) although he may, in each case, accept undertakings or assurances (the latter being a form of informal undertaking) instead of making a reference. The CC may recommend action where it finds that there are matters operating, or which can be expected to operate, against the public interest. Ultimately, the Secretary of State has extensive powers to impose remedial action (including divestment and the imposition of conditions on the contracts, pricing policies and other conduct of the enterprises) either through undertakings negotiated by the DGFT or by secondary legislation.

Mergers

The DGFT also has a duty to keep under review mergers and the acquisitions of minority holdings which confer control over an enterprise for the purposes of the mergers provisions of the Fair Trading Act 1973. The DGFT advises the Secretary of State on transactions which qualify for investigation under these provisions and the Secretary of State may clear the transaction and/or take certain undertakings or assurances from the enterprises concerned or refer them to the CC for investigation and consideration against the broad public interest test laid down in the Fair Trading Act 1973. The powers of the Secretary of State in relation to a merger investigation by the CC are very similar to those described above in relation to a monopolies investigation.

Effect on our Affairs

In July 1996 BSkyB gave a number of undertakings to the DGFT to meet concerns about competition in the market for wholesale pay-TV, identified by the OFT following a review under the monopoly provisions of the Fair Trading Act 1973 of BSkyB's business. In those undertakings BSkyB agreed to set for cable operators a separate wholesale price for certain BSkyB channels together with discount structures which are set out in a published ratecard which is approved by the DGFT. On March 1, 2000, the OFT formally announced that it was to review the undertakings given to the DGFT in 1996.

The review lead to the OFT announcing on December 5, 2000 that BSkyB was to be released from two of the undertakings given to the DGFT in July 1996 and on April 4, 2001, the OFT announced that BSkyB need not observe a further two undertakings. The first undertaking related to the need for BSkyB's basic channel Sky One to be supplied on terms governed by the rate card. The second undertaking related to the need for BSkyB to provide to the OFT separated accounts.

BSkyB continues to comply with the undertakings given to the DGFT in July 1996. We will so long as they remain in force keep under review whether adherence to the undertakings and ratecard (or any amendments agreed to either of them) would have a material adverse effect on our business and financial results.

In May 2001 the Secretary of State cleared under the merger control provisions of the Fair Trading Act 1973 the acquisition by BSkyB of a controlling interest in the BiB joint venture subject to a single undertaking from BSkyB. The undertaking provides that BSkyB will provide distributors of its premium channels the option either to receive a signal free of interactive icons or, where the distributor distributes an interactive or enhanced service, to receive a signal that allows the relevant interactive icons.

ITC Competition jurisdiction

The Law

The ITC has duties to promote competition in the provision of the television services it regulates under Section 2 of the Broadcasting Act 1990. In exercise of this jurisdiction the ITC carries out investigations and remedies any problems that it finds by the imposition of license conditions on one or more broadcasters. It may impose fines if such a license condition is subsequently broken.

Effect on Our Affairs

There have been no rulings by the ITC in the last year that have had a material effect on our business.

European Community Regime

Anti-Competitive Agreements

Article 81(1) of the EC Treaty (formerly Article 85(1)) renders unlawful agreements and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the Common Market (that is, the Member States of the EC collectively). Article 81(2) makes offending provisions (and, in some cases, the entire agreement) void. Article 81(3) allows for exemption from the provisions of Articles 81(1) and 81(2) for agreements whose beneficial effects in improving production or distribution or promoting technical or economic progress outweigh their restrictive effects, provided that consumers receive a fair share of the benefit, the competition will not be substantially eliminated and that no unnecessary restrictions are accepted by the parties.

Abuse of a Dominant Position

Article 82 (formerly Article 86) prohibits abuse by one or more enterprises of a dominant market position in the EC or a substantial part of it, insofar as the abuse may affect trade between Member States.

Enforcement of Articles 81 and 82

The EC Commission has the exclusive right to grant exemptions under Article 81(3). This may be by specific exemption for an individual agreement or ''block'' exemption for classes of agreements. The EC Commission may require an agreement to be amended (including as to scope exclusivity and/or duration) as a condition of granting an exemption and may impose behavioural conditions applying during the life of the agreement.

The Commission has power, where it issues an infringement decision in relation to Article 81 or Article 82, to impose heavy fines (up to 10% of a group's annual revenue) and to make orders prohibiting operation of the infringing terms or conduct. It may also take interim measures in certain cases. In the case of agreements, notification of potentially infringing agreements to the EC Commission under Article 81 with a request for an exemption under Article 81(3) normally protects against the risk of fines from the date of notification.

It is possible for a third party who suffers loss as a result of the performance of an agreement which infringes Article 81(1) or as a result of a breach of Article 82 to claim damages in a national court to compensate it for its quantifiable loss. National courts may also issue injunctions (on a final or interim basis) to restrain actual or threatened infringements of Article 81(1) or Article 82.

Mergers

Council Regulation (EEC) No. 4064/89 as amended by Council Regulation No. 130/97 in March 1998 (the ''Merger Regulation'') contains a mandatory regime regulating mergers, full function joint ventures (i.e. ones which perform on a lasting basis all the functions of an autonomous economic entity) and the acquisition of holdings which confer decisive influence over an enterprise and which meet the turnover thresholds specified in the Merger Regulation. Such transactions cannot be carried out without prior approval from the EC Commission to which it can attach conditions. Where the EC Commission has jurisdiction under the Merger Regulation, national authorities do not normally have jurisdiction.

Effect On Our Affairs

We review our agreements which potentially fall within Article 81(1) to determine whether they should be notified to the EC Commission. We decide whether to notify specific agreements by taking account of a number of factors, including the importance to us of the agreement and the likelihood that adverse consequences to us would result from any failure to notify. The EC Commission will review each notified agreement for compliance with Article 81.

In March 2000 the EC Commission approved our purchase of a 24% stake in KirchPayTV, subject to commitments, under the Merger Regulation. This approval is subject to an appeal to the European Court of First Instance by the German public service broadcaster, ARD, the outcome of which is unlikely to be known before summer 2002. Meanwhile, the appeal does not affect our participation in KirchPayTV.

On July 11, 2001, The EC Commission indicated to BSkyB that it had received a complaint suggesting that a number of agreements between BSkyB and channel suppliers contained exclusivity clauses which infringed Article 81 and/or Article 82 of the EC Treaty. The Commission has indicated that it intends to assess the compatibility of the channel supply agreements referred to in the complaint with EC rules on competition and in particular Articles 81 and/or Article 82 of the EC Treaty.

In the event that the Commission concludes that the relevant channel supply agreements do infringe either Article 81 and/or Article 82 of the EC Treaty, the offending provisions on the relevant agreements may be considered void and, in certain circumstances, may cause the entire agreement to be void. In the event that BSkyB is found to have infringed either Articles 81 and/or 82 of the EC Treaty the Commission also has the power to fine BSkyB up to 10% of world-wide turnover in the most recent financial year.

The EC Commission is in the preliminary information gathering stage of its investigation and, at this stage, BSkyB is not in the position to be able to assess whether the Commission will choose to pursue its investigation or, in the event that it does, whether the exclusivity clauses contained in the relevant agreements will be found to infringe Articles 81 and/or Article 82 of the EC Treaty.

ORGANIZATIONAL STRUCTURE

Details of the Group's principal subsidiary undertakings and joint ventures can be found in Item 19(a)1. Notes to Financial Information — Note 16.

PROPERTY, PLANT AND EQUIPMENT

Our headquarters is located at leasehold premises in Isleworth, England.

The principal properties of the Group are as follows:

Location	Tenure	Permitted Use	Term	Current Annual Rent or License Fee	Approximate Square Foot Area
5, 6 and 7 Grant Way, Centaurs Business Park, Isleworth, England	Leasehold	Offices	Leases expire June 23, 2013	£ 891,000	74,840
4 Grant Way, Centaurs Business Park, Isleworth, England	Leasehold	Offices	Lease expires May 31, 2012	£ 227,440	45,888
2 Grant Way, Centaurs Business Park, Isleworth, England	Leasehold	Offices	Lease expires June 24, 2012	£ 307,500	38,490
3a/3b Grant Way, Centaurs Business Park Isleworth, England	Leasehold	Warehouse and offices	Lease expires November 4, 2012	£ 227,700	28,300
Athena Court, Centaurs Business Park, Isleworth, England	Leasehold	Offices	Lease expires June 2008	£ 990,000	52,583
Cromwell Centre, Centaurs Business Park, Isleworth, England	Informal license	Offices and storage	Lease expires July 26, 2015	£ 350,000	38,994
The Chilworth Research Centre, Southampton, England	Leasehold	Offices, scientific use, light industrial, satellite uplink	Lease expires February 25, 2087 with an option to renew until February 25, 2113	£ 95,000	18,850
1, 2, 4 and 5 Macintosh Road, Kirkton Campus, Livingston, Scotland	Freehold	Light industrial	n/a	n/a	120,280
Carnegie Campus Dunfermline, Scotland	Leasehold	Light industrial	Lease expires September 29, 2020	£ 500,000	75,431
Victoria House London, England	Leasehold	Offices	Lease expires December 24, 2005	£ 430,000	19,850
West Cross House Brentford, England	Leasehold	Offices	Lease expires March 26, 2019	£1,349,694	88,400
Satellite House City Park, Welwyn Garden City, England	Leasehold	Offices and storage	Lease expires September 28, 2005	£ 181,950	20,124
4 Millbank, London, England	Leasehold	Offices and studios	Lease expires December 20, 2003	£ 298,992	4,324
Great West House, Brentford, England	Leasehold	Offices	Lease expires December 24, 2003	£ 364,000	20,800
Welby House London, England	Leasehold	Offices	Lease expires 15 January, 2015	£ 311,250	8,138
Land at Knowle Lane, Fair Oak, Eastleigh, England	Freehold	Light industrial	n/a	n/a	95,832

Glossary of Terms

ADR	American Depository Receipt
ADS	American Depository Share
AIM	Alternative Investment Market
BiB	British Interactive Broadcasting Holdings Limited — a subsidiary, which was a joint venture until May 9, 2001, which delivers digitally transmitted interactive services (under the brand name ''Open'' and to be rebranded ''Sky Active'') to TV viewers in the U.K.
BSkyB	British Sky Broadcasting Group plc
Controlling Shareholder	a person who is entitled to exercise or to control the exercise of 30% or more of the rights to vote at general meetings of the Company or able to control the appointment of Directors who are able to exercise a majority of votes at meetings of the Directors
DTH	Direct to Home (i.e. the transmissions of satellite services for reception by a viewer with satellite reception equipment)
EC	European Community
The Group	British Sky Broadcasting Group plc and its subsidiary undertakings
IPO	initial public offering
Premium Channels	The Sky Premium Channels, FilmFour, Disney Channel and MUTV
Premium Sky Distributed Channels	Disney Channel, FilmFour and MUTV
Principal Shareholders	Shareholders owning more than 10% of BSkyB
Sky Basic Channels	Sky One, Sky News, Sky Travel, [.tv] technology and (in digital only) Sky Sports News
Sky Channels	Television channels wholly owned by the Group, being the Sky Basic Channels and the Sky Premium Channels
Sky Distributed Channels	Television channels owned and broadcasted by third parties, marketed by the Group to DTH viewers
Sky Premium Channels	Sky MovieMax, Sky Premier, Sky Cinema, Sky Sports 1, Sky Sports 2, Sky Sports 3, Sky Sports Extra
SMATV	single mast antenna television, which is used primarily for buildings that receive programming by means of a single antenna which is connected to a head end and distribute television signals to individual units in the building by cable
Television Services Regulations	the Advanced Television Services Regulations 1996 which implement the Transmission Standards Directive in the U.K.
Transmission Standards Directive	EC directive on the use of standards for the transmission of television signals
TWF Directive	Television without Frontiers directive — lays down basic principles for the regulation of broadcasting activity in the EC

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis is based on, and should be read in conjunction with, the consolidated financial statements, including the related notes, appearing elsewhere in this Annual Report filed on Form 20-F. The financial statements have been prepared in accordance with U.K. GAAP, which differs in significant respects from U.S. GAAP. Note 28 to our consolidated financial statements provides a description of the significant differences between U.K. GAAP and U.S. GAAP as they relate to our business and provides a reconciliation to U.S. GAAP.

Overview

We have continued to consolidate our position as one of the leading providers of premium pay television services in the United Kingdom (''U.K.''). As the pay TV business has developed in the U.K., we have continued to expand our total subscriber base, attract additional advertising revenue and obtain and develop programming on a long-term basis. Acquired programming has included movies licensed under exclusive pay TV agreements with certain U.S. and European film licensors, and also exclusive rights to broadcast live various popular sporting events.

We are currently continuing to concentrate our efforts on the promotion of our digital satellite service, Sky digital. We have also continued to build the infrastructure for satellite-delivered digital television, to secure programming rights and to implement our marketing strategy for our digital service.

Total U.K. and Eire subscribers to Sky's channels increased by 1,056,000 in fiscal 2001 to 10,044,000 and increased by 1,546,000 to 8,988,000 in fiscal 2000. Total Sky digital subscribers have increased to 5,308,000 from 3,583,000, at June 30, 2000 (1999: 753,000). Increased costs were more than offset by increased revenues, reflecting the considerable expenditure in our Sky digital infrastructure during the year, as we continued to invest heavily in programming, distribution and subscriber management services.

During the year, we continued to offer free digital satellite equipment, with the customer agreeing to pay an installation charge, which (for standard installation) is now £50 for all Sky digital subscribers subscribing to our biggest package of channels, Sky World, £70 for all other Sky digital subscribers and £100 for non-subscribers. There is no obligation for a purchaser of a digital satellite system to subscribe to Sky digital to take up the free equipment offer. Providing free digital satellite equipment and digital installation at a reduced price for new and transition subscribers, in addition to the operational costs of running both analog and digital services, has had an adverse impact on current and prior years' earnings. The costs of providing free digital satellite equipment and digital installation at a reduced price may continue to have an adverse impact on earnings over the next few years.

In May 2000 we decided that, with almost 80% of DTH subscribers receiving the digital service, we would cease offering our current analog service from June 2001. This is expected to realize significant cost savings and strategic benefits. All of our existing analog subscribers remain entitled to the current free digital satellite equipment offer. We substantially terminated our analog service in June 2001; however, a limited analog service will continue to be broadcast until the end of September 2001.

From the commercial launch of the Open service on October 12, 1999, digital satellite customers have been able to access digitally transmitted services through British Interactive Broadcasting Holdings Limited (''BiB''), in which we held a 32.5% stake. On July 17, 2000, we announced the acquisition of a further 47.6% of BiB, subject, inter alia, to regulatory approval, to increase our shareholding to 80.1%. On May 9, 2001, we completed the acquisition of the 47.6% of BiB, and on June 28, 2001, we completed the acquisition of the remaining 19.9% of BiB, taking our shareholding to 100%. We accounted for BiB as a 32.5% joint venture up until November 2000. From this date, to May 9, 2001, we recognized 100% of BiB's joint venture losses due to an arrangement dated July 17, 2000 under which we agreed to provide 100% of BiB's funding after existing funding had been utilized. From May 9, 2001, we fully consolidated BiB as a subsidiary. Our share of BiB's joint venture operating losses increased to £135.4 million compared to £99.1 million in fiscal 2000, due to the recognition of 100% of BiB's losses from November

2000 until May 9, 2001, and increased from £44.4 million in fiscal 1999 to £99.1 million in fiscal 2000, due to marketing contributions provided by BiB to purchasers of digital set-top boxes. Open, (planned to be rebranded as ''Sky Active'' from October 2001), has become one of the largest e-commerce platforms in the U.K., enabling retail businesses to offer interactive digital television services including gaming, home shopping, banking, travel, holiday and E-mail services.

Our interactive strategy is to develop and distribute our content across multiple devices and platforms and monetise the traffic through gaming, online advertising, internet, e-commerce, interconnect, text services, Sky Interactive set-top box recovery and subscription services. We provide news, sports and entertainment services via our portals, Sky.com and Skysports.com, and from July 26, 2000, we have distributed our news and sports content on the Orange, Mviva and Eircell mobile portals. On July 12, 2000, we acquired Sports Internet Group plc (''SIG''), an AIM listed company that provides sports content, statistics, gaming and e-commerce services through an integrated Internet platform. SIG shareholders received new BSkyB shares as consideration for their shares in SIG. See Item 4 ''Information on the Company — Interactive''.

On March 3, 2000, we entered into arrangements with Chelsea Village Plc Group (''Chelsea Village'') to subscribe for ordinary and preference shares in Chelsea Village, the holding company of the U.K. football club, Chelsea, and to become their exclusive media agent, for total consideration of £40 million. The shares acquired in Chelsea Village Plc represented 9.9% of its enlarged share capital. The transaction completed on July 14, 2000.

We derive our revenues principally from DTH subscribers, payments from cable operators and the ITV Digital digital terrestrial television (''DTT'') service in respect of the distribution of Sky Channels via their service, from the sale of advertising airtime on each of the Sky Channels and from interactive revenue mainly comprising gaming, subsidy recovery and fees from content providers. We are currently a leading supplier of programming to ITV Digital and cable operators in the U.K., although not all cable operators carry all Sky channels. Substantially all of our revenues and operating profits are derived from within the U.K.

Our DTH revenues are a function of the number of subscribers, the mix of services taken and the rates charged. Growth in the number of DTH subscribers is driven by the take-up of satellite equipment. Similarly, our wholesale revenues are a function of the number of subscribers on ITV Digital's and cable operators' platforms, the mix of services taken by those subscribers and the rates charged to the cable operators and ITV Digital. While there has been an increase in the number of DTT subscribers to our services, there has been a slight decrease in the number of cable subscribers to our services. Our advertising revenues are determined primarily by the number of our subscribers, viewing levels, advertising rates, audience demographics, the ability to reach target audiences and total TV advertising expenditures. Our interactive revenues are derived from gaming, online advertising, internet, e-commerce, interconnect, text services and Sky Interactive set-top box subsidy recovery. In addition, we derive revenues from certain other activities, including the installation of digital satellite reception equipment and the provision of conditional access and subscriber management services to third parties.

In the provision of both analog and digital multi-channel television services, we currently compete at a retail level with cable operators, and in respect of digital only, with both cable operators and ITV Digital. Both NTL Inc and Telewest Communications Plc, who between them represent in excess of 99% of the U.K. broadband cable industry, have launched digital cable services in the U.K. across the majority of their cable systems. They are expected to continue to provide an analog service until December 2003.

Our principal operating expenses result from programming, subscriber management, transmission and related functions, marketing, gaming and administration.

Programming represents our largest single component of costs. Programming costs include payment for: (i) licenses of television rights from certain U.S. and European film licensors; (ii) the rights to televise certain popular sporting events; (iii) programming acquired from third party licensors; (iv) the production and commissioning of original programming; and (v) the rights to distribute the Sky

Distributed Channels and (in digital only) the Music Choice and Music Choice Extra audio services to DTH viewers. Our costs relating to film rights, those Sky Distributed Channels for which a per-subscriber fee is payable and the Music Choice services are currently determined largely by subscriber levels.

Subscriber management expenditure includes the operating costs of the subscriber management centers and smart card costs, both of which are largely dependent on DTH subscriber levels.

Transmission and related costs, including other technical costs, are primarily dependent upon the number and annual rental cost of the satellite transponders which we use.

Marketing costs include commissions payable to retailers and other agents who market our services to purchasers of satellite reception equipment, promotional and related advertising costs and the costs to us of direct marketing by us to our DTH customers. In addition, marketing costs include the cost of providing the free digital satellite equipment to new customers and the installation cost in excess of the amount actually received from the customer. The costs of providing the free equipment offer relating to analog subscribers that transition to the digital service are being offset against the transition provision provided, under UK GAAP, in fiscal 1999, 2000, and 2001.

Gaming expenditure includes the cost of payouts for the winning bets.

Results of Operations for the three Fiscal Years ended June 30, 2001, 2000 and 1999

Revenues

Revenues increased to £2,306.0 million in fiscal 2001 from £1,847.0 million in fiscal 2000 and £1,545.0 million in fiscal 1999. This represented growth of 25% in fiscal 2001 and 20% in fiscal 2000. An analysis of revenues for the relevant fiscal years is shown below.

	Revenues					
	1999		2000		2001	
	£m	%	£m	%	£m	%
DTH subscribers	979.3	63.4	1,189.0	64.4	1,536.7	66.6
Cable and DTT subscribers	252.6	16.3	303.0	16.4	299.1	13.0
Advertising	216.5	14.0	242.3	13.1	270.5	11.7
Interactive*	—	—	4.6	0.2	93.0	4.0
Other	96.6	6.3	108.1	5.9	106.7	4.7
	1,545.0	100.0	1,847.0	100.0	2,306.0	100.0

* Interactive income includes income from gaming, online advertising, internet, e-commerce, interconnect, text services and Sky Interactive set-top box subsidy recovery.

DTH Subscribers

DTH subscription revenues are our largest source of revenue and increased to £1,536.7 million in fiscal 2001 from £1,189.0 million in fiscal 2000 and £979.3 million in fiscal 1999. The improvement of 29% in fiscal 2001 was largely driven by a 28% increase in the average number of subscribers. The improvement of 21% in fiscal 2000 was largely driven by a 13% increase in the average number of subscribers.

The quarterly annualized core average revenue per DTH subscriber (subscription and pay-per-view revenues and net of VAT), calculated on the basis of the average number of subscribers in the year, increased to £302 in fiscal 2001 from £281 in fiscal 2000 and from £267 in fiscal 1999. The increase in annualized average revenue in fiscal 2001 and fiscal 2000 principally resulted from increased pay-per-view revenue, due to an increase in the number of subscribers using Sky Box Office, and price rises which affected analog subscribers on September 1, 2000 and September 10, 1999 and digital subscribers on January 1, 2001.

The total number of DTH subscribers increased by 940,000 in fiscal 2001, having increased by 1,053,000 in fiscal 2000. The increase in the number of DTH subscribers in fiscal 2001 and fiscal 2000 was primarily due to the significant growth in new digital subscribers.

Annualized net churn was 10.0% at June 30, 2001, 10.5% at June 30, 2000 and 15.4% (13.4% excluding the effect of the sports promotion in the first quarter) at June 30, 1999. We believe that the decrease in churn in the year was due to greater customer satisfaction, better quality service and the success of new loyalty schemes.

Our pricing structure for Sky digital is based around six types of ''Sky Entertainment'' packages: the ''Sky Family Pack'' is available from £16 and a range of smaller packages are available from £10 each. Sky Premium Channel packages containing the smaller packages are at a £1 discount (with the ''Sky Value Pack'' at a £2 discount) to the price of the same Sky Premium Channel packages containing the ''Sky Family Pack''. This is the case on all packages with the exception of those subscribers on basic packages (without Premium Channels) who receive a £3 discount (with the ''Sky Value Pack'' at a £6 discount). Sky Box Office (''SBO'') programming and events are available to subscribers to any package. The top tier digital package (including the Sky Family Pack) is £34, (excluding, in both cases, prices for separate à la carte channels and SBO services). At June 30, 2001 more than 96.2% of DTH subscribers took packages containing the Sky Family Pack.

In June 2001, we secured a three year contract (commencing in fiscal 2002) allowing us to broadcast live 40 Premier League games per season to our DTH subscribers on a pay-per-view basis. The cable and DTT rights to these games have been acquired separately by other broadcasters. In fiscal 2002, DTH subscribers to Sky Sports will be able to view all 40 games for an upfront ''season ticket'' price of £60 (for non-Sky Sports DTH subscribers the price is £120). Alternatively, DTH subscribers to Sky Sports can buy individual games at a price of £8 per game.

In July 2001, we launched Sky+, a new set-top box which integrates the features on the existing digital set-top box with those of a personal television recorder. The price to the customer for the Sky+ box is £300. To use the new box, the customer has to pay £10 per month subscription. The price of installation is £50 if the customer is a Sky digital subscriber (£100 for non-subscribers). Subscription revenues will be included within DTH revenues and the price of the box and the installation revenues will be included within other revenues (see below).

Cable and DTT Subscribers

Cable and DTT subscription revenues continued to be an important source of revenue, remaining relatively constant during fiscal 2001, decreasing by just 1% to £299.1 million in fiscal 2001 from £303.0 million in fiscal 2000 and £252.6 million in fiscal 1999. The decrease from fiscal 2000 to fiscal 2001 was due to a £18.1 million decrease in cable revenues to £247.5 million, partly offset by a £14.2 million increase in DTT revenues to £51.6 million and the increase from fiscal 1999 to fiscal 2000 was due to an £19.3 million increase in cable revenues to £265.6 million and a £31.1 million increase in DTT revenues to £37.4 million. The decrease in cable revenues was due to a 6% decrease in the average number of cable subscribers (7% increase in the previous year) and an average revenue per subscriber decrease of 1% in the period (1% increase in the prior year). In fiscal 2001, the increase in DTT revenues was due to the 461,000 increase in the estimated average number of subscribers, partly offset by a 31% decrease in the estimated average revenue per subscriber. In fiscal 2000, the increase in DTT revenues was due to the 301,000 increase in the estimated average number of subscribers. At June 30, 2001 approximately 4.6 million (June 30, 2000: 3.9 million) U.K. and Eire, cable and DTT subscribers (including broadband, narrowband and Single Mast Antenna TV (''SMATV'') subscribers) received our programming, of which approximately 28% subscribed to one or more Sky Premium Channels, compared to 41% at June 30, 2000.

At June 30, 2001, U.K. ITV Digital and cable operators were typically charged for Sky Premium Channel subscribers at levels which were between 48% and 57% of the DTH subscription price charged for Sky Premium Channel subscribers (excluding VAT). In addition, the percentage of cable and DTT subscribers who subscribed to Sky Premium Channels is lower than that for DTH subscribers. As a result, on average, in fiscal 2001, cable (including Ireland) and DTT subscribers accounted for 46% (fiscal 2000: 50%) of total subscribers, although cable and DTT subscription revenues accounted for only 16% (fiscal 2000: 20%) of total subscription revenues.

The digital SBO movie service was launched in October 1998, originally offering 48 screens across six transponders and showing on average 50 different pay-per-view movies per month. In addition, pay-per-view concerts, boxing and wrestling events were broadcast in fiscal 1999, 2000 and 2001. A rival pay-per-view service, Front Row, began to serve cable subscribers from October 4, 2000. There are currently 61 digital screens on our SBO movie service, with a further screen showing movie previews. Revenues from pay-per-view are included within DTH, cable and DTT subscriber revenue as appropriate.

Advertising Revenues

Advertising revenues increased to £270.5 million in fiscal 2001 from £242.3 million in fiscal 2000 and £216.5 million in fiscal 1999. In fiscal 2001, the increase in advertising revenues of 12% (fiscal 2000: 12%) was driven by the growth in viewing share of Sky channels, from 5.28% to 5.76% (fiscal 2000: viewing share of Sky channels increased from 4.97% to 5.28%).

Interactive Revenues

Interactive revenues, which were included in ''other revenues'' in prior years, comprise income from gaming, online advertising, internet, e-commerce, interconnect, text services and Sky Interactive set-top box subsidy recovery. Interactive revenues have increased from £4.6 million in the prior period to £93.0 million, mainly due to the inclusion of £78.4 million of gaming revenues, earned subsequent to the acquisition of SIG in July 2000.

Other Revenues

Other revenues comprise set-top box installation revenues, conditional access fees, service call revenues and sales commission. In fiscal 1999, other revenues included sales of set-top boxes and in fiscal 2000, the other revenues category was reclassified to exclude interactive revenues as such revenues are now categorized separately. Other revenues remained largely constant and decreased by only 1% (£1.4 million) to £106.7 million in fiscal 2001. Other revenues increased by 12% (£11.5 million) in fiscal 2000, primarily due to increases in installation and new media revenues, partly offset by the loss of revenue from sales of satellite set-top boxes following the free set-top box offer.

Operating Expenses

Total operating expenses after goodwill and exceptional items increased to £2,213.2 million in fiscal 2001, from £1,866.7 million in fiscal 2000 and £1,816.0 million in fiscal 1999. This represented annual growth of 19% in fiscal 2001, and 3% in fiscal 2000. An analysis of operating expenses for the relevant fiscal years is shown below:

	Operating Expenses (after goodwill and exceptional items)					
	1999		2000		2001	
	£m	%	£m	%	£m	%
Programming*	786.5	43.3	945.6	50.7	1,133.8	51.2
Subscriber management	154.4	8.5	205.6	11.0	243.4	11.0
Transmission and related functions*	90.9	5.0	146.2	7.8	128.6	5.8
Marketing	665.5	36.7	439.6	23.6	378.1	17.1
Administration	118.7	6.5	129.7	6.9	254.0	11.5
Gaming	—	—	—	—	75.3	3.4
	1,816.0	100.0	1,866.7	100.0	2,213.2	100.0

* The amounts above are net of £55.1 million (fiscal 2000: £51.3 million; fiscal 1999: £48.2 million) receivable from the disposal of programming rights not acquired for use by the Group, and £53.9 million (fiscal 2000: £61.3 million; fiscal 1999: £50.6 million) in respect of the provision to third party broadcasters of spare transponder capacity.

Programming

Programming costs, which represent the largest single element of our cost structure, constituted 51% of operating expenses in fiscal 2001 (fiscal 2000: 51%). Programming costs increased to £1,133.8 million in fiscal 2001 from £945.6 million in fiscal 2000 and £786.5 million in fiscal 1999. Programming costs are stated net of amounts receivable from the disposal of programming rights not acquired for use by the Group.

Movie channels' programming costs increased by 21% to £336.4 million in fiscal 2001 from £277.9 million in fiscal 2000, and £237.6 million in fiscal 1999. In fiscal 2001 and fiscal 2000, the increase was primarily due to additional licensed programming costs, driven by the 16% (fiscal 2000: 11%) increase in the average number of movie subscribers, and increased SBO costs, which in turn reflect increased volumes of SBO purchases. Under our Pay TV agreements with the U.S. major movie studios, we generally pay a U.S. dollar license fee per film calculated on a per subscriber basis, subject to a minimum guarantee. We currently manage this U.S. dollar/pound sterling exchange risk primarily by the purchase of forward foreign exchange agreements for up to eighteen months ahead. 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. See ''Liquidity and Capital Resources''. Multiplexing our movie channels on the digital services incurs no additional rights fees.

Sports channels' programming costs increased 8% to £416.5 million in fiscal 2001 from £385.4 million in fiscal 2000 and £318.4 million in fiscal 1999. These increases were primarily due to increases in rights costs, including contractual payments for Premier League football, cricket and rugby, together with increases in production costs.

Sports channels' programming costs will continue to increase over the next few years, primarily due to the new Premier League agreement, which will cost an aggregate £1.1 billion over a three year period, which commenced in August 2001.

Entertainment programming costs increased 36% to £89.6 million in fiscal 2001, from £65.7 million in fiscal 2000 and £58.1 million in fiscal 1999. The fiscal 2001 increase reflected increased investment in commissioned programming on Sky One and increased licensed programming costs for the higher number of first run shows. The fiscal 2000 increase reflected increased investment in commissioned programming and an increase in Sky Box Office events.

Our costs in relation to the distribution agreements for the Sky Distributed Channels have grown from £138.9 million in fiscal 1999 to £176.8 million in fiscal 2000 and £256.1 million in fiscal 2001. These increases are primarily due to the impact of a greater number of digital subscribers. Under the distribution agreements for these channels, we generally pay a monthly fee per subscriber to each channel, the fee being subject to periodic increases. Under a number of our distribution agreements we guarantee payment against percentages of the total number of subscribers to our Basic Packages.

Our costs for carriage of third party channels will continue to rise with any increase in the subscriber base, contractual rates or the number of channels distributed (where the monthly per subscriber fees would be subject to negotiation and may be higher or lower than for the existing Sky Distributed Channels).

Subscriber Management

Subscriber management costs include subscriber handling costs, smart card costs, DTH subscriber bad debt costs and costs relating to our satellite reception equipment installation subsidiary, Sky In-Home Service Limited (''SHS''). These costs grew from £154.4 million in fiscal 1999 to £205.6 million in fiscal 2000 and £243.4 million in fiscal 2001. In fiscal 2001 the increase was primarily due to the 28% increase in the average DTH subscriber base in the year. In fiscal 2000 the increase was primarily due to the increased headcount required to manage the increased volume of subscribers, higher number of installations carried out, increased smart card costs, and the exceptional costs of the reorganization of SHS.

In May 2000, we announced the reorganization of the SHS distribution network at a cost of £5.7 million. These costs principally comprised the costs of staff redundancies, termination of building leases and fixed asset write-downs.

SHS and subscriber management costs exclude both the cost of free digital satellite equipment and the installation cost to us in excess of the amount actually received from the customer. These costs are included within marketing costs.

Transmission and Related Costs

Transmission and related costs after exceptional items (net of amounts receivable for the provision of spare transponder capacity to third party broadcasters) have decreased from £146.2 million in fiscal 2000 to £128.6 million in fiscal 2001, mainly as a result of exceptional costs included in fiscal 2000. The increase in transmission and related costs before exceptional items was as a result of increasing digital transmission costs, partially offset by savings from reduced analog operations. In fiscal 2000, these costs increased from £90.9 million to £146.2 million, mainly as a result of the exceptional costs described below, an increase in transponder costs, with digital transponders utilized only since October 1998 and new transponders launched in fiscal 1999. These increases were compounded by corresponding increases in depreciation and increases in technical operations due to increased requirements, partly offset by increased sub-lease revenues. The most significant components of transmission and related costs were transponder rental costs relating to the Astra satellites and costs associated with our transmission, uplink and telemetry facilities. In total, these costs were £31.6 million in fiscal 1999, £38.8 million in fiscal 2000 and £48.2 million in fiscal 2001. The increase of £9.4 million in fiscal 2001 is primarily due to an increase in new digital transponders.

In May 2000, we had committed to terminating our current analog service in June 2001, earlier than the previously announced date of December 31, 2002. The costs of the termination were estimated at £41.0 million and principally comprised the cost of early termination of analog transponder leases and other costs to be incurred to terminate our analog operations. We substantially terminated our analog service in June 2001; however, a limited service will continue to be broadcast until the end of September 2001.

Marketing

Marketing costs typically include commissions paid to retailers and promotional costs, such as advertising, publicity and the free digital satellite equipment offer. A significant part of marketing expenditure is subject to the discretion of management. Total marketing costs after exceptional items have decreased to £378.1 million in fiscal 2001, from £439.6 million in fiscal 2000 and £665.5 million in fiscal 1999. Marketing costs pre-exceptional items have decreased to £378.1 million in fiscal 2001, from £381.3 million in fiscal 2000 and £215.5 million in fiscal 1999. The decrease from fiscal 2000 to fiscal 2001 has been due to lower spending on above-the-line advertising, the lower cost of the set-top boxes (partly offset by the consolidation since May 9, 2001, of subsidies formerly paid by BiB) and efficiency gains in customer retention programmes. The increase from fiscal 1999 to fiscal 2000 was due to the substantial cost of £270.8 million of acquiring new digital subscribers as a result of the free digital satellite equipment offer.

The costs of providing the free digital satellite equipment offer to analog subscribers that transition to the digital service are being offset against the transition provision. In fiscal 2000, under U.K. GAAP, marketing costs included the exceptional cost of the £58.3 million increase in the transition provision. In fiscal 1999, under U.K. GAAP, marketing costs included the exceptional cost of the digital transition provision of £450.0 million. Marketing costs will continue to be significant in fiscal 2002 primarily as a result of the continued free digital satellite equipment offer to new customers (see note 23 to the financial statements for the year ended June 30, 2001).

In May 1999, we announced a marketing promotion under which we committed to transitioning our existing analogue subscribers onto our digital service. The net costs associated with this process were estimated at £450.0 million, before taking account of tax relief of £135.0 million. This did not include subsidy costs provided by BiB, 32.5% of whose funding was met by us. Following our agreement to acquire a further 47.6% shareholding in BiB and the consequent agreement for us to provide 100% of BiB's funding, it became appropriate to increase the provision by £58.3 million in June 2000, principally to provide for the costs of subsidising the set-top boxes for the remaining analog subscribers.

Administration

Administration costs, including goodwill amortization and exceptional items of £67.4 million, increased to £254.0 million in fiscal 2001 from £129.7 million in fiscal 2000 and £118.7 million in fiscal 1999. Administration costs have increased each year consistent with the increased resources required to support a larger and more complex Group, and also increased in fiscal 2001 due to the inclusion of the interactive overheads of BiB and SIG for the first time.

In May 2001, we announced the consolidation of all of our interactive and online activities within the "Sky Interactive" division. This division brings together BiB with our other interactive properties including SIG. The costs of reorganization within Sky Interactive are estimated at £23.1 million and principally comprise the cost of termination of certain contracts, the closure of duplicate sites and a reduction in headcount. The reduction in headcount relates to 123 employees principally employed within the technology function of Sky Interactive. Of these costs, £7.0 million is included within fixed assets, £4.0 million is included within other creditors and the remainder within provisions.

The decision of the Monopolies and Mergers Commission in April 1999 to block our bid for Manchester United PLC resulted in £6.3 million of costs (before the effect of taxation) associated with the bid being written off.

Gaming

Gaming costs of £75.3 million were included for the first time in fiscal 2001, following the acquisition of SIG in July 2000.

Goodwill

Goodwill of £44.3 million (fiscal 2000 and fiscal 1999: £nil) included in operating profit is the amortization of goodwill of £272.4 million arising on the acquisition of SIG in July 2000 and the amortization of provisional goodwill of £564.9 million arising on the acquisition of 47.6% of BiB in May 2001 and the remaining 19.9% of BiB in June 2001. These are being amortized over 7 years on a straight line basis.

Operating Profit

Operating profit, after goodwill and exceptional items, increased to £92.8 million in fiscal 2001 from a £19.7 million loss in fiscal 2000 and a £271.0 million loss in fiscal 1999. The increase in operating profit in fiscal 2001 was comprised of a £156.8 million increase in operating profit before goodwill amortization less goodwill amortization of £44.3 million. There was no goodwill amortization included within operating profit in fiscal 2000 or fiscal 1999. The significant growth in DTH subscribers in fiscal 2001 has meant that, whilst revenues continued to grow, significant subscriber acquisition costs have impacted operating profit before exceptional items.

Non-operating exceptional Items

In April 2001, BiB incurred exceptional operating costs of £16.5 million, principally comprising the cost of the write down of the current platform. Of these costs, £13.1 million are included within fixed assets and the remainder within provisions. The exceptional charge is accounted for within the share of operating results of joint ventures.

On June 7, 2000, KirchPayTV sold 20 million of its holding of BSkyB shares. Our share of the loss on disposal was £14.0 million. The loss was calculated as 24% of the difference between the balance sheet value of the 20 million shares at £15.21 per share (based on the value of the shares at the date of acquisition of 24% of KirchPayTV by us) and the net proceeds realized by KirchPayTV of £12.30 per share.

In August 2000, KirchPayTV GmbH & Co KGaA (''KirchPayTV'') disposed of their remaining holding of 58 million BSkyB shares. Our share of the loss on disposal was £69.5 million. The loss is calculated as our share of the difference between the balance sheet value of the 58 million shares at £15.21 per share (based on the value of these shares at the date of acquisition of 24% of KirchPayTV by us) and the net proceeds realized by KirchPayTV of £10.05 per share (see note 5 in the financial statements for the year ended June 30, 2001).

At June 30, 2001, we had provided £38.6 million against our minority investments in new media companies. This consists of a £40.0 million provision, reduced by £1.4 million to reflect the post year end disposal of our investment in Static 2358 Limited. Of the £38.6 million provision, £0.5 million relates to investments held by BiB.

On July 11, 2001, we reached agreement with Ladbrokes, the betting and gaming division of Hilton Group plc, 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. We will contribute our wholly-owned bookmaker, Surrey Sports, to the joint venture. When Surrey Sports is transferred to the joint venture, we will adjust existing goodwill on our balance sheet and a provision for this of £10.0 million has been made in fiscal 2001.

An exceptional finance credit was made in fiscal 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 released.

During fiscal 2000, we had reduced our holdings in Manchester United PLC and Manchester City PLC so as to bring the holdings below the 10% limit stipulated by the rules of the Premier League. These disposals resulted in a total loss of £1.4 million.

The exceptional tax credit in 1999 of £138.5 million (restated for the adoption of FRS 19) relates to exceptional charges recognized in fiscal 1999, see ''Item 19 — Notes To Financial Information — 10a).''

Joint Ventures

We accounted for BiB as a 32.5% joint venture until November 1, 2000. Between November 1 and May 9, 100% of BiB's losses were recognized. Our share of the operating loss of BiB (before exceptional items) increased by £20 million to £119 million in the year. Following completion of the acquisition of BiB on May 9, 2001, BiB's results have been consolidated within the results of the Group, after elimination of intercompany transactions.

Our share of losses in Sky Ventures reduced by £7 million to £4 million.

Our share of pre-exceptional operating losses of joint ventures increased to £239 million compared to £121 million in the prior year. The increase was due to the inclusion of our share of the operating losses of KirchPayTV (£116 million) for a full year.

KirchPayTV reported revenues for the year to March 31, 2001 of £527 million and operating costs (before exceptionals) of £1,053 million (translated at an average DM/£ of 3.17). Our share of KirchPayTV's pre-exceptional operating loss for the year was £116 million. At June 30, 2001, KirchPayTV had 2.3 million subscribers of which 2.1 million were digital; 79% of the digital subscribers were taking one of the top tier packages.

KirchPayTV's results included in our results for the year have not met expectations, and KirchPayTV's management have formulated plans to improve the performance of the business, both through increasing revenues and through reducing operating costs. KirchPayTV's management are currently assessing the impact of the implementation of these changes; when reviewed under FRS 11, the initial assessment shows that our investment was not impaired as at June 30, 2001.

In the event KirchPayTV is unable to secure additional financing from third parties, a shareholder, other than the Group, has committed to provide temporary financing up to a specified maximum, until such time as additional financing may be obtained, for a certain period expiring on June 30, 2002.

Whilst believing on the long-term potential of pay television in Germany, we do not expect a short-term improvement in KirchPayTV's financial and operating performance since conditions for KirchPayTV remain challenging. We continue to monitor KirchPayTV's performance closely.

On September 20, 2001, the Kirch Gruppe announced that it had made a far reaching strategic decision, directly affecting KirchPayTV, in respect of its technical strategy. We have not yet completed our review of the financial effects of this decision on the value of KirchPayTV.

The Group can give no assurance that the value of KirchPayTV will not be affected by the implementation of the change in strategy.

Loss Before Taxation

The loss before taxation after goodwill and exceptional items had increased to £514.5 million in fiscal 2001, from £262.7 million in fiscal 2000 and £388.7 million in fiscal 1999.

Our share of the operating results of joint ventures was a £255.7 million loss in fiscal 2001, compared to a £121.3 million loss in fiscal 2000 and a £57.7 million loss in fiscal 1999. This was mainly due to our share of KirchPayTV's operating loss of £116.0 million, an increase of £105.0 million from the prior year due to the inclusion of a full year's results compared to two and a half months last year. In fiscal 2001, our share of BiB's losses, including exceptional items, increased by £36.3 million to £135.4 million, and increased by £54.7 million to £99.1 million in fiscal 2000. Until November 1, 2000, we accounted for BiB as a joint venture with 32.5% of its losses being recognized. From this date, to May 9, 2001, BiB was still accounted for as a joint venture but 100% of BiB's losses were recognized. From May 9, 2001, we fully consolidated BiB as a subsidiary. Our share of losses from programming joint ventures decreased to £4.3 million from £11.2 million for fiscal 2000 and £13.3 million in fiscal 1999.

Interest payable and similar charges, net of interest receivable and similar income, increased to £132.4 million in fiscal 2001 from £91.9 million in fiscal 2000 and £60.0 million in fiscal 1999. This was driven by an increase of £542.9 million in average net debt for fiscal 2001 compared to the average for fiscal 2000, our share of KirchPayTV and BiB interest with average interest rates payable on main borrowings flat at 7.6%. The increase in fiscal 2000 was driven by an increase of £246 million in average net debt for fiscal 2000 compared to the average for fiscal 1999, and an increase in average interest rates payable on main borrowings from 7.4% to 7.6%. Interest costs are expected to increase in fiscal 2002 due to higher average levels of debt expected within the Group.

Taxation

In fiscal 2001, the tax charge of £24.1 million arose as a result of the movement on the existing deferred tax asset and the recognition of deferred tax assets, following the adoption of FRS 19 Deferred Tax, in respect of losses and other timing differences incurred in prior years. Fiscal 2000 and fiscal 1999 results were restated, resulting in deferred tax credits of £73.8 million and £79.0 million respectively. There is no current tax charge for fiscal 2001 (fiscal 2000: £8.8 million, fiscal 1999: credit of £24.1 million).

Adoption of FRS 19 has resulted in the recognition of a deferred tax asset of £143.9 million, (June 30, 2000 restated: £168.0 million; June 30, 1999 restated: £94.2 million), primarily as a result of losses and certain exceptional items incurred in fiscal 1999, 2000 and 2001. These losses and costs were associated with the launch of digital television and the termination of analog operations.

