British Sky Broadcasting Limited

Annual Report and Accounts for the year ended 30 June 2002

Registered number: 2906991

Directors and Officers

For the year ended 30 June 2002

Directors

British Sky Broadcasting Limited's ("the Company's") present Directors and those who served during the year are as follows:

A F E Ball
R Freudenstein
M D Stewart
V Wakeling

Secretary

D J Gormley

Registered office

Grant Way
Isleworth
Middlesex
TW7 5QD

Auditors

Deloitte & Touche
London

Directors' report

The Directors present their annual report on the affairs of the Company, together with the accounts and auditors' report, for the year ended 30 June 2002.

Principal activity and future developments

The Company operates one of the leading pay TV broadcasting services in the United Kingdom and Ireland. The Company's principal activities consist of the operation and distribution of eleven wholly-