Foreign Exchange

Our revenues are substantially denominated in pounds sterling, although a significant proportion of our operating costs are denominated in U.S. dollars, primarily relating to the cost of programming rights acquired from U.S. film licensors. In fiscal 2001, U.S. dollar operating costs amounted to 17.0% or £364.7 million of our total operating costs (fiscal 2000: 15.3% or £269.2 million, fiscal 1999: 20.0% or £270.0 million). At June 30, 2001, we had minimum TV programming commitments of approximately £2.8 billion (June 30, 2000: approximately £3.2 billion), of which approximately £1.1 billion (fiscal 2000: £1.4 billion) related to commitments payable in U.S. dollars for periods of up to 6 years (fiscal 2000: 6 years). An additional U.S.$0.5 billion of commitments (fiscal 2000: U.S.$0.5 billion) would also be payable in U.S. dollars, assuming that movie subscriber numbers remained unchanged from current levels. At June 30, 2001, the U.S. dollar commitments have been translated at the year end rate of U.S.$1.4041:£1 (June 30, 2000: U.S.$1.5122: £1), except for U.S.$462 million (2000: U.S.$75 million) covered by forward rate contracts or other hedging instruments where the average forward or hedged rate of U.S.$1.4281: £1 (June 30, 2000: U.S.$1.6064: £1) has been used.

We currently manage our U.S. dollar/pound sterling exchange risk exposure primarily by the purchase of forward foreign exchange agreements for up to eighteen months ahead. Occasionally, other financial instruments are employed to manage the exposure where these are more appropriate. All U.S. dollar-denominated forward rate agreements and similar financial instruments we have entered into are in respect of firm commitments, which exceed the value of such agreements and instruments. We also incur costs in euros relating to certain transponder rental costs; these payments are also covered by forward exchange agreements for approximately one year. At June 30, 2001, we had commitments outstanding in aggregate to purchase U.S.$885 million and euros 43 million at average rates of U.S.$1.4281 and euro 1.6175 respectively 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. See Item 11 — ''Quantitative and Qualitative Disclosures about Market Risk''.

Our debt exposure is currently denominated in sterling after taking foreign exchange swaps into account.

Inflation

Inflation has not had a significant impact on our results of operations during the three years ended June 30, 2001.

Seasonality

New subscriptions to our channels have in the past tended to be highest in the second quarter of each fiscal year, the pre-Christmas period.

LIQUIDITY AND CAPITAL RESOURCES

In March 2001, we entered into a new £300 million revolving credit facility (''RCF''). The facility is additional to the £750 million RCF entered into in July 1999 (as described further below), bringing the aggregate amount available to us under our syndicated bank credit facilities to £1,050 million. The new £300 million facility has a maturity of June 2004, which is coterminous with the existing £750 million facility. Under the terms of the March 2001 facility, interest will accrue at between 0.5% and 1.75% per annum above LIBOR, depending on our credit rating. At current credit ratings, the rate is 1.25% above LIBOR. The £300 million facility was undrawn at June 30, 2001. Both the March 2001 and July 1999 facilities contain certain covenants, including a change of control provision, the effect of which is that the facility may become due and payable in the event that (except for The News Corporation Limited and Vivendi Universal S.A. or any member of their respective groups) any person or nominee of such person, together with any ''connected person'' or ''persons acting in concert'' (if any) (each as defined under applicable English law or regulation) becomes the holder of more than 30% in aggregate of the voting rights of the Company.

In July 1999, we replaced our previous £1,000 million revolving credit facility with a £750 million facility. The £750 million facility will mature in June 2004, and interest accrues at rates between 0.50% and 1.40% per annum above LIBOR, depending on our credit rating. At current credit ratings, the rate is 1.0% per annum above LIBOR.

As at June 30, 2001, £690 million was drawn down on the £750 million RCF (June 30, 2000: £335 million). The ability to draw down under the above facilities is dependent upon financial covenants and may therefore be restricted from time to time. On September 26, 2000, we entered into a fixed interest rate hedge with Citibank, which became effective on January 5, 2001, for a period of two years until January 6, 2003, at 6.4150% on a notional amount of £300 million.

As at June 30, 2001, we also had in issue:

— U.S.$300 million of 7.300% Guaranteed Notes repayable in October 2006. We entered into swap transactions which converted the proceeds to sterling, of which half carries a fixed rate of interest of 8.384% until maturity. The remainder is fixed at 7.940% until April 2002, thereafter floating at 62 basis points over six month LIBOR.

— U.S.$650 million 10-year global bonds, repayable in July 2009, and £100 million 10-year global bonds, repayable in July 2009. The proceeds of the dollar bonds have been 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.

— U.S.$600 million of 6.875% Guaranteed Notes repayable in February 2009. The proceeds have been swapped into sterling at a fixed rate of 8.20% payable semi-annually.

By June 2001, we had made commitments to manufacturers, in relation to the supply of set-top boxes, up to a maximum of £110.0 million (June 30, 2000: £143.1 million; June 30, 1999: £165.4 million). These amounts include the subsidies that have been committed to by BiB except for the subsidies already provided for. At June 30, 2001, we had approved capital expenditure commitments of £17.3 million (June 30, 2000: £3.7 million).

Cash Flows

During fiscal 2001 there was an operating cash inflow of £38.9 million, compared with an outflow of £232.5 million in fiscal 2000, and an inflow of £238.3 million in fiscal 1999.

In fiscal 2001 the operating cash inflow of £38.9 million was driven by the increase in operating profit during the year; this includes an outflow of £151.0 million in relation to transitioning analog subscribers to digital. The operating cash inflow was offset by the investment in joint ventures, principally BiB, of £137.3 million, capital expenditure of £133.3 million, net interest paid of £115.7 million, consortium tax relief paid of £16.2 million and acquisition of fixed assets investments of £25.5 million.

In fiscal 2000 the operating cash outflow of £232.5 million was as a result of the significant investment in digital. Additional cash outflows during the year related to investment in new media (£26.8 million), purchase of stakes in football clubs (£21.3 million) and payments for shares and funding to joint ventures (£78.2 million).

During fiscal 2001, we spent £133.3 million (fiscal 2000: £57.9 million; fiscal 1999: £76.2 million) on capital expenditure. A significant part of the increased spending for the year related to investment in web-based technology, web software and hosting equipment, improved backup facilities and upgrades to customer-facing technology based in Scotland. In addition, we continue to invest in computing systems, studio and transmission facilities as the digital platform grows.

We believe our working capital is sufficient to meet our current requirements. At June 30, 2001, our net debt was £1,546.5 million compared to net debt of £1,145.0 million at June 30, 2000 and net debt of £664.9 at June 30, 1999. Net debt is defined as all short-term, medium-term and long-term borrowing, less all cash and liquid resources. Liquid resources comprise short-term deposits of less than one year and investments that are readily realizable and held on a short-term basis. Short-term, medium-term and long-term borrowing amounted to £1,770.1 million at June 30, 2001 compared to £1,412.5 million at June 30, 2000 and £715.1 million at June 30, 1999. At June 30, 2001, cash and liquid resources were £223.6 million compared to £267.5 million at June 30, 2000 and £50.2 million at June 30, 1999.

We expect to fund our current operations, together with our approved capital expenditure requirements, from cash inflows and existing external financing, including the existing credit facilities.

Major non-cash transactions

During fiscal 2001, we acquired 67.5% of BiB, 47.6% on May 9, 2001, and 19.9% on June 28, 2001, increasing our interest to 100% (2000: 32.5%). 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.

In May 2001, we acquired the remaining 5% minority interest in WAP TV Limited. 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.

In July 2000, we 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.

In April 2000, we acquired 24% of KirchPayTV. Part of the consideration was satisfied by the issue to KirchPayTV of 78,019,778 new BSkyB shares, with a fair value of £1,186.7 million.

TREND INFORMATION

We are expecting lower growth in advertising revenues for fiscal 2002 as a result of a decline in the general U.K. television advertising market which began in fiscal 2001.

The operating results for fiscal 2001 reflect the other significant trends which have a material effect on the financial performance of the Company. Any additional information of note has been included in the Notes to the Consolidated Financial Statements and elsewhere in this report.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS AND SENIOR MANAGEMENT

Our Directors are as follows:

Name	Age	Position with the Company
Tony Ball	45	Chief Executive Officer & Managing Director
Philip Bowman	48	*Director (Chairman of Audit Committee)
David DeVoe	54	*Director(1)
David Evans	61	*Director
Dr Dieter Hahn	40	*Director(2)
Leslie Hinton	57	*Director(1)
Allan Leighton	48	*Director
Rupert Murdoch	70	*Chairman(1)
Martin Pompadur	66	*Director(1)
Arthur Siskind	62	*Director(1)
Lord St. John of Fawsley	72	*Director
Martin Stewart	37	Director, Chief Financial Officer
John Thornton	47	*Director (Chairman of Remuneration Committee)

* Non-Executive

(1) Shareholder Appointee Non-Executive Directors.

Shareholder Appointee Non-Executive Directors appointed by Sky Global Operations Inc. (''SGO''), a subsidiary of News Corporation, are not subject to election by shareholders, nor do they have to retire by rotation. Our Articles of Association permit News Corporation or such subsidiary of News Corporation to appoint a number of Directors dependent on their shareholding in our Company. SGO has the right to appoint five Directors. The right of SGO to appoint Directors was agreed with the London Stock Exchange at the time of flotation.

(2) KirchPayTV appointed Director.

At the time that we took a 24% stake in KirchPayTV, they in return acquired a shareholding in our Company. As part of this transaction it was agreed that KirchPayTV would have the right to appoint one Director (Dieter Hahn) to the Board. This right was not enshrined in our Articles of Association. Though KirchPayTV subsequently sold their stake in our Company, it was agreed that Dr Hahn should remain as a Director of the Company.

Our senior executives who are not Directors are as follows:

Name	Age	Position with the Company
Deanna Bates	39	Head of Legal and Business Affairs
David Gormley	38	Company Secretary
Peter Shea	43	Director of Sales
Vic Wakeling	58	Managing Director, Sky Sports
Geoff Walters	56	Chief Technology Officer
Richard Freudenstein	36	Chief Operating Officer
Mark Sharman	51	Director of Broadcasting and Production
Jon Florsheim	41	Managing Director, Sky Interactive and Director, Sales and Marketing

Eric Licoys resigned as a Director on January 31, 2001.

Morton Topfer resigned as a Director on April 30, 2001.

David Evans was appointed as a Director on September 21, 2001.

Further information with respect to the Directors and senior executives is set forth below.

Board of Directors

Tony Ball was appointed as Chief Executive and Managing Director in June 1999. He was appointed President and Chief Executive Officer of Fox/Liberty Networks in October 1997, after serving as President and Chief Operating Officer of Fox Sports International, where he oversaw channels in North America, Latin America, Asia and Australia. He spent three years of his career with us beginning in 1993, holding the positions of Head of Production and Operations of Sky Sports and General Manager/Broadcasting. In September 2000 Mr. Ball was appointed a Non-Executive Director of Marks and Spencer p.l.c.

Philip Bowman has been a Director 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 Chief Executive of Bass Taverns Limited.

David DeVoe has been a Director 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, 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. 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 SGO's appointees as a Director of the Company.

David Evans was appointed a Director on September 21, 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 March 1, 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.

Dr. Dieter Hahn was appointed a Director on May 5, 2000. He is Vice Chairman and Managing Director, Kirch Holding GmbH & Co KG. He is also a member of the Supervisory Board of KirchPayTV and of Deutsches Sportsfenseten (''DSF''). Prior to joining Kirch Gruppe (in January 1997) as Managing Director, he was Managing Director of DSF.

Leslie Hinton was appointed a Director on October 15, 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 U.K. 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 SGO's appointees as a Director of the Company.

Allan Leighton was appointed a Director on October 15, 1999. In March 1992, he joined ASDA Stores Limited as Group Marketing Director, in September 1996 he was appointed Chief Executive of ASDA and in November 1999 he was appointed President and Chief Executive Officer of Wal-Mart Europe. He resigned all of these positions in September 2000. Mr. Leighton is Deputy Chairman of Wilson (Connolly) Holdings PLC, B.H.S. Limited, Lastminute.com PLC, Deputy Chairman of Leeds United plc (formerly Leeds Sporting Plc) and a Non-Executive Director of Scottish Power PLC, Consignia PLC, Dyson Limited and George Weston.

Rupert Murdoch has been a Director 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 August 1991. Mr. Murdoch has been a Director of News America Incorporated since 1973; a Director of News International plc, News Corporation's principal subsidiary in the U.K. since 1969; and a Director of News Limited, News Corporation's principal subsidiary in Australia since 1953. Mr. Murdoch has also served as a Director of Fox Entertainment Group 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, a Director of Philip Morris Companies Inc. since 1989 and a Director of China Netcom Corporation (Hong Kong) Limited since February 2001. Mr. Murdoch is one of SGO's appointees as a Director of the Company.

Martin Pompadur was appointed a Director on October 15, 1999. Mr. Pompadur has been Executive Vice President and President of News Corporation Eastern & Central Europe since June 1998. Prior to this, in 1983, he held the positions of Chairman, Chief Executive and Chief Operating Officer at RP Companies. He is also a principal owner of Caribbean International News Corporation. Mr. Pompadur is one of SGO's appointees as a Director of the Company.

Arthur Siskind has been a Director 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 also been a Director of News America Incorporated since 1991, a Director of NDS plc since 1996, a Director of Sky Global Networks, Inc. since June 2001, and a Director of STAR since 1993. Mr. Siskind has also been Senior Executive Vice-President, General Counsel and a Director of Fox Entertainment Group since August 1998. Mr. Siskind has been a Member of the Bar of the State of New York since 1962. Mr. Siskind is one of SGO's appointees as a Director of the Company.

Lord St. John of Fawsley has been a Director since 1991. Lord St. John has been Master of Emmanuel College, Cambridge, since 1991, a life fellow and Chairman of the Royal Fine Art Commission since 1985.

Martin Stewart was appointed as Chief Financial Officer and a Director in May 1998. He previously served as Head of Commercial Finance from March 1996. From 1991 to 1996 Mr. Stewart was employed at Polygram, 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.

John Thornton has been a Director since December 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 organizations.

Alternate Directors

A Director may appoint any other Director or any other person to act as his Alternate. An Alternate Director shall be entitled to receive notice of and attend meetings of the Directors and Committees of Directors of which his appointer is a member and not able to attend. The Alternate Director shall be entitled to vote at such meetings and generally perform all the functions of his appointer as a Director in his absence.

On the resignation of the appointer for any reason the Alternate Director shall cease to be an Alternate Director. The appointer may also remove his Alternate Director by notice to us signed by the Director making or revoking the appointment. An Alternate Director shall not be entitled to fees for his service as an Alternate Director.

Richard Linford (Alternate Director to David DeVoe, Rupert Murdoch and Arthur Siskind, Leslie Hinton and Martin Pompadur) has been Chief Financial Officer of News International plc since January 1995. Mr. Linford was our Director of Finance from September 1991 to December 1994.

Jay Itzkowitz (Alternate Director to David DeVoe, Rupert Murdoch, Arthur Siskind, Leslie Hinton and Martin Pompadur) joined News International plc as Director of Legal Affairs in September 1999. He is also Senior Vice President, Legal Affairs for Fox Entertainment Group and Associate General Counsel for News America Incorporated.

Senior Executives

Our senior executives who are not Directors or Alternate Directors are as follows:

Deanna Bates has served as our Head of Legal and Business Affairs since November 1990.

David Gormley joined us in March 1995 as Assistant Company Secretary and was appointed as Group Company Secretary in November 1997.

Peter Shea has served as our Sales Director since September 1990. Mr. Shea is also a director of the Broadcasters Audience Research Board, the Nickelodeon joint venture and Sky Five Text Limited.

Vic Wakeling joined us in 1991 as Head of Football, taking over as Head of Sport in January 1994. In August 1998, he was appointed Managing Director of Sky Sports.

Geoff Walters joined us in 1992 as Director of Engineering and Operations and in September 1999 was appointed as our Company's Chief Technology Officer.

Richard Freudenstein joined us in October 1999 as General Manager of BSkyB and was appointed as Chief Operating Officer in October 2000.

Jon Florsheim joined us in April 1994 as Marketing Director, Direct to Home and in October 1998 he was appointed Director of Distribution and Marketing. In August 2000, Mr. Florsheim was appointed as Managing Director of Open, and Director of Sales and Marketing.

Mark Sharman became Director of Broadcasting and Production in July 2000. He was formerly Deputy Managing Director of Sky Sports, from June 1994.

Except as set forth above, there is no arrangement or understanding between any of the above listed persons and any other person pursuant to which he or she was elected as a Director or executive officer.

EMPLOYEES

The average monthly number of full-time equivalent persons employed during the year was 9,948 (2000: 10,730; 1999: 8,271), comprising 1,134 in programming (2000: 982; 1999: 751), 1,071 in transmission and related functions (2000: 1,040; 1999: 915), 173 in marketing (2000: 141; 1999: 117), 6,472 in subscriber management (2000: 7,809; 1999: 5,701), 872 in administration (2000: 758; 1999: 787), and 226 in gaming (2000: nil; 1999: nil). Customer Management Services Centers had a temporary staff of approximately 1,260 and the Osterley site had approximately 450 temporary staff. We have no collective bargaining agreements with any trade unions.

BOARD PRACTICES

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 our Group and members of the News Corporation, Vivendi or Kirch groups of companies, 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. The Board members have access to external professional advice.

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

Board Committees

Our Articles of Association contain certain rights for SGO, dependent on its shareholding in our Company, to appoint and remove members of any standing Committee established by the Board. SGO 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 our 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 is chaired by John Thornton, an Independent Non-Executive Director and its members are David DeVoe and Rupert Murdoch, two Non-Executive Directors, both of whom are appointed by SGO.

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 SGO. It meets not less than four times a year to review all significant judgements made in the preparation of the quarterly, half yearly and annual financial results before they are submitted to the Board. It reviews with the external auditors the nature, scope and cost of their work, discusses with them the results thereof, and reviews the audit plans and findings of our Group's internal audit function, together with any related party transactions entered into by our Group. The Committee has the power to seek external advice as and when required.

COMPENSATION

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.

Basic Salary

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

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 Remuneration Committee, based on key indicators of their performance and that of our Company in the relevant financial year.

Pension Benefits

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

Long Term Incentive Plan

We operate 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 our 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 our Company, determined by the Remuneration Committee. Awards may be in a variety of forms with equivalent values.

Awards may be made to any employee or full time Director of our Company at the discretion of the Committee. During the year, awards under the plan were made to Tony Ball and Martin Stewart.

The performance targets selected for the Awards made to date have been based on a combination of business measures derived from our business plan, and our relative total shareholder return performance against a range of comparable companies in the U.K. and international media and telecommunications sectors.

When the Remuneration Committee introduced the LTIP, they considered whether the awards should be in the form of a block award, or phased over a period of time. Given the importance of strategic goals contained in the performance targets attached to the initial award and the need to motivate and tie in the Executive Directors and key senior executives to our long-term success, it was decided that the first awards should be made in the form of a block award. With effect from November 2001, the Awards made under the LTIP are intended to be made on an annual basis.

Additional Executive Bonus Scheme

We operate 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. Any exercise is subject to our Group achieving real earnings per share growth, or an alternative performance target where exercise is subject to an increase in our Group's operating profit but adjusted for digital costs. Any rights not exercised after seven years from the date of grant will lapse. At exercise, our 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, our Company may elect to transfer shares of equal value to the accrued gains to the holders, in satisfaction of our Company's obligation to pay any accrued gains.

Share Option Schemes

We operate both an Approved and an Unapproved Executive Share Option Scheme (''the Executive Schemes''). We also operate 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 ten years. Options are only exercisable if the pre-determined performance target of real growth in our 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 our Company's free set-top box offer impacted upon the growth in our earnings per share. The Alternative Performance Target introduced for options granted during the period October 29, 1999 to November 23, 2000 makes the exercise of options conditional on the achievement of certain subscriber growth measures.

At the Annual General Meeting (''AGM'') held in November 2000, the rules of the Executive Schemes were changed such that there is now no limit on the number of share options that may be granted to an individual (other than for the purposes of granting Inland Revenue approved options). We follow 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. We intend 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 Remuneration Committee. Following approval by shareholders at the 2000 AGM, any 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.

During the year the Inland Revenue confirmed that we could, with the consent of the employee, pass on to the employee the cost of employers' National Insurance contributions on the exercise of share options granted to U.K. employees under the Unapproved Executive Share Option Scheme. In order to compensate the employees for this extra cost, additional options are granted under the Unapproved Executive Share Option Scheme to take account of the National Insurance contributions to ensure that the U.K. employees, as far as possible, are no worse off than if no National Insurance had been passed to them.

No options were granted to any Director under the Executive Schemes during the year.

With the exception of special grants made to certain individuals on hiring, grants under the Option Plan have been made and continue to be made on an annual basis. In addition, in December, a grant was made to all employees who had not been granted options or awards under the LTIP or the Executive Schemes in November 2000. In each case this grant was over 500 shares. These awards were made under the Approved Executive Share Option Scheme and become exercisable three years from the date of grant.

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 our policy to make an invitation for the employees to participate in the scheme following the announcement of the end of year results.

Service Contracts

Tony Ball has an employment contract with our Company for a term of three years to June 3, 2002. The contract can be terminated by our Company subject to the payment of two years' salary or, if the contract is not extended at expiry, of one year's salary. Tony Ball's remuneration consists of a base salary of £725,410, plus an annual cost of living provision and an annual bonus based on performance criteria to be agreed by the Remuneration Committee but to be no less than £500,000 annually. Tony Ball is also entitled to other benefits, namely participation in the LTIP, Additional Executive Bonus Scheme and Executive Schemes, pension benefits, company car, life assurance equal to four times base salary and medical insurance.

Martin Stewart has an employment contract with our Company which is deemed to commence on December 1, 1998 and shall continue unless or until terminated by either party giving to the other not less than 12 months' notice in writing and such notice to expire on or after August 30, 2001, after which it shall operate on the basis of a rolling notice period of not less than 12 months' notice in writing by either party. Martin Stewart's remuneration consists of a base salary of £325,000 per annum and an annual discretionary bonus to be agreed by the Remuneration 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.

Non-Executive Directors

The basic fees payable to the Non-Executive Directors are set by the Board of Directors and during the year were increased to £35,000 each per annum, to reflect the fact that the fees had not increased since they were originally set in December 1994. 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 our Company. Each Independent Non-Executive Director is engaged by our 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.

Directors' emoluments

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

	Total emoluments including pensions 1999 £	Total emoluments including pensions 2000 £	Salary and fees £	Bonus schemes £	Benefits £	Total emoluments before pensions £	Pensions £	Total emoluments including pensions 2001 £
Executive								
Tony Ball	117,598	1,542,555	725,410	1,103,100	108,333	1,936,843	27,540	1,964,383
Martin Stewart	429,031	597,029	325,000	447,125	23,607	795,732	25,719	821,451
Non-Executive								
Philip Bowman	30,000	30,000	30,750	—	—	30,750	—	30,750
Dr Dieter Hahn	—	—	—	—	—	—	—	—
Allan Leighton	—	17,724	25,500	—	—	25,500	—	25,500
Lord St. John of Fawsley	25,000	25,000	25,500	—	—	25,500	—	25,500
John Thornton	25,000	26,770	28,125	—	—	28,125	—	28,125
Morton Topfer (i) . .	4,070	28,334	25,000	—	—	25,000	—	25,000
David DeVoe	—	—	—	—	—	—	—	—
Leslie Hinton	—	—	—	—	—	—	—	—
Eric Licoys (ii)	—	—	—	—	—	—	—	—
Martin Pompadur . .	—	—	—	—	—	—	—	—
Rupert Murdoch . . .	—	—	—	—	—	—	—	—
Arthur Siskind	—	—	—	—	—	—	—	—
Former Directors . . .	6,342,458	705,784	—	—	95,268	95,268	—	95,268
Total emoluments	6,973,157	2,973,196	1,185,285	1,550,225	227,208	2,962,718	53,259	3,015,977

(i) Morton Topfer resigned as a Director of the Company on April 30, 2001.

(ii) Eric Licoys resigned as a Director of the Company on January 31, 2001.

Executive bonuses

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

	Additional Executive Bonus Scheme (i) £	Senior Management Bonus Scheme (ii) £	Other (iii) £	Total £
Executive				
Tony Ball	—	750,000	353,100	1,103,100
Martin Stewart	—	300,000	147,125	447,125

(i) **Additional Executive Bonus Scheme**
Tony Ball has rights over 600,000 notional shares which become exercisable from August 12, 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 June 30, 2001 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 Remuneration Committee for the year ended June 30, 2001.

(iii) **Other**
This represents the value as at January 31, 2001, of the additional shares to which each of the Directors would have been entitled under the LTIP as at November 23, 2000 had all relevant information been available. Following this cash payment, 30,000 shares made under the award to Tony Ball in August 1999 lapsed and 12,500 shares made under the award to Martin Stewart in November 1998 lapsed.

SHARE OWNERSHIP

LTIP

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

	Number of Shares under Award								
	At June 30, 2000	Granted during the year	Exercised during the year	Lapsed during the year	At June 30, 2001	Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
Name of Director									
Tony Ball	1,200,000	—	—	600,000	600,000	£5.83	N/A	11.23.01	08.12.09
	600,000	—	570,000	30,000 (ii)	—	£21.415	£10.44	N/A	N/A
	—	908,000	—	—	908,000	£10.04	—	11.03.02 (i)	11.03.10 (iii)
Martin Stewart................	350,000	—	—	100,000	250,000	£5.02	N/A	11.23.01	11.23.08
	100,000	—	95,000	5,000 (ii)	—	£21.415	£10.44	N/A	N/A
	150,000	—	142,500	7,500 (ii)	—	£21.415	£10.44	N/A	N/A
	—	454,000	—	—	454,000	£10.04	N/A	11.03.02 (i)	11.03.10 (iii)

Notes:
Awards under the LTIP take the form of a market value option with a cash bonus equal to the exercise price. Based on the extent to which the available data indicated that the performance conditions to which awards were subject had been satisfied, awards granted in November 1998 partially vested in November 2000 as to 570,000 shares (Tony Ball) and 237,500 shares (Martin Stewart). However, since the market price of a share at the date of vesting of such awards was below the exercise price, the awards in this form were treated as having lapsed. Instead, participants were eligible to receive shares, for no consideration, equal to the value of their vested awards. All LTIP awards outstanding at the year end are comprised of a share option together with a cash bonus equal to the exercise price of that share option.

The aggregate amount received by the Directors under the LTIP was £8,430,300 (2000: £nil).

(i) 50% of the award will vest subject to meeting performance conditions in November 2002, with the remaining 50% being exercisable from November 2003, subject to similar performance conditions.

(ii) See note (iii) ''other'' to the previous table.

(iii) That part of this award comprised of a share option award is granted in a manner consistent with the U.S. GAAP fixed plan accounting requirements.

Elisabeth Murdoch resigned as an Alternate Director and executive of our Company on June 30, 2000 and the Remuneration Committee agreed that she would retain her LTIP entitlements in full.

Executive Share Options

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

	Number of options								
	At June 30, 2000	Granted during the year	Exercised during the year	Lapsed during the year	At June 30, 2001	Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
Name of Director									
Tony Ball	5,145	—	—	—	5,145	£5.83	N/A	08.12.02	08.12.09
	594,855	—	—	—	594,855	£5.83	N/A	08.12.02	08.12.06
Martin Stewart	2,096 (i)	—	—	—	2,096	£4.62	N/A	01.01.03	06.30.03

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

The aggregate gain made by Directors on the exercise of share options was £nil (2000: £255,464).

During the year ended June 30, 2001 the share price traded within the range of £6.42 to £13.20 per share. The middle-market closing price on the last working day of the financial year was £6.84. The share option grants shown above are granted in a manner consistent with U.S. GAAP fixed plan accounting requirements.

Share interests

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

	At June 30, 1999	At June 30, 2000	At June 30, 2001
Lord St. John of Fawsley	—	—	2,000
Dame Anne Mueller	1,953	—	—

Except as disclosed in this Item, no other Director held any interest in the share capital, including options, of our Company, or of any subsidiary of our Company, during the year. All interests at the date shown are beneficial and there have been no changes between July 1, 2001 and September 24, 2001.

The ESOP is interested in 3,354,512 Ordinary Shares in which the Directors who are employees are deemed to be interested.

Rupert Murdoch, a Director of our Company, has 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 our Group as set out in Item 19 ''Exhibits'' — Note 27.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Our sole outstanding class of voting securities is ordinary shares, nominal value 50p each.

PRINCIPAL SHAREHOLDERS

The following table sets forth, as of June 30, 2001 the amount and percentage of ordinary shares owned by each shareholder known to us to own more than three percent (directly and indirectly) of our ordinary shares and by our directors and officers as a group.

Identity of Person or Group	Amount Owned[5]	Percent of Class[5]
Sky Global Operations, Inc.[1] 1300 North Market Street Suite 404 Wilmington DE 19801 USA	686,021,700	36.32%
BSB Holdings Limited (''BSBH'')[2] 37-41 Old Queen St. London, SWIH 9JR United Kingdom	203,607,595	10.78%
Vivendi Universal S.A.[3] 42 Avenue de Friedland 75380 Paris Cedex 8 France	211,874,279	11.22%
Directors and officers as a group[4]		

(1) On June 27, 2000, as part of a group re-organisation, News International Television Limited transferred its entire shareholding in our Company to News International plc. On June 28, 2000 News International plc sold the entire shareholding in the company to Sky Global Networks, Inc. (''SGN''), a subsidiary of News Corporation. On June 21, 2001, Sky Global Holdings, Inc. (previously Sky Global Networks, Inc.) transferred its entire shareholding in the Company to Sky Global Operations,

Inc. News International plc (as the holder of the majority of the shares in Sky Global Holdings, Inc.) remains interested in the shares.

(2) BSBH is an English company. As of June 30, 2001 Vivendi Universal S.A. owned 100% of the ordinary shares of BSBH and therefore retains a beneficial interest in these shares (see (3) below).

(3) On December 8, 2000, Vivendi S.A. merged with Canal+ and The Seagram Company Ltd to form Vivendi Universal S.A. and as Vivendi S.A. ceased to exist as a separate legal entity, the shares were registered in the name of Vivendi Universal S.A. These interests do not include ordinary shares held by BSBH. Including these interests, the total direct and indirect interest of Vivendi Universal S.A., as of June 30, 2001 was 22.0%.

(4) Less than 1%.

(5) As at September 24, 2001, the numbers are still valid.

There has been no significant change in the percentage ownership held by any major shareholders during the past three years, except for the following:

On October 1998, Granada sold its then 6.5% stake in the Company.

In July 1999 Vivendi S.A. merged with Pathé and acquired its then 12.68% stake and its then indirect 11.80% stake, through BSB Holdings Limited, in the Company.

In April 2000, we acquired a 24% stake in KirchPayTV. In return KirchPayTV acquired a then 4.27% stake in our Company. In June and August 2000, KirchPayTV sold its shares and thereby ceased to have a notifiable interest in the Company.

On June 30, 2001, 905,433 ADSs (equivalent to 5,432,598 ordinary shares or approximately 0.3% of the total ordinary shares outstanding) were held of record by approximately 15 holders in the U.S. and 686,039,842 ordinary shares (of which 686,021,700 were held by SGO) were held of record by 36 U.S. persons. There were no ADSs held by U.K. persons.

SGO is a subsidiary of News Corporation which holds equity interests in satellite distribution platforms (including British Sky Broadcasting Group plc, the Sky platforms in Latin America and SkyPerfecTV!) and an approximate 21% equity interest in Gemstar-TV Guide International, Inc., a global technology and media company focused on consumer entertainment.

Vivendi Universal S.A. is an international company with interests in the media and communications and environmental services. It is our second largest shareholder, taking into account its indirect interest through its holding in BSBH.

RELATED PARTY TRANSACTIONS

Arrangements Between Us and Our Principal Shareholders

News Corporation, through its subsidiaries, issued Exchangeable Trust Originated Preferred Securities, Trust Originated Preferred Securities (''TOPrS'') and warrants in November 1996. The warrants may ultimately enable their holders to purchase our ordinary shares or American Depositary Shares representing our ordinary shares, from News America Incorporated.

News Corporation has entered into an agreement with us pursuant to which it has been agreed that, for so long as News Corporation directly or indirectly holds an interest of 30% or more in us, News Corporation will not engage in the business of satellite broadcasting in the U.K. or Ireland.

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

News International

News Corporation, the holder of an approximate 98% interest in SGO, one of our principal shareholders, has made available to us on a full or part-time basis the services of certain News

Corporation personnel. We have reimbursed News Corporation for the salaries, benefits and related staff costs of such personnel paid by News Corporation for the periods of time they have performed services for us. The amount of such costs reimbursed during fiscal 2001 aggregated £26,000 (fiscal 2000: £146,000; fiscal 1999: £379,000).

We have a license agreement with Twentieth Century Fox Telecommunications International, Inc. (''Fox Film''), an affiliate of News International, which grants to us pay TV broadcast rights to certain Output Films and library and other film products. The cost to us of such programming totaled £36.9 million in fiscal 2001 (fiscal 2000: £34.0 million; fiscal 1999: £21.9 million). The terms and conditions of the current agreements with Fox Film are comparable to our movie product license agreements with other Majors and are comparable to those which we believe we could obtain from unaffiliated third parties. See Item 4. ''Information on the Company''.

We have also entered into a number of license agreements with Twentieth Century Fox International Television, Inc., an affiliate of News International, which grant us pay TV broadcast rights to certain television programming, including *The Simpsons* and *The X-Files*. The terms and conditions of such agreements are comparable to those which we believe we could obtain from unaffiliated third parties. Members of the Twentieth Century Fox group supplied programming at a total cost to us of £44.8 million in fiscal 2001, including the Fox Film costs referred to above (fiscal 2000: £47.8 million, fiscal 1999: £27.6 million). During fiscal 2001, we also purchased certain sporting rights from subsidiaries of the News Corporation group for £3.0 million (fiscal 2000: £2.6 million; fiscal 1999: £6.8 million).

We are party to agreements dated January 30, 1993 with NDS Group plc which grant to us rights through to June 30, 2004 to use and authorize others to use in the U.K. and Ireland VideoCrypt technology, and which grant to us the exclusive right to use smart cards in the U.K. and Ireland. We may, at our option, renew the right to use and supply smart cards under this agreement for an additional three years on the same terms and conditions. Pricing for smart cards is subject to increase every three years based upon retail price indices and increases in NDS's costs, subject to certain volume discounts. The amount paid or accrued by us to NDS for smart cards and encryption services for fiscal 2001 was £46.1 million (fiscal 2000: £50.0 million, fiscal 1999: £26.6 million). The arrangements with NDS are comparable to those which we believe we could obtain from unaffiliated third parties. Per subscriber fees are payable to NDS in connection with the use of VideoCrypt and VideoGuard by third parties licensed by us. See Item 4 ''Information on the Company''.

We have a number of contracts with NDS for the supply of digital equipment, of which £nil million (fiscal 2000: £5.7 million, fiscal 1999: £5.7 million) was paid during the year.

We have an agreement with Broadsystems Ventures Limited, a subsidiary of News International, to purchase wholesale telephony carriage space, of which £2.2 million was paid during the year (fiscal 2000: £1.8 million, fiscal 1999: £nil).

During fiscal 2001, we earned £2.4 million (fiscal 2000: £7.3 million, fiscal 1999: £8.2 million) from Fox Kids Europe Limited and Zee TV (a channel aimed at Asian consumers) for the provision of transponder capacity and subscriber and support services respectively. Carriage fees of £9.3 million (fiscal 2000: £7.6 million, fiscal 1999: £6.4 million) were paid for the supply of Fox Kids, a children's television channel, pursuant to an agreement with Fox Kids European Properties SARL and Fox Kids Europe Limited.

During fiscal 2001, £0.4 million (fiscal 2000: £nil, fiscal 1999: £nil) was earned from STAR for the provision of transponder capacity, and carriage fees of £0.3 million (fiscal 2000: £nil, fiscal 1999: £nil) were paid to STAR for the supply of programming.

In November 1996, News Corporation, through subsidiaries, issued Exchangeable Trust Originated Preferred Securities (''TOPrS''), in a private placement to certain institutions. The Exchangeable TOPrS are exchangeable for certain other securities of subsidiaries of News Corporation, including warrants entitling the holders to purchase our ordinary shares, or American Depositary Shares representing our ordinary shares, from News America Incorporated (''News America''), a subsidiary of News Corporation.

The aggregate number of our ordinary shares subject to such warrants is 90,098,598. Upon the exercise of a warrant, News America has the right to elect to pay the holder in cash, in ordinary shares or ADSs, or any combination thereof. The warrants are redeemable at the option of News America, on or after November 12, 2001, and expire on November 12, 2016. News Corporation and News America have agreed to indemnify us and our directors, officers, agents and employees against certain liabilities arising out of or in connection with the TOPrS.

In addition to those matters specified above there have been a number of other transactions and arrangements entered into between us and affiliates of News International, including the purchase by affiliates of News International of advertising time on our channels, the purchase by us of advertising space in News International's newspapers and the occupation by us of certain premises from News International under an informal license. None of these transactions is, or has been during the period, material to us; these transactions and arrangements are comparable to those which we believe we could obtain from unaffiliated third parties.

We regularly enter into transactions with our joint ventures. Information regarding the value of transactions and loans with joint ventures and related parties is provided in Item 19 — ''Notes To Financial Information — Note 27'' in this Annual Report, for financial statements prepared up to and including June 30, 2001.

ITEM 8. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

The financial statements filed as part of this Annual Report filed on Form 20-F are included on pages F-1 to F-76.

We are not involved in any material legal proceedings. However, certain regulatory proceedings which could have material consequences to us are described at Item 4 ''Information on the Company''. During fiscal 2000, HM Customs and Excise raised an assessment against us for £30 million, which the Directors believed was without foundation and independent legal counsel had advised was likely to be set aside on appeal. Accordingly no provision was made within last year's accounts. In fiscal 2001, this assessment as set aside on appeal and accordingly we have no contingent liability in this respect.

On May 5, 1999, it was announced that the Board had decided to suspend dividend payments to shareholders. Accordingly, no dividends have been paid or proposed since that date.

SIGNIFICANT CHANGES

Other than those events described in other items in this Form 20-F, including Item 19 — ''Notes to Financial Information — Note 29'', and fluctuations in borrowings, there have not been any significant changes to our financial condition or results of operations since June 30, 2001. Our borrowings fluctuate by season mainly due to the effect of contractual Premier League payments and the profile of subscribe acquisitions. Assuming no acquisitions or disposals, our maximum level of net debt normally occurs in the second fiscal quarter.

ITEM 9. THE OFFER AND LISTING

LISTING DETAILS AND MARKETS

Our ordinary shares are admitted to the Official List of the London Stock Exchange and our American Depositary Shares are listed on the New York Stock Exchange. The principal trading market for our ordinary shares is the London Stock Exchange. Each American Depositary Share represents six ordinary shares. Citibank, N.A. is the depositary of the American Depositary Receipts which evidence the American Depositary Shares. The American Depositary Shares are also quoted on SEAQ International.

The following tables set forth for the periods indicated the highest and lowest middle market quotations for the ordinary shares as derived from the Daily Official List of the London Stock Exchange and the highest and lowest sales prices of the ADSs as reported on the New York Stock Exchange composite tape.

	Shares (Pence)		ADSs ($)	
	High	Low	High	Low
Fiscal Year Ended June 30,				
1997	696½	440	66	41
1998	485	342	47½	34 15/32
1999	621	413	58¾	41 1/16
2000	2,158	550½	200	52 1/8
2001	1,320	642	121	55 3/5

	Shares (Pence)		ADSs ($)	
	High	Low	High	Low
Fiscal Year Ended June 30,				
2000				
First Quarter	606	550 1/2	58 1/4	52 1/8
Second Quarter	996½	578 1/2	95 1/16	57 1/2
Third Quarter	2,158	899 1/2	200	90 7/8
Fourth Quarter	1,757	980	165 1/16	90 15/16
2001				
First Quarter	1,320	1,025	121	88
Second Quarter	1,175	862	104 1/2	78
Third Quarter	1,208	808	108 11/16	70 1/5
Fourth Quarter	886	642	77 2/5	55 3/5

	Shares (Pence)		ADSs ($)	
	High	Low	High	Low
Month Ended				
March 31, 2001	972	808	85 1/100	70 1/5
April 30, 2001	886	733	77 2/5	64
May 31, 2001	884	718	77	62 1/4
June 30, 2001	746	642	63 3/10	55 3/5
July 31, 2001	790	666	67 11/20	57 1/4
August 31, 2001	820	763	71	66 3/5

ITEM 10. ADDITIONAL INFORMATION

MEMORANDUM AND ARTICLES OF ASSOCIATION

The Memorandum of Association of the Company provides that the Company's principal object is to carry on the business of direct broadcasting by satellite and to carry out the other objects more particularly set out in Clause 4 the Memorandum of Association of the Company.

The Articles of the Company, contain, inter alia, provisions to the following effect:

Directors' Material Interests

Subject to the Companies Act 1985 (and any statutory amendment, modification or re-enactment of it for the time being in force (the ''Act'')), and provided the Director has disclosed to the other Directors the nature and extent of his material interest, a Director may be party to or in any way interested in any arrangement or transaction with the Company or in which the Company is in any way interested and he may hold and be remunerated in respect of any office or place of profit of the Company or any other company in which the Company is in any way interested and he (or any firm of which he is a member) may act in a professional capacity for the Company or any such other body and be remunerated therefore and in any such case as aforesaid (save as otherwise agreed by him) he may retain for his own absolute use and benefit all profits and advantages accruing to him thereunder or in consequence thereof.

Save as otherwise provided in the Articles, a Director shall not vote in respect of any contract or arrangement or any other proposal whatsoever in which he has any material interest otherwise than by virtue of his interest in shares or debentures or other securities of, or otherwise in or through, the Company. A Director shall not be counted in the quorum at a meeting in relation to any resolution on which he is not entitled to vote. Subject to the provisions of the Act and every other statute for the time being in force concerning companies and affecting the Company (the ''Statutes''), a Director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters:

(i) the giving of any guarantee, security or indemnity to him in respect of money lent to, or obligations incurred by him at the request of, or for the benefit of, the Company or any of its subsidiaries;

(ii) the giving of any guarantee, security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;

(iii) any proposal concerning an offer of shares or debentures or other securities of or by the Company for subscription or purchase in which offer he is or is to be interested as a participant in the underwriting or sub-underwriting thereof;

(iv) any proposal concerning a superannuation fund or retirement benefits scheme or arrangement for the benefit of employees of the Company (or any of its subsidiaries) including an employees' share scheme which has been approved by or is subject to and conditional upon approval by the Board of Inland Revenue for taxation purposes, and which does not accord to any Directors any privilege not accorded to the employees to whom such scheme or fund relates;

(v) any proposal concerning any other company in which he is interested, directly or indirectly, and whether as an officer or shareholder or otherwise howsoever, provided that he (together with persons connected with him) is not the holder or beneficially interested in 1% or more of the issued shares of any class of such company (or of any other company through which his interest is derived) or of the voting rights available to members of the relevant company; and

(vi) any proposal concerning the purchase or maintenance of insurance for the benefit of Directors or persons who include Directors.

No Directors appointed by either News Corporation or BSBH (a ''Significant Shareholder'') (or any of their respective subsidiaries) shall vote, or be counted in the quorum present at a meeting of the Directors (or at a meeting of a committee of the Directors), on any resolution concerning any material matter in which that Significant Shareholder has, directly or indirectly, an interest (other than an interest in shares, debentures or other securities of, or otherwise in or through, the Company). The Directors, other than the Directors appointed by the Significant Shareholders and their respective subsidiaries, shall agree from time to time the criteria for determining whether a matter is a material matter and their opinion as to whether a Significant Shareholder is interested in a material matter shall be final and conclusive.

The quorum for meetings of the Directors shall be three Directors provided that no meeting of the Directors shall be quorate unless a majority of the Directors present are neither Directors appointed by a controlling shareholder nor executive Directors.

Directors' Compensation

The ordinary remuneration of the Non-Executive Directors who have not been appointed by the Significant Shareholders or their respective subsidiaries shall not in aggregate exceed £350,000 per annum or such higher amount as may from time to time be determined by ordinary resolution of the Company. Such remuneration shall be divisible among the Directors as they may agree or, failing agreement, equally, except that any Directors who shall hold office for part only of the period in respect of which such remuneration is payable shall be entitled only to rank in such division for a proportion of remuneration related to the period during which he has held office.

The Directors may also be paid all expenses properly incurred by them in attending meetings of the Directors or any committee of the Directors or general meetings of the Company or otherwise in connection with the discharge of their duties as Directors. Any Director who holds any executive office or who serves on any committee of the Directors, or who otherwise performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director, may be paid such extra remuneration by way of bonus, commission or otherwise, as the Directors may determine.

The Directors shall have power to provide benefits whether by payment of gratuities, pensions or otherwise to (or to any person in respect of) any Directors or ex-Directors and for the purpose of providing any such benefits, to contribute to any scheme or fund or to pay premiums. The Directors may purchase and maintain insurance for, or for the benefit of, any persons who are or were Directors, officers, employees of the Company or an associated company or who are or were trustees of any pension fund in which employees of the Company or any such other associated company are interested.

The Directors may from time to time appoint one or more of them to any executive office on such terms and for such periods as they may (subject to the provisions of the Statutes) determine.

Borrowing Powers

The Directors shall restrict the borrowings of the Company and exercise all powers of control exercisable by the Company in relation to its subsidiary undertakings so as to secure (as regards subsidiary undertakings so far as by such exercise they can secure) that the aggregate principal amount outstanding of all money borrowed by the Group (excluding amounts borrowed by any member of the Group from any other member of the Group, shall not at any time, save with the previous sanction of an ordinary resolution of the Company, exceed an amount equal to the higher of (i) £1.5 billion and (ii) an amount equal to four times the aggregate turnover of the Group as shown in the then latest audited consolidated profit and loss accounts of the Group.

No Age Disqualification for Directors

No person shall be disqualified from being appointed or re-appointed as a Director and no Director shall be requested to vacate that office by reason of his attaining the age of seventy or any other age.

No Share Qualification for Directors

Directors shall not be required to hold any shares in the Company by way of qualification. A Director who is not a member shall nevertheless be entitled to attend and speak at any general meeting.

Dividends

Subject to the Act, the Company may by ordinary resolution declare dividends to be paid to members of the Company according to their rights, but no such dividend shall exceed the amount recommended by the Directors. If, in the opinion of the Directors, the profits of the Company available for distribution justify such payments, the Directors may from time to time pay interim dividends on the shares of such amounts and on such dates and in respect of such periods as they think fit. The profits of the Company available for distribution and resolved to be distributed shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion of the period in respect of which the dividend is paid.

No dividend shall be paid otherwise than out of profits available for distribution under the provisions of the Statutes.

Any dividend unclaimed after a period of 12 years from the date of declaration of such dividend shall be forfeited and shall revert to the Company.

Directors' Appointment and Removal

The Significant Shareholders have the following rights to appoint and remove Directors:

(i) for so long as News Corporation and / or its subsidiaries remains the beneficial owner of not less than 30% in nominal value of the issued ordinary share capital from time to time of the Company, News Corporation (or its subsidiary which is the beneficial owner of the majority of such share capital) shall have the right to appoint, remove or replace up to five Directors. These rights are currently being exercised by Sky Global Operations Inc., a subsidiary of News Corporation, which is the beneficial owner of over 30% of the issued share capital;

(ii) if at any time the nominal value of the issued share capital of the Company which News shall be the beneficial owner of shall fall below the percentages stated below New Corporation or any subsidiary of News Corporation shall only have the right to appoint, remove and replace the number of directors set against the percentage set out below

%	Number
30.0	4
25.0	3
20.0	2
15.0	1

(iii) for so long as BSBH and / or its subsidiaries remains the beneficial owner of not less than 7.5% of the issued ordinary share capital of the Company from time to time (the percentage in nominal value of the issued ordinary share capital of the Company beneficially owned by a subsidiary which is not wholly owned by BSBH or one of its wholly owned subsidiaries being taken into account on a pro rata basis), BSBH (or its subsidiary which is the beneficial owner of the majority of such capital) shall have the right to appoint, remove and replace one Directors. It has not currently invoked such a right;

(iv) the rights of the Significant Shareholders (or their relevant subsidiary) to appoint Directors may not be reacquired should the relevant percentage fall below any particular level save where such fall is caused by an issue of shares (other than on a pro rata basis to the holders from time to time of shares) and the relevant Significant Shareholder shall reacquire such rights if it and / or any of its subsidiaries increases its beneficial ownership of shares to at least the relevant percentage within 30 days of such issue (the percentage in nominal value of the issued ordinary share capital of the Company beneficially owned by a subsidiary which is not wholly owned by the relevant Significant Shareholder or one of its wholly owned subsidiaries being taken into account on a pro rata basis);

(v) the Significant Shareholders and their respective subsidiaries have certain rights to appoint members to any standing committee established by the Directors; and

(vi) any Directors appointed by a Significant Shareholder (or any of its subsidiaries) shall not be subject to retirement by rotation for so long as that Significant Shareholder (or any of its subsidiaries) retains the right to appoint that Directors.

At each annual general meeting, there shall retire from office by rotation:

(i) all Directors of the Company who are subject to retirement by rotation (''Eligible Directors'') who held office at the time of the two preceding annual general meetings and who did not retire by rotation at either of them; and

(ii) such additional number of Eligible Directors as shall, when aggregated with the number of Directors retiring under paragraph (i) above, equal either one third of the number of Eligible Directors, in circumstances where the number of Eligible Directors is three or a multiple of three, or in all other circumstances, the whole number which is nearest to but does not exceed one-third of the number of Eligible Directors (the ''Relevant Proportion'') provided that:

  (a) the provisions of this paragraph (ii) shall only apply if the number of Directors retiring under paragraph (i) above is less than the Relevant Proportion; and

  (b) subject to the provisions of the Act and to the following provisions of these articles, the Eligible Directors to retire under this paragraph (ii) shall be those who have been longest in office since their last appointment or reappointment, but as between persons who became or were last reappointed Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

Winding-up

If the Company commences liquidation, the liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the Act and the Insolvency Act 1986:

(i) divide among the members in kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and, for that purpose, set such values as he deems fair upon any property to be divided and determine how the division shall be carried out between the members; and

(i) vest the whole or any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit,

but no member shall be compelled to accept any share or other assets upon which there is any liability.

Redemption

None of the shares of the Company has been issued on the basis that it may be redeemed or is liable to be redeemed at the option of the shareholders or the Company. The Company is therefore under no obligation to create a sinking fund or redemption reserve. However, subject to the provisions of the Statutes, the Company may purchase any of its own shares (including any redeemable shares).

Further Capital Calls

The directors may only make calls upon the members in respect of amounts unpaid on the shares (whether in respect of nominal value or premium).

Variation of Rights

Subject to the Act, the rights attached to any class of shares may (unless otherwise provided by the terms of the issue of shares of that class) be varied with the consent in writing of the holders of three-quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class (but not otherwise) and may be so varied either whilst the Company is a going concern or during or in contemplation of a winding-up. At every such separate general meeting the necessary quorum shall be at least two persons holding or representing by proxy at least one-third in nominal value of the issued shares of the class (but so that at any adjourned meeting any holder of shares of the class present in person or by proxy shall be a quorum).

General Meetings

The Directors may call general meetings whenever and at whatever time and location they so determine. At a general meeting called to pass a special resolution at least 21 clear days' notice must be given, and all other extraordinary general meetings shall be called by at least 14 clear days' notice. Two persons entitled to vote upon the business to be transacted shall be a quorum.

Subject to any terms as to voting upon which any shares may be issued and to the provisions of the Articles, every member present in person shall have one vote on a show of hands and on a poll every member present in person or by proxy shall have one vote for each share of which he is the holder. No member shall be entitled to vote in respect of any share held by him if any call or other sum payable by him to the Company remains unpaid.

If a member or any person appearing to be interested in shares has been duly served with a notice under section 212 of the Act and is in default for the prescribed period in supplying to the Company information thereby required, unless the Directors otherwise determine, the member shall not be entitled to vote at any general or class meeting of the Company in respect of the shares in relation to which the default occurred.

Limitations on Non-resident or Foreign Shareholders

The English law and the Memorandum and Articles of Association of the Company treat those persons who hold shares and are neither UK residents nor nationals in the same way as UK residents or nationals. They are free to own, vote on and transfer any shares they hold.

Transfer of Shares

Any member may transfer all or any of his shares by instrument of transfer in the usual common form or in any other form which the Directors may approve. The instrument of transfer of a share shall be signed by or on behalf of the transferor and, except in the case of fully-paid shares, by or on behalf of the transferee. The Directors may in their absolute discretion and without giving any reason refuse to register any transfer of shares (not being fully paid shares). The Directors may also refuse to register a transfer of shares unless the instrument of transfer:

(i) is lodged at the transfer office accompanied by the relevant share certificate(s);

(ii) is in respect of only one class of share; and

(iii) is in favour of not more than four persons jointly.

The Directors may refuse to register any transfer if it is their opinion that such transfer would or might (i) prejudice the Group's right to hold, be awarded or granted or have renewed or extended, any licence granted under the Broadcasting Acts or (ii) give rise to or cause a variation to be made to, or a revocation or determination of, any such licence by the ITC.

If the Directors determine following registration of a transfer of shares:

(i) and following consultation with the ITC that, inter alia, by reason of the interest of a person in any shares of the Company transferred, the ITC may vary, revoke, determine or refuse to award, grant, renew or extend a licence granted under the Broadcasting Acts; or

(ii) that any person has an interest in the shares of the Company which, inter alia, makes the Company a disqualified person under the Broadcasting Acts or which contravenes, or would cause a contravention of, the restrictions set out in Parts III, IV or V of Schedule 2 to the Broadcasting Act 1990 or any order made pursuant to the Broadcasting Acts or such other restrictions as may be applied by the ITC from time to time to disqualify certain persons or bodies from having interests in such a licence and to restrict the accumulation of interests in relevant services as defined in Schedule 2 to the Broadcasting Act 1990,

the Directors shall be entitled to serve written notice (a ''Disposal Notice'') on the relevant transferee in respect of the shares transferred stating that they have so determined, specifying their grounds in general terms and calling for the disposal of such transferred shares as are specified in the Disposal Notice within 21 days of the date of such notice or such longer period as the Directors may consider reasonable and which they may extend. If the Disposal Notice is not complied with to the satisfaction of the Directors, they shall, so far as they are able, dispose of the relevant shares for the best price reasonably obtainable in all the circumstances. In addition, a member who has been served with a Disposal Notice shall not, with effect from the expiration of such period as the Directors shall specify in such notice (not being longer than 30 days from the date of service of the notice), be entitled to receive notice of, or to attend or vote at, any general meeting of the Company by reason of his holding the shares specified in the Disposal Notice.

Untraced Shareholders

The Company shall be entitled to sell at the best price reasonably obtainable the shares of a member or the shares to which a person is entitled by transmission if, during a period of 12 years, no cheque for amounts payable in respect of the share has been cashed and no communication has been received by the Company from the member or the person entitled by transmission and at least three dividends have been paid in relation to such shares during those 12 years and no such dividend has been claimed and, within a further period of three months from the date of advertisements giving notice of its intention to sell such shares placed after the expiry of the period of 12 years, the Company has not received any communication from the member or the person entitled by transmission and notice has been given by the Company to the London Stock Exchange of its intention to make such sale. The Company shall be obligated to account to the former member or person entitled by transmission for the net proceeds of the sale of such shares but no trust shall be created in respect of the debt and no interest shall be payable in respect of the same and the Company shall not be required to account for any money earned on the net proceeds.

Alteration of Share Capital

The authorised share capital of the Company currently consists of 3,000,000,000 ordinary shares of 50p each.

The Company may from time to time by ordinary resolution:

(i) increase its share capital by such sum to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;

(iii) cancel any shares which, at the date of the passing of the resolution, have not been taken, or agreed to be taken, by any person and diminish the amount of its capital by the amount of the shares so cancelled; or

(iv) sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the Memorandum of Association (subject, nevertheless, to the provisions of the Statutes).

Subject to the provisions of the Act, the Company may reduce its share capital redemption reserve, share premium account or other undistributable reserve in any way.

Issue of Shares

Subject to the provisions of the Statutes relating to authority, pre-emption rights and otherwise and of any resolution of the Company passed in general meeting, all unissued shares shall be at the disposal of the Directors and they may allot (with or without conferring a right to renunciation), grant options over or otherwise dispose of them to such persons, at such times and on such terms as they think proper.

MATERIAL CONTRACTS

We have entered into the following contracts outside the ordinary course of business during the two year period immediately preceding the date of this Annual Report.

Acquisition of British Interactive Broadcasting Holdings Limited (''BiB'')

On July 17, 2000, we announced an agreement with British Telecommunications plc (''BT''), HSBC Bank plc (''HSBC'') and Matsushita Electric Europe (Headquarters) Limited (''Matsushita''), to increase our holding in BiB from 32.5% to 80.1%. Completion of the transaction was subject, inter alia, to regulatory approval. The acquisition completed on May 9, 2001.

Following our agreement to meet BiB's future funding requirements, BT's holding was diluted from 32.5% to 19.9%. BT was granted a one-off option to exit, on the same pro-rata terms (including deferred and contingent consideration) as those given to HSBC and Matsushita, at any time. We acquired BT's holding on June 28, 2001, increasing our holding in BiB from 80.1% to 100%.

Consideration was satisfied by the issue to HSBC, Matsushita and BT of 39.7 million new BSkyB shares and deferred consideration estimated at £253 million, through the issue of new BSkyB shares or loan notes.

If the valuation of BiB, based on agreed criteria, is £3 billion or greater, either at 30 or 36 months from the date of the purchase agreement, an additional estimated £253 million will be payable to HSBC and Matsushita through the issue of new BSkyB shares or loan notes.

Acquisition of WAP TV Limited

On May 29, 2001, we acquired a 5% minority interest in WAP TV for total consideration of £5.0 million, increasing our stake to 100%. The consideration comprised 169,375 new BSkyB shares and contingent consideration to be satisfied by the issue of 508,130 new BSkyB shares. The consideration is contingent upon the vendors remaining continuously in our employment from completion until the date the deferred consideration is due.

Acquisition of Sports Internet Group (''SIG'')

On June 7, 2000, we made an offer for 100% of SIG which was declared wholly unconditional on July 12, 2000. Consideration with a fair value of £267.3 million was satisfied by the issue to SIG shareholders of 21.6 million new BSkyB shares. SIG has now changed its name to Sports Internet Group Limited.

Acquisition of a 9.9% stake in Chelsea Village plc (''Chelsea Village'')

On March 3, 2000, we entered into arrangements with Chelsea Village to subscribe for ordinary and preference shares in Chelsea Village and to become their exclusive media agent, for a total consideration of £40 million. The transaction completed on July 14, 2000.

Acquisition of a 24% stake in KirchPayTV

On December 6, 1999 we announced that we had agreed to acquire a 24% interest in KirchPayTV from KirchGruppe. On April 14, 2000, the acquisition was declared wholly unconditional and we completed the acquisition of KirchPayTV on May 4, 2000, for an aggregate consideration of £1,519.9 million. The consideration was comprised of DM 1 billion of cash and 78 million BSkyB shares. Conditional upon completion of the transaction, Dr Dieter Hahn, Vice Chairman of the Board of Managing Directors of KirchGruppe and member of the Supervisory Board of KirchPayTV, was appointed as a non-executive director of BSkyB.

Disposal of Investment in Static 2358 Limited (''Static'')

On June 13, 2001, we entered into binding agreements for the sale of our unlisted investment in Static for total consideration of £3.7 million comprising cash and shares in Open TV. The disposal was completed on July 2, 2001.

EXCHANGE CONTROLS

There are no U.K. government laws, decrees, regulations or other legislation which restrict or which may affect the import or export of capital, including the availability of cash and cash equivalents for use by us or the remittance of dividends, interest and other payments to non-resident holders of our securities, except as otherwise described under ''Taxation'' below.

Under English law (and the Company's Memorandum and Articles of Association), persons who are neither residents nor nationals of the United Kingdom may freely hold, vote and transfer ordinary shares in the same manner as United Kingdom residents or nationals.

TAXATION

The discussion summarizes certain U.K. and U.S. tax consequences of the acquisition, ownership and disposition of Shares and Shares represented by ADSs evidenced by ADRs by a U.S. Holder. For purposes of this summary, a ''U.S. Holder'' is a beneficial owner of Shares or ADSs who is a (i) citizen or resident of the U.S. for U.S. income tax purposes, (ii) a corporation organized under the laws of the U.S. or any state thereof or the District of Columbia, (iii) a domestic partnership, (iv) an estate the income of which is subject to U.S. federal income taxation regardless of its source or (v) a trust if a court within the U.S. is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust. However, in the case of a partnership, estate or trust, this discussion applies only to the extent such entity's income is taxed to the entity or its partners or beneficiaries on a net income basis under U.S. tax law. This summary is based (i) upon current U.K. law, United Kingdom Inland Revenue (''U.K. Inland Revenue'') practice, (ii) the U.S. Internal Revenue Code, Treasury Regulations, cases and Internal Revenue Service rulings, all of which are subject to change, possibly with retroactive effect, (iii) the U.K.-U.S. Income Tax Convention currently in effect (the ''Treaty'') and (iv) in part upon representations of the Depositary and assumes that each obligation provided for in or otherwise contemplated by the Deposit Agreement and any related agreement will be performed in accordance with their respective terms.

A new Treaty was signed on July 24, 2001, but will not come into effect until ratified by both governments. The new Treaty has no effect on this summary.

The summary of U.K. tax consequences relates to the material aspects of the U.K. taxation position of U.S. Holders and does not address the tax consequences to a U.S. Holder (i) that is resident (or, in the case of an individual, ordinarily resident) in the U.K. for U.K. tax purposes, (ii) whose holding of Shares or ADSs is through or part of a permanent establishment in the U.K. through which such U.S. Holder carries on business activities or, in the case of an individual who performs independent personal services, with a fixed base situated therein, or (iii) that is a corporation which alone or together with one or more associated companies, controls directly or indirectly, 10% or more of the voting stock of the Company. The discussion set forth below is only a general summary and does not purport to be a technical analysis nor a description of all possible tax consequences.

The summary of U.S. tax consequences may not completely or accurately describe tax consequences to all U.S. Holders. For example, special rules may apply to U.S. Holders of stock representing 10% or more of the total combined voting power of the Company, U.S. expatriates, insurance companies, tax-exempt organizations, banks and other financial institutions, persons subject to the alternative minimum tax, securities broker-dealers, traders in securities that elect to mark-to-market, and persons holding their Shares or ADSs as parties to a conversion transaction, among others.

Tax consequences to each U.S. Holder will depend upon the particular facts and circumstances of each such holder. Accordingly, each person should consult with his own professional advisor with respect to the tax consequences of his ownership and disposition of Shares or ADSs. This summary does not discuss any tax rules other than U.K. tax and U.S. federal income tax rules. The U.K. and U.S. tax authorities and courts are not bound by this summary and may disagree with its conclusions.

U.S. Holders of ADSs will be treated as owners of the Shares underlying the ADSs. Accordingly, except as noted, the U.K. tax consequences discussed below apply equally to U.S. Holders of ADSs and Shares.

Taxation of Dividends

Under current U.K. taxation legislation, no tax is withheld from dividend payments by the Company and generally no U.K. tax is payable by Eligible U.S. Holders on dividends declared on the shares.

For dividends paid on or after April 6, 1999 Eligible U.S. holders ceased to be entitled to receive a U.K./U.S. Double Tax Treaty Payment in relation to dividends declared on the shares because of reductions in the tax credit attaching to dividends provided for in the Finance (No. 2) Act 1997.

U.S. Holders who are not resident or ordinarily resident for tax purposes in the U.K. with no other source of U.K. income are not required to file a U.K. income tax return.

For U.S. federal income tax purposes, the gross amount of a dividend (including any withholding tax) will be included in a U.S. Holder's gross income as dividend income when payment is actually or constructively received by the U.S. Holder in the case of Shares or the Depositary in the case of ADSs, to the extent they are paid out of the Company's current or accumulated earnings and profits as calculated for U.S. federal income tax purposes. Dividends paid by the Company will not give rise to any U.S. dividends received deduction. Dividends will generally constitute foreign source ''passive'' income for foreign tax credit purposes.

Also for U.S. federal income tax purposes, the amount of any dividend paid in non-U.S. currency will be equal to the U.S. dollar value of such currency on the date the dividend is included in income, regardless of whether the payment is in fact converted into U.S. dollars. A U.S. Holder will generally be required to recognize U.S. source ordinary income or loss when such U.S. Holder sells or disposes of non-U.S. currency. A U.S. Holder may also be required to recognize foreign currency gain or loss upon receipt of a refund under the Treaty of tax withheld in excess of the Treaty rate. This foreign currency gain or loss will generally be U.S. source ordinary income or loss.

To the extent that any distribution paid exceeds the Company's current and accumulated earnings and profits as calculated for U.S. federal income tax purposes, the distribution will be treated as follows:

— first, as a tax-free return of capital, which will cause a reduction in the adjusted tax basis of the U.S. Holder's Shares or ADSs. This adjustment will increase the amount of gain, or decrease the amount of loss, that such U.S. Holder will recognize on a later disposition of those Shares or ADSs; and

— second, the balance of the dividend in excess of the adjusted tax basis in a U.S. Holder's Shares or ADSs will be taxed as capital gain recognized on a sale or exchange.

Any non-U.S. withholding tax with respect to a dividend may be used as a credit against a U.S. Holder's U.S. federal income tax liability, subject to specific conditions and limitations.

Taxation of Capital Gains

U.S. Holders who are not resident or ordinarily resident for tax purposes in the U.K. will not be liable for U.K. tax on capital gains realized on the disposal of their ADSs or Shares unless such ADSs or Shares are used, held or acquired for the purposes of a trade or professional vocation carried on in the U.K. through a branch or agency.

The surrender of ADSs in exchange for Shares will not be a taxable event for the purposes of U.K. corporation tax or U.K. capital gains tax. Accordingly, U.S. Holders will not recognize any gain or loss for such purposes upon such surrender.

In general, for U.S. federal income tax purposes, a U.S. Holder will recognize capital gain or loss if such U.S. Holder sells or exchanges Shares or ADSs. Any gain or loss will generally be U.S. source gain or loss. For an individual, any capital gain will generally be subject to U.S. federal income tax at preferential rates if the individual has held the Shares or ADSs for more than one year.

United States Passive Foreign Investment Company Rules

The Company believes that it will not be treated as a passive foreign investment company (''PFIC'') for U.S. federal income tax purposes for the current taxable year or for future taxable years. However, an actual determination of PFIC status is factual and cannot be made until the close of the applicable taxable year. The Company will be a PFIC for any taxable year in which either:

— 75% or more of its gross income is passive income; or

— its assets that produce passive income or that are held for the production of passive income amount to at least 50% of the value of its total assets on average.

For purposes of this test, the Company will be treated as directly owning its proportionate share of the assets, and directly receiving its proportionate share of the gross income, of each corporation in which the Company owns, directly or indirectly, at least 25% of the value of the shares of such corporation.

If the Company were to become a PFIC, the tax applicable to distributions on Shares or ADSs and any gains a U.S. Holder recognizes on disposition of Shares or ADSs may be less favorable to such U.S. Holder. Accordingly, each person should consult with his own professional advisor regarding the PFIC rules.

Inheritance and Gift Taxes

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

United Kingdom Stamp Duty and Stamp Duty Reserve Tax

A transfer for value of the Shares executed on or after October 1, 1999 will generally be subject to U.K. ad valorem stamp duty, normally at the rate of 0.5% rounded up (if necessary) to the nearest multiple of £5 of the amount or value of the consideration given for the transfer. Stamp duty is normally a liability of the purchaser.

An agreement to transfer Shares or any interest therein for money or money's worth will normally give rise to a charge to stamp duty reserve tax (''SDRT'') at the rate of 0.5% of the amount or value of the consideration for the Shares or interest therein (with no rounding up or down). However, if a duly stamped instrument of transfer of the Shares is executed in pursuance of the agreement and duly produced within six years of the date on which the agreement for sale is made (or, if the agreement is conditional, the date on which the condition is satisfied) any SDRT paid is generally repayable with interest, and otherwise the SDRT charge is cancelled. SDRT is in general payable by the purchaser. The United Kingdom Finance Act 1996 makes it clear that (contrary to previous U.K. Inland Revenue practice) SDRT will be levied in respect of agreements to transfer chargeable securities (which include Shares) even where a person not resident in the U.K. buys chargeable securities from another non-resident and the transaction is carried out outside the U.K.

Stamp duty or SDRT charges at the rate of £1.50 per £100 (or part thereof) (in the case of stamp duty) or 1.5% (in the case of SDRT) of the amount or value of the consideration, or in some circumstances, the value of the Shares, may arise on a transfer of Shares to the Depositary or the Custodian of the Depositary or to certain persons providing a clearance system (or their nominees or agents) and will be payable by the Depositary or such other persons. It is possible for persons operating clearance services to make an election to the Inland Revenue subject to certain conditions, pursuant to which, instead of the £1.50 per £100 or 1.5 per cent. stamp duty or SDRT charge applying on entry as described above, a 0.5 per cent. SDRT charge would apply to transfers of securities made within the system.

In accordance with the terms of the Deposit Agreement, any tax or duty payable by the Depositary or the Custodian of the Depositary on any subsequent deposit of Shares will be charged by the Depositary to the holder of the ADS or any deposited security represented by the ADS.

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

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

United States Information Reporting and Backup Withholding

Dividend payments on the Shares or ADSs and proceeds from the sale, exchange or other disposition of the Shares or ADSs may be subject to information reporting to the Internal Revenue Service and possible U.S. backup withholding. U.S. federal backup withholding generally is imposed, at a maximum rate of 31%, on specified payments to persons that fail to furnish required information. Backup withholding will not apply to a holder who furnishes a correct taxpayer identification number or certificate of foreign status and makes any other required certification, or who is otherwise exempt from backup withholding. Any U.S. persons required to establish their exempt status generally must file Internal Revenue Service Form W-9, Request for Taxpayer Identification Number and Certification. Recently finalized Treasury regulations have generally expanded the circumstances under which information reporting and backup withholding may apply.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a U.S. Holder's U.S. federal income tax liability. A U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

DOCUMENTS ON DISPLAY

Certain documents referred to in this annual report can be inspected at our registered office at Grant Way, Isleworth, Middlesex.

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the U.S. Securities and

Exchange Commission (SEC). Specifically, we are required to file annually a Form 20-F no later than six months after the close of each fiscal year. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the SEC at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the SEC at 1-800-SEC-0330. The public may also view our annual reports and other documents filed with the SEC on the Internet at www.sec.gov. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions in Section 16 of the Exchange Act.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Introduction

Our treasury function provides us with a centralised service 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 transacted for risk management purposes only, and the internal control environment is reviewed periodically by our Internal Audit and Risk Management function. The following discussion and tables address market risk only and do not present other risks that we face in the normal course of business, including country risk, credit risk and legal risk.

Our principal market risks are changes in interest rates and currency exchange rates, which arise both from our sources of finance and from our operations. Following evaluation of those positions, we selectively enter into derivative financial instruments to manage these exposures. We use interest rate swaps to hedge interest rate risks, forward rate agreements to hedge transactional currency exposures and a combination of forward foreign exchange contracts and interest rate swaps to hedge exposures on long term foreign currency debt.

It is our policy that all hedging is to cover known risks and that no trading in financial instruments is undertaken. The amount of cash that can be placed with any one institution is restricted according to credit rating, and regular and frequent reporting to management is required for all transactions and exposures.

We have formulated our policies for hedging without regard to U.S. GAAP requirements on hedge accounting, and therefore our existing derivative arrangements do not qualify for hedge accounting under U.S. GAAP.

Interest rate management

We have financial exposures to both sterling and U.S. dollar interest rates, arising primarily from our bank borrowings and long-term bonds. We manage our exposures 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 a swap to pay a fixed-rate and receive a variable rate. Under these swaps, we agree with counter parties to exchange, at specified intervals, the difference between fixed-rate and variable-rate amounts calculated by reference to an agreed notional amount. The majority of these contracts are U.S. dollar denominated, although our debt exposure is currently denominated in sterling after foreign exchange swaps are taken into account. At June 30, 2001, the split of aggregate net borrowings in its core currencies was U.S. dollar 55% and sterling 45%.

It is our policy to have an appropriate mixture of fixed and floating rates and for foreign exchange transactions to be restricted to fixed price instruments. At June 30, 2001, 78% of our borrowings were at fixed rates after taking account of interest rate swaps (June 30, 2000: 76%). The fair value of swaps held as of June 30, 2001 was approximately £116.6 million (i.e. at June 30, 2001, we would have received approximately £116.6 million if we closed out these swaps).

The table below lists for each of the years 2002 to 2006 the notional amounts and weighted average interest rates, as of June 30, 2001, for both our borrowings and our currency and interest rate swaps.

	Total 2000	Fair-value 2000	**Total 2001**	**Fair-value 2001**	Maturities 2002	2003	2004	2005	2006	There-after
	(Amounts shown in millions unless a percentage)									
Borrowings and other financial liabilities										
Fixed rate										
U.S. dollars[1]	969	869	**969**	**1,059**	—	—	—	—	189	780
	8.03%	—	**7.96%**	**—**	—	—	—	—	8.16%	7.91%
Sterling[2]	100	98	**400**	**390**	—	—	300	—	—	100
	7.75%	—	**7.52%**	**—**	—	—	7.44%	—	—	7.75%
Variable rate										
Sterling[3]	349	349	**390**	**390**	—	—	390	—	—	—
	7.20%	—	**6.34%**	**—**	—	—	6.34%	—	—	—
Interest rate and currency swaps										
Receive U.S. dollar fixed	$ 1,550	8	**$ 1,550**	**95**	—	—	—	—	$ 300	$ 1,250
Pay sterling fixed	969	—	**969**	**—**	—	—	—	—	189	780
U.S. fixed rate	7.51%	—	**7.51%**	**—**	—	—	—	—	7.30%	7.56%
Sterling fixed rate	7.96%	—	**7.96%**	**—**	—	—	—	—	8.16%	7.91%
Interest rate swaps										
Variable to fixed	—	—	**300**	**(3)**	—	—	300	—	—	—
Average pay rate	—	—	**6.42%**	**—**	—	—	6.42%	—	—	—
Average receive rate	—	—	**5.72%**	**—**	—	—	5.72%	—	—	—

(1) In October 1996, we issued, in the U.S. public debt market, U.S.$300 million of 7.300% Guaranteed Notes repayable in October 2006. We subsequently entered into swap transactions to convert the proceeds into sterling, half of which carries a fixed rate of interest of 8.384% per annum for the full ten years and the remainder of which is fixed at 7.940% per annum for five years until April 2002 and thereafter floating at 0.62% above the six month LIBOR rate.

In February 1999 we issued, in the U.S. public debt market, U.S.$600 million of 6.875% Guaranteed Notes repayable in February 2009. As at June 30, 2001, the proceeds were swapped into sterling at a fixed rate of 8.200% payable semi-annually, and are repayable in February 2009.

In July 1999 we issued U.S.$650 million 10-year notes pursuant to exemptions under Rule 144A of the Securities Act of 1933 and under Regulation S of the Securities Act. The U.S.$650 million Notes carry a coupon of 8.200% payable semi-annually and are repayable on July 15, 2009. They have been swapped into sterling at a fixed rate of 7.653% payable semi-annually.

(2) In July 1999 we issued £100 million 10-year notes pursuant to exemptions under Rule 144A of the Securities Act of 1933 and under Regulation S of the Securities Act. The £100 million Notes carry a fixed coupon of 7.750% payable annually, and are repayable on July 9, 2009.

£300 million represents a fixed interest rate hedge, which was entered into during fiscal 2001 for a period of two years until January 6, 2003, at 6.4150% (plus a margin above LIBOR as described in note 3) on a notional amount of £300 million. This hedges part of the £690 million that was drawn down on the £750 million RCF.

(3) As at June 30, 2001, £690 million was drawn down on the £750 million RCF (June 30, 2000: £335 million). During fiscal 2001, the interest applicable to £300 million of the drawn down amount was fixed using an interest rate hedge (see note 2). The interest rate applicable to the £390 million remaining draw down accrues at rates between 0.5% and 1.4% per annum above LIBOR, depending upon our credit rating. At current credit ratings, the rate is 1.0% above LIBOR.

The fair values of quoted bond debt are based on the mid-market quoted prices at the period end. The fair values of other borrowings are estimated by discounting the future cash flows to net present value.

To ensure continuity of funding, our policy is to ensure that its borrowings mature over a period of years. At June 30, 2001, 61% of our borrowings were due to mature in more than five years (2000: 76%).

Currency exchange rates

Our revenues are substantially denominated in pounds sterling, although a significant proportion of operating costs is denominated in U.S. dollars. In the year to June 30, 2001, 17% of operating costs (£364.7 million) were denominated in U.S. dollars (2000: 15% (£269.2 million)). These costs relate mainly to our long term programming contracts with U.S. suppliers.

We use forward foreign exchange contracts where a forecasted cash flow has used a specified foreign exchange rate. We currently manage our U.S. dollar/pound sterling exchange risk exposure primarily by the purchase of forward foreign exchange agreements for up to eighteen months ahead, which substantially hedge the group's future foreign exchange liabilities. Occasionally, other financial instruments are employed to manage the exposure where these are more appropriate.

We also incur costs in euros relating to certain transponder rental costs; these payments are also covered by forward rate agreements for approximately one year. From January 1, 2002, when the euro participants convert to the euro currency, we will be receiving euros from our Irish customers. We will seek to offset these receipts against payments for transponder rentals, even if they do not occur simultaneously. This activity will require us to use short-dated swaps between currencies. There was no such activity in fiscal 2001.

All U.S. dollar-denominated and euro-denominated forward rate agreements and similar financial instruments entered into by us are in respect of firm commitments that exceed the value of such agreements and instruments. It is our policy to hedge in excess of 80% of such payments.

Our forward exchange contracts relating to cash flow conversion are summarised by currency below for the fiscal years ended 2001 and 2000:

Foreign exchange contracts for cash flow conversion

	2000 Contract amount	2000 Average contractual rate	2000 Gain/(loss)	2001 Contract amount	2001 Average contractual rate	2001 Gain/(loss)
	£m		£m	£m		£m
Receive U.S. dollars/pay sterling[1]	273.9	$1.60642	17.1	619.7	$1.4281	10.8
Receive euros/pay sterling[2]	44.4	€1.5775	(0.1)	26.8	€1.6175	(0.8)
Receive sterling/pay Irish Punt[3]	28.2	IRP1.27592	(0.7)	—	—	—

(1) The receive U.S. dollars/pay sterling contracts have an average weighted maturity of nine months. These contracts relate to program purchases.

(2) The receive euros/pay sterling contracts have an average weighted maturity of three months. These contracts relate principally to transponder payments.

(3) There are no Irish Punt contracts outstanding.

The fair value of £10.0 million (2000: £16.3 million) for the above contracts represents the amount that we would have received if we closed out the contracts as at June 30, 2001.

Investments in overseas operations are consolidated or equity accounted for accounting purposes by translating values in sterling, and therefore fluctuations in currency exchange rates affect the sterling values recorded in our accounts. These investments do not give rise to any foreign currency cash flows. 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. The most significant investment currency for us with regards to investments in overseas operations is the Euro.

The accounting policies in respect of market risk sensitive instruments are disclosed in Notes 1, 22 and 26 of the Consolidated Financial Statements.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

The constituent instruments defining the rights of holders of ordinary shares have not been materially modified.

Pursuant to the terms of the Deposit Agreement, Citibank, N.A., as Depositary, has agreed to notify holders of ADSs of all actions of the Company in which shareholders of ordinary shares are entitled to exercise voting rights, thus facilitating the exercise of voting rights by holders of ADSs. The address of Citibank, N.A. is 111 Wall Street, New York, New York 10043.

ITEM 15. RESERVED

ITEM 16. RESERVED

PART III

ITEM 17. FINANCIAL STATEMENTS

The registrant has responded to Item 18 in lieu of responding to this Item.

ITEM 18. FINANCIAL STATEMENTS

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

ITEM 19. EXHIBITS

(a) Financial Statements

1. British Sky Broadcasting Group plc

	Page
Report of Independent Accountants	F-1
Consolidated Profit and Loss Accounts for the years ended June 30, 2001, 2000 and 1999	F-2
Consolidated Balance Sheets at June 30, 2001 and 2000	F-4
Consolidated Cash Flow Statements for the years ended June 30, 2001, 2000 and 1999	F-5
Notes to Financial Information	F-8

2. British Interactive Broadcasting Holdings Limited

	Page
Report of Deloitte & Touche, Independent Accountants	F-77
Consolidated Profit and Loss Accounts for the years ended June 30, 2000, 1999 and 1998	F-78
Consolidated Balance Sheets at June 30, 2000 and 1999	F-79
Consolidated Cash Flow Statements for the years ended June 30, 2000, 1999 and 1998	F-81
Notes to Financial Information	F-82

3. KirchPayTV GmbH & Co. KGaA

	Page
Report of KPMG, Independent Accountants	F-96
Consolidated Statements of Operations for the years ended December 31, 2000 and 1999	F-97
Consolidated Balance Sheets at December 31, 2000 and 1999	F-98
Consolidated Statements of Cash Flows for the years ended December 31, 2000 and 1999	F-99
Consolidated Statements of Partner's and Share Capital for the years ended December 31, 2000 and 1999	F-100
Notes to Financial Information	F-101

Schedules other than those listed above are omitted for the reason that they are not required or are not applicable, or the required information is shown in the respective financial statements or notes thereto. Columns omitted from schedules filed have been omitted because the information is not applicable.

(b) Exhibits.

Number	Description	Exhibit No. In Document Incorporated By Reference	Page No. in Sequential Numbering System
1	Memorandum and Articles of Association		
2	Specimen share certificate		
4.1*	Agreement dated June 29, 1999 with respect to a £750,000,000 Revolving Credit Facility among British Sky Broadcasting Group plc, as borrower, the Toronto-Dominion Bank, as agent, and others.		
4.2	Agreement dated March 8, 2001 with respect to a £300,000,000 Revolving Credit Facility among British Sky Broadcasting Group plc, as borrower, the Toronto Dominion Bank, as agent, and others.		
4.3*	Form of Agreement for the use of Transponder Capacity between SES and the Company		
7	Ratio of Earnings to Fixed Charges		
8	List of Subsidiaries		
10.1	Consent of Arthur Andersen		
10.2	Consent of Deloitte & Touche		
10.3	Consent of KPMG		

* Incorporated by reference to the Annual Report on Form 20F for the fiscal year ended June 30, 2000 filed with the Securities and Exchange Commission on September 22, 2000.

SIGNATURES

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

Date: September 28, 2001.

BRITISH SKY BROADCASTING GROUP PLC

By: /s/ MARTIN STEWART

Martin Stewart
Chief Financial Officer

FINANCIAL STATEMENTS OF BSKYB GROUP plc

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of Arthur Andersen, Independent Accountants	F-1
Consolidated Profit and Loss Accounts for the years ended June 30, 2001, 2000 and 1999	F-2
Consolidated Balance Sheets at June 30, 2001 and 2000	F-4
Consolidated Cash Flow Statements for the years ended June 30, 2001, 2000 and 1999	F-5
Notes to Financial Information	F-8

FINANCIAL STATEMENTS OF BRITISH INTERACTIVE BROADCASTING HOLDINGS LIMITED

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of Deloitte & Touche, Independent Accountants	F-77
Consolidated Profit and Loss Accounts for the years ended June 30, 2000, 1999 and 1998	F-78
Consolidated Balance Sheets at June 30, 2000 and 1999	F-79
Consolidated Cash Flow Statements for the years ended June 30, 2000, 1999 and 1998	F-81
Notes to Financial Information	F-82

FINANCIAL STATEMENTS OF KIRCHPAYTV GMBH & CO. KGaA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of KPMG, Independent Accountants	F-96
Consolidated Statements of Operations for the years ended December 31, 2000 and 1999	F-97
Consolidated Balance Sheets at December 31, 2000 and 1999	F-98
Consolidated Statements of Cash Flows for the years ended December 31, 2000 and 1999	F-99
Consolidated Statements of Partner's and Share Capital for the years ended December 31, 2000 and 1999	F-100
Notes to Financial Information	F-101

Report of Independent Accountants

To the Board of Directors of British Sky Broadcasting Group plc

We have audited the consolidated financial statements of British Sky Broadcasting Group plc and subsidiaries (the ''Company'') on pages F-2 to F-76 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages F-8 to F-12. As explained in Note 1a), the financial statements have not been prepared for the purposes of Section 226 of the Companies Act 1985.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by the Auditing Practices Board and by our profession's ethical guidance. It is our responsibility to report our opinion to you as to whether the financial statements give a true and fair view.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board in the United Kingdom and with generally accepted auditing standards in the United States. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company, 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 as at June 30, 2001 and June 30, 2000 and of the company's loss and cash flows for the years ended June 30, 2001, June 30, 2000 and June 30, 1999 in conformity with generally accepted accounting principles in the United Kingdom.

Reconciliation to US GAAP

Accounting practices used by the company in preparing the accompanying financial statements conform with generally accepted accounting principles in the United Kingdom, but do not conform with accounting principles generally accepted in the United States. A description of these differences and a complete reconciliation of consolidated net loss and shareholders' funds to generally accepted accounting principles in the United States is set forth in Note 28.

ARTHUR ANDERSEN
Chartered Accountants
1 Surrey Street
London
WC2R 2PS

July 24, 2001

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

			June 30, 2000			**June 30, 2001**		
	Notes	June 30, 1999 as restated	Before goodwill and exceptional items as restated	Goodwill and exceptional items as restated	Total as restated	**Before goodwill and exceptional items**	**Goodwill and exceptional items**	**Total**
		£m	£m	£m	£m	**£m**	**£m**	**£m**
Turnover: Group and share of joint ventures		1,583.0	1,934.7	—	1,934.7	**2,530.1**	**—**	**2,530.1**
Less: Share of joint ventures' turnover		(38.0)	(87.7)	—	(87.7)	**(224.1)**	**—**	**(224.1)**
Group turnover	3	1,545.0	1,847.0	—	1,847.0	**2,306.0**	**—**	**2,306.0**
Continuing operations		1,545.0	1,847.0	—	1,847.0	**2,220.1**	**—**	**2,220.1**
Acquisitions	2	—	—	—	—	**85.9**	**—**	**85.9**
Group turnover		1,545.0	1847.0	—	1,847.0	**2,306.0**	**—**	**2,306.0**
Operating expenses, net	4	(1,816.0)	(1,761.7)	(105.0)	(1,866.7)	**(2,145.8)**	**(67.4)**	**(2,213.2)**
EBITDA	1	(303.5)	134.2	(101.9)	32.3	**224.3**	**(16.1)**	**208.2**
Depreciation		(32.5)	(48.9)	(3.1)	(52.0)	**(64.1)**	**(7.0)**	**(71.1)**
Amortization		—	—	—	—	**—**	**(44.3)**	**(44.3)**
Continuing operations		(271.0)	85.3	(105.0)	(19.7)	**171.4**	**—**	**171.4**
Acquisitions	2	—	—	—	—	**(11.2)**	**(67.4)**	**(78.6)**
Operating profit (loss)		(271.0)	85.3	(105.0)	(19.7)	**160.2**	**(67.4)**	**92.8**
Share of operating results of joint ventures	6	(57.7)	(121.3)	—	(121.3)	**(239.2)**	**(16.5)**	**(255.7)**
Joint ventures' goodwill amortization	15	—	—	(14.4)	(14.4)	**—**	**(101.1)**	**(101.1)**
Loss on sale of fixed asset investments	5	—	—	(1.4)	(1.4)	**—**	**—**	**—**
Share of joint venture's loss on sale of fixed asset investment	5	—	—	(14.0)	(14.0)	**—**	**(69.5)**	**(69.5)**
Amounts written off fixed asset investments	5	—	—	—	—	**—**	**(38.6)**	**(38.6)**
Provision for loss on disposal of subsidiary	5	—	—	—	—	**—**	**(10.0)**	**(10.0)**
Loss on ordinary activities before interest and taxation		(328.7)	(36.0)	(134.8)	(170.8)	**(79.0)**	**(303.1)**	**(382.1)**
Interest receivable and similar income	7	4.2	10.7	—	10.7	**18.2**	**2.7**	**20.9**
Interest payable and similar charges	7	(64.2)	(102.6)	—	(102.6)	**(153.3)**	**—**	**(153.3)**
Loss on ordinary activities before taxation	8	(388.7)	(127.9)	(134.8)	(262.7)	**(214.1)**	**(300.4)**	**(514.5)**
Taxation (charge) credit	10	103.1	33.5	31.5	65.0	**(23.3)**	**(0.8)**	**(24.1)**
Loss on ordinary activities after taxation	25	(285.6)	(94.4)	(103.3)	(197.7)	**(237.4)**	**(301.2)**	**(538.6)**
Equity dividends — paid and proposed	11	(47.3)			—			**—**
Retained loss		(332.9)			(197.7)			**(538.6)**
Loss per share — basic and diluted	12	(16.6p)	(5.4p)	(5.9p)	(11.3p)	**(12.9p)**	**(16.3p)**	**(29.2p)**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF TOTAL RECOGNISED GAINS AND LOSSES

For the three years ended June 30, 2001

	Notes	1999	2000	**2001**
		£m	£m	**£m**
BSkyB Group plc	25	30.6	(146.4)	**(375.5)**
Subsidiary undertakings		(267.9)	(1.5)	**291.6**
Joint ventures		(47.8)	(123.6)	**(454.7)**
Loss for the financial year	25	(285.1)	(271.5)	**(538.6)**
Net loss on deemed disposals	25	—	—	**(20.7)**
Translation differences on foreign currency net investment	25	—	4.1	**(2.1)**
Total recognized gains and losses relating to the year		(285.1)	(267.4)	**(561.4)**
Prior year adjustment		—	—	**150.5**
Total gains and losses recognized since last annual report		—	—	**(410.9)**

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

	Notes	June 30, 2000 as restated	**June 30, 2001**
		£m	**£m**
Fixed assets			
Intangible assets	13	—	**789.3**
Tangible assets	14	224.9	**315.4**
Investments			
: Investments in joint ventures: Share of gross assets		667.2	**270.5**
: Share of gross liabilities		(513.4)	**(248.3)**
: Joint ventures' goodwill		1,358.0	**1,140.6**
: Transfer to creditors		0.5	**0.9**
Total investment in joint ventures	15	1,512.3	**1,163.7**
Other fixed asset investments	16	148.3	**142.2**
Total investments		1,660.6	**1,305.9**
		1,885.5	**2,410.6**
Current assets			
Stocks	17	358.2	**424.1**
Debtors: Amounts falling due within one year	18	333.5	**493.4**
Debtors: Amounts falling due after more than one year	18	421.1	**324.6**
Cash at bank and in hand		281.2	**223.6**
		1,394.0	**1,465.7**
Creditors: Amounts falling due within one year			
— short-term borrowings	20	(13.8)	**(2.1)**
— other creditors	20	(808.9)	**(988.7)**
		(822.7)	**(990.8)**
Net current assets		571.3	**474.9**
Total assets less current liabilities		2,456.8	**2,885.5**
Creditors: Amounts falling due after more than one year			
— long-term borrowings	21	(1,412.4)	**(1,768.0)**
— other creditors	21	(22.0)	**(13.9)**
	21	(1,434.4)	**(1,781.9)**
Provisions for liabilities and charges	23	(225.5)	**(43.0)**
		796.9	**1,060.6**
Capital and reserves — equity			
Called-up share capital	24	912.9	**944.4**
Share premium	25	2,209.9	**2,377.6**
Shares to be issued	25	—	**256.9**
Merger reserve	25	—	**340.8**
Profit and loss account	25	(2,325.9)	**(2,859.1)**
Total shareholders' funds	25	796.9	**1,060.6**

See notes to consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENTS

	Notes	June 30, 1999	June 30, 2000	**June 30, 2001**
		£m	£m	**£m**
Net cash inflow (outflow) from operating activities	a	238.3	(232.5)	**38.9**
Returns on investments and servicing of finance				
Interest received and similar income		4.2	9.8	**4.6**
Interest paid and similar charges on external financing		(54.8)	(73.9)	**(118.6)**
Interest element of finance lease payments		(0.5)	(0.8)	**(1.7)**
Net cash outflow from returns on investments and servicing of finance		(51.1)	(64.9)	**(115.7)**
Taxation				
ACT paid		(25.8)	—	**—**
Consortium relief paid		(2.5)	(23.6)	**(16.2)**
Net cash outflow from taxation		(28.3)	(23.6)	**(16.2)**
Capital expenditure and financial investment				
Payments to acquire tangible fixed assets		(76.2)	(57.9)	**(133.3)**
Payments to acquire fixed asset investments		(66.9)	(48.0)	**(25.5)**
Receipts from sales of fixed asset investments		—	5.3	**—**
Receipt from sales of intangible assets		—	—	**0.2**
Receipt of government grants		1.1	0.6	**—**
Net cash outflow from capital expenditure and financial investment		(142.0)	(100.0)	**(158.6)**
Acquisition and disposals				
Purchase of subsidiary undertakings		—	—	**(27.3)**
Net cash acquired with subsidiary undertakings		—	—	**11.7**
Funding to joint ventures		(22.9)	(79.9)	**(137.3)**
Repayments of funding from joint ventures		—	1.7	**—**
Net payments made in the acquisition of joint ventures		(45.4)	(333.0)	**—**
Net cash outflow from acquisitions and disposals		(68.3)	(411.2)	**(152.9)**
Equity dividends paid		(103.2)	—	**—**
Net cash outflow before management of liquid resources and financing		(154.6)	(832.2)	**(404.5)**
Management of liquid resources				
Decrease (increase) in short-term deposits	c	—	(155.0)	**85.0**
Financing				
Proceeds from issue of ordinary shares		8.0	359.8	**6.5**
Payments made on the issue of ordinary shares		—	(7.7)	**(3.5)**
Net increase in total debt	c	132.1	697.4	**357.6**
Net cash inflow from financing		140.1	1,049.5	**360.6**
(Decrease) increase in cash	c	(14.5)	62.3	**41.1**
Increase in net debt	c	(146.6)	(480.1)	**(401.5)**

See notes to consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENTS

a) Reconciliation of operating profit to operating cashflows

		2000			**2001**		
	1999	Before exceptional items	Exceptional items	Total	**Before goodwill and exceptional items**	**Goodwill and exceptional items**	**Total**
	£m	£m	£m	£m	**£m**	**£m**	**£m**
Operating profit (loss)	(271.0)	85.3	(105.0)	(19.7)	**160.2**	**(67.4)**	**92.8**
Depreciation (see note 14)	32.5	48.9	3.1	52.0	**64.1**	**7.0**	**71.1**
Loss on disposal of fixed assets	0.1	—	—	—	**—**	**—**	**—**
Goodwill amortization (see note 13)	—	—	—	—	**—**	**44.3**	**44.3**
Amortization of government grants	(0.2)	(1.3)	—	(1.3)	**(0.1)**	**—**	**(0.1)**
Deferred revenue released	—	(2.2)	—	(2.2)	**(4.2)**	**—**	**(4.2)**
(Increase) decrease in debtors	(5.2)	(177.7)	6.4	(171.3)	**(23.4)**	**—**	**(23.4)**
Increase in creditors	137.1	159.3	—	159.3	**64.1**	**—**	**64.1**
(Increase) decrease in stock	(60.4)	(73.3)	3.9	(69.4)	**(43.1)**	**—**	**(43.1)**
Provision (utilized) provided, net	405.4	—	(179.9)	(179.9)	**0.3**	**(162.9)**	**(162.6)**
Net cash inflow (outflow) from operating activities	238.3	39.0	(271.5)	(232.5)	**217.9**	**(179.0)**	**38.9**

b) Analysis of changes in net debt

	As at July 1, 1999	Cash flow	As at July 1, 2000	Cash flow	**As at June 30, 2001**
	£m	£m	£m	£m	**£m**
Overnight deposits	14.8	32.3	47.1	44.8	**91.9**
Other cash	35.4	43.7	79.1	(17.4)	**61.7**
Bank overdrafts	—	(13.7)	(13.7)	13.7	**—**
	50.2	62.3	112.5	41.1	**153.6**
Short-term deposits	—	155.0	155.0	(85.0)	**70.0**
Cash at bank and in hand less bank overdrafts	50.2	217.3	267.5	(43.9)	**223.6**
Debt due after more than one year	(706.8)	(697.5)	(1,404.3)	(354.8)	**(1,759.1)**
Finance leases	(8.3)	0.1	(8.2)	(2.8)	**(11.0)**
Total debt	(715.1)	(697.4)	(1,412.5)	(357.6)	**(1,770.1)**
Total net debt	(664.9)	(480.1)	(1,145.0)	(401.5)	**(1,546.5)**

CONSOLIDATED CASH FLOW STATEMENTS

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

	Note	1999	2000	**2001**
		£m	£m	**£m**
(Decrease) increase in cash and bank overdrafts		(14.5)	62.3	**41.1**
Increase in short-term deposits		—	155.0	**(85.0)**
Cash inflow resulting from increase in debt and lease financing		(132.1)	(697.4)	**(357.6)**
Increase in net debt		(146.6)	(480.1)	**(401.5)**
Net debt at beginning of year		(518.3)	(664.9)	**(1,145.0)**
Net debt at end of year	b	(664.9)	(1,145.0)	**(1,546.5)**

d) Major non-cash transactions

2001

Acquisition of 67.5% of BiB

During 2001, the Group acquired 67.5% of BiB (see note 2), 47.6% on May 9, 2001 and 19.9% on June 28, 2001, increasing the Group's interest to 100% (2000: 32.5%). 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.

Acquisition of 100% of SIG

In July 2000, the Group acquired 100% of SIG (see note 2). 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 Limited

In May 2001, the Group acquired the remaining 5% minority interest in WAP TV Limited. 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.

2000

Acquisition of 24% of KirchPayTV

In April 2000, the Group acquired 24% of KirchPayTV (see note 15). Part of the consideration was satisfied by the issue to KirchPayTV of 78,019,778 new BSkyB shares, with a fair value of £1,186.7 million.

NOTES TO FINANCIAL INFORMATION

1 Accounting policies

The principal accounting policies are summarized below. All of these have been applied consistently throughout the year and the preceding year, with the exception of the change in accounting policy resulting from the adoption of FRS 19.

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, including the following Financial Reporting Standards issued by the Accounting Standards Board which have come into force since the previous year end:

The financial statements have not been prepared for the purposes of section 226 of the Companies Act 1985 (''the Act'') and therefore do not constitute statutory accounts within the context of the Act. Statutory accounts for the years ended June 30, 2000 and June 30, 2001 have been delivered to the Registrar of Companies. The auditors' reports on those accounts were unqualified and did not contain a statement under section 237(2) or 237(3).

FRS 17 — Retirement benefits

This standard addresses the measurement and valuation of retirement benefit pension schemes. Compliance with this standard has not given rise to any change in accounting policies or any restatement of figures reported for prior periods since the Group operates defined contribution plans.

FRS 18 — Accounting policies

This standard addresses the adoption of appropriate accounting policies, judged against the objectives of relevance, reliability, comparability and understandability. Compliance with this standard has not given rise to any change in accounting policies or any restatement of figures reported for prior periods.

FRS 19 — Deferred tax

This standard addresses the recognition, on a full provision basis, of deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation. Further details regarding the change in accounting policy resulting from the adoption of FRS 19 are set out in note 1l) and 10.

b) Basis of consolidation

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

The Group maintains a 52-53 week fiscal year ending on the Sunday nearest to June 30, in each year. In fiscal year 2001 this date was July 1, 2001, this being a 52 week year (2000: July 2, 2000, 53 week year; 1999: June 27, 1999, 52 week year).

The Group takes advantage of section 131 of the Companies Act 1985 to apply merger relief where it is entitled to do so.

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

c) *Acquisitions*

On the acquisition of a business, fair values are attributed to the Group's share of separable net assets acquired. Where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and capitalized on the Group balance sheet in the year of acquisition. 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.

d) *Turnover*

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

e) *Goodwill*

Prior to July 1, 1998, goodwill arising on acquisitions was eliminated against reserves. As permitted by FRS 10, this goodwill has not been restated on the balance sheet. On disposal or closure of a previously acquired business, the goodwill previously written off to reserves will be included in calculating the profit or loss on disposal. Purchased goodwill (representing the fair value of the consideration over the fair value of the separable net assets acquired) arising on acquisitions from July 1, 1998 is capitalized.

Where capitalized goodwill is regarded as having a limited useful economic life, the cost is amortized on a straight line basis over that life, of up to 20 years.

Impairment reviews are carried out to ensure that goodwill is not carried at above its recoverable amount. Any amortization or impairment write-downs are charged to the profit and loss account.

f) *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.

g) *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 permanent diminution in value.

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.

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 period of the LTIP and KCP.

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

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

h) Tangible fixed assets

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

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

Freehold buildings	4%
Leasehold improvements	Lower of lease period or life of the asset
Equipment, fixtures and fittings:	
— Fixtures and fittings	10% – 20%
— Computer equipment	20% – 33⅓%
— Technical equipment	10% – 20%
— Motor vehicles	25%

i) Stocks

Stocks, apart from programme rights, are stated at the lower of cost and net realizable value (''NRV'').

The stock of set-top boxes is valued at the lower of cost and NRV (which reflects the value to the business of the set-top box in the hands of the customer). Any subsidy is expensed on enablement.

Programme rights are stated at cost (including, where applicable, estimated escalation payments) less accumulated amortization.

Acquired programme rights, and the related liability, are recorded at cost when the programmes are available for transmission.

Contractual obligations for programme rights not yet available for transmission are not included in the cost of programme rights, but are disclosed as contractual commitments (see note 26).

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

Amortization is provided to write off the cost of acquired programme rights as follows:

Sports	– 100% on first showing, or where contracts provide for sports rights for multiple seasons or competitions, the amortization 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	– Straight-line basis over the period of transmission rights. – Where movie rights provide for a second availability window, 10% of the cost is allocated to that window.

Own movie productions are amortized in line with anticipated revenue over a maximum of five years.

Provisions are made for any programme rights which are excess to Group requirements or which will not be shown for any other reason.

j) Transponder rentals

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

k) Taxation

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

l) Deferred taxation

Deferred tax is recognized 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 recognized 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 recognized 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.

On adoption of FRS 19, the Group has changed its accounting policy in respect of deferred taxation, and restated prior year results accordingly (see note 10).

m) 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.

n) 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 recognized on an accruals basis, over the life of the instrument. Gains and losses on contracts hedging forecast transactional cash flows are recognized 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 recognized in the profit and loss account.

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

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 amortized 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, tax, depreciation and amortization) is calculated as operating profit before depreciation and amortization of goodwill and intangible fixed assets.

2 Acquisitions

British Interactive Broadcasting Holdings Limited ("BiB")

During 2001, the Group acquired 67.5% of the issued share capital of BiB, 47.6% on May 9, 2001 and 19.9% on June 28, 2001, increasing the Group's interest to 100% (2000: 32.5%). The amount of provisional goodwill arising as a result of the acquisition is £564.9 million, which is being amortized over a seven year period on a straight-line basis.

The results of BiB prior to acquisition were as follows:

	Loss after tax
	£m
July 1, 2000 to May 9, 2001	214.6
Preceding financial year ended June 30, 2000	232.3

The following table shows the adjustments made to the book value of the major categories of assets and liabilities acquired to arrive at fair values included in the consolidated financial statements at the date of acquisition. The cash flow effects are shown below.

		Provisional adjustments		
	Book value	Fair value adjustments	Accounting policy adjustments	Fair value to Group of 100% of BiB
	£m	£m	£m	£m
Tangible fixed assets	26.7 (i)	—	—	26.7
Other non-current assets	4.4	(1.2)	—	3.2
Current assets	80.3	(0.4)	22.8 (ii)	102.7
Current liabilities	(120.5)	—	—	(120.5)
Non-current liabilities	(156.0)	—	—	(156.0)
Net (liabilities) assets	**(165.1)**	**(1.6)**	**22.8**	**(143.9)**
Provisional goodwill arising on acquisition				**564.9**
				421.0
Satisfied by:				
Original equity funding (see note 15)				44.7
Debentures capitalized (see note 15)				85.1
Fair value of shares issued (see note 25)				290.9
Fair value of deferred consideration (see note 25)				253.2
Cash				23.1
Cumulative share of joint venture losses at completion (see note 15)				(282.1)
Costs associated with the acquisition				6.1
				421.0

(i) This is stated after a provision for impairment of £13.1 million to write down the value of the current platform (see note 5).

(ii) The accounting policy adjustment aligns BiB's policy of recognizing the cost of the set-top box subsidy when the set-top box is delivered with the Group's policy of recognizing the cost of the set-top box when the set-top box is enabled.

Deferred consideration, estimated at £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, at the option of BSkyB.

As it has not been possible to complete the investigation to determine the fair value of BiB before the approval of the financial statements, provisional valuations have been made. Based on these valuations, provisional goodwill of £564.9 million has arisen on acquisition. Further valuations will be made which might, if necessary, result in an adjustment being made to goodwill in the next annual financial statements.

The effect of the acquisition of BiB on the Group's results was to increase turnover by £6.9 million and to decrease operating profit before goodwill and exceptional items by £1.0 million.

Cash flow

From May 9, 2001, BiB contributed £24.4 million to the Group's net operating cash outflows, paid £1.5 million in respect of net returns on investment and servicing of finance, utilized £0.1 million for capital expenditure and financial investment and received £19.7 million from financing.

Contingent consideration

If the valuation of BiB, based on agreed criteria, is £3 billion or greater, either at 30 or 36 months from the date of the purchase agreement, a further estimated £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 recognized.

Sports Internet Group plc ("SIG")

100% of the issued share capital of SIG was acquired on July 12, 2000. The amount of goodwill arising as a result of the acquisition is £272.4 million, which is being amortized over a seven year period on a straight-line basis. SIG has now changed its name to Sports Internet Group Limited (see note 16).

The results of SIG prior to acquisition were as follows:

	Loss after tax £m
April 1, 2000 to date of acquisition	6.7
Preceding financial period from February 8, 1999 to March 31, 2000	9.5

NOTES TO FINANCIAL INFORMATION (continued)

The following table shows the adjustments made to the book value of the major categories of assets and liabilities acquired to arrive at fair values included in the consolidated financial statements at the date of acquisition. The cash flow effects are shown below.

		Adjustments	
	Book value	Fair value adjustments	Fair value to Group of 100% of SIG
	£m	£m	£m
Intangible fixed assets	73.0	(72.2) (i)	0.8
Other non-current assets	3.8	(0.6)	3.2
Current assets	6.0	—	6.0
Current liabilities	(9.2)	(1.1)	(10.3)
Non-current liabilities	(0.4)	—	(0.4)
Net assets (liabilities)	**73.2**	**(73.9)**	**(0.7)**
Goodwill arising on acquisition			**272.4**
			271.7
Satisfied by:			
Fair value of shares issued (see note 25)			267.3
Costs associated with the acquisition			4.4
			271.7

(i) This adjustment removes the goodwill recorded in the books of SIG.

The effect of the acquisition of SIG on the Group's results was to increase turnover by £79.0 million and to decrease operating profit before goodwill and exceptional items by £10.2 million.

Cashflow

From July 12, 2000, SIG contributed £12.2 million to the Group's net operating cash outflows, paid £0.1 million in respect of net returns on investment and servicing of finance, utilized £3.9 million for capital expenditure and financial investment, utilized £2.2 million for acquisitions and received £17.1 million in respect of financing.

WAP TV Limited ("WAP TV")

On May 29, 2001 the Group acquired a 5% minority interest in WAP TV for total consideration of £5.0 million, increasing the Group's interest to 100%. The consideration comprises 169,375 new BSkyB Ordinary Shares issued on May 29, 2001, and contingent consideration to be satisfied by the issue of a further 169,375 new BSkyB Ordinary Shares on June 30, 2002, and the issue of 338,755 new BSkyB Ordinary Shares on September 30, 2003. This consideration is contingent upon the vendors remaining continuously in the employment of the Group from completion until the date the deferred consideration is due. This has been recognized as it is considered probable that these criteria will be fulfilled. Provisional goodwill of £5.2 million arose on the acquisition, which is being amortized over a seven year period on a straight-line basis.

The £(0.2) million book value of the assets and liabilities of the minority interest acquired was deemed to be equal to the fair value.

3 Turnover

	1999	2000 As restated	**2001**
	£m	£m	**£m**
Direct-to-home subscribers	979.3	1,189.0	**1,536.7**
Cable and DTT subscribers	252.6	303.0	**299.1**
Advertising	216.5	242.3	**270.5**
Interactive[i]	—	4.6	**93.0**
Other[ii]	96.6	108.1	**106.7**
	1,545.0	1,847.0	**2,306.0**

i Interactive income includes income from gaming, online advertising, internet, e-commerce, interconnect, text services and Sky Interactive set-top box subsidy recovery.

ii Included in other turnover is £nil (2000: £nil; 1999: £38.3 million) representing sales of digital set-top boxes at cost. The corresponding cost is included within subscriber management costs.

All turnover is derived from the Group's sole class of business, being television broadcasting together with certain ancillary functions, and arises principally within the United Kingdom from activities conducted from the United Kingdom, with the exception of £65.2 million of turnover (2000: £nil) which relates to activities conducted from the Channel Islands. Subscription revenue is recognised over the period to which it relates. In order to provide shareholders with additional information, the Group's turnover has been analysed as shown above.

Loss before tax and net assets relate to activities conducted in the United Kingdom, with the exception respectively of £292.4 million loss (2000: £43.8 million loss) and £1,142.1 million of net assets (2000: £1,479.9 million) which relate to activities conducted from Germany, and £1.2 million loss (2000: £nil) and £1.5 million of net liabilities (2000: £nil) which relate to activities conducted from the Channel Islands.

4 Operating expenses, net

		2000			**2001**		
	After exceptional items 1999	Before exceptional items	Exceptional items	Total	**Before goodwill and exceptional items**	**Goodwill and exceptional items**	**Total**
	£m	£m	£m	£m	**£m**	**£m**	**£m**
Programming*	786.5	945.6	—	945.6	**1,133.8**	**—**	**1,133.8**
Transmission and related functions*	90.9	105.2	41.0	146.2	**128.6**	**—**	**128.6**
Marketing	665.5	381.3	58.3	439.6	**378.1**	**—**	**378.1**
Subscriber management	154.4	199.9	5.7	205.6	**243.4**	**—**	**243.4**
Administration	118.7	129.7	—	129.7	**186.6**	**67.4**	**254.0**
Gaming	—	—	—		**75.3**	**—**	**75.3**
	1,816.0	1,761.7	105.0	1,866.7	**2,145.8**	**67.4**	**2,213.2**

* The amounts shown are net of £55.1 million (2000: £51.3 million; 1999: £48.2 million) receivable from the disposal of programming rights not acquired for use by the Group, and £53.9 million (2000: £61.3 million; 1999: £50.6 million) in respect of the provision to third party broadcasters of spare transponder capacity.

In addition to the £75.3 million of gaming costs, £47.8 million of other ''Sky Interactive'' operating costs are allocated to the relevant operating expenses lines.

The analysis of these operating costs for acquisitions is as follows: for BiB: transmission and related functions costs of £3.6 million; marketing costs of £0.6 million; subscriber management costs of £0.4 million and administration costs before goodwill and exceptional items of £3.3 million; and for SIG: programming costs of £0.5 million; transmission and related functions costs of £1.5 million; marketing costs of £1.9 million, administration costs of £10.0 million and gaming costs of £75.3 million.

5 Exceptional items

	1999	2000			**2001**		
	After taxation as restated	Before taxation	Taxation credit as restated	After taxation as restated	**Before taxation**	**Taxation credit**	**After taxation**
	£m	£m	£m	£m	**£m**	**£m**	**£m**
Estimated cost of reorganization of Sky Interactive	—	—	—	—	**23.1**	**—**	**23.1**
Estimated cost of termination of analog operations	—	41.0	(12.3)	28.7	**—**	**—**	**—**
Estimated cost of transitioning analog customers to digital service	315.0	58.3	(17.5)	40.8	**—**	**—**	**—**
Estimated cost of Sky In-Home Service Limited reorganization	—	5.7	(1.7)	4.0	**—**	**—**	**—**
Cost of aborted Manchester United PLC bid	4.4	—	—	—	**—**	**—**	**—**
Exceptional operating items	319.4	105.0	31.5	73.5	**23.1**	**—**	**23.1**
Loss on sale of fixed asset investments (see note 16)	—	1.4	—	1.4	**—**	**—**	**—**
Share of joint venture's operating exceptional item (see note 6)	—	—	—	—	**16.5**	**—**	**16.5**
Share of joint venture's loss on sale of fixed asset investment (see note 15)	—	14.0	—	14.0	**69.5**	**—**	**69.5**
Amounts written off fixed asset investments (see notes 15 and 16)	—	—	—	—	**38.6**	**—**	**38.6**
Provision for loss on disposal of subsidiary (see note 13)	—	—	—	—	**10.0**	**—**	**10.0**
Finance charge (credit) (see note 7)	3.6	—	—	—	**(2.7)**	**0.8**	**(1.9)**
	323.0	120.4	(31.5)	88.9	**155.0**	**0.8**	**155.8**

2001

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. This division brings together BiB with the Group's Interactive properties including SIG. The costs of reorganisation within Sky Interactive are estimated at £23.1 million and principally comprise the cost of termination of certain contracts, the closure of duplicate sites and a reduction in headcount. The reduction in headcount relates to 123 employees principally employed within the technology function of Sky Interactive. Of these costs, £7.0 million are included within fixed assets, £4.0 million are included within other creditors and the remainder within provisions.

Share of joint ventures' operating exceptional item

In April 2001, BiB incurred exceptional operating costs of £16.5 million, principally comprising the cost of the write down of the current platform. Of these costs, £13.1 million are included within fixed assets and the remainder within provisions.

Share of joint ventures' loss on sale of fixed asset investment

On August 31, 2000, KirchPayTV GmbH & Co KGaA (''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 is calculated as BSkyB'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 BSkyB) and the net proceeds realised by KirchPayTV of £10.05 per share.

Amounts written off fixed asset investments

At June 30, 2001, £38.6 million has been provided against BSkyB's minority investments in new media companies (see note 16). This consists of £40.0 million originally provided, reduced by £1.4 million to reflect the post year end disposal of the Group's investment in Static 2358 Limited (see note 29). Of the £38.6 million provision, £0.5 million relates to investments held by BiB (see note 15).

Provision for loss on disposal of subsidiary

On July 11, 2001, BSkyB 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. BSkyB will contribute its wholly-owned bookmaker, Surrey Sports, to the joint venture. When Surrey Sports is transferred to the joint venture, BSkyB will adjust existing goodwill on its balance sheet and a provision for this has been made in the year to June 30, 2001.

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.

2000

Termination of analog operations

In May 2000, the Group committed to terminating its current analog service in June 2001, earlier than the previously announced date of December 31, 2002. The costs of the termination were estimated at £41.0 million and principally comprise the cost of early termination of analog transponder leases and other costs to be incurred to terminate the Group's analog operations. As previously announced, the Group substantially terminated its analog service in June 2001; however, a limited analog service will continue to be broadcast until at least September 2001.

Sky In-Home Service Limited reorganisation

In May 2000, the Group announced the reorganisation of the Sky In-Home Service Limited distribution network at a cost of £5.7 million. These costs principally comprised the costs of staff redundancies, termination of building leases and fixed asset write downs.

Loss on sale of fixed asset investments

During the prior year the Group reduced its holdings in Manchester United PLC and Manchester City PLC so as to bring the holdings below the 10% holding limit stipulated by the rules of the Premier League. These disposals resulted in a total loss of £1.4 million (see note 16).

Share of joint venture's loss on sale of fixed asset investment

On June 7, 2000, KirchPayTV sold 20 million of its holding of BSkyB shares. The Group's share of the loss on disposal was £14.0 million. The loss was calculated as 24% of the difference between the balance sheet value of the 20 million shares at £15.21 per share (based on the value of the shares at the date of acquisition of 24% of KirchPayTV by BSkyB) and the net proceeds realised by KirchPayTV of £12.30 per share.

Taxation credit

The exceptional tax credit of £31.5 million is due to the recognition of £105.0 million of previously unrecognised deferred tax asset (see note 10), as a result of the adoption of FRS 19.

1999

Transitioning analog customers to digital service

On May 5, 1999, the Group announced a marketing promotion under which it committed to transitioning its existing analog subscribers onto its digital service. The net costs associated with this process were estimated at £450 million, before taking account of tax relief of £135 million. This did not include subsidy costs provided by BiB, 32.5% of whose funding was met by the Group. Following the agreement by the Group to acquire a further 47.6% shareholding in BiB (see note 2) and the consequent agreement for the Group to provide 100% of BiB's funding, it became appropriate to increase the provision by £58.3 million in June 2000, principally to provide for the costs of subsidising the set-top boxes for the remaining analog subscribers.

Cost of aborted Manchester United PLC bid

The decision of the Monopolies and Mergers Commission in April 1999 to block the Group's bid for Manchester United PLC resulted in £6.3 million of costs associated with the bid being written off, before taking account of tax relief of £1.9 million.

Finance charge

In 1999 the Group completed a refinancing of its borrowings, with the £1,000 million revolving credit facility being cancelled and replaced with a £750 million RCF. The exceptional finance charges of £5.2 million, before taking account of tax relief of £1.6 million, were composed of unamortised prepaid fees on the £1,000 million RCF and the mark-to-market of a floating-to-fixed interest rate swap over £100 million of the £1,000 million RCF which was no longer required.

6 Share of operating results of joint ventures

	1999	2000	2001 Before exceptional items	2001 Exceptional items	2001 Total
	£m	£m	**£m**	**£m**	**£m**
Joint ventures:					
KirchPayTV (see note 15)	—	(11.0)	**(116.0)**	**—**	**(116.0)**
BiB (see note 15)	(44.4)	(99.1)	**(118.9)**	**(16.5)**	**(135.4)**
Programming joint ventures, net	(13.3)	(11.2)	**(4.3)**	**—**	**(4.3)**
	(57.7)	(121.3)	**(239.2)**	**(16.5)**	**(255.7)**

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

The Group recognised 32.5% of the results of BiB up until November 2000. From this date, to May 9, 2001, 100% of BiB's losses were recognised due to the agreement dated July 17, 2000, under which the Group agreed to provide 100% of BiB's funding after existing funding had been utilised. From May 9, 2001, the Group fully consolidated BiB as a subsidiary (see note 2).

7 Interest

a) Interest receivable and similar income

	1999	2000	**2001**
	£m	£m	**£m**
Interest receivable on short-term deposits	2.2	7.3	**3.8**
Share of joint ventures' interest receivable	0.8	0.9	**3.5**
Interest receivable on funding of joint ventures	—	2.0	**10.4**
Other interest receivable	1.2	0.5	**0.5**
	4.2	10.7	**18.2**
Exceptional finance credit (see note 5)	—	—	**2.7**
	4.2	10.7	**20.9**

b) Interest payable and similar charges

	1999 £m	2000 £m	**2001 £m**
On bank loans, overdrafts and other loans repayable within five years, not by installments:			
— £300 million revolving credit facility	—	—	**0.8**
— £750 million revolving credit facility	—	11.0	**38.5**
— £1,000 million revolving credit facility	33.3	0.2	**—**
U.S.$650 million of 8.200% Guaranteed Notes repayable in 2009	—	31.1	**31.6**
£100 million of 7.750% Guaranteed Notes repayable in 2009	—	7.7	**7.8**
US$600 million of 6.875% Guaranteed Notes repayable in 2009	8.2	27.2	**30.1**
US$300 million of 7.300% Guaranteed Notes repayable in 2006	15.4	15.8	**15.5**
Finance lease interest	0.9	0.9	**0.9**
Share of joint ventures' interest payable	0.7	8.3	**27.8**
Other interest payable and similar charges	0.5	0.4	**0.3**
	59.0	102.6	**153.3**
Exceptional finance charges (see note 5)	5.2	—	**—**
	64.2	102.6	**153.3**

8 Loss on ordinary activities before taxation

	1999 £m	2000 £m	**2001 £m**
Loss on ordinary activities before taxation is stated after charging (crediting):			
— depreciation (see note 14)	32.5	52.0	**71.1**
— amortization (see note 13)	—	—	**44.3**
— joint ventures' goodwill amortization (see note 15)	—	14.4	**101.1**
— amounts written off fixed asset investments (see note 15 and 16)	—	—	**38.6**
— auditors' remuneration for audit services	0.4	0.4	**0.6**
— rentals on operating leases and similar arrangements: land and buildings	4.4	6.8	**7.2**
— rentals on operating leases and similar arrangements: plant and machinery	84.0	111.8	**112.2**
— staff costs (see note 9)	190.9	255.5	**260.9**
— government grants	(1.8)	(1.3)	**(0.1)**

Amounts payable to the auditors for other services during the year ended June 30, 2001 were £13.8 million (2000: £5.7 million; 1999: £2.4 million). These amounts relate principally to services as reporting accountants in connection with acquisitions of £nil million (2000: £1.5 million; 1999: £0.4 million); taxation advice of £0.6 million (2000: £0.4 million; 1999: £0.3 million); programming the Group's websites of £6.0 million (2000: £0.6 million; 1999: £nil); assisting with the development of the new call centres of £4.9 million (2000: £nil; 1999: £nil) and other consulting services of £2.3 million (2000: £3.2 million; 1999: £1.7 million).

9 Staff costs

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

	1999	2000	**2001**
	£m	£m	**£m**
Wages and salaries	170.0	219.2	**213.2**
Costs of Additional Executive Bonus Scheme	0.1	0.1	**0.1**
Costs of Long Term Incentive Plans	2.9	6.0	**11.3**
Costs of Key Contributor Plan	—	—	**2.6**
Social security costs	12.5	23.1	**25.4**
Other pension costs	5.4	7.1	**8.3**
	190.9	255.5	**260.9**

The company operates a defined contribution pension scheme, contributions to which are charged to the profit and loss account on an accruals basis. The pension charge for the year represents contributions payable by the Group to the scheme and amounted to £8.3 million (2000: £7.1 million; 1999: £5.4 million).

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

	1999	2000	**2001**
	Number	Number	**Number**
Programming	751	982	**1,134**
Transmission and related functions	915	1,040	**1,071**
Marketing	117	141	**173**
Subscriber management	5,701	7,809	**6,472**
Administration	787	758	**872**
Gaming	—	—	**226**
	8,271	10,730	**9,948**

Customer management service centers had temporary staff of approximately 1,260 and the Osterley site had approximately 450 temporary staff. We have no collective bargaining agreements with any trade unions. We believe that our relationship with our employees is good.

10 Taxation

(a) Analysis of charge in year

	1999 as restated	2000 as restated	**2001**
	£m	£m	**£m**
Tax charge (credit) on profit before exceptional items:			
U.K. corporation tax	39.3	—	**—**
Consortium relief payable	—	25.7	**—**
Adjustment in respect of prior year — consortium relief	(3.9)	16.6	**—**
Adjustment in respect of prior year — share of joint ventures' tax credit	—	(6.2)	**—**
Adjustment in respect of prior year — deferred tax	7.0	(16.4)	**—**
Share of joint ventures' tax credit	(9.8)	(27.3)	**—**
Deferred tax (see note 19)	2.8	(25.9)	**23.3**
	35.4	(33.5)	**23.3**
Tax charge (credit) on exceptional items:			
Deferred tax (see note 5)	(88.8)	(31.5)	**0.8**
Carry back against prior year	(10.4)	—	**—**
Current year U.K. corporation tax	(39.3)	—	**—**
	(103.1)	(65.0)	**24.1**

The Group has adopted FRS 19, Deferred tax, and has restated prior year figures accordingly.

Adoption has resulted in the recognition of deferred tax assets in respect of losses and other timing differences incurred in prior years, and corresponding restatement of the prior year results.

NOTES TO FINANCIAL INFORMATION (continued)

The effect of the FRS 19 restatement is as follows:

	1999 as previously stated	FRS 19 restatement	1999 as restated	2000 as previously stated	FRS 19 restatement	2000 as restated	**2001**
	£m	£m	£m	£m	£m	£m	**£m**
Tax charge (credit) on profit before exceptional items							
U.K. corporation tax	39.3	—	39.3	25.7	—	25.7	**—**
ACT written off	2.3	(2.3)	—	—	—	—	**—**
Adjustment in respect of prior years	(3.9)	7.0	3.1	10.4	(16.4)	(6.0)	**—**
Share of joint ventures' tax credit	(9.8)	—	(9.8)	(27.3)	—	(27.3)	**—**
Deferred tax	—	2.8	2.8	—	(25.9)	(25.9)	**4.1**
	27.9	7.5	35.4	8.8	(42.3)	(33.5)	**4.1**
Tax charge (credit) on exceptional items							
Deferred tax	(88.8)	—	(88.8)	—	(31.5)	(31.5)	**—**
Carry back against prior year	(10.4)	—	(10.4)	—	—	—	**—**
Current year U.K. corporation tax	(39.3)	—	(39.3)	—	—	—	**—**
ACT written off	7.0	(7.0)	—	—	—	—	**—**
	(131.5)	(7.0)	(138.5)	—	(31.5)	(31.5)	**—**
	(103.6)	0.5	(103.1)	8.8	(73.8)	(65.0)	**4.1**
Balance sheet							
Deferred tax asset				88.8	79.2	168.0	**(4.1)**
Advance corporation tax				14.0	71.3	85.3	**—**
				102.8	150.5	253.3	**(4.1)**
Reserves at beginning of year				(624.9)	76.7	(548.2)	**796.9**

(b) Factors affecting the tax charge for the year

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

	1999 as restated	2000 as restated	**2001**
	£m	£m	**£m**
Loss on ordinary activities before tax	(388.7)	(262.7)	**(514.5)**
Less: Share of joint ventures' loss before tax	57.6	142.7	**350.0**
Group loss before tax	(331.1)	(120.0)	**(164.5)**
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2000: 30%; 1999: 30.75%)	(101.8)	(36.0)	**(49.4)**
Effects of:			
Expenses not deductible for tax purposes (primarily goodwill amortization)	2.0	6.7	**63.9**
Other timing differences	(0.2)	9.7	**(2.9)**
(Utilisation) creation of tax losses	91.0	46.7	**(11.3)**
Consortium relief	(1.7)	(1.4)	**(0.3)**
Adjustment in respect of prior year	(3.6)	(16.6)	**—**
Current tax (credit) charge for the year	(14.3)	42.3	**—**

(c) Factors that may affect future tax charges

A deferred tax asset of £102.4 million arising principally from losses in the Group has not been recognised (2000: £16.1 million; 1999: £16.4 million). 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. The losses are available to be carried forward indefinitely under current law. For similar reasons, an estimated deferred tax asset of £99.7 million (2000: £nil) has not been recognised in respect of losses of KirchPayTV.

11 Dividends

	1999	2000	**2001**
	£m	£m	**£m**
Paid and Proposed per Ordinary Share			
Dividend paid and proposed	47.3	—	**—**
	47.3	—	**—**

The Directors do not propose an interim or final dividend for the financial year (2000: nil; 1999: 2.75p interim dividend, nil final dividend).

The ESOP has waived its rights to dividends.

12 Loss per share

	1999	2000				2001			
	As restated	Before goodwill and exceptional items as restated	Goodwill as restated	Exceptional items as restated	After goodwill and exceptional items as restated	**Before goodwill and exceptional items**	**Goodwill**	**Exceptional items**	**After goodwill and exceptional items**
Loss on ordinary activities after taxation	£285.6m	£94.4m	£14.4m	£88.9m	£197.7m	**£237.4m**	**£145.4m**	**£155.8m**	**£538.6m**
Loss per share — basic and diluted	16.6p	5.4p	0.8p	5.1p	11.3p	**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 1,847,057,433 (2000: 1,744,379,069; 1999: 1,719,952,745). The number of anti-dilutive shares at June 30, 2001 was approximately 70,237,843 shares (2000: 19,924,492 shares) which comprised share options of 32,712,169 shares (2000: 19,924,492 shares) and deferred consideration of approximately 37,558,480 shares (2000: nil shares), of which approximately 37,017,544 is payable at the option of BSkyB in Ordinary Shares or loan notes, based on the year end market price of £6.84 per share and approximately 508,130 is payable in Ordinary Shares.

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.

13 Intangible fixed assets

The movement in the year was as follows:

	Goodwill	**Other**	**Total**
	£m	**£m**	**£m**
Cost			
Beginning of year	—	—	—
Subsidiaries acquired (see note 2)	—	0.8	0.8
Additions	842.6	0.4	843.0
Disposals	—	(0.2)	(0.2)
End of year	**842.6**	**1.0**	**843.6**
Amortization			
Beginning of year	—	—	—
Charge	44.2	0.1	44.3
Provision for loss on disposal of subsidiary	10.0	—	10.0
End of year	**54.2**	**0.1**	**54.3**
Net book value			
Beginning of year	—	—	—
End of year	**788.4**	**0.9**	**789.3**

Goodwill of £272.4 million arising on the acquisition of SIG (see note 2) is being amortized over a period of 7 years on a straight-line basis. Provisional goodwill of £564.9 million arising on the acquisition of BiB (see note 2) is being amortized over a period of 7 years on a straight-line basis. Provisional goodwill of £5.2 million arising on the acquisition of WAP TV (see note 2) is being amortized over a period of 7 years on a straight-line basis. Other intangibles consist mainly of domain names, which are being amortized over a period of 7 years on a straight-line basis.

The provision for loss on disposal of a subsidiary comprises the estimated net loss on disposal of the Group's interest in Surrey Sports, which has been provided for as at June 30, 2001 (see note 5).

14 Tangible fixed assets

The movement in the year was as follows:

	Freehold land & buildings	Short leasehold improvements	Equipment, fixtures and fittings	Total
	£m	£m	£m	£m
Cost				
Beginning of year	26.9	75.6	335.3	437.8
Subsidiaries acquired (see note 2)	1.7	0.1	28.7	30.5
Additions	1.3	4.9	126.8	133.0
Disposals	—	(0.1)	(2.3)	(2.4)
End of year	**29.9**	**80.5**	**488.5**	**598.9**
Depreciation				
Beginning of year	4.0	36.1	172.8	212.9
Charge	1.0	3.7	66.4	71.1
Disposals	—	(0.1)	(0.4)	(0.5)
End of year	**5.0**	**39.7**	**238.8**	**283.5**
Net book value				
Beginning of year	22.9	39.5	162.5	224.9
End of year	**24.9**	**40.8**	**249.7**	**315.4**

Included in freehold land and buildings are assets held under finance leases with a net book value of £7.0 million (2000: £7.3 million). Depreciation charged during the year on such assets was £0.3 million (2000: £0.3 million; 1999: £0.4 million). Included in equipment, fixtures and fittings are assets held under finance leases with a net book value of £3.9 million (2000: £nil). No depreciation was charged during the year on these assets (2000: £nil; 1999: £nil).

Depreciation was not charged on £6.1 million of land (2000: £5.0 million).

15 Investments in joint ventures

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

	2000	**2001**
	£m	**£m**
Joint ventures:		
— KirchPayTV	1,479.9	**1,142.1**
— BiB	17.7	**—**
— Programming joint ventures	14.7	**21.6**
Total investments in joint ventures	1,512.3	**1,163.7**

Investment in joint ventures

The movement in the year was as follows:

	2000 £m	**2001 £m**
Cost and funding		
Beginning of year	116.3	**345.9**
Loans advanced to joint ventures, net	76.4	**137.3**
Acquisition of 24% stake in KirchPayTV	151.4	**—**
Subscriptions for shares in other joint ventures	1.8	**—**
Release of deferred consideration	—	**(3.6)**
Disposal of BiB as a joint venture — equity and debentures (see note 2)	—	**(129.8)**
Disposal of BiB as a joint venture — other loans	—	**(131.9)**
End of year	345.9	**217.9**
Transfer from creditors	0.5	**0.9**
Movement in share of underlying net assets		
Beginning of year	(87.1)	**(192.1)**
Share of operating results of joint ventures (see note 6)	(121.3)	**(255.7)**
Share of joint venture's exceptional loss on sale of fixed asset investment (see note 5)	(14.0)	**(69.5)**
Share of joint ventures' interest receivable (see note 7)	0.9	**3.5**
Share of joint ventures' interest payable (see note 7)	(8.3)	**(27.8)**
Share of joint ventures' tax credits	33.5	**—**
Share of joint venture's amounts written off fixed asset investments	—	**(0.5)**
Disposal of BiB as a joint venture — cumulative losses (see note 2)	—	**282.1**
Group transition provision utilised (see note 23)	—	**(23.2)**
Deemed disposals	—	**89.6**
Exchange adjustments	4.2	**(2.1)**
End of year	(192.1)	**(195.7)**
Goodwill		
Beginning of year	—	**1,358.0**
Additions	1,372.4	**—**
Amortisation	(14.4)	**(101.1)**
Deemed disposals	—	**(110.3)**
Acquisition costs adjusted	—	**(6.0)**
End of year	1,358.0	**1,140.6**
Net book value		
Beginning of year	29.6	**1,512.3**
End of year	1,512.3	**1,163.7**

The investment in joint ventures excludes cumulative losses of £0.9 million (2000: £0.5 million), which represent losses in excess of the funding provided. The related obligation is recorded within creditors.

Goodwill of £1,386.5 million on the investment in KirchPayTV is being amortised over a period of 7 years on a straight-line basis. The goodwill was reduced by £110.3 million in September 2000 following the deemed disposal resulting from additional third party investment in KirchPayTV. The goodwill has, up to March 31, 2001, been amortised over a useful economic life of 20 years. During the year, the Group acquired SIG and BiB (see note 2), and, for both of these acquisitions, a life of 7 years was chosen as the relevant amortisation period. As at April 1, 2001, it was considered appropriate to revise KirchPayTV's useful economic life to 7 years in line with the lives of those entities.

KirchPayTV's results included in the Group's results for the year to June 30, 2001 have not met expectations, and KirchPayTV's management have formulated plans to improve the performance of the business, both through increasing revenues and through reducing operating costs. KirchPayTV's management are currently assessing the impact of the implementation of these changes; when reviewed under FRS 11, the initial assessment shows that the Group's investment is not impaired as at June 30, 2001. To support their plans to improve the performance of the business, KirchPayTV's management is currently negotiating with several financial institutions for the expansion of its existing credit facilities.

In the event KirchPayTV is unable to secure additional financing from third parties, a shareholder, other than the Group, has committed to provide temporary financing up to a specified maximum, until such time as additional financing may be obtained, for a certain period expiring on June 30, 2002.

In June 2000, the Group acquired a 20% holding in Medical Information and Broadcasting Limited for £3.9 million with a warrant to acquire an additional 10% at nominal value. However, since this entity has ceased trading, the provisional goodwill of £3.9 million, which arose on the acquisition, has been written off during 2001.

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

	2000	**2001[(i)]**
	£m	**£m**
Turnover	87.7	**224.1**
Fixed assets	381.7	**139.7**
Current assets	285.5	**130.8**
Liabilities due within one year	(439.6)	**(124.2)**
Liabilities due after more than one year	(73.8)	**(124.1)**

(i) This includes the Group's share of BiB's results to acquisition on May 9, 2001.

KirchPayTV

Included within the above is the Group's 22% share of KirchPayTV (24% up until deemed disposal of shares, as a result of additional third party investment in KirchPayTV in August and September 2000), which is detailed individually below:

	Group's share of KirchPayTV (as adjusted) Period to March 31, 2000	**Group's share of KirchPayTV (as adjusted) Year to March 31, 2001**
	£m	**£m**
Turnover	20.8	**117.4**
Operating loss	(11.0)	**(116.0)**
Loss on sale of fixed asset investment (see note 5)	(14.0)	**(69.5)**
Net interest payable	(4.4)	**(9.7)**
Loss before taxation	(29.4)	**(195.2)**
Taxation	(0.3)	**—**
Loss after taxation	(29.7)	**(195.2)**
Fixed assets	362.5	**135.5**
Current assets	189.6	**67.9**
Liabilities due within one year	(362.9)	**(110.8)**
Liabilities due after more than one year	(63.4)	**(91.1)**

In the absence to date of results for KirchPayTV for the year from July 1, 2000 to June 30, 2001, the results for a similar period, the year to March 31, 2001, have been used. In June 2000, due to the absence of results for KirchPayTV for the period from investment on April 14, 2000 to June 30, 2000, the results for a similar period to March 31, 2000 were used. The 2000 results were adjusted to include the loss from the sale by KirchPayTV, on June 7, 2000, of 20 million of its holding of BSkyB shares. Consequently this loss has been excluded from the 2001 results.

The results for the two week period ended January 15, 2000 and the two week period ended April 15, 2000 are not materially different from any two week period within the results for the period to March 31, 2000 before adjustments.

BiB

Following the acquisition of a further 47.6% of BiB on May 9, 2001, the results of BiB have been fully consolidated within the Group. As a result BiB is no longer treated as a joint venture within the Group accounts, and accordingly no joint venture balance sheet disclosure has been provided for 2001.

	Group's share of BiB 2000	**Group's share of BiB to May 9, 2001**
	£m	**£m**
Turnover	19.6	**49.7**
Operating loss	(99.1)	**(135.4)**
Loss before taxation	(101.8)	**(150.3)**
Taxation	33.3	**—**
Loss after taxation	(68.5)	**(150.3)**
Fixed assets	15.5	**—**
Current assets	56.2	**—**
Liabilities due within one year	(46.2)	**—**
Liabilities due after more than one year	(7.8)	**—**

16 Other fixed asset investments

Principal Group investments

The investments of 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%)	Investment holding company
Sports Internet Group Limited (formerly Skysports.com Limited and Sports Internet Group Plc)	England and Wales	38,432,302 Ordinary Shares of 5p each (100%)	Providing sports content, statistics, gaming and e-commerce services

NOTES TO FINANCIAL INFORMATION (continued)

Name	Country of incorporation / operation	Description and proportion of shares held (%)	Principal activity
Subsidiaries: Indirect holdings			
Sky Subscriber 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 Interactive Broadcasting Holdings Limited[(i)]	England and Wales	651,960 Ordinary Shares of £1 each (100%)	The transmission of interactive services
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			
KirchPayTV GmbH & Co KGaA[(ii)]	Germany	4,800 Ordinary Shares of DM5 each and Partnership interest (22.03%)	The transmission of German language satellite television broadcasting services
Nickelodeon UK	England and Wales	104 B Shares of £0.01 each (50%)	The transmission of a children's satellite television service
Paramount UK[(iii)]	England and Wales	Partnership interest (25%)	The transmission of a general entertainment channel
Australian News Channel Pty Limited	Australia	1 Ordinary Share of AUS$1 (33.33%)	The transmission of a 24-hour news channel
QVC	England and Wales	1 B Share of £1 (20%)	The transmission of a home shopping channel

Name	Country of incorporation / operation	Description and proportion of shares held (%)	Principal activity
Granada Sky Broadcasting Limited[(iv)]	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[(v)]	England and Wales	Partnership interest (50%)	The transmission of a natural history channel
Music Choice Europe Plc (formerly Music Choice Europe Limited)	England and Wales	44,001,120 A Shares of £1 each (36.4%)	The transmission of audio music service and related online activities

Notes

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

(ii) The registered address of KirchPayTV GmbH & Co is Medienallee 6, D-85774, Unterfohring, Germany. KirchPayTV's financial accounting period is to December 31, each year.

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

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

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

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

	2000	**2001**
	£m	**£m**
Own shares	27.5	**19.1**
Other investments	120.8	**123.1**
	148.3	**142.2**

Investment in own shares

The movement in the year was as follows:

	Number of Ordinary Shares	£m
At beginning of year	4,842,687	27.5
Utilized during the year	(1,488,175)	(8.4)
At end of year	**3,354,512**	**19.1**

At the beginning of the year the ESOP held 4.8 million Ordinary Shares in the Company, at an average value of £5.68 per share. These shares were primarily designated to hedge against the obligations of the Group then outstanding under the Additional Executive Bonus Scheme (0.6 million shares) and the Group's Long Term Incentive Plan (''LTIP'') (2.8 million shares).

At the end of the year, the ESOP held 3.4 million Ordinary Shares in the Company, which were designated as primarily held to hedge against the LTIPs (2.6 million shares), and the Key Contributor Plan (''KCP''), which was introduced in August 2000 (0.8 million shares). The 1.5 million Ordinary Shares utilised during the year relate to the exercise of options under the LTIP scheme and the grant of shares under the KCP.

The cost to the Group of the LTIP and KCP shares hedged by the ESOP is being accrued over their vesting periods. An amount of £9.8 million is included within accruals (2000: £8.9 million).

The market value of the shares held by the ESOP at June 30, 2001 was £22.9 million (2000: £62.6 million), and the nominal value was £1.7 million (2000: £2.4 million).

Other investments

	2000	**2001**
	£m	**£m**
Cost		
Beginning of year	66.9	**120.8**
Additions	60.8	**40.4**
Disposals	(6.9)	**—**
End of year	120.8	**161.2**
Provision		
Beginning of year	—	**—**
Provided during the year	—	**(38.1)**
End of year	—	**(38.1)**
Net book value		
Beginning of year	66.9	**120.8**
End of year	120.8	**123.1**

2001

On March 3, 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 their exclusive media agent, for total consideration of £40 million. Of the £40 million consideration, £15 million was paid during the prior year and the remaining £25 million was paid on completion on July 14, 2000. Shares acquired in Chelsea Village represent 9.9% of its enlarged share capital.

New media investments represent minority interests in companies. As at June 30, 2001, £38.6 million has been provided against these investments. This consists of £39.5 million originally provided, reduced by £1.4 million to reflect the post year end disposal of our investment in Static 2358 Limited (see note 29). An additional £0.5 million relates to investments held by BiB (see note 15).

On May 29, 2001, the Group acquired the remaining 5% minority interest in WAPTV Limited, for total consideration of £5.0 million (see note 2).

2000

The Group subscribed for listed investments in Leeds United plc (formerly Leeds Sporting Plc), Sunderland PLC and gameplay.com plc. The Group also subscribed for unlisted investments in Toyzone.co.uk Limited, Static 2358 Limited, Manchester City PLC, Sportal Investment Limited, Streets OnLine Limited, Letsbuyit.com N.V. and mykindaplace Limited. In addition, during the year the Group reduced its holding in Manchester United PLC from 11.12% to 9.99% and its holding in Manchester City PLC from 10.36% to 9.91%, so as to bring the holdings below the 10% holding limit stipulated by the rules of the Premier League. This resulted in a total loss on disposal of £1.4 million (see note 5).

Further analysis of listed investments is shown below:

	2000	**2001**
	£m	**£m**
Listed investments included above	88.3	**100.9**
Aggregate market value at end of year	111.2	**49.4**

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

17 Stocks

	2000	**2001**
	£m	**£m**
Television programme rights	313.1	**364.6**
Digital set-top boxes	42.9	**55.4**
Raw materials and consumables	2.2	**4.1**
	358.2	**424.1**

At least 71% (2000: 77%) of the existing television programme rights at June 30, 2001 will be amortised within one year.

NOTES TO FINANCIAL INFORMATION (continued)

18 Debtors

	2000 as restated £m	**2001 £m**
Debtors: Amounts falling due within one year		
Trade debtors	125.0	**231.7**
Amounts owed by joint ventures (see note 27)	30.9	**11.2**
Amounts owed by other related parties (see note 27)	2.3	**1.9**
Other debtors	5.9	**29.0**
Prepaid programme rights	41.3	**51.4**
Prepaid transponder rentals	30.8	**25.1**
Deferred tax (see note 19)	32.0	**68.9**
Prepaid media rights	3.4	**3.0**
Other prepayments and accrued income	61.9	**71.2**
	333.5	**493.4**
Debtors: Amounts falling due after more than one year		
Amounts owed by joint ventures (see note 27)	6.7	**—**
Prepaid programme rights	86.4	**78.2**
Prepaid transponder rentals	71.2	**61.8**
Advance corporation tax	85.3	**85.3**
Deferred tax (see note 19)	136.0	**75.0**
Prepaid media rights	9.4	**11.9**
Other prepayments and accrued income	26.1	**12.4**
	421.1	**324.6**

Trade debtors are shown net of certain provisions. The movement in these provisions is as follows:

	Provisions £m
As at July 1, 1999	(24.6)
Utilized during fiscal 2000	5.4
Provided during fiscal 2000	(12.7)
As at July 1, 2000	(31.9)
Utilized during fiscal 2001	3.9
Provided during fiscal 2001	(19.1)
As at June 30, 2001	**(47.1)**

19 Deferred tax asset

	2000 as restated £m	2001 £m
Included within debtors due within one year:		
— tax losses carried forward	32.0	**68.9**
Included within debtors due after more than one year:		
— accelerated capital allowances	2.8	**6.3**
— tax losses carried forward	119.7	**63.2**
— other	13.5	**5.5**
	136.0	**75.0**
	168.0	**143.9**
Deferred tax asset		
Beginning of year (as restated)	94.2	**168.0**
(Charge) credit in the profit and loss account during the year (see note 10)	73.8	**(24.1)**
End of year	168.0	**143.9**

A deferred tax asset of £143.9 million has been recognized at June 30, 2001 (June 30, 2000 restated — £168.0 million) (see note 10). This asset arose as a result of losses and certain exceptional items booked in 1999 and 2000. These losses and costs were associated with the launch of digital television and the termination of analog operations. 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 recognize these losses.

20 Creditors: Amounts falling due within one year

	2000 £m	2001 £m
Short-term borrowings		
Bank overdrafts	13.7	**—**
Obligations under finance leases	0.1	**2.1**
	13.8	**2.1**
Other		
Trade creditors	349.2	**457.4**
Amounts due to subsidiary undertakings	—	**—**
Amounts due to joint ventures (see note 27)	25.0	**—**
Amounts due to related parties (see note 27)	39.3	**18.3**
UK corporation tax	4.7	**4.7**
VAT	36.8	**62.3**
Social security and PAYE	5.4	**6.2**
Other creditors	22.6	**8.4**
Accruals and deferred income	325.8	**431.3**
Government grants	0.1	**0.1**
	808.9	**988.7**
	822.7	**990.8**

Included within trade creditors are £291.9 million (2000: £227.5 million) of US dollar-denominated programme creditors. At least 90% (2000: 90%) of these were covered by forward rate currency contracts (see note 26).

21 Creditors: Amounts falling due after more than one year

	2000	**2001**
	£m	**£m**
Long-term borrowings		
£750 million revolving credit facility	335.0	**690.0**
AUS$1 million facility	0.4	**—**
US$650 million of 8.200% Guaranteed Notes repayable in 2009	412.5	**412.5**
£100 million of 7.750% Guaranteed Notes repayable in 2009	100.0	**100.0**
US$600 million of 6.875% Guaranteed Notes repayable in 2009	367.2	**367.2**
US$300 million of 7.300% Guaranteed Notes repayable in 2006	189.2	**189.2**
Obligations under finance leases	8.1	**8.9**
Other borrowings	—	**0.2**
	1,412.4	**1,768.0**
Other		
Accruals and deferred income	21.1	**13.1**
Government grants	0.9	**0.8**
	22.0	**13.9**
	1,434.4	**1,781.9**

In March 2001, a new £300 million revolving credit facility (''RCF'') was entered into, which is in addition to the existing £750 million RCF. The £300 million facility is repayable in full on June 29, 2004 and bears interest at rates between 0.50% and 1.75% per annum above LIBOR, depending on the Group's credit rating. This facility was undrawn at June 30, 2001.

In July 1999, an existing £1,000 million RCF was cancelled and replaced by a £750 million RCF repayable in full on June 29, 2004 and bearing interest at rates between 0.50% and 1.40% per annum above LIBOR, depending on the Group's credit rating. AUS$1 million was drawn down on a facility to fund the Group's ongoing investment in Australia News Channel Pty Limited. Until the loan was repaid on February 8, 2001, interest accrued at AUS$ LIBOR per annum.

In July 1999, the Group issued 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 July 15, 2009. They have been swapped into sterling at a fixed rate of 7.653% payable semi-annually. The £100 million Notes carry a fixed coupon of 7.750% payable annually and are repayable on July 9, 2009.

In February 1999 the Group issued, in the US public debt market, US$600 million of 6.875% Guaranteed Notes repayable in February 2009. As at June 30, 2000 the proceeds were swapped into sterling at a fixed rate of 8.200% payable semi-annually and are repayable in February 2009.

In October 1996 the Group issued, in the US public debt market, US$300 million of 7.300% Guaranteed Notes repayable in October 2006. The Group subsequently entered into swap transactions to convert the proceeds into sterling, half of which carries a fixed rate of interest of 8.384% per annum for the full ten years and the remainder of which is fixed at 7.940% per annum for five years until April 2002 and thereafter floating at 0.62% above the six month LIBOR rate.

Both the credit facilities contain a change of control provision, the effect of which is that the facility may become due and payable in the event that (except for The News Corporation Limited and Vivendi Universal S.A. or any member of their respective groups) any person or nominee of such person, together with any ''connected person'' or ''persons acting in concert'' (if any) (each as defined under applicable English law or regulation) becomes the holder of more than 30% in aggregate of the voting rights of the company. For each of the six month periods to December 31, 2001 and June 30, 2002, the key covenants in the credit facilities are as follows:

— We must maintain the ratio of our annualized EBITDA, which we explain below, to our net interest payable at no less than 2.75:1; and

— We must maintain the ratio of our senior debt to our annualized EBITDA at no more than 4.5:1.

The covenants provide for the exclusion from the ratio calculations of specified subscriber acquisition costs. ''EBITDA'' refers to earnings before interest, taxes, depreciation and amortization. We are currently in compliance with these covenants.

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

The debt falling due after more than one year (apart from obligations under finance leases) matures as follows:

	Year ending			
	June 30, 2004	June 30, 2007	June 30, 2009	June 30, 2010
£750 million revolving credit facility	690.0	—	—	—
U.S.$650 million of 8.200% Guaranteed Notes repayable in 2009	—	—	—	412.5
£100 million of 7.750% Guaranteed Notes repayable in 2009	—	—	—	100.0
U.S.$600 million of 6.875% Guaranteed Notes repayable in 2009	—	—	367.2	—
U.S.$300 million of 7.300% Guaranteed Notes repayable in 2006	—	189.2	—	—
Other borrowings	—	—	—	0.2
	690.0	189.2	367.2	512.7

Obligations falling due after more than one year under finance leases are payable as follows:

	2001
	£m
Amounts payable in the year ended June 30:	
2003	**1.2**
2004	**0.2**
2005	**0.3**
2006	**0.3**
After five years	**6.9**
	8.9

	2000
	£m
Amounts payable in the year ended June 30:	
2002	0.2
2003	0.2
2004	0.2
2005	0.3
After five years	7.2
	8.1

Obligations under finance leases represent amounts drawn down in connection with the Subscriber Management Centre in Dunfermline. Repayments of £0.2 million (2000: £0.2 million; 1999: £0.2 million) were made each quarter. A proportion of these payments has been allocated to the capital amount outstanding. Interest accrues on the finance lease at a rate of 8.5%. An additional finance lease was entered into during the year in respect of IT assets. Repayments of £1.0 million were made in the year. The new finance lease bears interest at 0%.

22 Derivatives and other financial instruments

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

The Group finances its operations through bank borrowings, the issue of long-term bonds and share capital. The Group borrows at both fixed and floating rates of interest and then uses interest rate swaps to manage exposure to interest rate fluctuations. It is the Group's policy to have an appropriate mixture of fixed and floating rates. At June 30, 2001, 78% of the Group's borrowings were at fixed rates after taking account of interest rate swaps (2000: 76%).

To ensure continuity of funding, the Group's policy is to ensure that its borrowings mature over a period of years. At June 30, 2001, 61% of the Group's borrowings were due to mature in more than five years (2000: 76%).

The Group's revenues are substantially denominated in pounds sterling, although a significant proportion of operating costs is denominated in U.S. dollars. In the year to June 30, 2001, 17% of operating costs (£365 million) were denominated in U.S. dollars (2000: 15%). These costs relate mainly to the Group's long term programming contracts with U.S. suppliers.

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

Occasionally, other financial instruments are employed to manage the exposure where these are more appropriate. All U.S. dollar-denominated forward rate agreements and similar financial instruments entered into by the Group are in respect of firm commitments, which exceed the value of such agreements and instruments.

The Group also incurs costs in euros relating to certain transponder rental costs; these payments are also covered by forward rate agreements for approximately one year.

At June 30, 2001, the Group had outstanding commitments to purchase in aggregate U.S. $885 million and euros 43 million at average rates of U.S. $1.4281 and euros 1.6175 respectively 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.

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

As permitted by FRS 13, short-term debtors and creditors have been excluded from the FRS 13 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:

	2000			**2001**		
	Fixed	Floating	Total	**Fixed**	**Floating**	**Total**
£m	1,077.1	349.1	1,426.2	**1,379.9**	**390.2**	**1,770.1**
Weighted average interest rate	8.0%	7.2%	7.8%	**7.6%**	**6.3%**	**7.3%**
Weighted average period for which the rate is fixed (years)	8.0	n/a	n/a	**5.8**	**n/a**	**n/a**
Weighted average term (years)	8.4	4.0	7.3	**6.5**	**3.0**	**5.7**

Further details of interest rates on long-term borrowings are given in note 21.

In addition, cash at bank and in hand of £223.6 million (2000: £281.2 million) consists mainly of sterling deposits, in bank accounts or on money markets at call. At June 30, 2001, £70 million (2000: £155 million) relates to sterling time deposits which expire within 14 days of year end (average interest rate of 4.8125%). 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)							
	2000				**2001**			
Functional currency of Group operating unit	USD	Irish punts	Euros	Total	**USD**	**Irish punts**	**Euros**	**Total**
Sterling	0.6	2.8	2.8	6.2	**4.4**	**12.9**	**4.1**	**21.4**

As at June 30, 2001 and June 30, 2000, the Group also held open various currency forward contracts that the Group had taken out to hedge expected future foreign currency commitments (see note 26a)).

NOTES TO FINANCIAL INFORMATION (continued)

Liquidity risks

The profile of the Group's financial liabilities, other than short-term creditors, is shown in note 21.

The Group's undrawn committed bank facilities, subject to covenants, were as follows:

	2000	**2001**
	£m	**£m**
Expiring in more than two years	415.0	**360.0**
Total	415.0	**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, financial liabilities and associated derivative financial instruments as at June 30, 2001 and June 30, 2000:

	2000		**2001**	
	Book value	Fair value	**Book value**	**Fair value**
	£m	£m	**£m**	**£m**
Primary financial instruments held or issued to finance the Group's operations				
Short-term financial liabilities	(13.7)	(13.7)	**—**	**—**
Bank borrowings	(335.4)	(335.4)	**(690.2)**	**(690.2)**
Quoted bond debt	(1,068.9)	(966.2)	**(1,068.9)**	**(1,148.8)**
Finance leases	(8.2)	(8.2)	**(11.0)**	**(11.0)**
Cash deposits	281.2	281.2	**223.6**	**223.6**
Derivative financial instruments held to manage the interest rate and currency profile				
Combined interest and exchange rate swaps	—	7.5	**—**	**91.8**
Forward foreign currency contracts	—	16.3	**—**	**(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 fair value table, the Group had holdings in the equity share capital of other listed investments at June 30, 2001 and June 30, 2000. See note 16 for disclosure of their book and fair values.

The difference between book value and fair value reflects unrealized gains or losses inherent in the instrument, based on valuations as at June 30, 2001 and June 30, 2000. 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 recognized until the hedged position is recognized. Unrecognized gains and losses on instruments used for hedging, and the movements therein, are as follows:

	2000			**2001**		
	Gains	Losses	Total net (losses) gains	**Gains**	**Losses**	**Total net (losses) gains**
	£m	£m	£m	**£m**	**£m**	**£m**
Unrecognized gains and losses at the start of the year	10.1	(21.6)	(11.5)	**45.3**	**(21.5)**	**23.8**
Gains and losses arising in previous years that were recognized in the year	(10.1)	2.5	(7.6)	**(17.4)**	**1.1**	**(16.3)**
Gains and losses arising before the start of the year that were not recognized in the year	—	(19.1)	(19.1)	**27.9**	**(20.4)**	**7.5**
Gains and losses arising in the year that were not recognized in the year	45.3	(2.4)	42.9	**85.8**	**(3.3)**	**82.5**
Unrecognized gains and losses on hedges at the end of the year	45.3	(21.5)	23.8	**113.7**	**(23.7)**	**90.0**
Of which:						
Gains and losses expected to be recognized in the next year	17.4	(1.1)	16.3	**25.7**	**(4.0)**	**21.7**
Gains and losses expected to be recognized after the next year	27.9	(20.4)	7.5	**88.0**	**(19.7)**	**68.3**

23 Provisions for liabilities and charges

	2001					
	Analog termination provision	**Transition provision**	**Sky In-Home Service Limited reorganization provision**	**Sky Interactive reorganization provision**	**Provision for closure of Sky Pictures**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Beginning of year	**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**
Utilized during the year	**(22.5)**	**(174.3)**	**(1.5)**	**—**	**—**	**(198.3)**
End of year	**8.2**	**18.6**	**0.4**	**15.5**	**0.3**	**43.0**

	1999		2000			
	Transition provision	Total	Analog termination provision	Transition provision	Sky In-Home Service Limited reorganization provision	Total
	£m	£m	£m	£m	£m	£m
Beginning of year	—	—	—	405.4	—	405.4
Charged to profit and loss account	450.0	450.0	30.7	58.3	1.9	90.9
Utilized during the year	(44.6)	(44.6)	—	(270.8)	—	(270.8)
End of year	405.4	405.4	30.7	192.9	1.9	225.5

The analog termination provision principally comprises the cost of early termination of analog transponder leases and various other costs to be incurred to terminate the Group's analog operations (see note 5).

The transition provision utilised during the year of £174.3 million (2000: £270.8 million; 1999: £44.6 million) is net of £21.2 million (2000: £50.1 million; 1999: £5.8 million) of installation income received from subscribers. The transition provision comprises the cost of the set-top box, installation costs, BiB subsidy costs and various other costs to be incurred to enable a subscriber to use the digital service, less any upfront income received from the subscriber. As at June 30, 2001 the Group believes that the transition provision reflects the estimated cost of transitioning the remaining analog subscribers. The provision was originally calculated on the basis of the number of analog subscribers at May 5, 1999 less allowance for churn (i.e. customers ceasing direct-to-home (''DTH'') subscriptions). This did not include subsidy costs provided by BiB, 32.5% of whose funding was supplied by the Group. As part of the Group's agreement to acquire an additional 47.6% holding in BiB, the Group's share of BiB's funding increased to 100% and hence as at June 30, 2000 the Group increased the transition provision by £58.3 million principally to reflect the increased costs to the Group of subsidising set-top boxes (see note 5).

The Sky In-Home Service Limited reorganisation provision principally comprised the costs of staff redundancies (see note 5).

The Sky Interactive reorganisation provision relates to costs associated with the reorganisation and consolidation of all interactive and online activities within the division 'Sky Interactive'. The post acquisition provision principally comprises the cost of termination of certain contracts, the closure of duplicate sites and a reduction in headcount (see note 5).

The Sky Pictures provision principally comprises the cost of a reduction in headcount.

24 Called-up share capital

	2000 £m	**2001 £m**
Authorized		
3,000,000,000 Ordinary Shares of 50p	1,500.0	**1,500.0**
Allotted, called-up and fully-paid – equity		
Ordinary Shares — 1,888,793,111 (2000: 1,825,858,144) of 50p	912.9	**944.4**

	Number
Allotted during the year	
Allotted and fully-paid up at start of year	1,825,858,144
Options exercised under the Executive Share Option Scheme at between £2.560 and £5.675	925,643
Options exercised under the Sharesave Scheme at between £2.050 and £4.620	532,085
Shares issued in respect of the acquisition of 100% of SIG (see note 2)	21,633,099
Shares issued in respect of the acquisition 67.5% of BiB (see note 2)	39,674,765
Shares issued in respect of the acquisition 5% of WAP TV (see note 2)	169,375
Allotted and fully paid up at end of year	**1,888,793,111**

Movements in share capital in the year ended June 30, 2001 are described in note 25.

Share option schemes

Total options in existence at June 30, 2001 are as follows:

	Number of Ordinary Shares
Approved and Unapproved Executive Share Options	25,518,737
Sharesave Scheme	2,745,182
LTIP	4,448,250
	32,712,169

We operate both an Approved and an Unapproved Executive Share Option Scheme (''the Executive Schemes''). 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 ten years. Options are only exercisable if the pre-determined performance target of real growth in our Company's earnings per share over any three-year period during the life of the option is achieved. This performance target was subsequently amended and the Alternative Performance Target introduced for options granted during the period October 29, 1999 to November 23, 2000 makes the exercise of options conditional on the achievement of certain subscriber growth measures.

Options in existence at June 30, 2001, under the Executive Schemes are shown in the table below:

Date of grant	Balance at June 30, 2001	Option price	Exercisable from
		£	
Dec 8, 1994	189,565	2.560	Dec 8, 1997
May 15, 1997	448,739	5.675	May 15, 2000
Jun 10, 1997	38,491	5.975	Jun 10, 2000
Aug 18, 1997	6,864	4.370	Aug 18, 2000
Aug 18, 1997	21,809	4.420	Aug 18, 2000
Nov 14, 1997	7,308	4.105	Nov 14, 2000
Nov 14, 1997	36,253	4.030	Nov 14, 2000
Feb 4, 1998	8,298	3.615	Feb 4, 2001
Feb 4, 1998	111,261	3.685	Feb 4, 2001
Mar 9, 1998	14,050	4.270	Mar 9, 2001
Mar 9, 1998	238,805	4.355	Mar 9, 2001
Dec 1, 1998	6,019,760	5.010	Dec 1, 2001
May 7, 1999	53,925	0.500	May 7, 2002
May 7, 1999	4,589	4.350	May 7, 2002
Aug 12, 1999	600,000	5.830	Aug 12, 2002
Oct 18, 1999	127,620	0.980	Oct 18, 2002
Oct 29, 1999	4,909,136	6.385	Oct 29, 2002
Nov 1, 1999	214,231	6.535	Nov 1, 2002
Nov 22, 1999	107,775	6.495	Nov 22, 2002
Mar 1, 2000	31,222	16.270	Mar 1, 2003
Apr 5, 2000	41,517	13.970	Apr 5, 2003
May 12, 2000	32,355	12.980	May 12, 2003
May 22, 2000	21,842	10.530	May 22, 2003
May 23, 2000	126,529	9.800	May 23, 2003
Jun 12, 2000	34,993	11.430	Jun 12, 2003
Jun 30, 2000	100,931	12.880	Jun 30, 2003
Jul 26, 2000	46,077	12.370	Jul 26, 2003
Aug 30, 2000	282,446	11.400	Aug 30, 2003
Nov 23, 2000	5,902,064	9.900	Nov 23, 2001
Dec 1, 2000	5,183,000	9.840	Dec 1, 2003
Jan 4, 2001	59,534	10.750	Jan 4, 2002
Feb 26, 2001	114,919	9.340	Feb 26, 2002
Mar 6, 2001	92,416	9.290	Mar 6, 2002
Mar 14, 2001	121,289	8.950	Mar 14, 2002
May 21, 2001	74,644	7.190	May 21, 2002
Jun 4, 2001	94,480	7.165	Jun 4, 2002
	25,518,737		

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 our policy to make an invitation for the employees to participate in the scheme following the announcement of the end of year results.

Date of grant	Balance at June 30, 2001	Option price	Exercisable from
		£	
Dec 8, 1994	104,916	2.050	Mar 1, 2000
Oct 25, 1995	64,688	3.020	Feb 1, 2001
Nov 2, 1996	112,199	4.620	Jan 1, 2002
Oct 27, 1997	176,402	3.720	Jan 1, 2001
Dec 1, 1998	783,889	3.780	Dec 1, 2001
Oct 18, 1999	677,891	4.620	Jan 1, 2003
Oct 3, 2000	825,197	9.710	Jan 1, 2004
	2,745,182		

We operate 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 our 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 our Company, determined by the Remuneration Committee. Awards may be in a variety of forms with equivalent values.

Options in existence at June 30, 2001, under the LTIP are shown in the table below:

Date of grant	Balance at June 30, 2001	Option price	Exercisable from
	£		
Nov 23, 1998	783,750	5.020	Nov 23, 2001
Aug 12, 1999	600,000	5.830	Nov 30, 2001
Nov 3, 2000	1,532,250	10.040	Nov 3, 2002
Nov 3, 2000	1,532,250	10.040	Nov 3, 2003
	4,448,250		

25 Reconciliation of movement in shareholders' funds

Movement in shareholders' funds includes all movements in reserves.

	Share capital	Share premium	Shares to be issued	Merger reserve	Profit and loss account as restated	Total equity shareholders' funds as restated
	£m	£m	£m	£m	£m	£m
As at July 1, 1998 — as restated (see note 10)	861.7	690.6	—	—	(1,775.6)	(223.3)
Issue of share capital	1.3	12.4	—	—	(5.7)	8.0
Loss for the financial year as restated (see note 10)	—	—	—	—	(285.6)	(285.6)
Dividends	—	—	—	—	(47.3)	(47.3)
As at July 1, 1999 — as restated (see note 10)	863.0	703.0	—	—	(2,114.2)	(548.2)
Issue of share capital	49.9	1,514.6	—	—	(18.1)	1,546.4
Share issue costs	—	(7.7)	—	—	—	(7.7)
Loss for the financial year as restated (see note 10)	—	—	—	—	(197.7)	(197.7)
Translation differences on foreign currency net investment	—	—	—	—	4.1	4.1
As at July 1, 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 to merger reserve (see note 2)	—	—	—	(37.3)	37.3	—
Translation differences on foreign currency net investment	—	—	—	—	(2.1)	(2.1)
As at June 30, 2001	**944.4**	**2,377.6**	**256.9**	**340.8**	**(2,859.1)**	**1,060.6**

At June 30, 2001, the cumulative goodwill written off directly to reserves amounted to £523.8 million (2000: £523.8 million). The cumulative amortised goodwill included in reserves amounted to £159.8 million (2000: £14.4 million).

A merger reserve has been 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 (see note 2).

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 (see note 2). Shares with a total value of £253.2 million will be issued as deferred consideration.

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 (see note 2). A further 169,375 and 338,755 new BSkyB Ordinary Shares comprise the contingent consideration of £3.7 million, to be issued on 30 June 2002 and 30 September 2003 respectively.

During the year the Company issued shares with a market value of £15.6 million (2000: £29.9 million) in respect of the exercise of options awarded under various share option plans, with £6.5 million (2000: £11.8 million) received from employees.

In March 2000, the Company made a share placing of 19,062,000 shares with a market value of £347.9 million, which, together with a further 78,019,778 shares (market value £1,186.7 million) was used as consideration in respect of the acquisition of a 24% interest in KirchPayTV.

26 Guarantees and other financial commitments

(a) Future expenditure

	2000	**2001**
	£m	**£m**
Contracted for but not provided for in the accounts		
— set-top boxes	143.1	**110.0**
— television programme rights	3,161.6	**2,839.1**
— capital expenditure	3.7	**17.3**
	3,308.4	**2,966.4**

As at June 30, 2001, the Group had made commitments to manufacturers, in relation to the supply of set-top boxes as shown above. This amount includes the subsidies which have been committed to by BiB, except for the subsidies already provided for (see note 23).

Of the commitments for television programme rights, some £1,147 million (2000: £1,408 million) relates to commitments which are payable in US dollars and are for periods of up to six years. At June 30, 2001 the US dollar commitments have been translated at the year end rate of US$1.4041:£1 (2000: US$1.5122:£1), except for US$462 million (2000: US$75 million) covered by forward rate contracts or other hedging instruments, where the average forward or hedged rate of US$1.4281:£1 (2000: US$1.6064:£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 June 30, 2001 levels, the commitment in respect of subscriber escalation would be some £377 million (US$529 million) (2000: £303 million (US$458 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.

KirchPayTV has entered into various long term commitments, including leases for decoders, transponders, cable lines and buildings. As at March 31, 2001, the Group's share of their non-cancellable aggregate minimum rental payments under operating leases was approximately £89 million (2000: £86 million), and under capital leases was £52 million (2000: £39 million). KirchPayTV has also entered into long-term contracts for the purchase of film and programming rights. As at March 31, 2001, the Group's share of their aggregate minimum commitments was approximately £498 million (2000: £341 million).

(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, KirchPayTV and BSkyB Germany GmbH & Co KG. The Directors do not expect any material loss to arise from the above contingent liabilities.

(c) Guarantees

The Company and certain subsidiaries have given joint and several guarantees in relation to the £300 million and the £750 million revolving credit facilities and the $650 million, $600 million, $300 million and £100 million Guaranteed Notes (see note 21).

(d) Contingent consideration

BiB

A further 67.5% of the issued share capital of BiB was acquired on May 9, 2001 and June 28, 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 (see note 2). Due to the degree of uncertainty, these amounts have not been recognised.

WAP TV

On May 29, 2001 the Group acquired the 5% minority interest in WAP TV Limited for a total consideration of £5.0 million. The consideration comprises 169,375 new BSkyB Ordinary Shares issued on May 29, 2001, and contingent consideration to be satisfied by the issue of a further 169,375 new BSkyB Ordinary Shares on June 30, 2002, and the issue of 338,755 new BSkyB Ordinary Shares on September 30, 2003. This 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 (see note 2). This consideration has been recognised as it is considered probable that these criteria will be fulfilled.

(e) Lease and similar commitments

The minimum annual rentals under these arrangements are as follows:

	Group property	Group transponder computer and technical equipment
	£m	£m
June 30, 2001		
Operating leases and similar arrangements which expire:		
— within one year	**0.3**	**4.7**
— within two to five years	**2.5**	**3.8**
— after five years	**8.6**	**66.5**
	11.4	**75.0**
June 30, 2000		
Operating leases and similar arrangements which expire:		
— within one year	0.1	61.0
— within two to five years	0.3	7.1
— after five years	6.7	34.6
	7.1	102.7

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

The Group has forward rate contracts to purchase euros 43 million (2000: euros 70 million), covering certain commitments in relation to transponder rental costs, at average rates of euros 1.6175: £1 (2000: euros 1.5775: £1).

In addition to the amounts shown above, the Company remains liable for leases for up to 15 years, in respect of certain of its former premises which have been sublet and for the use of one transponder which has been fully sublet on similar terms to those entered into by the Group. The Group's additional commitment should the sub-lessees default in respect of the premises amounts to some £1.6 million per annum and in respect of the transponder £0.5 million per annum.

Summarized below as at June 30, 2001, are the minimum lease payments for non-cancelable operating leases and similar arrangements.

	Operating leases and similar arrangements
	£m
Year ending June 30,	
2002	86.4
2003	82.4
2004	82.8
2005	90.3
2006	88.0
Thereafter	260.3
	690.2

Payments made under non-cancelable operating leases and similar arrangements in the year ended June 30, 2001, totaled £7.2 million (2000: £6.8 million; 1999: £4.4 million) in respect of property and £112.2 million (2000: £111.8 million; 1999: £84.0 million) in respect of transponders, computer and technical equipment.

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, STAR Television Group (''STAR'') and Zee TV with which the Group has significant contracts.

20th Century Fox supplied programming with a total value of £44.8 million in the year (2000: £47.8 million; 1999: £27.6 million), the majority of which is supplied under arrangements which have been extended to December 2004 with a variable annual value dependent on the number of films supplied.

NDS supplied smart cards and encryption services with a value of £46.1 million in the year (2000: £50.0 million; 1999: £26.6 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 £nil (2000: £5.7 million; 1999: £5.7 million) was paid during the year.

BVL supplied telephony services with a value of £2.2 million during the year (2000: £1.8 million; 1999: £nil). The Group also purchased sports rights from subsidiaries of the News Corporation Group for £3.0 million during the year (2000: £2.6 million; 1999: £6.8 million).

During the year £2.4 million (2000: £7.3 million; 1999: £8.2 million) was earned from Fox Kids Europe Limited and ZeeTV (a channel aimed at Asian consumers) for the provision of transponder capacity and subscriber and support services respectively. Carriage fees of £9.3 million (2000: £7.6 million; 1999: £6.4 million) were paid for the supply of Fox Kids, a children's television channel, pursuant to an agreement with Fox Kids European Properties SARL and Fox Kids Europe Limited.

During the year £0.4 million (2000: £nil; 1999: £nil) was earned from STAR for the provision of transponder capacity, and carriage fees of £0.3 million (2000: £nil; 1999: £nil) 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 advertising by the Group in media owned by shareholders of £5.8 million (2000: £5.8 million; 1999: £4.6 million) and revenue earned by the Group for the sale of airtime to shareholders of £1.8 million (2000: £1.5 million; 1999: £1.1 million).

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

	1999 £m	2000 £m	**2001** **£m**
Programming	31.2	35.8	**10.8**
Encryption services	12.6	7.1	**5.8**
Capital expenditure	0.6	—	**—**
Other	3.1	1.7	**1.7**
	47.5	44.6	**18.3**

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

	1999 £m	2000 £m	**2001** **£m**
Transponders	0.2	0.8	**0.9**
Other	1.2	1.5	**1.0**
	1.4	2.3	**1.9**

(b) Transactions with joint ventures

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

	1999 £m	2000 £m	**2001** **£m**
Revenue	20.1	62.5	**25.9**
Operating costs	29.6	42.7	**43.4**

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

	1999	2000	**2001**
	£m	£m	**£m**
Funding to joint ventures (see note 15)	116.3	345.9	**217.9**
Amounts owed by joint ventures (see note 18)	7.1	37.6	**11.2**
Amounts owed to joint ventures (see note 20)	2.5	25.0	**—**

There were no transactions in the normal course of business with KirchPayTV, a significant joint venture, during the year (2000: none).

Following the acquisition of the remaining 67.5% of BiB during the year, the results of BiB have been fully consolidated within the Group. As a result there are no balances payable to, or receivable from BiB as at June 30, 2001 which require disclosure. As at June 30, 2000, amounts owed to BiB totalled £20.3 million and amounts owed by BiB totalled £24.8 million.

Prior to the acquisition completion on May 9, 2001, a number of transactions were conducted with BiB. During the period from July 1, 2000 to May 9, 2001 (''the period'') £16.6 million (2000: £28.1 million; 1999: £0.8 million) was earned from BiB for the provision of transponder capacity and subscriber management services. Debenture interest of £6.6 million (2000: £3.2 million; 1999: £0.1 million) and uncommitted loan interest of £3.4 million (2000: £nil; 1999: £nil) was earned from BiB during the period from July 1, 2000 to May 9, 2001.

During the year BiB offered customers acquiring digital set-top boxes and dishes the benefit of an interactive discount if the customer agreed to enter into an interactive discount contract with BiB for a minimum period of 12 months. The interactive discount reduced the price of the set-top box and dish to new and transition customers. Interactive discounts payable by BiB for the period were £113.2 million (2000: £236.7 million; 1999: £109.6 million).

(c) Other transactions with related parties

Elisabeth Murdoch is a former alternate director of BSkyB Group plc, the daughter of a Director of the Company, Rupert Murdoch, and owns 64% of the ordinary share capital of Shine Entertainment. During the year the Group acquired 3,400 Ordinary Shares (4% holding) in Shine Entertainment at an initial cost of £0.5 million as part of a two year production agreement. 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 provided a development fund of £0.3 million and production costs for television of £5.0 million. As at June 30, 2001, £4.5 million was due to and £nil was due from Shine Entertainment.

John Thornton is a Non-Executive Director of BSkyB Group plc and is also President and Co-Chief Operating Officer of the Goldman Sachs Group Inc. and a member of their Board of Directors. In fiscal 2000, fees and expenses totalling £6.6 million were payable to the Goldman Sachs Group Inc. relating to advisory fees on the acquisition of 24% of KirchPayTV, advisory fees on the Sports Internet Group offer and underwriting and selling commissions relating to share issues. (1999: £1.6 million was paid relating to BSkyB's bid for Manchester United PLC). Following the incorporation of Goldman Sachs, John Thornton ceased to have a partnership interest, and no further disclosure of related party transactions is therefore required.

28 Summary of differences between United Kingdom and United States Generally Accepted Accounting Principles

(i) Differences giving rise to accounting adjustments

The Group's accounts are prepared in accordance with generally accepted accounting principles (''GAAP'') applicable in the United Kingdom, which differ in certain significant respects from those applicable in the United States.

The following is a summary of the approximate effects on operating profit (loss), net income (loss), shareholders' funds (deficit) and on certain other balance sheet items if U.S. GAAP were to be applied instead of U.K. GAAP. A translation of amounts for the year ended June 30, 2001 from pounds sterling to U.S. dollars at £1: $1.4041 (the noon buying rate in New York on June 29, 2001) has been included solely for the convenience of the reader.

NOTES TO FINANCIAL INFORMATION (continued)

	Year ended June 30, 1999 As restated £m	Year ended June 30, 2000 As restated £m (except per share data)	Year ended June 30, 2001 £m	Convenience translation 2001 $m
Operating Profit:				
Operating profit (loss) under U.K. GAAP	(271)	(20)	**93**	**131**
Adjustments:				
Amortization of goodwill[1]	(12)	(12)	**(14)**	**(19)**
ESOP[2]	1	2	**—**	**—**
Transition provision[3]	405	(213)	**(151)**	**(212)**
Employee stock based compensation[4]	(5)	(4)	**(15)**	**(21)**
Derivative accounting[5]	—	—	**(22)**	**(31)**
Provision for loss on disposal of subsidiary[9]	—	—	**(10)**	**(14)**
Amounts written off fixed asset investments[9]	—	—	**(59)**	**(83)**
Operating profit (loss) before cumulative effect of a change in accounting principle	118	(247)	**(178)**	**(249)**
Cumulative effect on prior years (to June 30, 2000) of implementation of SFAS 133	—	—	**2**	**3**
Operating profit (loss) under U.S. GAAP	118	(247)	**(176)**	**(246)**
Net Income:				
Loss after tax ("net loss") under U.K. GAAP	(286)	(198)	**(539)**	**(757)**
Adjustments:				
Amortization of goodwill[1]	(12)	(8)	**16**	**22**
ESOP[2]	1	2	**—**	**—**
Transition provision[3]	405	(212)	**(174)**	**(245)**
Employee stock based compensation[4]	(5)	(4)	**(15)**	**(21)**
Derivative accounting[5]	—	—	**(22)**	**(31)**
Capitalized interest[6]	1	(2)	**(1)**	**(2)**
Deferred taxation[7]	(118)	57	**59**	**83**
Amounts written off fixed asset investments[9]	—	—	**(20)**	**(28)**
Share of joint venture's loss on sale of investment[10]	—	14	**69**	**98**
Net loss before cumulative effect of a change in accounting principle	(14)	(351)	**(627)**	**(881)**
Cumulative effect on prior years (to June 30, 2000) of implementation of SFAS 133	—	—	**2**	**3**
Net loss under U.S. GAAP	(14)	(351)	**(625)**	**(878)**
Basic and fully diluted loss per share under U.S. GAAP (before cumulative effect of accounting change)[8]	(0.8p)	(20.1p)	**(33.9p)**	**(47.6c)**
Basic and fully diluted loss per share under U.S. GAAP (after cumulative effect of accounting change)[8]	(0.8p)	(20.1p)	**(33.8p)**	**(47.5c)**
Loss per ADS under U.S. GAAP (before cumulative effect of accounting change)[8]	(4.8p)	(120.6p)	**(203.4p)**	**(285.6c)**
Loss per ADS under U.S. GAAP (after cumulative effect of accounting change)[8]	(4.8p)	(120.6p)	**(202.8p)**	**(285.0c)**

	As at June 30,			Convenience translation
	1999 As restated	2000 As restated	2001	2001
	£m	£m	£m	$m
Shareholders' (deficit) funds:				
Capital and reserves under U.K. GAAP	(548)	797	**1,061**	**1,489**
Adjustments:				
Goodwill(1)	373	(61)	**87**	**122**
ESOP(2)	(25)	(19)	**(9)**	**(13)**
Transition provision(3)	405	193	**19**	**26**
Derivative accounting(5)	—	—	**(20)**	**(28)**
Capitalized interest(6)	11	9	**8**	**12**
Deferred taxation(7)	(106)	(49)	**10**	**14**
Fixed asset investments(9)	(9)	23	**(53)**	**(74)**
Share of joint venture's interest in own shares(10)	—	(212)	**—**	**—**
Deferred consideration(12)	—	—	**(253)**	**(355)**
Shareholders' funds under U.S. GAAP	101	681	**850**	**1,193**
Total assets:				
Under U.K. GAAP	1,187	3,280	**3,877**	**5,443**
Adjustments:				
Goodwill(1)	373	(61)	**87**	**122**
ESOP(2)	(28)	(28)	**(19)**	**(27)**
Derivative accounting(5)	—	—	**136**	**191**
Capitalized interest(6)	11	9	**8**	**12**
Deferred taxation(7)	(106)	(49)	**10**	**14**
Fixed asset investments(9)	(9)	23	**(53)**	**(74)**
Share of joint venture's interest in own shares(10)	—	(212)	**—**	**—**
Installation costs(11)	—	—	**163**	**229**
Total assets before the prior year reclassification following adoption of SAB 101	1,428	2,962	**4,209**	**5,910**
Prior year reclassification following adoption of SAB 101(11)	—	98	**—**	**—**
Under U.S. GAAP	1,428	3,060	**4,209**	**5,910**
Total liabilities:				
Under U.K. GAAP	(1,735)	(2,483)	**(2,816)**	**(3,954)**
Adjustments:				
ESOP(2)	3	9	**10**	**14**
Transition provision(3)	405	193	**19**	**26**
Derivative accounting(5)	—	—	**(156)**	**(219)**
Installation revenues(11)	—	—	**(163)**	**(229)**
Deferred consideration(12)	—	—	**(253)**	**(355)**
Total liabilities before the prior year reclassification following adoption of SAB 101	(1,327)	(2,281)	**(3,359)**	**(4,717)**
Prior year reclassification following adoption of SAB 101(11)	—	(98)	**—**	**—**
Under U.S. GAAP	(1,327)	(2,379)	**(3,359)**	**(4,717)**

NOTES TO FINANCIAL INFORMATION (continued)

Notes

(1) *Goodwill*

Under U.K. GAAP, goodwill was eliminated against reserves prior to July 1, 1998. From this date the U.K. Financial Reporting Standard FRS 10 requires future goodwill to be capitalized, although goodwill previously written off has not been restated in the balance sheet. On disposal or closure of a previously acquired business, the goodwill previously written off to reserves will be included in calculating the profit or loss on disposal. Purchased goodwill (representing the fair value of the consideration over the fair value of the separable net assets acquired) arising on acquisitions from July 1, 1998 is capitalized. Where capitalized goodwill is regarded as having a limited useful economic life, the cost is amortized on a straight-line basis over that life, of up to 20 years. Provision is made for any impairment, as required by FRS 11.

Under U.S. GAAP, goodwill is recognized in the balance sheet and amortized by charges against income over its useful life, which is not to exceed 40 years. The Company considered various factors in determining its amortization period, including competitive, legal, regulatory, and other factors. As required by APB No. 17, the Group limited its amortization period to the specified maximum life of 40 years.

For U.S. GAAP purposes, goodwill has been accounted for at amortized cost, less provision for impairment. Whenever events or changes in circumstances indicate that current net book value may not be recoverable, the net book value is compared to the undiscounted net cash flows estimated to be generated by such goodwill. When these undiscounted cash flows are less than net book value, a provision for impairment is recorded to write down the net book value of the goodwill to the value in use by reference to discounted net future cash flows. Management believe that no such impairment of value has occurred.

The goodwill adjustment relates to the acquisition of Sky Television Limited (''Sky''), the acquisition of an additional 9.5% economic interest in Granada Sky Broadcasting, the acquisition of a 24% interest in KirchPayTV on April 14, 2000 and the acquisition of the remaining 67.5% interest in BiB, 47.6% on May 9, 2001 and 19.9% on June 28, 2001.

The goodwill of £491 million arising on the acquisition of Sky on November 3, 1990 (reduced by £20 million for the restatement of a shareholder loan to fair value as at the date of the acquisition and by £33 million from July 1, 1993 for the SFAS No. 109 treatment of acquisition adjustments) is being amortized under U.S. GAAP on a straight-line basis over 40 years, from November 4, 1990. Goodwill arising on the acquisition of Granada Sky Broadcasting in March 1998 of £32 million is being amortized over a 20 year period from July 1, 1998.

Goodwill arising on the acquisition of the Group's 67.5% interest in BiB was £564.9 million under U.K. GAAP, based on the fair value of the Group's shares on May 9, 2001, for the acquisition of the 47.6% interest and June 28, 2001, for the acquisition of the remaining 19.9% interest. Under U.S. GAAP the goodwill arising was £687.2 million, based on the fair value of the Group's shares on July 17, 2000 for the acquisition of the 47.6% interest and May 14, 2001 for the acquisition of the remaining 19.9%. The goodwill is being amortized on a straight-line basis over 7 years from the dates of acquisition.

Under U.K. GAAP, the fair value of consideration is determined as at the date the acquisition becomes unconditional, under U.S. GAAP the fair value is based on the share price prior to and post the date of agreement and announcement of the acquisition.

Goodwill arising on the acquisition of the Group's interest in KirchPayTV was £1,252 million under U.K. GAAP, based on the fair value of the Group's shares as at April 14, 2000, and £858 million under U.S. GAAP, based on the fair value of the Group's shares as at December 3, 1999. All such amounts are stated net of a deemed disposal of a 1.97% interest which arose in the current period. Goodwill arising on the acquisition is being amortized over 7 years under both U.S. GAAP and U.K.

GAAP. As at April 1, 2001, it was considered appropriate to revise KirchPayTV's useful economic life from 20 years to 7 years in line with the amortization periods chosen for the amortization of BiB and SIG goodwill, which are both 7 years.

Under U.K. GAAP, goodwill arising on acquisition of the KirchPayTV joint venture is treated as a sterling denominated balance, calculated at the historic exchange rate when the transaction was completed, and is therefore not retranslated at the year end. Under U.S. GAAP, this goodwill is treated as a Deutschmark denominated balance and is retranslated at the year end with the foreign exchange gain of £24 million (2000: £3 million) being recognized in shareholders' funds.

(2) *Employee Share Ownership Plan*

As at June 30, 2001, the British Sky Broadcasting Employee Share Ownership Plan (''ESOP'') held some 3.4 million (2000: £4.8 million) Ordinary Shares of the Company, for which it subscribed on January 2, 1996 at £4.06 per share. Under U.S. GAAP, this is classified as ''shares in employee trusts'' within shareholders' funds rather than within investments under U.K. GAAP. The original shares were subscribed for at £4.06 on January 2, 1996, but were revalued to £5.68 during fiscal 1997, which was included in the profit and loss account for the year under U.K. GAAP, and in the profit and loss reserve under U.S. GAAP. Since that date there has been no revaluation of shares in the ESOP.

(3) *Provisions*

Under U.K. GAAP (namely FRS 12), a provision is recognized when a legal or constructive obligation exists as a result of a past event or action and it is probable that a transfer of economic benefit will be required to settle the obligation. Under EITF 94-3 of U.S. GAAP, a provision should only be recognized when the Company has a legal commitment.

Under U.K. GAAP, a provision of £58 million was recognized during fiscal 2000, in addition to a provision of £450 million recognized during fiscal 1999. These provisions were in respect of the net costs of the marketing promotion committed to by the Group, to transition its existing analog subscribers to its digital service. Of the total provision, £174 million was utilized during the year (2000: £271 million). The unutilized element of the provision of £19 million is not recognized under U.S. GAAP.

(4) *Employee stock based compensation*

Under U.K. GAAP, a charge is recorded in the profit and loss account in relation to options for any difference between the market price and exercise price on the date of grant. The charge is allocated on a straight-line basis over the vesting period of the options. Under U.S. GAAP, for performance related options, deemed as variable plans under APB No. 25, the excess between the market price of the option and the exercise price at each period end is charged against income during the periods up to the date the performance criteria are satisfied.

In accordance with U.S. GAAP, the cost of compensatory stock options is charged against operating income. The additional U.S. GAAP charge (net of credits arising due to lapsing of options) for the year ended June 30, 2001 amounts to £15 million (2000: £4 million; 1999: £5 million).

(5) *Derivative accounting*

Under U.K. GAAP, investments or financial derivative 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 recognized on an accruals basis, over the life of the instrument. Gains and losses hedging forecast transactional cash flows are recognized in the hedged periods. Under U.K. GAAP, all derivative contracts have been accounted for on the basis that they are hedging applicable monetary items. Under U.K. GAAP, trading activities denominated in foreign currencies are recorded in sterling at actual exchange rates as at 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 and liabilities 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.

Under U.S. GAAP, the Group has applied SFAS No. 133 as of July 1, 2000, but is marking all derivatives to market on the basis that such derivatives have not been sufficiently designated against monetary items to allow the Group to hedge account under SFAS No. 133. As such, all derivative contracts have been recorded at market value at the year end (with changes in fair value being charged to operating income) and all monetary assets and liabilities have been retranslated at spot rates. The net gain present on the date of adopting this accounting has been recorded as a cumulative change in accounting principle in the profit and loss account.

(6) *Capitalized interest*

Under U.K. GAAP, the capitalization of interest is not required and the Group expenses interest charges to the profit and loss account in the year in which they are incurred. For U.S. GAAP purposes, interest charges on funds invested in the construction of major capital assets are capitalized and amortized over the average life of the assets concerned.

Cumulative capitalized interest on the construction of digital assets as at June 30, 2001 amounted to £12 million (2000: £11 million, 1999: £11 million) and is being amortized over a seven year period commencing October 1, 1998. Additional interest of £2 million has been capitalized in the year ended June 30, 2001, in respect of assets under construction.

(7) *Deferred taxation*

Under U.K. GAAP, deferred tax is recognized 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 recognized only when, on the basis of all available evidence, it is 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.

Under U.S. GAAP, deferred tax liabilities related to temporary differences (differences between the carrying value of assets and liabilities and their corresponding tax basis) are fully provided and future taxation benefits are recognized as deferred tax assets to the extent that their realization is more likely than not.

As at June 30, 2001, there is a U.K. deferred tax asset of £144 million (2000 restated: £168 million; 1999 restated: £94 million), which arose as a result of tax relief on the transition provision recognized during fiscal 1999 under U.K. GAAP, (see note 3). In addition, under U.K. GAAP, there is an Advance Corporation Tax (''ACT'') debtor of £85 million (2000 restated: £85 million; 1999 restated: £85 million).

Under U.S. GAAP, at June 30, 2001, there is a gross deferred tax asset of £330 million (2000: £205 million; 1999: £74 million); offset by a valuation allowance of £90 million (2000 and 1999: £nil). The net deferred tax asset is comprised of deferred ACT of £85 million (2000 and 1999: £85 million), including ACT recoverable under U.S. and U.K. GAAP, of £14 million in respect of proposed dividends as at June 30, 1999; future tax depreciation of £6 million (2000: £3 million; 1999: £6 million) and other timing differences (net of a valuation allowance of £90 million) of £149 million (2000: £117 million; 1999: liability of £17 million). Other timing differences include a deferred tax asset of £127 million (2000: £107 million; 1999: liability of £33 million), net of a valuation provision of £90 million (2000 and 1999: £nil), relating to losses carried forward which are available to shelter future taxable profits.

NOTES TO FINANCIAL INFORMATION (continued)

The U.S. GAAP tax charge, which wholly relates to continuing operations, comprises:

	2000	2001
	%	%
U.K. corporation tax rate	30.0	30.0
Permanent differences	(1.0)	(7.4)
Charges relating to prior periods	(2.2)	(0.1)
Joint venture losses	(2.6)	(15.9)
Other	1.7	(1.3)
U.S. GAAP income tax charge	25.9	5.3

(8) *Per share data*

Loss per share under U.K. GAAP and U.S. GAAP for the year ended June 30, 2001 is calculated using the weighted average number of Ordinary Shares in issue during the year of 1,847,057,433 (2000: 1,744,379,069; 1999: 1,719,952,745). The weighted average number of shares under U.K. GAAP and U.S. GAAP excludes Ordinary Shares held by the ESOP.

Loss per ADS has been calculated for each year using the weighted average number of ADRs outstanding on the basis of 1 ADR for 6 Ordinary Shares.

(9) *Fixed asset investments*

Under U.K. GAAP, a fixed asset investment in a publicly-traded entity, which is not equity accounted or consolidated on a group basis, is recorded at cost, less any provision for permanent diminution in value. Amounts provided against these investments are charged to the profit and loss account below operating profit.

Under U.S. GAAP, the Group has accounted for these investments as ''available for sale'' assets and have therefore marked-to-market such investments, with any movements in the carrying values being taken to equity through shareholders' funds until any such gains or losses are realized. Market value must be determined by reference to quoted market prices irrespective of the size of the Group's interest. Provisions for other than temporary impairments are charged to operating profit and the restoration of a previously recognized impairment loss is prohibited under SFAS 121. The premium to market value of investments acquired is charged to the profit and loss account.

(10) *Share of joint venture's interest in own shares*

Under U.K. GAAP, as at June 30, 2000, the Group's share of KirchPayTV's remaining holding of shares in the Company was shown within investments in joint ventures and the Group's share in KirchPayTV's loss on the sale of that holding was recognized in the profit and loss account in the year to June 30, 2001. Under U.S. GAAP, at June 30, 2000, the Group's share of KirchPayTV's holding of shares in the Company was shown within equity, with the loss on the sale of such shares being treated as a capital transaction and taken through equity in the year to June 30, 2001. In fiscal 2001, KirchPayTV disposed of their remaining holding of BSkyB shares via an institutional placing.

(11) *Installation revenues and costs*

Under U.K. GAAP, installation revenues are recognized once the installation is complete. Under U.S. GAAP, installation revenues are recognized over the period that a customer is expected to remain a Sky subscriber, which is based on the current churn rate. Installation costs directly attributable to the income deferred are recognized over the same period. Where installation costs exceed installation revenues, the excess costs are charged in the profit and loss account immediately upon installation of the set-top box.

In the year to June 30, 2001, under U.K. GAAP, installation revenues of £80 million (2000: £104 million) were recognized. Under U.S. GAAP, deferred revenue in respect of installations amounted to £163 million (2000: £98 million). Installation costs have been deferred to match and equal installation revenues, therefore at June 30, 2001, deferred costs in respect of installations amounted to £163 million (2000: £98 million). Installation revenues (which are matched by installation costs) that have been recognized during the period are £15 million (2000: £6 million).

(12) *Deferred consideration*

Under U.K. GAAP, deferred consideration which the acquirer can satisfy by the issue of shares or the payment of cash at its option is classified within shareholders' funds. Under U.S. GAAP, it is classified within liabilities.

(13) *Proposed dividends*

Proposed dividends are accrued under U.K. GAAP in the period to which they relate. For U.S. GAAP purposes proposed dividends are accounted for when they are formally approved. The related ACT is treated in the same manner.

(14) *Consolidated Balance Sheet*

The Consolidated Balance Sheet prepared in accordance with U.K. GAAP differs in certain respects from U.S. GAAP. For example, under U.K. GAAP current assets are presented after fixed assets; current assets include amounts which fall due after more than one year (see note 15) and creditors falling due after one year are deducted from current assets to present net current assets (liabilities).

(15) *Consolidated Statement of Cash Flows*

The Consolidated Statement of Cash Flows prepared under U.K. GAAP in accordance with FRS 1 (Revised) presents substantially the same information as that required under U.S. GAAP. Under U.S. GAAP however, there are certain differences from U.K. GAAP with regard to classification of items within the cash flow statement and with regard to the definition of cash and cash equivalents. Cash flow under U.K. GAAP represents increases or decreases in ''cash'', which comprises cash in hand and repayable on demand and overdrafts. Under U.S. GAAP, cash flow represents increases or decreases in ''cash and cash equivalents'', which include short term, highly liquid investments with original maturities of less than 90 days, and exclude overdrafts.

Under U.K. GAAP, cash flows are presented separately for operating activities, returns on investments and servicing of finance, taxation, capital expenditure and financial investment, acquisitions and disposals, equity dividends, management of liquid resources and financing activities. Under U.S. GAAP, however, only three categories of cash flow activity are reported, being operating activities, investing activities and financing activities. Cash flows from taxation and returns on investments and servicing of finance would, with the exception of servicing of shareholder financing, be included as operating activities under U.S. GAAP. The servicing of shareholder financing would be included under financing activities under U.S. GAAP.

NOTES TO FINANCIAL INFORMATION (continued)

A summary of our operating, investing and financing activities, classified in accordance with U.S. GAAP, are as follows:

	Year ended June 30,			Convenience translation
	1999	2000	2001	2001
	£m	£m	£m	$m
Net cash provided by (used in) operating activities	158.9	(321.0)	**(93.0)**	**(130.6)**
Net cash used in investing activities	(210.3)	(511.2)	**(311.5)**	**(437.4)**
Net cash provided by financing activities	36.9	1,063.2	**346.9**	**487.1**
Net (decrease) increase in cash and cash equivalents	(14.5)	231.0	**(57.6)**	**(80.9)**
Cash and cash equivalents under U.S. GAAP at the beginning of the year	64.7	50.2	**281.2**	**394.8**
Cash and cash equivalents under U.S. GAAP at the end of the year	50.2	281.2	**223.6**	**313.9**

(ii) Additional U.S. GAAP Disclosures

(a) Share options

In October 1995, FASB Statement 123 ''Accounting for Stock-Based Compensation'' was issued. The Company adopted the disclosure provisions of FASB Statement 123 in 1997, but opted to remain under the expense recognition provisions of Accounting Principles Board (APB) Opinion No 25, ''Accounting for Stock Issued to Employees'' in accounting for options granted under the share option schemes. Accordingly, no compensation expense has been recognized for options granted under these schemes. The additional U.S. GAAP charge (net of credits arising due to lapsing of options) included in the Profit and Loss Account for all the share option schemes was £15 million (2000: £4 million; 1999: £5 million). Had compensation expense for share options granted under these schemes been determined based on fair value at the grant dates consistent with the method required in accordance with FASB Statement 123, the Company's net income and earnings per share for 1999, 2000 and 2001 would have been reduced to the pro-forma amounts shown below:

	1999	2000	2001
Loss under U.S. GAAP:			
As reported	£(14)m	£(351)m	**£(625)m**
Pro Forma	£(14)m	£(358)m	**£(638)m**
Loss per share under U.S. GAAP:			
As reported	(0.8)p	(20.1)p	**(33.8)p**
Pro Forma	(0.8)p	(20.5)p	**(34.6)p**

The movement in options outstanding during the three years ended June 30, 2001 is summarized in the following table:

	Number of shares subject to option	Weighted average exercise price
Outstanding at June 30, 1998	9,545,192	£4.05
Granted during fiscal 1999	11,467,007	£4.92
Lapsed during fiscal 1999	(3,168,048)	£4.95
Cancelled during fiscal 1999	—	—
Exercised during fiscal 1999	(2,426,463)	£3.35
Outstanding at June 30, 1999	15,417,688	£ 4.68
Granted during fiscal 2000	8,689,425	£ 6.73
Lapsed during fiscal 2000	(875,303)	£ 4.98
Cancelled during fiscal 2000	(347,477)	£ 4.04
Exercised during fiscal 2000	(2,959,841)	£ 4.37
Outstanding at June 30, 2000	19,924,492	£ 5.65
Granted during fiscal 2001	**17,232,761**	**£ 9.85**
Lapsed during fiscal 2001	**(513,319)**	**£10.48**
Cancelled during fiscal 2001	**(293,629)**	**£13.54**
Exercised during fiscal 2001	**(2,808,136)**	**£ 5.28**
Outstanding at June 30, 2001	**33,542,169**	**£ 7.69**

Included within the total options outstanding as at June 30, 2001, were 13,467,889 options (2000: 12,838,084) granted under the Executive Schemes and 3,046,500 options under the LTIP (2000: nil), which may be exercised in the final year before their lapsing date, regardless of meeting performance criteria, provided that the employee remains in employment with the Group. There were also 2,545,182 Sharesave Scheme options outstanding as at June 30, 2001 (2000: 2,578,595) to which no performance criteria are attached. Excluded from the above analysis are 600,000 notional shares under the Additional Executive Bonus Scheme.

The weighted average fair value of options granted in fiscal 2001 was estimated at approximately £5.13 as of the date of grant using the Black-Scholes stock option pricing model, based on the following weighted average assumptions: no annual dividend; annual standard deviation (volatility) of 38% (2000: 32%; 1999: 32%); risk free interest rate of 5.51% (2000: 5.48%; 1999: 5.13%) and expected term of 7.5 years (2000: 7.5 years; 1999: 3.1 years).

Additionally, the weighted average exercise price and fair value for options granted in fiscal 2001 with an exercise price below the market price at grant were estimated at £8.24 and £5.25 respectively. For options granted in fiscal 2001 with an exercise price equal to market price at grant date, the weighted average exercise price and fair value at grant date were estimated at £9.97 and £5.13 respectively.

The exercise prices for options outstanding at June 30, 2001 ranged from £0.50 to £16.27, with a weighted average exercise price of £7.69 and a remaining contractual life of 6.2 years.

NOTES TO FINANCIAL INFORMATION (continued)

The following table summarizes information about the stock options outstanding at June 30, 2001:

	Options outstanding			Options currently exercisable	
Range of exercise prices	Number	Weighted average remaining contractual life	Weighted average exercise price	Number	Weighted average exercise price
£0.50-£1.00	181,545	8.2 years	£ 0.84	—	—
£2.00-£3.00	294,481	2.8 years	£ 2.38	189,565	£2.56
£3.00-£4.00	1,144,538	2.6 years	£ 3.72	161,345	£3.63
£4.00-£5.00	1,119,768	3.5 years	£ 4.53	325,089	£4.31
£5.00-£6.00	8,490,740	4.2 years	£ 5.17	570,980	£5.60
£6.00-£7.00	5,231,142	5.3 years	£ 6.39	—	—
£7.00-£8.00	169,124	6.1 years	£ 7.18	—	—
£8.00-£9.00	253,289	3.3 years	£ 8.84	—	—
£9.00-£10.00	12,274,125	9.0 years	£ 9.85	—	—
£10.00-£11.00	3,369,876	5.5 years	£10.10	—	—
£11.00-£12.00	761,439	3.3 years	£11.44	—	—
£12.00-£13.00	179,363	6.3 years	£12.77	—	—
£13.00-£14.00	41,517	5.9 years	£13.97	—	—
£16.00-£17.00	31,222	5.8 years	£16.27	—	—
	33,542,169	**6.2 years**	**£ 7.69**	**1,246,979**	**£4.55**

(b) Disclosure of derivative financial instruments

We enter into derivative instruments to manage exposure to fluctuations in interest rates and foreign exchange rates. We do not hold or issue derivative financial instruments for trading purposes and are not party to leveraged instruments.

(c) Foreign exchange forward hedges — programming

It is our policy to hedge in excess of 90% of the U.S. dollar programme creditor payments to which we are contractually committed in the next eighteen months.

As at June 30, 2001, we had entered into some 74 forward contracts for a total value of U.S.$885 million, with a maturity of up to eighteen months, to cover contracted commitments for the supply of programming. These contracts, which are individually for less than U.S.$15 million, are with different banks and are at a weighted average rate of U.S.$1.4281 per £1.00. Some U.S.$423 million of these are to hedge liabilities in respect of available programming and hence these liabilities are recorded on the balance sheet at hedged rate (see note 18). The remainder are to hedge liabilities in respect of programmes which have yet to become available and hence are off-balance sheet (see note 24(a)).

(d) Foreign exchange forward hedges — transponders

It is our policy to hedge the majority of euro payments in respect of transponder rentals to which we are contractually committed in the next twelve months.

As at June 30, 2001, we had entered into some 11 forward contracts for a total value of some 43 million euros, with a maturity of one year or less, to cover transponder rental, at a weighted average rate of 1.6175 euros per £1.00. Since these contracts hedge amounts which are currently off-balance sheet (see note 24(d)), any profit or loss will be recorded over the period of the related transponder rental. Had these contracts been marked-to-market at June 30, 2001, a loss of approximately £0.7 million would have been recorded.

NOTES TO FINANCIAL INFORMATION (continued)

(e) Statement of comprehensive loss

	1999	2000	**2001**	**Convenience translation 2001**
	£m	£m	**£m**	**$m**
Net loss in accordance with U.S. GAAP	(14)	(351)	**(625)**	**(878)**
Other comprehensive income, net of tax:				
Unrealised (loss) gain on certain fixed asset investments	(6)	32	**(56)**	**(79)**
Foreign exchange gains (losses) recorded in cumulative translation reserve	—	7	**(28)**	**(39)**
Profit on deemed disposals	—	—	**14**	**19**
Net comprehensive loss in accordance with U.S. GAAP	(20)	(312)	**(695)**	**(977)**

(f) Adoption of new standards

Statement of Position 00-2 (''SoP 00-2''), ''Accounting by Producers or Distributors of Films''

In July 2000, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 00-2 (''SOP 00-2''), ''Accounting by Producers or Distributors of Films'', which provides guidance on accounting for films. SOP 00-2 is effective for financial years beginning after December 15, 2000. Whilst we have yet to complete our analysis of the effect of this SOP, we currently do not believe it will have a material effect on the Group, however, we have not yet determined its effect on the Group's equity investments.

SFAS No. 141, ''Business Combinations'' and SFAS No. 142, ''Goodwill and Other Intangible Assets''

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (''SFAS'') No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. SFAS No. 141 requires intangible assets to be recognized if they arise from contractual or legal rights or are ''separable'', i.e., it is feasible that they may be sold, transferred, licensed, rented, exchanged or pledged. As a result, it is likely that more intangible assets will be recognized under SFAS No. 141 than its predecessor, APB Opinion No.16 although in some instances previously recognized intangibles will be subsumed into goodwill.

Under SFAS No. 142, goodwill will no longer be amortized on a straight-line basis over its estimated useful life, but will be tested for impairment on an annual basis and whenever indicators of impairment arise. The goodwill impairment test, which is based on fair value, is to be performed on a reporting unit level. A reporting unit is defined as a SFAS No. 131 operating segment or one level lower. Goodwill will no longer be allocated to other long-lived assets for impairment testing under SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of. Additionally, goodwill on equity method investments will no longer be amortized; however, it will continue to be tested for impairment in accordance with Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. Under SFAS No. 142 intangible assets with indefinite lives will not be amortized. Instead they will be carried at the lower cost or market value and tested for impairment at least annually. All other recognized intangible assets will continue to be amortized over their estimated useful lives.

SFAS No. 142 is effective for fiscal years beginning after December 15, 2001 although goodwill on business combinations consummated after July 1, 2001 will not be amortized. On adoption the Group may need to record a cumulative effect adjustment to reflect the impairment of previously recognized intangible assets. In addition, goodwill on prior business combinations will cease to be amortized. Had the Group adopted SFAS No. 142 at July 1, 2000 the Group would not have recorded a goodwill amortization charge of £44 million in relation to its subsidiaries and nor a goodwill amortization charge of £101 million in relation to its joint ventures. The Group has not determined the impact that these Statements will have on intangible assets or whether a cumulative effect adjustment will be required upon adoption.

SFAS No. 143, ''Accounting for Asset Retirement Obligations''

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. An entity shall measure changes in the liability for an asset retirement obligation due to passage of time by applying an interest method of allocation to the amount of the liability at the beginning of the period. The interest rate used to measure that change shall be the credit-adjusted risk-free rate that existed when the liability was initially measured. That amount shall be recognized as an increase in the carrying amount of the liability and as an expense classified as an operating item in the statement of income. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Group does not anticipate that adoption of SFAS No. 143 will have a material impact on its results of operations or its financial position.

(g) Concentration of credit risk

The Group does not have any significant concentrations of credit risk.

29 Post balance sheet events

Surrey Sports plc

On July 11, 2001, BSkyB 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. BSkyB will contribute its wholly-owned bookmaker, Surrey Sports, to the joint venture. When Surrey Sports is transferred to the joint venture, BSkyB will adjust existing goodwill on its balance sheet and a provision for this has been made in the year to June 30, 2001 (see note 5).

Static 2358 Limited

On June 13, 2001, the Group entered into binding agreements for the sale 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 disposal was completed on July 2, 2001. As a result, the amount written off this fixed asset investment was no longer required, and the total amount written off fixed asset investments was reduced by £1.4 million (see note 5).

30 Description of Business

British Sky Broadcasting Group plc is one of the leading providers of pay-television broadcasting services in the U.K. and Ireland, with 10.0 million paying subscribers. Its operations include the operation and distribution of 92 wholly-owned television channels in digital, as well as direct-to-home marketing of 239 channels owned by third parties in digital.

31 Supplemental Guarantor Information

From time to time the Company may issue debt securities which are guaranteed, on a full and unconditional basis, by the Company's two main wholly owned operating subsidiaries, British Sky Broadcasting Limited and Sky Subscribers Services Limited. The Company has issued in the U.S. public debt market in October 1996 U.S.$300 million of 7.300% Guaranteed Notes repayable in October 2006, and in February 1999 U.S.$600 million of 6.875% Guaranteed Notes repayable in February 2009. In July 1999 the Company issued U.S.$650 million and £100 million of Regulation S/144A bonds with SEC registration rights repayable in July 2009 at rates of 8.200% and 7.750% respectively. Supplemental condensed combining financial information for the guarantors is presented below prepared in accordance with the Company's accounting policies set out on pages F-8 to F-12, except to the extent that investments in subsidiaries have been accounted for by the equity method and push down accounting has been applied for subsidiaries as required by the Securities and Exchange Commission. The Company's accounting policies are in accordance with U.K. GAAP. This supplemental financial information should be read in conjunction with the Consolidated Financial Statements.

SUPPLEMENTAL CONDENSED COMBINING BALANCE SHEET

As at June 30, 2000[(2)]

(£ millions)

	(3) British Sky Broadcasting Group plc	(1)(3) Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and eliminations	BSkyB Group and Subsidiaries
Fixed assets					
Tangible fixed assets	2	219	4	—	225
Investments					
— Joint ventures	—	18	1,495	—	1,513
— Own shares	—	28	—	—	28
— Investment in football clubs and new media	80	—	40	—	120
— Investments in Subsidiary undertakings under the equity method	2,756	27	1,459	(4,242)	—
	2,838	292	2,998	(4,242)	1,886
Current assets					
Stocks	—	314	44	—	358
Debtors: Amounts due after one year					
Third party debtors	134	217	70	—	421
Debtors: Amounts due within one year					
Intragroup debtors	1,224	342	1,479	(3,045)	—
Third party debtors	5	270	59	—	334
Cash at bank and in hand	—	276	5	—	281
	1,363	1,419	1,657	(3,045)	1,394
Creditors					
Amounts falling due within one year					
Intragroup creditors	(511)	(849)	(1,828)	3,188	—
Third party creditors	(47)	(682)	(94)	—	(823)
	(558)	(1,531)	(1,922)	3,188	(823)
Net current assets (liabilities)	805	(112)	(265)	143	571
Total assets less current liabilities	3,643	180	2,733	(4,099)	2,457
Creditors					
Amounts falling due after one year					
Intragroup borrowings	(1,441)	(18)	(181)	1,640	—
Third party borrowings	(1,405)	(10)	3	—	(1,412)
Other	—	(22)	—	—	(22)
	(2,846)	(50)	(178)	1,640	(1,434)
Provisions for liabilities and charges	—	(224)	(2)	—	(226)
Net assets (liabilities)	797	(94)	2,553	(2,459)	797
Capital and reserves — equity					
Called-up share capital	913	10	96	(106)	913
Share premium account	2,210	242	1,838	(2,080)	2,210
Profit and loss account	(2,326)	(348)	(291)	637	(2,326)
Other reserves	—	—	910	(910)	—
TOTAL CAPITAL AND RESERVES	797	(94)	2,553	(2,459)	797
Reconciliation to U.S. GAAP:					
Capital and reserves under U.K. GAAP	797	(94)	2,553	(2,459)	797
Adjustments:					
Goodwill	(61)	—	(61)	61	(61)
ESOP	(19)	(19)	—	19	(19)
Transition provision	193	193	—	(193)	193
Capitalized interest	9	9	—	(9)	9
Deferred taxation	(49)	(49)	—	49	(49)
Fixed asset investments	23	—	—	—	23
Share of joint venture's interest in own shares	(212)	—	(212)	212	(212)
Shareholders' funds under U.S. GAAP	681	40	2,280	(2,320)	681

See notes to supplemental guarantor information.

SUPPLEMENTAL CONDENSED COMBINING BALANCE SHEET

As at June 30, 2001[2]

(£ millions)

	(3) British Sky Broadcasting Group plc	(1)(3) Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and eliminations	BSkyB Group and Subsidiaries
Fixed assets					
Intangible assets	—	—	789	—	789
Tangible assets	2	285	29	—	316
Investments					
— Joint ventures	—	—	1,164	—	1,164
— Own shares	—	19	—	—	19
— Investment in football clubs and new media	121	—	2	—	123
— Investments in Subsidiary undertakings under the equity method	2,592	22	496	(3,110)	—
	2,715	326	2,480	(3,110)	2,411
Current assets					
Stocks	—	353	71	—	424
Debtors: Amounts due after one year					
Third party debtors	146	144	35	—	325
Debtors: Amounts due within one year					
Intragroup debtors	1,139	539	2	(1,680)	—
Third party debtors	2	369	122	—	493
Cash at bank and in hand	—	217	7	—	224
	1,287	1,622	237	(1,680)	1,466
Creditors					
Amounts falling due within one year					
Intragroup creditors	(776)	(1,272)	(424)	2,472	—
Third party creditors	(53)	(821)	(117)	—	(991)
	(829)	(2,093)	(541)	2,472	(991)
Net current assets (liabilities)	458	(471)	(304)	792	475
Total assets less current liabilities	3,173	(145)	2,176	(2,318)	2,886
Creditors					
Amounts falling due after one year					
Intragroup borrowings	(354)	—	(310)	664	—
Third party borrowings	(1,758)	(9)	(1)	—	(1,768)
Other	—	(14)	—	—	(14)
	(2,112)	(23)	(311)	664	(1,782)
Provisions	—	(27)	(16)	—	(43)
	1,061	(195)	1,849	(1,654)	1,061
Capital and reserves — equity					
Called-up share capital	944	10	810	(820)	944
Share premium account	2,378	242	1,838	(2,080)	2,378
Shares to be issued	257	—	—	—	257
Profit and loss account	(2,859)	(447)	(1,968)	3,415	(2,859)
Application of push down accounting	—	—	205	(205)	—
Other reserves	341	—	964	(964)	341
TOTAL CAPITAL AND RESERVES	1,061	(195)	1,849	(1,654)	1,061
Reconciliation to U.S. GAAP:					
Capital and reserves under U.K. GAAP	1,061	(195)	1,849	(1,654)	1,061
Adjustments:					
Goodwill	87	—	87	(87)	87
ESOP	(9)	(9)	—	9	(9)
Transition provision	19	19	—	(19)	19
Derivative accounting	(20)	(9)	—	9	(20)
Capitalized interest	8	8	—	(8)	8
Deferred taxation	10	4	—	(16)	10
Fixed asset investments	(53)	—	(1)	1	(53)
Deferred consideration	(253)	—	—	—	(253)
Shareholders' funds under U.S. GAAP	850	(182)	1,935	(1,753)	850

See notes to supplemental guarantor information.

SUPPLEMENTAL CONDENSED COMBINING STATEMENT OF OPERATIONS

For the year ended June 30, 1999[2]

(£ millions)

	(3) British Sky Broadcasting Group plc	(1)(3) Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and eliminations	BSkyB Group and Subsidiaries
Turnover	—	1,504	57	(16)	1,545
Operating expenses, net	(6)	(1,765)	(64)	19	(1,816)
Operating (loss) profit	(6)	(261)	(7)	3	(271)
Share of results of joint ventures	—	(44)	(22)	8	(58)
Share of losses of subsidiary undertakings	(327)	—	—	327	—
(Loss) profit on ordinary activities before interest and taxation	(333)	(305)	(29)	338	(329)
Investment income	107	2	—	(109)	—
Interest receivable and similar income	50	2	122	(170)	4
Interest payable and similar charges					
— on external financing	(24)	(1)	(39)	—	(64)
— intragroup interest	(121)	(49)	—	170	—
Amounts written off investments	34	—	—	(34)	—
(Loss) profit on ordinary activities before taxation	(287)	(351)	54	195	(389)
Taxation	1	98	4	—	103
(Loss) profit for the financial year	(286)	(253)	58	195	(286)
Dividends	(47)	—	(109)	109	(47)
Transfer (from) to reserves	(333)	(253)	(51)	304	(333)
Reconciliation to U.S. GAAP:					
Net loss under U.K. GAAP (as restated)	(286)	(253)	58	195	(286)
Adjustments:					
Amortization of goodwill	(12)	—	(12)	12	(12)
ESOP	1	1	—	(1)	1
Transition provision	405	405	—	(405)	405
Employee stock based compensation	(5)	(5)	—	5	(5)
Capitalized interest	1	1	—	(1)	1
Deferred taxation	(118)	(118)	—	118	(118)
Net loss under U.S. GAAP	(14)	31	46	(77)	(14)

See notes to supplemental guarantor information.

SUPPLEMENTAL CONDENSED COMBINING STATEMENT OF OPERATIONS

For the year ended June 30, 2000[2]

(£ millions)

	(3) British Sky Broadcasting Group plc	(1)(3) Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and eliminations	BSkyB Group and Subsidiaries
Turnover	—	1,806	538	(497)	1,847
Operating expenses, net	—	(1,837)	(543)	513	(1,867)
Operating (loss) profit	—	(31)	(5)	16	(20)
Share of results of joint ventures	—	(100)	(50)	—	(150)
Share of profits (losses) of subsidiary undertakings	(102)	26	—	76	—
Loss on sale of fixed asset investment	(1)	—	—	—	(1)
(Loss) profit on ordinary activities before interest and taxation	(103)	(105)	(55)	92	(171)
Interest receivable and similar income	83	10	136	(218)	11
Interest payable and similar charges					
— on external financing	(93)	(5)	(5)	—	(103)
— intragroup interest	(136)	(41)	(41)	218	—
Amounts written off investments	—	—	(121)	121	—
(Loss) profit on ordinary activities before taxation	(249)	(141)	(86)	213	(263)
Taxation	51	15	(29)	28	65
(Loss) Profit for the year	(198)	(126)	(115)	241	(198)
Reconciliation to U.S. GAAP:					
Net loss under U.K. GAAP (as restated)	(198)	(126)	(115)	241	(198)
Adjustments:					
Amortization of goodwill	(8)	—	(8)	8	(8)
ESOP	2	2	—	(2)	2
Transition provision	(212)	(212)	—	212	(212)
Employee stock based compensation	(4)	(4)	—	4	(4)
Capitalized interest	(2)	(2)	—	2	(2)
Deferred taxation	57	66	—	(66)	57
Share of joint venture's loss on sale of investment	14	—	14	(14)	14
Net loss under U.S. GAAP	(351)	(276)	(109)	385	(351)

See notes to supplemental guarantor information.

SUPPLEMENTAL CONDENSED COMBINING STATEMENT OF OPERATIONS

For the year ended June 30, 2001(2)

(£ millions)

	(3) British Sky Broadcasting Group plc	(1)(3) Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and eliminations	BSkyB Group and Subsidiaries
Turnover	—	2,314	535	(543)	2,306
Operating expenses, net	—	(2,136)	(626)	549	(2,213)
Operating (loss) profit	—	178	(91)	6	93
Share of results of joint ventures	—	(131)	(323)	198	(256)
Share of profits (losses) of subsidiary undertakings	(163)	(39)	—	202	—
Joint ventures' goodwill amortization	—	—	(101)	—	(101)
Provision against investments	—	—	(10)	—	(10)
Loss on sale of fixed asset investment	—	—	(70)	—	(70)
Profit (loss) on ordinary activities before interest and taxation	(163)	8	(595)	406	(344)
Interest receivable and similar income	82	16	120	(197)	21
Interest payable and similar charges					
— on external financing	(124)	(1)	(28)	—	(153)
— intragroup interest	(60)	(90)	(47)	197	—
Amounts written off investments	(286)	—	(1,126)	1,373	(39)
Profit (loss) on ordinary activities before taxation	(551)	(67)	(1,676)	1,779	(515)
Taxation	12	(34)	(2)	—	(24)
(Loss) Profit for the year	(539)	(101)	(1,678)	1,779	(539)
Reconciliation to U.S. GAAP:					
Net loss under U.K. GAAP (as restated)	(539)	(101)	(1,678)	1,779	(539)
Adjustments:					
Amortization of goodwill	16	—	16	(16)	16
Transition provision	(174)	(174)	—	174	(174)
Employee stock based compensation	(15)	(15)	—	15	(15)
Derivative accounting	(22)	(9)	—	9	(22)
Capitalized interest	(1)	(1)	—	1	(1)
Deferred taxation	59	55	—	(55)	59
Amounts written off fixed asset investments	(20)	—	(1)	1	(20)
Share of joint venture's loss on sale of investment	69	—	69	(69)	69
Net loss before cumulative effect of a change in accounting principle	(627)	(245)	(1,594)	1,839	(627)
Cumulative effect on prior years (to June 30, 2000) of implementation of SFAS 133	2	—	—	—	2
Net loss under U.S. GAAP	(625)	(245)	(1,594)	1,839	(625)

See notes to supplemental guarantor information.

SUPPLEMENTAL CONDENSED COMBINING STATEMENTS OF CASH FLOW

For the year ended June 30, 1999[2]

(£ millions)

	British Sky Broadcasting Group plc	(1) Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and eliminations	BSkyB Group and Subsidiaries
Operating activities					
Operating (loss) profit	(6)	(261)	(7)	3	(271)
Depreciation charges	—	32	1	—	33
(Increase) decrease in debtors	(2)	9	(12)	—	(5)
Increase in creditors	9	94	34	—	137
(Increase) in stock	—	(47)	(14)	—	(61)
Transition provision not utilized	—	405	—	—	405
Net cash inflow from operating activities	1	232	2	3	238
Returns on investments and servicing of finance					
Interest paid and similar charges	(22)	(1)	(32)	—	(55)
Interest received and similar income	—	4	—	—	4
Dividends received	107	2	—	(109)	—
Net cash inflow (outflow) from returns on investments and servicing of finance	85	5	(32)	(109)	(51)
Taxation					
ACT paid	(26)	—	—	—	(26)
U.K. Corporation tax paid	—	(3)	—	—	(3)
Taxation paid	(26)	(3)	—	—	(29)
Capital expenditure and financial investment					
Payments to acquire fixed assets	—	(73)	(3)	—	(76)
Payment for shares in Manchester United PLC	(67)	—	—	—	(67)
Receipt of Government Grant	—	1	—	—	1
Net cash outflow from capital expenditure and financial investment	(67)	(72)	(3)	—	(142)
Acquisitions					
Funding to joint ventures	—	(23)	—	—	(23)
Payments for shares in joint ventures	—	(45)	—	—	(45)
Net cash outflow from acquisitions	—	(68)	—	—	(68)
Equity dividends paid	(103)	—	(109)	109	(103)
Net cash (outflow) inflow before financing	(110)	94	(142)	3	(155)
Financing					
Proceeds from issue of ordinary shares	8	—	—	—	8
Increase (decrease) in total external debt	367	—	(235)	—	132
Loans (to) from group companies	(265)	(108)	376	(3)	—
Net cash inflow (outflow) from financing	110	(108)	141	(3)	140
Decrease in cash	—	(14)	(1)	—	(15)
Cash (inflow) outflow from change in debt	(102)	108	(141)	3	(132)
(Increase) reduction in net debt	(102)	94	(142)	3	(147)

See notes to supplemental guarantor information.

SUPPLEMENTAL CONDENSED COMBINING STATEMENTS OF CASH FLOW

For the year ended June 30, 2000[2]

(£ millions)

	British Sky Broadcasting Group plc	(1) Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and eliminations	BSkyB Group and Subsidiaries
Operating activities					
Operating loss	—	(31)	(5)	16	(20)
Depreciation charges	—	50	2	—	52
(Increase) decrease in debtors	11	(65)	(27)	—	(81)
Increase in creditors	—	(2)	—	—	(2)
Increase in stock	—	(1)	—	—	(1)
Transition provision not utilized	—	(180)	—	—	(180)
Net cash inflow (outflow) from operating activities	11	(229)	(30)	16	(232)
Returns on investments and servicing of finance					
Interest paid and similar charges	1	9	—	—	10
Interest received and similar income	(74)	—	—	—	(74)
Dividends received	—	(1)	—	—	(1)
Net cash inflow (outflow) from returns on investments and servicing of finance	(73)	8	—	—	(65)
Taxation					
Consortium relief paid	—	(24)	—	—	(24)
Taxation paid	—	(24)	—	—	(24)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets	—	(58)	—	—	(58)
Payments to acquire fixed asset investments	(21)	—	(27)	—	(48)
Receipt of government grants	—	1	—	—	1
Receipt from sales of fixed asset investments	5	—	—	—	5
Net cash outflow from capital expenditure and financial investment	(16)	(57)	(27)	—	(100)
Acquisitions					
Funding to joint ventures	—	(80)	—	—	(80)
Repayments of funding from joint ventures	—	2	—	—	2
Payments made in the acquisition of joint ventures	—	—	(333)	—	(333)
Net cash outflow from acquisitions	—	(78)	(333)	—	(411)
Net cash (outflow) inflow before management of liquid resources and financing	(78)	(380)	(390)	16	(832)
Management of liquid resources					
Increase in short term deposits	—	(155)	—	—	(155)
Financing					
Proceeds from issue of ordinary shares	360	—	—	—	360
Increase (decrease) in total external debt	847	—	(150)	—	697
Loans from (to) group companies	(1,121)	592	545	(16)	—
Payments made on the issue of ordinary shares	(8)	—	—	—	(8)
Net cash inflow (outflow) from financing	78	592	395	(16)	1,049
Increase/(decrease) in cash	—	57	5	—	62
Cash outflow (inflow) from change in debt	(352)	323	385	(16)	418
(Increase) reduction in net debt	(274)	380	390	(16)	480

See notes to supplemental guarantor information.

SUPPLEMENTAL CONDENSED COMBINING STATEMENTS OF CASH FLOW

For the year ended June 30, 2001[(2)]

(£ millions)

	British Sky Broadcasting Group plc	(1) Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications and eliminations	BSkyB Group and Subsidiaries
Operating activities					
Operating (loss) profit	—	178	(91)	6	93
Depreciation charges	—	59	12	—	71
Amortization charges	—	—	44	—	44
(Increase) decrease in stock	—	(39)	(4)	—	(43)
Decrease (increase) in debtors	2	(43)	18	—	(23)
Increase (decrease) in creditors	6	140	(82)	—	64
Deferred revenue released	—	(4)	—	—	(4)
Movement on provisions	—	(174)	11	—	(163)
Net cash inflow (outflow) from operating activities	8	117	(92)	6	39
Returns on investments and servicing of finance					
Interest received and similar income	—	5	—	—	5
Interest paid and similar charges	(119)	(2)	—	—	(121)
Net cash inflow (outflow) from returns on investments and servicing of finance	(119)	3	—	—	(116)
Taxation					
Consortium relief paid	—	(16)	—	—	(16)
Capital expenditure and financial investment					
Payments to acquire fixed assets	—	(127)	(6)	—	(133)
Payments to acquire fixed asset investments	(25)	(1)	—	—	(26)
Net cash outflow from capital expenditure and financial investment	(25)	(128)	(6)	—	(159)
Acquisitions and disposals					
Purchase of subsidiary undertakings	(27)	—	—	—	(27)
Net cash acquired with subsidiary undertakings	—	—	12	—	12
Funding to joint ventures	—	—	(137)	—	(137)
Net cash outflow from acquisitions and disposals	(27)	—	(125)	—	(152)
Net cash (outflow) inflow before management of liquid resources and financing	(163)	(24)	(223)	6	(404)
Management of liquid resources					
Increase in short term deposits	—	85	—	—	85
Financing					
Proceeds from issue of ordinary shares	7	—	—	—	7
Increase in total external debt	358	—	—	—	358
Loans (to) from group companies	(198)	(20)	224	(6)	—
Payments made on the issue of ordinary shares	(4)	—	—	—	(4)
Net cash (outflow) inflow from financing	163	(20)	224	(6)	361
Increase in cash	—	40	1	—	41
Reduction (increase) in net debt	163	20	225	(6)	402

See notes to supplemental guarantor information.

Notes to Supplemental Guarantor Information

(1) The Guarantors are:

British Sky Broadcasting Limited	Operates and distributes the Sky Channels and markets the Sky Distributed Channels to DTH viewers.
Sky Subscribers Services Limited	Provides ancillary functions supporting the DTH broadcasting operations of its parent company, British Sky Broadcasting Limited, and others.

(2) Certain reclassifications were made to conform all of the financial information to the financial presentation of the Group. The principal elimination entries relate to investments in subsidiaries and intercompany balances.

(3) Investments in Group subsidiaries are accounted for by their parent company under the equity method of accounting for the purposes of the supplemental combining presentation only. Under the equity method, earnings of subsidiary undertakings are reflected in the parent company's investment account and earnings. Where all or part of loans to loss making subsidiary undertakings have been written off, the effect of accounting by the equity method has been to reverse these write-offs.

(4) Separate financial statements of the subsidiary guarantors are not included herein because the Company has determined that such financial statements are not material to investors.

32 Unaudited Information

Pro-forma disclosures

Details of acquisitions during the year are set out in note 2. Under APB Opinion 16, supplemental pro-forma disclosures for the Group are required, as though these acquisitions had occurred at the beginning of fiscal 2000. These disclosures have been prepared under U.S. GAAP and are set out below:

	Year ended June 30, 2000	**Year ended June 30, 2001**
	Total	**Total**
Turnover (£m)	1,838	**2,297**
Net loss (£m)	(702)	**(672)**
Net loss per share (pence)	(40.2p)	**(36.4p)**
Net loss per ADS (pence)	(241.2p)	**(218.4p)**

The unaudited pro-forma consolidated financial information has been prepared for illustrative purposes only and includes certain adjustments, such as additional amortization expense as a result of goodwill arising on the acquisition. They do not purport to be indicative of the results of operations that actually would have resulted if the acquisitions had been effective on July 1, 1999.

Other information

On December 5, 2000, the OFT announced that it was to conduct a Competition Act inquiry into BSkyB's activities, in particular its supply of wholesale pay-TV in the U.K. The OFT is still in the information gathering phase of its inquiry and has not yet concluded that it has sufficient grounds to take the inquiry into the next formal stage. It is too early for BSkyB to determine the outcome of the inquiry or whether it will have a material effect on BSkyB's business.

On July 11, 2001, The EC Commission indicated to BSkyB that it had received a complaint suggesting that a number of agreements between BSkyB and channel suppliers contained exclusivity clauses which infringed Article 81 and / or Article 82 of the EC Treaty. The Commission has indicated that it intends to assess the compatibility of the channel supply agreements referred to in the complaint with EC rules on competition and in particular Articles 81 and / or Article 82 of the EC Treaty.

The EC Commission is in the preliminary information gathering stage of its investigation and, at this stage, BSkyB is not in the position to be able to assess whether the Commission will choose to pursue its investigation or, in the event that it does, whether the exclusivity clauses contained in the relevant agreements will be found to infringe Articles 81 and / or Article 82 of the EC Treaty.

On September 20, 2001, the Kirch Gruppe announced that it had made a far reaching strategic decision, directly affecting KirchPayTV, in respect of its technical strategy. We have not yet completed our review of the financial effects of this decision on the value of KirchPayTV.

The Group can give no assurance that the value of KirchPayTV will not be affected by the implementation of the change in strategy.

REPORT OF INDEPENDENT AUDITORS

To the Directors of British Interactive Broadcasting Holdings Limited

We have audited the accompanying consolidated balance sheets of British Interactive Broadcasting Holdings Limited and subsidiaries as of June 30, 2000 and 1999, and the related consolidated profit and loss accounts, consolidated reconciliation of movements on shareholders' funds/(deficit) and statement of movement in reserves and consolidated cash flow statements for the three years then ended, all expressed in pounds sterling. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of British Interactive Broadcasting Holdings Limited and subsidiaries as of June 30, 2000 and 1999, and the related consolidated profit and loss accounts, consolidated reconciliation of movements in shareholders' funds/(deficit) and statement of movements in reserves and consolidated cash flow statements for the three years then ended, in conformity with accounting principles generally accepted in the United Kingdom.

Accounting principles generally accepted in the United Kingdom vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of net loss for each of the three years in the period ended June 30, 2000 and the determination of shareholders' (deficit)/funds and total assets at June 30, 2000 and 1999, to the extent summarized in Note 25.

As discussed in Note 1 to the consolidated financial statements the Company's recurring losses from operations and shareholders deficit raise doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Deloitte & Touche
Chartered Accountants and Registered Auditors
Hill House
1 Little New Street
London EC4A 3TR
England
24 July 2000
(22 September as to Note 25)

British Interactive Broadcasting Holdings Limited
(Formerly British Interactive Broadcasting Limited)

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 30 June

	Note	2000	1999	1998
		£'000	£'000	£'000
Turnover	2	60,283	1,058	—
Administrative expenses	3a	(382,172)	(154,641)	—
Operating loss	3b	(321,889)	(153,583)	—
Other interest receivable and similar income	5	1,489	1,904	—
Interest payable and similar charges	6	(9,972)	(319)	—
Loss on ordinary activities before taxation		(330,372)	(151,998)	—
Tax credit on loss on ordinary activities	7	98,071	34,552	—
Loss for the financial year		(232,301)	(117,446)	—
Dividends paid and proposed		—	—	—
Retained loss for the financial year		(232,301)	(117,446)	—

All results are derived from continuing operations.

All recognized gains and losses are included in the profit and loss account. Accordingly no Statement of Total Consolidated Recognized Gains and Losses has been prepared.

The notes on pages F-82 to F-95 form part of these accounts

British Interactive Broadcasting Holdings Limited
(Formerly British Interactive Broadcasting Limited)

CONSOLIDATED BALANCE SHEET

As at 30 June

	Note	2000	1999
		£'000	£'000
Fixed assets			
Tangible assets	8	46,149	44,164
Investments	9	1,650	—
		47,799	44,164
Current assets			
Stocks	10	962	—
Debtors	11	137,380	64,731
Cash at bank and in hand		17,487	22,426
		155,829	87,157
Creditors: amounts falling due within one year	12(a)	(142,453)	(55,109)
Net current assets		13,376	32,048
Total assets less current liabilities		61,175	76,212
Creditors: amounts falling due after more than one year			
Debentures	12(b)	(249,500)	(39,390)
Other creditors including taxation	12(b)	(24,022)	(16,868)
		(273,522)	(56,258)
Provisions for liabilities and charges	13	—	—
Total net (liabilities)/assets		(212,347)	19,954
Capital and reserves			
Called up share capital	14	137	137
Share premium account		137,263	137,263
Profit and loss account		(349,747)	(117,446)
Equity shareholders' (deficit)/funds		(212,347)	19,954

The notes on pages F-82 to F-95 form part of these accounts

British Interactive Broadcasting Holdings Limited
(Formerly British Interactive Broadcasting Limited)

CONSOLIDATED RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS / (DEFICIT) AND STATEMENT OF MOVEMENTS ON RESERVES

Year ended 30 June

	Called up share capital	Share premium account	Profit and loss account	Total
	£'000	£'000	£'000	£'000
Balance as at 1 July 1999	137	137,263	(117,446)	19,954
Shares issued	—	—	—	—
Retained loss for the financial year	—	—	(232,301)	(232,301)
Balance at 30 June 2000	137	137,263	(349,747)	(212,347)

British Interactive Broadcasting Holdings Limited
(Formerly British Interactive Broadcasting Limited)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 June

	Note	2000	1999	1998
		£'000	£'000	£'000
Net cash outflow from operating activities	15	(273,961)	(113,263)	—
Returns on investments and servicing of finance				
Interest and other investment income received		1,489	1,893	—
Interest paid		(5,317)	(24)	—
Net cash (outflow)/inflow from returns on investments and servicing of finance		(3,828)	1,869	—
Taxation received		80,346	—	—
Net cash inflow from taxation		80,346	—	—
Capital expenditure and financial investment				
Payments to acquire tangible fixed assets		(17,606)	(42,970)	—
Net cash outflow from capital expenditure and financial investment		(17,606)	(42,970)	—
Net cash outflow before financing		(215,049)	(154,364)	—
Financing				
Issue of ordinary share capital		—	137,400	—
Issue of debentures		210,110	39,390	—
Net cash inflow from financing		210,110	176,790	—
(Decrease)/increase in cash	17	(4,939)	22,426	—

British Interactive Broadcasting Holdings Limited
(Formerly British Interactive Broadcasting Limited)

NOTES TO THE ACCOUNTS

Year ended 30 June

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted by the directors are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Going concern

The directors believe that it is appropriate to prepare the financial statements on the going concern basis.

The Group is dependent on shareholder funding. British Sky Broadcasting Group plc has agreed to acquire a further 47.6% shareholding in the Group, taking its ownership to 80.1% and thereby making it the controlling entity. British Sky Broadcasting Group plc has agreed to support the Group for a period of at least 12 months from the date of approval of these financial statements subject to the change in ownership which itself is subject to regulatory approval.

The financial statements have been prepared on the going concern basis, which assumes that the Group will continue in operational existence for the foreseeable future.

The validity of this assumption depends on the approval of the change in ownership by the regulators.

While the directors are presently uncertain as to the outcome of the regulators' decision, they believe it is appropriate for the financial statements to be prepared on the going concern basis.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries.

Tangible fixed assets

Depreciation is provided to write off the cost in equal annual installments over the estimated useful economic lives of the assets. The estimated useful economic lives are as follows:

Service platform	5 years
IT & office equipment	3 years
Motor vehicles	3 years
Furniture, fixtures & fittings	10 years

Taxation

Deferred taxation is provided on timing differences arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future without replacement, calculated at the rates at which it is expected that tax will arise.

Consortium tax relief is based on the shareholders' indications as to their ability to utilize the taxable losses for the year.

Stocks

Stocks are stated at the lower of cost and net realizable value. Net realizable value is based on estimated selling price less all relevant marketing, selling and distribution costs.

Foreign exchange

Transactions denominated in foreign currencies are translated into the functional currency at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

Capital instruments

Capital instruments are accounted for and classified as equity or non-equity share capital, equity or non-equity minority interests and debt according to their form.

Research and development

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

Leases

Operating lease costs are charged to the profit and loss account in equal annual amounts over the lease term.

Pension costs

The group participates in a defined contribution pension scheme. Employers' contributions are charged to the profit and loss account as incurred. The scheme is independent of the finances of the Company.

Investments

For investments, cost equals an amount equal to the fair value of the service creation and other services to be provided. Barter revenue is recognized as the related services are delivered.

Set-top box subsidies

Set-top box subsidies are charged to the profit and loss account as incurred.

2. ANALYSIS OF TURNOVER

All turnover is derived in the U.K. from continuing operations which represents the invoiced value of interactive television services. Turnover is stated excluding Value Added Tax. For barter transactions, turnover is held within deferred revenue and is recognized as the service creation and other services are provided.

NOTES TO THE ACCOUNTS (continued)

Year ended 30 June

3(a) NET OPERATING EXPENSES

	2000	1999	1998
	£'000	£'000	£'000
Set-top box subsidies	236,678	109,649	—
Transmission costs	53,387	2,185	—
Platform costs	30,600	11,718	—
Marketing	22,553	2,891	—
Staff costs	19,290	15,303	—
Subscriber management	6,345	1,114	—
Administrative costs	13,319	11,781	—
	382,172	154,641	—

3(b) OPERATING LOSS

	2000	1999	1998
	£'000	£'000	£'000
Operating loss is arrived at after charging:			
Depreciation and other amounts written off owned tangible fixed assets	15,621	4,148	—
Loss on sale of fixed assets	—	12	—
Auditors' remuneration			
— Group audit fees	55	23	—
— Other services	165	44	—
Operating rentals payable			
— Land and buildings	1,603	1,807	—
— Other	40	18	—

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

4(a) DIRECTORS' REMUNERATION

No Director received any remuneration in respect of services to the Group during the year (1999: £nil).

4(b) INFORMATION REGARDING EMPLOYEES

	2000	1999	1998
	No.	No.	No.
Average number of persons employed:			
Technical and operations	161	65	—
Product development	53	38	—
Sales and account management	15	13	—
Finance, legal and administration	67	25	—
	296	141	—

	2000	1999	1998
	£'000	£'000	£'000
Staff costs incurred during the year in respect of these employees were:			
Wages and salaries	17,758	14,776	—
Social security costs	1,157	310	—
Other pension costs	375	217	—
	19,290	15,303	—

5. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2000	1999	1998
	£'000	£'000	£'000
Deposit interest	1,489	1,904	—

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2000	1999	1998
	£'000	£'000	£'000
Debentures	9,958	295	—
Bank overdraft and other borrowings	14	24	—
	9,972	319	—

7. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES

	2000	1999	1998
	£'000	£'000	£'000
Consortium relief — current year	83,380	34,567	—
Under provision for consortium relief in prior year	14,691	—	—
U.K. corporation tax at 30% (1999: 30.75%; 1998: 31%)	—	(15)	—
	98,071	34,552	—

The tax credit is disproportionately low due to the inability of certain of the shareholders to fully utilize their share of the taxable losses for the year.

NOTES TO THE ACCOUNTS (continued)

Year ended 30 June

8. TANGIBLE FIXED ASSETS

	Service platform	IT and office equipment	Furniture, fixtures and fittings	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 July 1999	42,229	3,547	2,472	34	48,282
Additions	15,494	1,770	342	—	17,606
Disposals	—	(126)	—	—	(126)
At 30 June 2000	57,723	5,191	2,814	34	65,762
Accumulated depreciation					
At 1 July 1999	(3,329)	(727)	(55)	(7)	(4,118)
Charge for the year	(13,168)	(1,966)	(350)	(11)	(15,495)
Disposals	—	—	—	—	—
At 30 June 2000	(16,497)	(2,693)	(405)	(18)	(19,613)
Net book value					
At 30 June 2000	41,226	2,498	2,409	16	46,149
At 30 June 1999	38,900	2,820	2,417	27	44,164

9. INVESTMENTS

	2000	1999
	£'000	£'000
At 1 July	—	—
Additions during the year	1,650	—
Balance at 30 June	1,650	—

The investments are trade investments and are carried at an amount equal to the fair value of the service creation and other services to be provided.

10. STOCKS

	2000	1999
	£'000	£'000
Finished goods	962	—

11. DEBTORS

	2000 £'000	1999 £'000
Trade debtors due within one year	7,478	335
Amounts owed by subsidiaries	—	—
Consortium relief debtor	68,836	51,210
VAT	11,075	4,880
Other debtors — due after more than one year	3,178	3,178
Prepayments and accrued income	46,813	5,128
	137,380	64,731

These amounts included amounts due from related parties — see note 23.

Included within debtors is a consortium relief debtor of £68,836,000. Due to the planned change in control of the Group subsequent to the year end (see note 24), the shareholders will no longer be contractually committed to purchase all of the losses available for consortium tax relief. This debtor represents the directors' best estimate of the amounts for which the shareholders would pay and which are recoverable. Subsequent to the year end, £42,221,000 has been received.

12(a) CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2000 £'000	1999 £'000
Trade creditors	84,381	32,657
Taxation and social security	471	249
Other creditors	5,077	1,743
Accruals and deferred income	52,524	20,460
	142,453	55,109

These amounts include amounts due from related parties — see note 23.

12(b) CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

Debentures included within creditors — amounts falling due after more than one year are repayable on or before (at the Company's option) 30 June 2008. Interest is payable on a quarterly basis at 1% above LIBOR. These debentures have been issued to related parties; see note 23.

	2000 £'000	1999 £'000
At 1 July	39,390	—
Issued during the year	210,110	39,390
Balance at 30 June	249,500	39,390

Also included in other creditors including taxation (amounts falling due after more than one year) is £16,559,000 relating to consortium relief. Should the consortium relief debtor shown in note 11 not be recoverable, this creditor balance is fully offsetable against the debtor balance.

British Interactive Broadcasting Holdings Limited
(Formerly British Interactive Broadcasting Limited)

NOTES TO THE ACCOUNTS (continued)

Year ended 30 June

13. PROVISION FOR LIABILITIES AND CHARGES

The amount of deferred tax provided in the financial statements and the potential amount not provided are:

	Provided		Not provided	
	2000	1999	2000	1999
	£'000	£'000	£'000	£'000
Capital allowances in excess of depreciation	—	—	4,180	4,620
Short term timing differences	—	—	(582)	—
Less: Losses	—	—	(16,526)	(16,237)
	—	—	(12,928)	(11,617)

14. CALLED UP SHARE CAPITAL

	2000	1999
	£	£
Authorized		
137,500 ordinary shares of £1 each	137,500	137,500
Called up, allotted and fully paid		
137,400 ordinary shares of £1 each	137,400	137,400

15. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2000	1999	1998
	£'000	£'000	£'000
Operating loss	(321,889)	(153,583)	—
Depreciation	15,495	4,148	—
Loss on sale of fixed asset	—	12	—
Provisions for fixed assets	126	18	—
Increase in investments	(1,650)	—	—
Increase in stocks	(962)	—	—
Increase in debtors	(55,023)	(8,641)	—
Increase in creditors	89,942	44,783	—
Net cash outflow from operating activities	(273,961)	(113,263)	—

16. ANALYSIS OF NET DEBT

	1999	Cash flow	2000
	£'000	£'000	£'000
Cash at bank and in hand	22,426	(4,939)	17,487
Debt due after one year	(39,390)	(210,110)	(249,500)
Total	(16,964)	(215,049)	(232,013)

17. RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET DEBT

	2000	1999
	£'000	£'000
(Decrease)/increase in cash in the year	(4,939)	22,426
Cash inflow from increase in debt	(210,110)	(39,390)
Increase in net debt resulting from cashflows	(215,049)	(16,964)
Net debt as at 1 July 1999	(16,964)	—
Net debt as at 30 June 2000	(232,013)	(16,964)

18. CAPITAL COMMITMENTS

	2000	1999
	£'000	£'000
Contracted for but not provided	706	1,260

19. CONTINGENT LIABILITIES

	2000	1999
	£'000	£'000
Underwriting of keypad manufacture	4,000	1,977

20. OPERATING LEASE COMMITMENTS

At 30 June 2000 the Group was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings 2000	Other 2000	Land and buildings 1999	Other 1999
	£'000	£'000	£'000	£'000
Leases which expire:				
Within two to five years	—	28	—	20
After five years	1,259	12,805	1,259	3,261
	1,259	12,833	1,259	3,281

21. PENSION OBLIGATIONS

The Group participates in a defined contribution pension scheme. Employers' contributions are charged to the profit and loss account as incurred. The charge in the year ended 30 June 2000 was £375,000 (1999: £217,000; 1998 — £nil).

22. SUBSIDIARY UNDERTAKINGS

Subsidiary undertakings	Country of incorporation/operation	Activity	Proportion of ordinary shares held %
Open Interactive Limited	England/Great Britain	Interactive Television Services	100
Marketing Contributions Limited	England/Great Britain	Sale and Distribution of Set Top Boxes	100

23. RELATED PARTY TRANSACTIONS

British Interactive Broadcasting Holdings Limited and its subsidiary companies have a number of contracts with its shareholders and/or their subsidiary companies. The main contracts in place and transactions occurring during the year were:

All Shareholders:

— Provision of staff on a secondment basis

— Issue of debenture stock and payment of interest thereon

— The purchase of losses in respect of consortium tax relief (see note 7)

British Sky Broadcasting Group plc and subsidiaries

— Access control and conditional access services

— Sub-lease of transponders on Astra satellites

— Subscriber management services

— Broadcast subsidy recovery income

British Telecommunications plc and subsidiaries

— Provision of prime integrator specialists

— Tele-communications services

— Management of server site

HSBC Bank plc

— Rent of property to the Group (1999 only)

— Revenue as a content provider on the platform

Matsushita Electrics Europe

— Manufacture of set-top boxes

The amounts included in the accounts for the year ended 30 June 2000 and 30 June 1999 excluding VAT are given below:

2000	Pre-tax Revenue Items	Expenditure Items	Debentures	Amounts Receivable as at 30 June 2000	Amounts Payable as at 30 June 2000
	£'000	£'000	£'000	£'000	£'000
British Sky Broadcasting Group plc	45,345	69,381	81,088	64,968	61,853
British Telecommunications plc	1,993	6,716	81,087	22,692	1,560
HSBC Bank plc	1,557	2,049	49,900	14,643	932
Matsushita Electrics Europe Limited	—	49,432	37,425	10,325	25,247

1999	Pre-tax Revenue Items	Expenditure Items	Debentures	Amounts Receivable as at 30 June 1999	Amounts Payable as at 30 June 1999
	£'000	£'000	£'000	£'000	£'000
British Sky Broadcasting Limited	770	6,779	12,795	17,175	31,205
British Telecommunications plc	—	7,113	12,805	16,643	13,771
HSBC Bank plc	60	2,202	7,880	10,242	7,893
Matsushita Electrics Europe Limited	—	18,348	5,910	7,682	10,429

Balances are included within note 11 — Debtors and note 12 — Creditors.

24. POST BALANCE SHEET EVENT

On 17 July 2000, it was announced that British Sky Broadcasting Group plc (''BSkyB'') will increase its shareholding in British Interactive Broadcasting Holdings Limited (''BiB'') from 32.5% to 80.1%. Prior to completion, BSkyB will provide 100% of BiB's anticipated funding requirement through a secured loan of up to £40 million. On completion, all shareholder loans (with the exception of the secured loan) will be converted to ordinary shares in BiB and BSkyB has agreed to meet BiB's future funding needs. Completion of the purchase is conditional upon regulatory clearance being obtained.

Included within debtors is a consortium relief debtor of £68,836,000. Due to the planned change in control of the Group subsequent to the year end, the shareholders will no longer be contractually committed to purchase all of the losses available for consortium tax relief. This debtor represents the directors' best estimate of the amounts for which the shareholders would pay and which are recoverable. Subsequent to the year end, £42,221,000 has been received.

25. SUMMARY OF DIFFERENCES BETWEEN UNITED KINGDOM AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

(i) Differences giving rise to accounting adjustments

The Group's accounts are prepared in accordance with generally accepted accounting principles (''GAAP'') applicable in the United Kingdom (''U.K.''), which differ in certain significant respects from those applicable in the United States (''U.S.''). The main differences relate principally to the following items:

a. Taxes on income

Under U.K. GAAP, deferred tax is provided using the liability method at the rates ruling at each year end. Timing differences are recognized to the extent that the Directors consider such differences will reverse in the foreseeable future. Net debit balances resulting from tax losses or other timing differences are not recognized except to the extent that it is assured beyond reasonable doubt that future taxable profits will be sufficient to offset the losses or reversal of timing differences during the prescribed carry forward periods. Any amounts not so recognized are subsequently only recognized as they are realized. Under U.S. GAAP deferred taxation is provided on a full liability basis, which permits deferred tax assets to be recognized if their realization is considered to be more likely than not.

b. Capitalized interest

Under U.K. GAAP the capitalization of interest is not required and the Group expenses interest charges to the profit and loss account in the year in which they are incurred. For U.S. GAAP purposes, interest charges on funds invested in the construction of major capital assets are capitalized and amortized on the average life of the assets concerned.

c. Consolidated balance sheet presentation

The consolidated balance sheet prepared in accordance with U.K. GAAP differs in certain respects from U.S. GAAP. For example, under U.K. GAAP current assets are presented after fixed assets; current assets include amounts which fall due after more than one year (although these would be disclosed separately if material) and creditors falling due within one year are deducted from current assets to present net current assets/(liabilities).

d. Consolidated statement of cash flows

The consolidated statement of cash flows prepared in accordance with U.K. GAAP presents substantially the same information as that required under U.S. GAAP. There are, however, certain differences from U.K. GAAP with regard to classification of items within the cash flow statement and with regard to the definition of cash.

Under U.K. GAAP, cash flows are presented separately for operating activities; returns on investments and servicing of finance, taxation, capital expenditure and financial investment, acquisitions and disposals, equity dividends and financing activities. Under U.S. GAAP, however, only three categories of cash flow activity are reported, being operating activities, investing activities and financing activities. Cash flows from taxation and returns on investments and servicing of finance would, with the exception of servicing shareholder financing, be included as operating activities under U.S. GAAP. The servicing of shareholder financing would be included under financing activities under U.S. GAAP. It should also be noted that under U.S. GAAP, cash is defined as including cash and cash equivalents.

RECONCILIATION OF NET LOSS IN ACCORDANCE WITH U.K. GAAP TO NET LOSS IN ACCORDANCE WITH U.S. GAAP:

	2000	1999
	£'000	£'000
Net loss in accordance with U.K. GAAP	(232,301)	(117,446)
Capitalized interest	442	—
Net loss in accordance with U.S. GAAP	(231,859)	(117,446)

RECONCILIATION OF SHAREHOLDERS' FUNDS IN ACCORDANCE WITH U.K. GAAP AND IN ACCORDANCE WITH U.S. GAAP:

	2000	1999
	£'000	£'000
Equity shareholders' (deficit)/funds in accordance with U.K. GAAP	(212,347)	19,954
Capitalized interest	442	—
Shareholders' (deficit)/funds in accordance with U.S. GAAP	(211,905)	19,954

RECONCILIATION OF TOTAL ASSETS IN ACCORDANCE WITH U.K. GAAP AND IN ACCORDANCE WITH U.S. GAAP:

	2000	1999
	£'000	£'000
Total assets in accordance with U.K. GAAP	203,628	131,321
Capitalized interest	442	—
Total assets in accordance with U.S. GAAP	204,070	131,321

RECONCILIATION OF CONSOLIDATED STATEMENT OF CASH FLOWS IN ACCORDANCE WITH U.K. GAAP AND IN ACCORDANCE WITH U.S. GAAP:

The combined statements of cash flows prepared under U.K. GAAP differ in certain presentational respects from the format required under Statement of Financial Accounting Standard (''SFAS'') 95 ''Statement of Cash Flows''. Under U.K. GAAP, a reconciliation of profit from operations to cash flows from operating activities is presented in a note, and cash paid for interest and income taxes are presented separately from cash flows from operating activities.

Under SFAS 95, cash flows from operating activities are based on net profit, include interest and income taxes, and are presented on the face of the statement.

British Interactive Broadcasting Holdings Limited
(Formerly British Interactive Broadcasting Limited)

NOTES TO THE ACCOUNTS (continued)

Year ended 30 June

Summary consolidated cash flow information as presented in accordance with SFAS 95 after U.S. GAAP adjustments is shown below:

	2000	1999
	£'000	£'000
Cash was (used in)/provided by:		
Operating activities	(197,001)	(111,394)
Investing activities	(18,048)	(42,970)
Financing activities	210,110	176,790)
Net (decrease)/increase in cash	(4,939)	22,426
Cash and cash equivalents at the beginning of the year	22,426	—
Cash and cash equivalents at the end of the year	17,487	22,426

	2000	1999
	£'000	£'000
Operating activities:		
Net cash outflow from operating activities (U.K. GAAP)	(273,961)	(113,263)
Capitalized interest	442	—
Interest received	1,489	1,893
Interest paid	(5,317)	(24)
U.K. corporation tax received	80,346	—
Net cash used by operating activities (U.S. GAAP)	(197,001)	(111,394)

	2000	1999
	£'000	£'000
Investing activities:		
Net cash outflow from capital expenditure and financial investments (U.K. GAAP)	(17,606)	(42,970)
Capitalized interest	(442)	—
Net cash used in investing activities (U.S. GAAP)	(18,048)	(42,970)

	2000	1999
	£'000	£'000
Financing activities:		
Net cash inflow from financing (U.K. GAAP and U.S. GAAP)	210,110	176,790

(ii) Additional U.S. GAAP disclosures

a. Deferred income tax assets/(liabilities) in the balance sheet are as follows:

	2000	1999
	£'000	£'000
Current deferred tax assets/(liabilities):		
Provisions and other expenses not currently deductible	582	0
Sub total	582	0
Non-current deferred tax assets/(liabilities):		
Property and Equipment	(4,180)	(4,620)
Net operating losses	16,526	16,237
Other liabilities	(133)	0
Subtotal	12,213	11,617
Net assets	12,795	11,617
Valuation allowance	(12,795)	(11,617)
Total	0	0

As of June 30, 2000 £55 million (1999: £53 million) of operating losses were available to be carried forward, however a full valuation allowance was recorded against these operating losses because they are not expected to be realized.

b. Operating leases:

At 30 June 2000 the Group was committed to making the following payments under non-cancelable operating leases:

	2000
	£'000
Years ending 30 June 2001	14,085
2002	14,069
2003	14,064
2004	14,064
2005	14,064
Thereafter	62,384

c. Other financial commitments:

At 30 June 2000 the Group had made the following commitments to manufacturers in relation to the supply of set-top boxes:

	2000	1999
	£'000	£'000
Contracted for but not provided	12,193	13,506

REPORT OF INDEPENDENT AUDITORS

The Supervisory Board of
KirchPayTV GmbH & Co. KGaA:

We have audited the accompanying consolidated balance sheets of KirchPayTV GmbH & Co. KGaA (''KirchPayTV''), as of December 31, 1999 and 2000 and the related consolidated statements of operations, statements of partners' and share capital (deficit), and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of KirchPayTV's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KirchPayTV as of December 31, 1999 and 2000, and the results of its operations and its cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft

KPMG Deutsche Treuhand-Gesellschaft

Munich
June 28, 2001

KirchPayTV GmbH & Co. KGaA

CONSOLIDATED STATEMENTS OF OPERATIONS
(Deutsche mark, in thousands)

	Year Ended December 31, 1999	Year Ended December 31, 2000
Revenues		
Subscription revenues	613,232	1,091,663
Revenues from renting and selling decoders	168,444	416,327
Other revenues	45,247	61,826
Total revenues	826,923	1,569,816
Operating expenses		
Film and programming costs	(835,742)	(1,450,594)
Decoder costs	(106,868)	(426,866)
Transmission costs	(183,807)	(179,021)
Subscriber costs and other direct costs	(128,714)	(248,397)
Selling expenses	(426,935)	(594,052)
General and administrative expenses	(81,394)	(126,659)
Amortization of goodwill and other intangible assets	(83,439)	(125,125)
Total operating expenses	(1,846,899)	(3,150,714)
Operating loss	(1,019,976)	(1,580,898)
Equity in income (losses) of affiliates, net	(3,376)	(4,178)
Interest income	3,075	31,239
Interest expense	(139,764)	(221,632)
Loss on sale of marketable equity securities	—	(2,021,530)
Other income, net	26,498	39,189
Loss before income taxes	(1,133,543)	(3,757,810)
Income taxes	8,826	(16,406)
Net loss	(1,124,717)	(3,774,216)

The accompanying notes are an integral part of these consolidated financial statements

KirchPayTV GmbH & Co. KGaA

CONSOLIDATED BALANCE SHEETS
(Deutsche Mark, in thousands)

	December 31, 1999	December 31, 2000
Assets		
Current assets		
Cash and cash equivalents	75,547	517,316
Trade receivables less allowance for doubtful accounts of DEM 56,720 in 1999 and DEM 73,125 in 2000	212,791	156,212
Amounts due from related parties	51,864	47,422
Film and programming rights	102,035	236,103
Other current assets and prepaid expenses	123,559	228,649
Total current assets	565,796	1,185,702
Noncurrent assets		
Deferred tax asset	15,721	—
Film and programming rights, net	607,998	576,161
Decoders for rental, net	907,114	1,342,103
Property and equipment, net	79,361	89,743
Intangible assets, net	2,317,327	2,196,608
Other noncurrent assets	129,137	152,345
Total assets	4,622,454	5,542,662
Liabilities and partners' and share capital (deficit)		
Current liabilities		
Liabilities for film and programming rights	151,444	252,421
Other trade payables	506,071	411,942
Short-term borrowings	1,001,486	112
Amounts due to related parties	1,741,496	475,415
Current portion of lease liabilities	121,777	191,352
Deposits from subscribers, current portion	71,742	81,619
Note payable on Premiere acquisition	169,132	—
Other current liabilities	55,264	138,174
Total current liabilities	3,818,412	1,551,035
Noncurrent liabilities		
Deposits from subscribers, net of current portion	226,958	231,418
Liabilities for film and programming rights	208,305	126,482
Other trade payables, net of current portion	49,324	46,052
Lease liabilities, net of current portion	420,584	626,977
Other noncurrent liabilities	87,246	75,604
Total liabilities	4,810,829	2,657,568
Partners' and share capital (deficit)		
General Partner	180,154	5,585,964
Shareholder	100	1,196,700
Accumulated other comprehensive income	160	(1,545)
Accumulated unallocated deficit	(368,789)	(3,896,025)
Total partners' and share capital (deficit)	(188,375)	2,885,094
Total liabilities and partners' and share capital (deficit)	4,622,454	5,542,662

The accompanying notes are an integral part of these consolidated financial statements

KirchPayTV GmbH & Co. KGaA

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Deutsche mark, in thousands)

	Year Ended December 31, 1999	Year Ended December 31, 2000
Cash flows from operating activities:		
Net loss	(1,124,717)	(3,774,216)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	349,201	495,618
Loss on sale of property and equipment	9,708	4,738
Loss from sale of marketable securities	—	2,021,530
Equity in (gains) losses of investees	3,376	4,178
Unrealized gains on foreign currency forward contracts	(33,126)	(36,250)
Deferred taxes	(8,826)	15,721
Increase in trade receivables	(18,976)	(54,280)
Increase in current film rights and other inventories	(15,547)	(133,274)
Increase in other assets and deferred charges	(2,071)	(81,336)
Change in amounts due to or due from related parties — operating portion	89,522	320,631
(Decrease)/increase in long-term liabilities excluding lease obligations, long term debt and other trade payables	(10,043)	15,240
Increase/(decrease) in film and programming and other trade payables	85,184	(83,282)
(Decrease)/increase in other liabilities	(6,113)	70,660
Other	2,581	43,551
Net cash used in operating activities	(679,847)	(1,170,771)
Cash flows from investing activities:		
Installments on Premiere acquisition	(1,486,128)	(155,430)
Capital spending on property and equipment and intangible assets	(123,713)	(112,669)
Proceeds from sale of decoders for sale or subsequent leaseback	58,260	663,355
Purchase of decoders for sale or subsequent sale-leaseback	(151,764)	(843,589)
Proceeds from sale of property and equipment	22,655	18,210
Proceeds from sale of marketable securities	—	2,644,147
Change in investments	(5,336)	(37,001)
Net cash (used in)/provided by investing activities	(1,686,026)	2,177,023
Cash flows from financing activities:		
Proceeds from third-party borrowings	1,899,076	300,561
Repayments of third-party borrowings	(982,207)	(1,309,918)
Loans from owners	1,624,181	407,236
Contributions from owners	—	2,196,576
Principal payments under capital lease obligations	(106,745)	(158,938)
Repayments of loans to owners	—	(2,000,000)
Net cash provided by/(used in) financing activities	2,434,305	(564,483)
Net change in cash and cash equivalents	68,432	441,769
Cash and cash equivalents at January 1,	7,115	75,547
Cash and cash equivalents at December 31,	75,547	517,316

The accompanying notes are an integral part of these financial statements

KirchPayTV GmbH & Co. KGaA

Consolidated Statements of Partner's and Share Capital (Deficit)
Years ended December 31, 1999 and 2000
(Deutsche mark, in thousands)

	General Partner		Shareholder					
	Stated capital	Additional contribution and variable capital	Subscribed capital	Additional contribution and variable capital	Accumulated unallocated deficit	Accumulated other comprehensive income (loss)	Combined net assets (deficit)	Total
Balance as of January 1, 1999							(63,818)	(63,818)
Contribution of interests in combined operations upon formation of KirchPayTV GmbH & Co. KGaA	729,183	(793,101)	100				63,818	—
Contribution from general partner by forgiveness of loans		1,000,000						1,000,000
Comprehensive loss								
Net loss					(1,124,717)			
Other comprehensive loss								
Unrealized gains on available-for-sale securities						211		
Foreign currency translation						(51)		
Total comprehensive income					(1,124,717)	160		(1,124,557)
Loss allocated to general partner		(755,928)			755,928			—
Balance as of December 31, 1999	**729,183**	**(549,029)**	**100**		**(368,789)**	**160**		**(188,375)**
Contribution from general partner	230,268	5,412,294						5,642,562
Contribution from general partner by forgiveness of loans		10,228						10,228
Contribution from limited partner			32,625	313,975				346,600
Contribution from limited partner			28,175	421,825				450,000
Contribution from limited partner			25,045	374,955				400,000
Net loss					(3,774,216)			(3,774,216)
Other comprehensive loss								
Unrealized losses on available-for-sale securities						(1,332)		(1,332)
Foreign currency translation						(373)		(373)
Total comprehensive loss						(1,705)		
Loss allocated to general partner		(246,980)			246,980			—
Balance as of December 31, 2000	**959,451**	**4,626,513**	**85,945**	**1,110,755**	**(3,896,025)**	**(1,545)**		**2,885,094**

The accompanying notes are an integral part of these consolidated financial statements

KirchPayTV GmbH & Co. KGaA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Deutsche mark, in thousands)

1. Organization and formation of KirchPayTV GmbH & Co. KGaA, description of business, and basis of presentation

KirchPayTV GmbH & Co. KGaA (''KirchPayTV'') was formed in 1998 to combine the pay television operations of the ''KirchGroup''. The KirchGroup is comprised of media-related entities controlled directly or indirectly by Dr. Leo Kirch and The Kirch Foundation (together the ''KirchGroup'').

In the process of separating the pay television operations from other media businesses of the KirchGroup, the following principal operations and assets were combined and are treated, for purposes of these financial statements, as the historical operations of KirchPayTV GmbH & Co. KGaA and its subsidiaries (collectively referred to as ''KirchPayTV''):

- a 100% interest in DF1 Digitales Fernsehen GmbH & Co. KG (''DF1'') providing multichannel digital pay television services in Germany and Austria;
- a 100% interest in BetaDigital Gesellschaft für digitale Fernsehdienste mbH (''Beta Digital'') operating the platform for digital television in Germany and the decoder network;
- a 100% interest in Teleclub GmbH, an entity holding a 25% interest in PREMIERE Medien GmbH & Co. KG (''Premiere''), a premium digital and analog pay television station with operations in German-speaking Europe cofounded by KirchGroup in 1989;
- a 100% interest in Multichannel GmbH which owns a 50% interest in each of three joint ventures, Discovery Channel Betriebs GmbH (''Discovery''), Krimitel GmbH & Co. KG (''Krimitel''), and Goldstar TV GmbH & Co. KG (''Goldstar'') operating broadcasting channels distributed through KirchPayTV's pay television stations;
- a 40% interest in Teleclub AG, operating a pay television service in German-speaking regions of Switzerland; and
- a 100% interest in PayTV Rechtehandel GmbH & Co. KG (''Rechtehandel'') which holds a portfolio of film and programming rights related to pay television based on license agreements between KirchGroup and film studios, producers and distributors (the ''library'').

As of January 1, 1999, these principal operations and assets were contributed by KirchGroup to KirchPayTV as the new divisional holding company.

On May 4, 1999, KirchPayTV consummated the acquisition of additional combined interests of 70% in Premiere which resulted in a controlling financial interest of 95% in Premiere.

On December 3, 1999, KirchGroup entered into an investment agreement with British Sky Broadcasting Group plc (''BSkyB''). The closing of this agreement and the signing of a shareholders agreement with BSkyB occurred on April 14, 2000. The shareholders agreement was amended on May 9, 2001. BSkyB contributed DM 999,976 in cash and 78,019,778 ordinary shares of BSkyB, with a fair market value of DM 4,642,586 at the date of the contribution, to KirchPayTV in exchange for a 24% general partner interest in KirchPayTV and acquired 24% of the shares (limited partner interest) in exchange for DM 24, the nominal value of those shares. As of December 31, 2000 BSkyB held 22.03% of the entire KirchPayTV capital.

BSkyB was granted certain protective rights including approval rights for material transactions and a right of first refusal regarding the sale of interests in KirchPayTV. In addition, the shareholders agreement, as amended, provides BSkyB with the right to require the KirchGroup to repurchase BSkyB's ownership interest under certain conditions specified in the agreement.

On August 2, and September, 7, 2000, KirchGroup entered into investment and shareholder agreements, respectively, with Kingdom Holdings 8 B.V., a company incorporated in Rotterdam, Netherlands (''Kingdom''). Under the agreements, Kingdom contributed DM 346,600 in cash in exchange for 6,524,949 non-par-value bearer shares issued by KirchPayTV. On September 13, 2000 the agreements became effective. Pursuant to provisions of the Investment Agreement, Kingdom agreed to exercise their voting rights prior to the completion of an IPO pursuant to the written instructions of the owner of PayCo. As of December 31, 2000 Kingdom holds 3.12% of profit-sharing capital.

Under the agreements, KirchGroup agreed to cause KirchPayTV to complete on or before December 31, 2003, an initial public offering. Kingdom shall have the right to sell in the initial public offering, at its election, up to 45% of the Kingdom KirchPayTV shares. Kingdom can exercise a put-right granted by KirchGroup if completion of the initial public offering has not occurred by December 31, 2003. The repurchase price shall be equal to the investment of Kingdom plus interest thereon. In the event that prior to the initial public offering KirchGroup will transfer the control over KirchPayTV to any third party other than BSkyB, Kingdom shall have the right to transfer all of the Kingdom KirchPayTV shares on the same price, terms and conditions offered by the control buyer to KirchGroup. In the same event, KirchGroup will have the right to cause Kingdom to sell the Kingdom KirchPayTV shares to the control buyer on the same price, terms and conditions offered by the control buyer to KirchGroup. If the result of exercising the right does not recover Kingdom's investment plus interest thereon, KirchGroup is obliged to make a cash payment in the amount of such difference.

On September 7 and 28, 2000, KirchGroup entered into an investment agreement and a shareholder agreement with EuroPacific Growth Fund, American Variable Insurance Series — International Fund, Capital World Growth and Income Fund, Inc. and The New Economy Fund (hereinafter referred to as the ''Capital Research Funds''). Under the agreements, on October 2, 2000, the Capital Research Funds contributed DM 450,000 in cash in exchange for 5,635,016 non par value bearer shares issued by KirchPayTV. On October 10, 2000 the agreement became effective. Pursuant to provisions of the Investment Agreement, Capital Research Funds agreed to exercise their voting rights prior to the completion of an IPO pursuant to the written instructions of the owner of PayCo. As of December 31, 2000 Capital Research Funds hold 2.69% of profit-sharing capital.

Under these agreements, the KirchGroup has granted and has been granted the same rights and obligations as under the shareholder and investment agreements with the Kingdom.

On September 21 and October 20, 2000, KirchGroup entered into investment agreement and shareholder agreements, respectively, with KP-MBP Partners L.P., a Delaware limited partnership, and KP-MBP Offshore Partners L.P., a Cayman Islands limited partnership, (hereinafter referred to as the ''Lehman Investing Entities''). Under the agreements, on October 31, 2000, the Lehman Investing Entities contributed DM 400,000 in cash in exchange for 5,008,903 non par value bearer shares issued by KirchPayTV. On November 13, 2000 the agreements became effective. Pursuant to provisions of the Investment Agreement, the Lehman Investing Entities agreed to exercise their voting rights prior to the completion of an IPO pursuant to the written instructions of the owner of PayCo. As of December 31, 2000 Lehman Investing Entities hold 2.40% of profit-sharing capital.

Under these agreements, the KirchGroup has granted and has been granted the same rights and obligations as under the shareholder and investment agreements with the Kingdom.

Basis of presentation

The accompanying consolidated financial statements of KirchPayTV, have been prepared in accordance with generally accepted accounting principles in the United States of America (''U.S. GAAP'').

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. They do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company has incurred aggregate losses since January 1, 1997 of DM 6,290,983 inclusive of a net loss in fiscal 2000 of DM 3,774,216. Based upon unaudited interim financial information prepared by management, the Company has continued to incur losses in fiscal 2001.

The Supervisory Board has approved a new business plan which provides for a combination of cost reductions, the sale of non-strategic assets and obtaining additional financing. Management is in the process of negotiations with major providers of programming with the intent of achieving significant cost reductions. Additionally, management is currently negotiating with several financial institutions for the expansion of its existing credit facilities.

However, no assurance can be made regarding the ultimate outcome of the programming contract renegotiations or the expansion of the Company's credit facilities as outlined above. In the event that the Company is unable to secure additional financing from third parties, a Company shareholder has committed to provide temporary financing up to a specified maximum, until such time as additional external financing may be obtained, for a period expiring on June 30, 2002, which in the opinion of Company management is sufficient to fund operating losses through the expiration date of the guarantee. These funds will be extended at prevailing market rates at such time as they may be required.

Management is of the opinion that successful implementation of this strategic business plan, including either the expansion of its existing credit facilities or the shareholder commitment for additional financing, will provide the Company with sufficient liquidity to meet its current obligations and its future working capital requirements.

2. Summary of significant accounting policies

Consolidation

All balances and transactions between consolidated businesses have been eliminated for purposes of the consolidated financial statements.

Investments in affiliated entities over which KirchPayTV has a significant influence, evidenced by ownership of more than 20% but less than or equal to 50% of the voting rights, are accounted for under the equity method.

Film and programming rights

KirchPayTV licenses film and programming rights for subsequent broadcast. The rights acquired are recorded at cost with the corresponding obligation incurred under a license agreement being recorded at the gross amount of the liability when the license period begins, the cost of the program is determinable and the program is accepted and available for airing. Payments made to acquire broadcasting rights with license periods beginning after the balance sheet date are reported as current or noncurrent film and programming rights depending on the beginning of the license periods of the related rights.

The cost of rights capitalized depends on the type of contract involved. Certain contracts involve a fixed price at the inception of the contract. The price of other contracts is based on the number of subscribers at the end of the licensing period or a specified period other than the licensing period. The estimated number of subscribers at the end of the applicable reporting period is used as a basis for capitalization of costs on these contracts and the related liability.

The cost of premium movie and sports rights that have limited showings within a short license period is amortized based on the estimated number of showings or upon the first showing if this is the most valuable showing of such rights.

Fixed price library rights with long-term or unlimited license periods and fixed cost are amortized straight-line over the license period on an individual basis or as a package, if amortization as a package approximates amortization that would have been provided on an individual basis.

Film rights are stated at the lower of unamortized cost or estimated net realizable value.

Advertising

KirchPayTV generally expenses selling expenses, including advertising costs, as incurred. Direct subscriber incentives for successful referral of new subscribers are capitalized and amortized over the expected life of the new subscribers, 82 months. The amount of advertising expensed in 1999 and 2000 was DM 186,620 and DM 312,550, respectively, and the net amount of direct subscriber incentives subject to deferral in 1999 and 2000 was DM 2,806 and DM 13,331, respectively.

Cash and cash equivalents

Cash equivalents consist of financial instruments that are readily convertible into cash and have original maturities of three months or less.

Use of estimates

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period to prepare these consolidated financial statements in conformity with U.S. GAAP. Actual results could differ from those estimates.

Revenue recognition

Revenue is primarily derived from providing digital and analog pay television services to subscribers. Revenue from subscription fees and decoder rental are recognized on a monthly basis as the service is provided. Revenues on services related to the analog and digital platform are recognized when services are performed. Revenues on decoders sold to customers are recognized upon transfer of title. Revenues recognized on such sales amounted to DM 631 and DM 134,451 in 1999 and 2000, respectively.

Installation fee revenues, which are received for the connection to the cable and satellite television systems, are recognized in income to the extent of related direct selling costs incurred. Deferred installation fees are amortized over the expected subscription period, 82 months.

Certain marketing incentives initiated in 2000 included multiple element arrangements, in which both products and services are bundled for consideration of a single sales price. The revenue has been allocated between the product and service elements of the multiple element arrangements, based on their respective fair values, with each portion recognized as the corresponding elements are delivered and the allocated revenue is earned. Shipments pursuant to the multiple element arrangements in 2000 had a total billing value for service of DM 81,612. As of December 31, 2000, deferred revenues relating to these multiple element arrangements were DM 23,429.

Marketable securities and investments

Marketable securities are classified as available-for-sale and are recorded at fair value with realized gains and losses being included in earnings (losses) from operations and unrealized gains and losses being included in other comprehensive income (loss) within net assets (deficit) or partners and share capital (deficit). Other equity investments are insignificant in amount and are accounted for using the cost method.

Property and equipment

Property and equipment is stated at cost. Depreciation and amortization are computed principally using the straight-line method over the following estimated useful lives:

	Useful life
Leasehold improvements	Lesser of estimated useful life or term of lease contract
Technical equipment and machinery	3-5 years
Office and other equipment	3-5 years

Intangible assets

Capitalized software costs consist primarily of costs incurred to purchase software licenses for internal use. These costs are amortized on a straight-line basis over the expected periods to be benefited, generally three years. The subscriber base acquired in the Premiere acquisition is amortized over a useful life of twelve years. The Premiere trademark name as well as the goodwill resulting from the Premiere acquisition are amortized over a period of twenty years.

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is amortized on a straight-line basis over the expected periods to be benefited, generally 20 years. The Company assesses the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired operation. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds.

Impairment

KirchPayTV assesses long-lived assets and certain identifiable intangibles for impairment whenever there is an indication that the carrying amount of the asset may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted cash flows generated by those assets to the assets' carrying amount. The amount of impairment loss, if any, will be measured by the difference between the net book value and the estimated fair value of the respective assets.

Foreign currencies

Foreign currency transactions are recorded at the exchange rate prevailing at the date of the transaction. Receivables and payables denominated in foreign currencies are remeasured at rates of exchange at balance sheet date. Losses of DM 39,190 in 1999 and gains of DM 51,809, including both realized and unrealized gains, in 2000 on foreign currency transactions are included in the consolidated statements of operations under ''Other income, net.''

For the purposes of these consolidated financial statements, the Deutsche mark (''DM'') has been used as the reporting currency. Substantially all assets and liabilities of KirchPayTV are held by operations whose functional currency is the reporting currency. Assets and liabilities of foreign subsidiaries are translated at year-end exchange rates, while revenues and expenses are translated using average exchange rates during the year.

Fair value of financial instruments

The fair value of financial instruments is generally determined by reference either to broker quotes, quoted market prices, rates for the same or similar financial instruments, present value or other valuation techniques. Short-term nonderivative financial instruments as well as cash and cash equivalents are valued at their carrying amounts on the balance sheet which are reasonable estimates taking into account the short period of time until maturity. The fair value of deposits from subscribers equals the amount that is payable on demand at the balance sheet date. The fair value of foreign currency-forward contracts is determined based on the prevailing forward rate at the balance sheet date. The fair value of the noncurrent portion of liabilities for film and programming rights equals the present value of the payments to be made for settlement of these liabilities at the balance sheet date.

Impact of new accounting standards not yet adopted

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 ''Accounting for Derivative Instruments and Hedging Activities'', effective for fiscal years beginning after June 15, 2000, as amended by Statement of Financial Accounting Standards No. 137 ''Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133, an Amendment of FASB Statement No. 133''.

No material impact is expected to be incurred upon adoption of SFAS 133 on January 1, 2001 as all derivative instruments will continue to be recorded at fair value with the corresponding changes in fair value recorded in earnings consistent with accounting policies applied prior to the adoption of SFAS 133.

In April, 2001, the Emerging Issues Task Force of the Financial Accounting Standards Board reached a final consensus on Issue 00-25 ''Accounting for Consideration from a Vendor to a Retailer in Connection with the Purchase or Promotion of the Vendor's Products''. The consensus requires that all consideration from a vendor to a retailer is presumed to be a reduction to the selling prices of the vendor's products and, therefore, should be characterized as a reduction of revenue when recognized in the vendor's income statement. The consensus is effective beginning, January 1, 2002.

The company does expect to reclassify certain selling expenses to present as a reduction of revenue upon application, in the amount of the excess of the amounts paid to retailers above the estimated fair value of the benefit. For the current period this would have resulted in the reclassification of DM 25,481, a reduction of selling expenses and a reduction of total revenues.

3. Acquisition of Premiere

On May 4, 1999, through a series of transactions KirchPayTV consummated its acquisition of an additional 70% ownership interest in Premiere for a total purchase price of DM 2,356,661 from Canal Plus S.A. (37.5%) and CLT-UFA (32.5%) to increase its ownership interest to 95%. As of December 31, 2000, CLT-UFA holds a minority stake of 5% in Premiere. As of December 31, 1998, KirchPayTV had made advance payments of DM 663,261 including interest accruing to the sellers during the contingency period. The remaining installment of DM 155,430 plus interest thereon was due and paid in April 2000. As of December 31, 1999, interest of DM 13,702 has been accrued on this installment.

(Deutsche mark, in thousands)

KirchPayTV and CLT-UFA are obligated to fund Premiere's losses as determined under partnership agreement in proportion to their relative interest in Premiere. CLT-UFA has a put option to sell its remaining interest to KirchPayTV at a price of DM 173,900 plus interest and reimbursement for loss funding provided for the period subsequent to March 1, 1999.

The acquisition has been accounted for under the purchase method and is included in the operations from the date of acquisition. Had the acquisitions been consummated at January 1, 1999, unaudited pro forma consolidated revenues of KirchPayTV would have been DM 1,121,694 for 1999. Unaudited pro forma consolidated net loss would have been DM (1,164,169) for 1999.

4. Trade receivables

Trade receivables consist primarily of monthly service fees due from customers and balances due from retailers. In addition, receivables of DM 150,001 and DM 38,608 resulting from the sale-leaseback of decoder equipment are included in the balance as of December 31, 1999 and December 31, 2000, respectively.

Activity in the allowance for doubtful accounts in 1999 and 2000 was as follows:

	Balance as of January 1,	Write-offs	Reversals	Additions	Balance as of December 31,
1999	8,739	—	—	47,981	56,720
2000	56,720	—	171	16,576	73,125

5. Film and programming rights

As of December 31, 1999 and 2000, KirchPayTV owned current broadcasting rights of DM 55,858 and DM 144,179 respectively. In addition, prepayments of DM 75,867 on broadcasting rights with license periods beginning in the year 2001 are included in current film and broadcasting rights.

As of December 31, 2000, DM 16,057 and DM 72,996 are included in current and noncurrent film and programming rights for advances under output deals, respectively. These advances include both signing bonuses and option payments for contractually specified programming output, which represent in some cases, the entire output with a contracted studio.

Unamortized costs of noncurrent film and programming rights including library rights amounted to DM 767,116 and DM 807,029 as of December 31, 1999 and 2000, respectively. Accumulated amortization on film and programming rights was DM 229,534 and DM 303,864 as of December 31, 1999 and 2000, respectively. Film and programming costs included in operating expenses include amortization charges for the noncurrent film and programming rights of DM 66,387 and DM 88,834 for 1999 and 2000, respectively.

(Deutsche mark, in thousands)

6. Other current assets

Other current assets are comprised of the following:

	December 31, 1999	December 31, 2000
Fair value of foreign currency forward contracts	53,230	64,662
VAT and other tax receivables	40,946	62,838
Prepaid expenses	15,335	40,053
Prepaid advertising	—	22,560
Other current assets	14,049	38,536
	123,559	228,649

7. Decoders for rental, net

KirchPayTV leases decoders to its subscribers. The decoders are owned by Premiere, sold to their distribution partners or customers or are sold to a third party and then leased back under capital leases. Gains arising from the sales of decoders that are subsequently leased back are deferred and amortized over the term of the leaseback. Losses resulting from sale-leaseback transactions are also deferred unless the carrying amount of the sold items exceeds the fair value. Owned decoders are depreciated over an estimated useful life of seven years, beginning at the date when the title has been transferred to Premiere. Leased decoders are generally depreciated over the lease term.

Due to a decision by KirchPayTV to effect an accelerated phase-out of the analog platform by December 31, 2001, the depreciation period for owned and leased analog decoders has been adjusted from seven years to the remaining period of time ending on December 31, 2001. As a result, depreciation expense in 1999 increased by DM 8,343 compared to the depreciation expense that would have been charged had the accelerated phase-out not have been considered.

As of December 31, decoder balances were as follows:

	1999	2000
Owned decoders	419,163	660,776
Decoders under capital lease	615,848	1,044,275
	1,035,011	1,705,051
Less accumulated depreciation	(127,897)	(362,948)
	907,114	1,342,103

Total depreciation expense regarding decoders was DM 104,297 and DM 228,021 in 1999 and 2000, respectively. Depreciation expense of leased decoders was DM 84,176 and DM 171,956 in 1999 and 2000, respectively.

(Deutsche mark, in thousands)

8. Property and equipment, net

Property and equipment consists of:

	December 31, 1999	December 31, 2000
Installations in leased buildings	17,027	15,688
Technical equipment and machinery	100,735	116,090
Office and other equipment	86,419	121,634
Construction in progress	5,585	6,924
	209,766	260,336
Less accumulated depreciation	130,405	170,593
	79,361	89,743

Depreciation expense on property and equipment was DM 86,599 and DM 48,524 in 1999 and 2000, respectively.

9. Intangible assets

As of December 31, intangible assets are comprised of the following:

	1999	2000
Goodwill	1,705,979	1,705,975
Trademarks acquired	523,541	523,541
Subscriber base acquired	164,183	164,183
Software licences	27,202	17,208
Other intangible assets	33	8,671
	2,420,938	2,419,578
Less accumulated depreciation	103,611	222,970
	2,317,327	2,196,608

Amortization expense for intangible assets amounted to DM 95,961 and DM 128,936 for 1999 and 2000, respectively, which includes DM 12,522 and DM 3,811 of amortization related to software licenses and other intangible assets for 1999 and 2000 respectively.

(Deutsche mark, in thousands)

10. Other noncurrent assets

Other noncurrent assets are comprised of the following as of December 31:

	1999	2000
Deferred subscriber incentives	35,197	48,529
Refund from Canal Plus S.A.	22,474	32,505
Marketable securities	13,668	25,321
Credit facility origination fee	—	19,355
Fair value of foreign currency forward contracts	38,549	11,668
Investments in equity investees	12,034	8,778
Deferred loss on sale-leaseback transaction	7,214	5,410
Other noncurrent assets	1	779
	129,137	152,345

Marketable securities consist of investments in publicly traded mutual funds, which invest mainly in debt securities.

Investments in affiliates are accounted for under the equity method. In 1999, KirchPayTV acquired a 50% interest in Kirch New Media AG (''Kirch New Media'') in consideration for cash of 2.55 million Euro. During 2000 5% of the interest owned by KirchPayTV was sold to the management of Kirch New Media at the carrying value. Subsequently, approximately 3% of the interest sold to the management of Kirch New Media was reacquired at the sale price plus a premium of DM 1,947. Kirch New Media was founded in 1999 with the objective of developing internet portals and internet based technologies for applications in the distribution and sale of media related merchandising items.

Additionally, pursuant to an amendment, dated October 5, 2000, to a loan agreement between KirchMedia and Kirch New Media, dated April 20, 2000, KirchPayTV is obligated to provide 50% of the available credit extended to Kirch New Media, in the amount of 80 million DM, which provides for repayment subject to interest of 5.5%p.a. This resulted in a payment to KirchMedia in the amount of DM 20,457 for 50% of the amounts previously provided by KirchMedia to Kirch New Media pursuant to the loan agreement. Additional sums of DM 10,730 were provided by KirchPayTV to Kirch New Media pursuant to the agreement through December 31, 2000.

As of December 31, 2000, the associated receivable against Kirch New Media has been subject to a 100% valuation allowance due to the continued net cash outflows of Kirch New Media, and the continued level of operating losses. The corresponding write-off of this receivable has been recorded in other income (expense) in the consolidated statement of operations.

11. Short-term borrowings

As of December 31, 1999, KirchPayTV had a short-term debt totaling DM 1,000,000 under a Senior Credit Facility agreement (the ''Credit Facility'') with The Chase Manhattan Bank entered into in December 1999. This loan boar an interest rate of 5.50% annually. As collateral for the Credit Facility KirchPayTV pledged substantially all shares of Premiere, Rechtehandel, Beta Digital and other subsidiaries. In addition to the above mentioned pledges, KirchPayTV pledged substantially all assets to the extent permitted by German law. Additional tranches of cumulative DM 300,000 were paid out during the first quarter of 2000. On June 16 and 26, 2000, KirchPayTV repaid loans in the aggregate amount of DM 300,000 plus any accrued interest thereon. On September 7, 2000, KirchPayTV repaid the remaining outstanding balance under the Facility in the amount of DM 1,000,000. The shares and all other assets were released from the pledge.

(Deutsche mark, in thousands)

12. Other current liabilities

As of December 31, accrued expenses and other current liabilities consist of the following:

	1999	2000
Deferred subscriber revenues	4,374	46,205
VAT and other tax liabilities	8,766	17,361
Deferred gains on sale-leaseback transactions	10,816	13,008
Penalty Liabilities	—	11,066
Amounts due to employees	5,332	10,816
Customers with credit balances	6,066	8,581
Restructuring charges	1,537	—
Other	18,373	31,137
	55,264	138,174

In connection with the acquisition of a controlling financial interest in Premiere, KirchPayTV implemented a reorganization plan due to the termination of lease agreements for idle Premiere office space and the termination of 400 Premiere employees located at Hamburg. As of December 31, 1999 the provision amounted to DM 1,537. The provision has been fully utilized in 2000.

13. Revolving credit facility

On October 17, 2000 KirchPayTV entered into a syndicated credit facility with Bayerische Landesbank Girozentrale (''BLB'') as lead arranger. The credit facility amounts to an aggregate of DM 1,500,000 and matures on December 31, 2005. Interest is based on EURIBOR plus an EBITDA-triggered margin currently of 2.5%. It also involves an origination fee amounting to 1.5% of the credit facility. The credit facility is subject to several covenants. The facility is secured by pledges of the shares in Premiere Medien GmbH & Co. KG (''Premiere KG''), Beteiligungsgesellschaft Premiere Medien mbH (''Premiere GmbH''), PayTV Rechtehandels-GmbH & Co. KG (''Rechtehandel KG''), PayTV Rechtehandelsgesellschaft mbH (''Rechtehandel GmbH'') and Beta Digital GmbH (''Beta Digital'') Beta Digital. In addition to the above mentioned pledges, KirchPayTV has pledged all existing and future film and programming rights of Premiere KG and Rechtehandel KG as well as substantially all property and equipment of Beta Digital in the beginning of 2001. As of December 31, 2000 no amount has been drawn-down under this credit facility. As of June 28, 2001, a cumulative total of EUR 357,904 has been drawn-down under this credit facility.

(Deutsche mark, in thousands)

14. Other noncurrent liabilities

As of December 31, other noncurrent liabilities are comprised of the following:

	1999	2000
Pre acquisition Premiere tax contingency	22,422	32,452
Deferred gains on sale-leaseback transactions	31,502	28,258
Contract termination fees	12,223	—
Pension accrual	8,033	9,715
Other	13,066	5,179
	87,246	75,604

KirchPayTV has accrued approximately DM 32.5 million for aggressive tax positions for which it has a contractual claim for reimbursement from Canal Plus S.A. The refund is reported as a non current asset. In 2000, this amount was increased by DM 10,030 as a result of a perceived increase in amount of the exposure. This has been recorded as a current period tax expense. The associated receivable from Canal Plus S.A. was increased to correspond to the tax exposure, with the increase recorded in other income.

As a result of the Premiere acquisition, KirchPayTV assumed pension rights granted to substantially all of Premiere's domestic hourly and salaried employees. Plan benefits are principally based upon years of service as well as upon the salary earned during the service period. Premiere's pension plan is unfunded.

Change in projected benefit obligations for the years ended December 31, 1999 and 2000:

	1999	2000
Projected benefit obligation on January 1 (1999: at date of Premiere-acquisition)	6,971	8,889
Service cost	765	1,220
Interest cost	316	488
Actuarial losses / (gains)	856	(3,659)
Benefits paid	(19)	(26)
Projected benefit obligation at end of year	8,889	6,912

A reconciliation of the funded status to the amounts recognized in the consolidated balance sheets as of December 31, 1999 and 2000, is as follows:

	1999	2000
Funded status	(8,889)	(6,912)
Unrecognized actuarial net losses / (gains)	856	(2,803)
Accrued pension liability, net	(8,033)	(9,715)

(Deutsche mark, in thousands)

The assumed discount rates and the rates of increase in remuneration used in calculating the projected benefit obligations are based on the economic environment in Germany. The weighted-average assumptions used in calculating the actuarial values for the pension plan were as follows as of December 31, 1999 and 2000:

	1999	2000
	Percent	Percent
Discount rate	5.5%	6.0%
Salary increase rate	2.0%	2.0%
Post-retirement pension increases	1.5%	1.5%

The components of net periodic pension cost for the years ended December 31 were as follows:

	1999	2000
Service cost	765	1,220
Interest cost	316	488
Amortization of unrecognized net actuarial gains	—	—
Net periodic pension cost	1,081	1,708

15. Partner's and share capital

On August 4, 1999 PayCo Holding GmbH & Co. KG (''PayCo Holding''), the general partner and shareholder of KirchPayTV, forgave a balance due by KirchPayTV of DM 65,000. Another balance due by KirchPayTV of DM 935,000 was forgiven on November 25, 1999. Both transactions were treated as contributions to KirchPayTV.

After consummation of the shareholder and investment agreements, BSkyB contributed DM 5.6 billion in cash and BSkyB-shares on May 4, 2000 in exchange for obtaining a 24% general partner interest in and 24% of the outstanding shares of KirchPayTV.

On September 8, 2000 Kingdom Holdings 8 B.V. contributed DM 346,600 in exchange for obtaining 6,524,949 shares of KirchPayTV.

On October 2 and 16, 2000 the Capital Research Funds contributed DM 450,000 in exchange for obtaining 5,635,016 shares of KirchPayTV.

On October 31, 2000 the Lehman Investing Entities contributed DM 400,000 in exchange for obtaining 5,008,903 shares of KirchPayTV.

On June 30, 2000, KirchMedia forgave a balance due by DF-1 of DM 10,228. This was recorded as a contribution to KirchPayTV.

16. Loss on sale of marketable equity securities

As of December 31, 2000, KirchPayTV had sold all 78,019,778 million shares that were contributed by BSkyB under the shareholder and investment agreements. The total consideration obtained for these shares amounted to DM 2,620,912.

Additionally, KirchPayTV had sold other securities in the period ended December 31, 2000. The total consideration obtained for these securities amounted to DM 23,235.

The sale of these securities has resulted in a net loss of DM 2,021,530.

(Deutsche mark, in thousands)

17. Leasing

KirchPayTV has entered into various long-term lease commitments, primarily for decoders, transponders, cable lines, buildings, and technical machinery and production equipment.

As of December 31, 2000, aggregate minimum rental payments under noncancelable leases are as follows:

	Operating leases	Capital leases
2001	184,847	221,089
2002	172,145	208,177
2003	170,123	214,186
2004	167,238	184,000
2005	160,974	79,017
2006 and thereafter	341,461	17,005
Total minimum lease payments	1,196,788	923,474
Less amounts representing interest		(116,887)
Present value of net minimum payments		806,587

Total future minimum capital lease payments have not been reduced by future minimum sublease rentals of DM 245,641.

Rent expense on operating leases was DM 157,903 and DM 186,366 in 1999 and 2000, respectively. Minimum payments amounted to DM 154,903 and DM 180,561 in 1999 and 2000, respectively, and contingent payments were DM 3,000 and DM 5,805 in 1999 and 2000, respectively.

Decoder lease obligations

Capital lease obligations mainly relate to decoders under capital leases. In most leases, the lease term is five or seven years with a termination option available to the lessee. Upon termination prior to the end of the lease term, a termination penalty equal to the unamortized residual value of the decoder becomes due. In general, the contracts are not terminated early.

Transponder leases

KirchPayTV is party to certain operating leases pursuant to which it is liable for charges associated with each of 11.5 transponders on the Astra satellites, which amount to a maximum of DM 106,522 per year for all transponders. In addition to the minimum fees, the lease also requires contingent payments based on the number of households having access to satellite transmission and use of the transponder capacity. The future minimum lease payments applicable to the transponders approximate DM 94,536 in 2001 and an aggregate of DM 529,178 for the years from 2002 through 2007 and are included in the table above.

Total rent expense associated with the transponder leases for the years 1999 and 2000 was DM 81,243 and DM 106,522, respectively, before reduction for sublease income of DM 9,832 in 1999, and DM 15,642 in 2000.

(Deutsche mark, in thousands)

Leased cable capacity

KirchPayTV leases analog and digital cable capacity from two cable operators under a noncancelable operating lease arrangement. The leases expire between December 31, 2000 and 2008 and contain renewal options. Some leases involve rental payments in excess of minimum lease payments contingent upon the number of subscribers.

18. Derivative financial instruments

Foreign Exchange Risk Management

A significant portion of the cost of programming and transmission is charged in U.S. dollars or is dependent on exchange rate fluctuations between the U.S. dollar and Deutsche mark (Euro) and is therefore subject to risks associated with changing foreign currency exchange rates, especially in connection with the U.S. dollar. As a result of the acquisition of a controlling interest in Premiere, KirchPayTV has become party to various foreign currency forward contracts whose fair values change as foreign exchange rates change to hedge the value of recorded receivables and payables and anticipated transactions. The original maturity of these contracts is up to 48 months.

In December 2000, KirchPayTV purchased two foreign currency options which provide the opportunity to purchase 25 million U.S. dollars, per option, at a strike price of 2.30 DM per U.S. dollar, effective through June 18, 2001. The premiums paid for the purchased options have been expensed as incurred.

The foreign currency forward transactions entered into with the objective of hedging against risks in connection with anticipated transactions are not deemed to be hedges under current accounting pronouncements and are, accordingly, marked to market with the related gain or loss recorded as other income in the consolidated statement of operations. As a result of these foreign exchange risk management activities, KirchPayTV recognized gains of DM 33,867 and DM 35,431 in 1999 and 2000, respectively.

As of December 31, 2000, the notional amounts of KirchPayTV's foreign currency forward contracts and foreign currency purchased options and their fair values are as follows:

	2000	
	Notional amount	Fair value
U.S. dollar contracts	274,504	87,829
U.S. dollar options	50,000	—

KirchPayTV's foreign exchange contracts involve credit risks to the extent that counter parties may be unable to fulfil their duties under the agreements. Management believes that the potential risk from this type of credit loss is remote because Premiere only contracts with banks that have the highest credit rating.

(Deutsche mark, in thousands)

19. Fair value of financial instruments

At December 31, 1999 and 2000, the estimated fair values of financial instruments approximate their respective carrying amount except for the following items:

	1999		2000	
	Carrying Amount	Fair value	Carrying amount	Fair value
Liabilities for film and programming rights, noncurrent portion	208,305	191,244	126,482	113,812

20. Commitments and contingencies

Obligations to purchase film and programming rights

KirchPayTV has entered into long-term contracts relating to for the purchase of certain film and programming rights. The contracts have terms which range from five to ten years and require that license fees be paid based on the number of subscribers, subject however, to a guaranteed minimum fee. KirchPayTV has an aggregate minimum commitment as of December 31, 2000 as follows:

	License fee commitments
2001	1,510,686
2002	1,226,738
2003	1,227,743
2004	955,155
2005	773,468
2006 and thereafter	1,684,315
	7,378,105

A majority of these contracts have been entered into with KirchMedia GmbH & Co. KGaA, an entity under control of KirchGroup (''KirchMedia'', see note 22). KirchMedia is the direct contract party with the programming party for a majority of these contracts.

Litigation

In December 1999, KirchMedia GmbH & Co. KGaA filed a complaint against Universal Studios Inc. and Universal Studios International b.v. and other parties related to the defendant (together ''Universal'') in the Superior Court of Los Angeles County, Los Angeles, California, USA, alleging that Universal had breached its contracts with Kirch, breached its fiduciary duty to Kirch, and breached its duty of good faith and fair dealing to Kirch, with damages estimated in excess of U.S.$2 billion with respect to various agreements between KirchMedia and Universal concerning film and programming rights, channel carriage, a related guarantee agreement and other agreements.

Universal filed cross-complaints against KirchMedia and KirchPayTV for breach of contract and payment by sureties on the guarantee agreement between KirchMedia and Universal seeking unspecified damages in February 2000. Both the complaint, which has been amended to include causes of action for fraud and anticipatory breach of contract, and the cross-complaint are still pending, and the case is proceeding before the Court. A final decision on the complaint or cross-complaint is not expected to occur in the near future.

KirchMedia will bear all costs of the suit including attorneys' fees associated with pursuing the claims and defending against the cross-complaints. KirchMedia is pursuing prosecution of its complaint and defending the cross-complaint. Through December 31, 2000, approximately U.S.$1,927 in attorney's fees have been incurred in the pursuit of the claims and the defence against the cross complaints.

On June 13, 2000, ''Arbeitsgemeinschaft der Rundfunkanstalten Deutschlands'' (''ARD''), a group of state-owned television stations in Germany, filed a complaint against The Commission of the European Communities' competition directorate general at the European Court of Justice with respect to the decision of the Commission on March 21, 2000 not to oppose the Shareholder and Investment Agreement between BSkyB and the KirchGroup subject to full compliance by KirchGroup and BSkyB. KirchPayTV joined the litigation on December 11, 2000. Management believes that this complaint is not substantiated.

There are various lawsuits and claims pending against KirchPayTV. Management believes that the resulting liability, if any, should not materially affect KirchPayTV's results of operations, financial position or liquidity.

21. Concentrations of business risks and uncertainties

Decoders

KirchPayTV purchases its decoders which are needed to unscramble the signal of the program broadcast to subscribers from three suppliers. From time to time, these suppliers may extend lead times, limit supply or increase prices due to capacity constraints or other factors.

Foreign exchange rate expenses

A significant portion of film and programming rights are charged in U.S. dollars, while essentially all revenues are generated in Deutsche mark. KirchPayTV is therefore exposed to changes in the exchange rate between Deutsche mark (Euro) and U.S. dollar.

22. Related party transactions

Transactions with owner and entities under control of common owner

All entities discussed in this section of the note have common ownership and, unless otherwise noted, the amounts charged by the entities to KirchPayTV approximate the cost of providing such products and services.

KirchPayTV obtains most of its programming from KirchMedia, an entity controlled by the KirchGroup, based on the terms of a service agreement, a licensing option agreement and specific license agreements. Under the terms of the agreements, KirchMedia is committed to provide content for digital television channels and to offer its current and future film and programming rights related to digital pay television broadcasting in German speaking regions in Europe to KirchPayTV. Under these agreements, KirchMedia provides KirchPayTV with content for channels that will be broadcast on its digital pay television platform. The content will comprise licensed programming, own productions, on-air promotion and advertising. With respect to licensed programming, KirchPayTV holds the right to use any of the film rights related to German speaking pay television markets owned by KirchMedia. KirchPayTV is required to reimburse KirchMedia for all production cost incurred and cost of licensed programming plus a five percent handling fee. Cost is based on the exchange rate between DM and USD as of the date of the transfer of the program material. This commitment relates to license agreements between KirchMedia and producers and involves guaranteed minimum payments and contingent license fees based on numbers of subscribers and other variables. KirchMedia and KirchPayTV have entered into several new license agreements. In these licences agreements all material conditions of the original license agreements between KirchMedia and the respective major studio are passed to KirchPayTV.

(Deutsche mark, in thousands)

KirchPayTV entered into numerous license agreements with KirchMedia to acquire rights to broadcast sports events. Under these agreements KirchMedia or provides KirchPayTV with rights that it has acquired from various licensors.

On July 28, 2000 Premiere entered into a contract with KirchMedia under which Premiere has obtained exclusive pay-tv rights to broadcast all soccer games of the Bundesliga (first and second division of the German soccer league) for Germany and Austria through the 2003/2004 season. Minimum payments under this contract amount to DM 1,442,500 and are included in the obligations to purchase film and programming rights (see note 20). KirchPayTV has an aggregate minimum commitment as of December 31, 2000 as follows:

2001	365,000
2002	387,500
2003	445,000
2004	245,000
	1,442,500

KirchPayTV engaged Deutsches Sport Fernsehen GmbH (''DSF'') to provide sport contents primarily in German-speaking Europe that will be broadcast on its digital pay television platform. While KirchPayTV is responsible for ensuring that the appropriate licenses are available for unedited sports coverage, DSF is responsible for producing sports programs covering primarily the Formula One Grand Prix races, soccer, golf and boxing which can be shown on the pay-television stations. Annual amounts paid are based on approved budgets established each year including a five percent handling fee which approximates DSF's cost.

KirchPayTV engaged Unitel Film- und Fernseh- Produktionsgesellschaft mbH & Co. (''Unitel'') to produce material and provide licenses for the CLASSICA channel. The production costs and license fees incurred by Unitel are reimbursed by KirchPayTV. The contract has an unlimited term, and is cancelable by either party upon twelve months notice of cancellation. License fees and production costs are included in ''film and programming costs'' in the combined statements of operations.

In 2000 PayCo Holding forgave a balance due by DF-1 of DM 10,228. The amount forgiven was treated as a capital transaction.

BetaResearch-Gesellschaft für Entwicklung und Vermarktung digitaler Infrastruktur mbH (''BetaResearch'') has granted a nontransferable license regarding subscriber management software and conditional access encryption and network management software to KirchPayTV. The license agreement includes installation, support and similar services related to the licensed software. The license agreements expire in 2006 with a ten-year renewal option held by KirchPayTV and are noncancelable except in a default situation. The license fees are contingent upon the number of television channels, subscribers and transactions.

TAURUSMediaTechnik provides KirchPayTV with broadcasting tape capacity. TAURUSMediaTechnik also provides services with respect to handling and administration of transmission lines.

KirchPayTV entered into numerous license agreements with Taurus Sport GmbH (''TaurusSport'') to acquire rights to broadcast sports events. Under these agreements TaurusSport provides KirchPayTV with rights that it has acquired from various licensors. In 2000 TaurusSport granted primarily licence rights for the Serie A of the Italian soccer league, the FC Bayern Munich soccer Tournament, ATP Masters Series and ATP Masters Cup.

KirchPayTV had incurred a balance due to KirchVermögensVerwaltungs GmbH & Co. KG (''KVV''), of DM 592,496 as of December 31, 1999. This balance results from a series of agreements concluded in 1998 and 1999 to offset amounts due to and from KirchPayTV with respect to various entities under common control of the KirchGroup in order to create a separate legal structure for KirchPayTV. The contract has been transferred from KVV to PayCoHolding on April 14, 2000. An additional tranche of DM 107,504 was paid out in May 2000. On October 31, 2000 the total balance of DM 700,000 has been repaid. The total interest expenses for the financial year 2000 amounted to DM 30,516.

As of December 31, 1999, an additional balance of DM 1,000,000 was due to KVV. Additional tranches of cumulative DM 300,000 were paid out during the first three months of 2000. The contract has been transferred from KVV to PayCoHolding on April 14, 2000. On June 16 and 26, 2000, KirchPayTV repaid loans in the aggregate amount of DM 300,000 plus any accrued interest thereon. On September 18, 2000, KirchPayTV repaid the remaining outstanding balance in the amount of DM 1,000,000 plus any accrued interest thereon. The total interest expense for the financial year 2000 amounted to DM 60,329.

In addition, KirchPayTV is party to a variety of other contractual agreements with entities under common control, including building leases, purchases of rights, management and service contracts.

Transactions with investees

KirchPayTV engaged Discovery and Krimitel, each a 50% owned joint venture of KirchPayTV, to produce and deliver program services effectively giving KirchPayTV an exclusive license to distribute such programming to subscribers in German-speaking Europe. The agreements cannot be cancelled until 2006 and include renewal options. License fees are fixed with a contingent fee portion dependent upon the number of subscribers.

Furthermore KirchPayTV engaged Goldstar TV, a 50% owned joint venture of KirchPayTV, to start ''GalaWorld'' including the channels GOLDSTAR, HEIMATKANAL and FILMPALAST, which is targeted at senior citizens in German-speaking Europe. Goldstar TV delivers program services giving KirchPayTV an exclusive right to promote the channels HEIMATKANAL and FILMPALAST for a fixed monthly fee. The agreement can not be cancelled until 2009 and includes a renewal option of five years. Additionally Premiere exclusively distributes the GOLDSTAR channel promoted by Goldstar TV. The fees payable by KirchPayTV are graded according to the years of the contract and dependant upon the number of subscribers. The agreement can not be cancelled until 2010 and includes a renewal option of five years.

Transactions with management

KirchPayTV engaged a law firm to render legal advice in which a member of the supervisory board is a partner. Fees charged by Nörr, Stiefenhöfer Lutz in 1999 and 2000 are DM 5,714 and DM 4,914 respectively.

(Deutsche mark, in thousands)

The following table summarizes the transactions and balances with related parties:

	Year ended December 31, 1999	Year ended December 31, 2000
Statements of Operations:		
Revenues		
from KirchGroup	17,375	24,785
from investees	10,079	9,341
	27,454	34,126
Film and programming costs		
to KirchGroup	345,720	587,849
to investees	8,060	27,213
	353,780	615,062
Decoder costs		
to KirchGroup	2,832	71
Transmission costs		
to KirchGroup	—	12,305
Subscriber and other direct costs		
to KirchGroup	—	15,211
Selling, general and administrative expenses		
to KirchGroup	2,168	6,316
to investees	—	98
to management	5,714	4,914
	7,882	11,328
Interest expense		
to KirchGroup	45,420	40,569

	December 31, 1999	December 31, 2000
Balance Sheets:		
Amounts due from KirchGroup	27,947	13,445
Amounts due from investees	20,597	33,977
Amounts due from other related parties	3,320	—
Amounts due from related parties	51,864	47,422
Amounts due to KirchGroup	1,739,355	408,520
Amounts due to investees	2,141	3,031
Amounts due to other related parties	—	63,864
Amounts due to related parties	1,741,496	475,415

(Deutsche mark, in thousands)

	December 31, 1999	December 31, 2000
Capital Transactions:		
Contributions in cash	—	2,196,576
Contributions in shares	—	4,642,586
Forgiveness of loans	1,000,000	10,228
	1,000,000	6,849,390

	December 31, 2000
Commitments from film and programming rights 2001	979,873
2002	974,400
2003	1,057,954
2004	881,335
2005	709,460
2006 and thereafter	1,543,289
	6,146,311

23. Income taxes

KirchPayTV GmbH & Co. KGaA is a limited partnership by shares (Kommanditgesellschaft auf Aktien) under German law. A limited partnership by shares is a corporation with at least one general partner and shareholders. Currently and after the entrance of BSkyB the shares of KirchPayTV GmbH & Co. KGaA are held by PayCo Holding, BSkyB Germany (each being general partner) and by shareholders.

The entity will not be subject to federal income taxes (*Körperschaftsteuer*) to the extent that taxable income is allocated to the general partners. However it will be subject to such taxes with respect to all other income. Pursuant to the articles of association of KirchPayTV GmbH & Co. KGaA and a shareholder agreement, approximately 90% of the taxable income after deduction of local trade tax on income are currently allocated to the general partners.

In addition, KirchPayTV KGaA is subject to a local trade tax on income (*Gewerbeertragsteuer*) which is levied based on a local tax rate of approximately 14.9%. Certain subsidiaries are subject to local and federal income taxes. The basis for all tax calculations listed below is the new German federal corporation income tax rate of 25% in 2000 and 40% in 1999.

Income tax benefit / (expense) consists of:

	Year ended December 31, 1999	Year ended December 31, 2000
Domestic:		
Current	—	(685)
Deferred	8,826	(15,721)
	8,826	(16,406)

(Deutsche mark, in thousands)

(Loss) before income taxes is attributable to the following geographic locations:

	Year ended December 31,	
	1999	2000
Germany	(1,102,209)	(3,698,737)
Other	(31,334)	(59,073)
	(1,133,543)	(3,757,810)

Income tax benefit (expense) differed from the amounts computed by applying the local trade tax rate of 14,9% in 1999, and the statutory tax rate of 16.74% in 2000, as follows:

	1999	2000
Computed ''expected'' tax benefit	168,898	629,057
Increase (decrease) in income tax expense due to:		
Change in valuation allowance	(167,217)	(594,002)
Tax rate differential	13,120	(3,452)
Non-Taxable gains	2,868	—
Non-deductible expenses	(8,761)	(28,034)
Other	(82)	(19,975)
Income tax benefit/(expense)	8,826	(16,406)

(Deutsche mark, in thousands)

The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities are presented below:

	December 31,	
	1999	2000
Deferred tax assets:		
Net operating loss carryforwards	332,991	897,877
Film and programming rights	11,253	—
Prepaid expenses	—	4,491
Deferred items	—	26,100
Trade payables	—	2,804
Leases	1,737	—
Trade receivables	—	11,809
Current liabilities	2,049	1,959
Pension obligations	242	610
Deferred income	7,267	15,971
Other	19,059	22,044
Total gross deferred tax assets	374,598	983,665
Less valuation allowance	(239,533)	(833,535)
Net deferred tax assets	135,065	150,130
Deferred tax liabilities:		
Decoders and property equipment	(4,766)	—
Film and programming rights	—	(9,518)
Intangible assets	(89,416)	(100,010)
Leases	—	(1,042)
Trade receivables	(6,787)	—
Other current assets and prepaid expenses	(8,200)	(7,364)
Other noncurrent assets	(3,560)	(9,393)
Financial securities	—	(402)
Other current liabilities	(4,468)	(9,056)
Other noncurrent liabilities	(2,147)	(13,345)
Total gross deferred liabilities	(119,344)	(150,130)
Net deferred tax assets	15,721	—

As of December 31, 1999 and 2000, gross deferred tax assets arising from net operating loss carryforwards amount to DM 332,991 and DM 897,877, respectively, including DM 288,270 and DM 789,816 in relation to German trade tax net operating loss carryforwards. These net operating losses have an unlimited carryforward period. In the course of finalizing the legal reorganizations of KirchPayTV, management is contemplating options that may make a portion of these loss carryforwards unavailable.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management also considers historical operating results and projections for future taxable income over the periods for which the deferred tax assets are deductible.

(Deutsche mark, in thousands)

Realization of net operating loss carryforwards will depend mainly on KirchPayTV's ability to grow the subscriber base over the future years. KirchPayTV's principal subsidiaries have not generated taxable income since inception of operations and have not yet reached and do not expect to reach a level of subscribers to generate taxable income for a number of years. Management therefore assessed that a valuation allowance is required for tax benefits whose realization is contingent upon achievement of growth in the subscriber base and other income generating activities.

24. Supplemental cash flow information

	Year ended December 31,	
	1999	2000
Cash paid for income taxes	42	—
Cash paid for interest	86,788	137,220
Non-cash investing and financing activities:		
Capital lease obligations incurred	215,076	—
Forgiveness of loans	1,000,000	10,228
Issuance of notes for acquisitions	156,129	—
Details for acquisition of Premiere		
Assets acquired	3,377,574	—
Liabilities assumed	1,046,271	—
Net liabilities not acquired	(25,358)	—
Notes issued in connection with acquisition	156,129	—
Cash paid	2,200,532	155,430
Less cash acquired	(51,143)	—
Net cash paid for acquisition	2,149,389	155,430
Less advance payments in prior years	(663,261)	—
Net cash paid in 1999	1,486,128	155,430

25. Segments and geographic information

KirchPayTV operates pay television stations on analog and digital platforms in Germany and Austria. Revenues generated through provision of technical platform services to related parties outside of KirchPayTV are insignificant during the reporting periods.

Due to the anticipated discontinuation of analog services and the focus on the digital platform, management is assessing the performance of KirchPayTV's operations by the development in the number of subscribers as reflected by revenue. Information about contributions of the analog and digital platforms to KirchPayTV's operating performance is not captured at this stage while KirchPayTV operates in only one segment.

More than 95% (1999: 95%) of revenues were generated and more than 99% (1999: 99%) of all long-lived assets are located in Germany as of December 31, 2000.

26. Subsequent events

On January 10, 2001 UFA Film- und Fernseh GmbH (''UFA'') exercised its put right and sold its 5% interest in Premiere Medien GmbH & Co. KG and its 5% share in Beteiligungsgesellschaft Premiere Medien mbH. The purchase price, pursuant to the provisions of the contract, was DM 173,900, which is subject to interest of 5% from March 1, 1999 through the date of the put exercise. Pursuant to contractual provisions, the purchase price is due two months from the date of exercise, with interest accruing on the payment at 4% from the date of exercise through the date of payment.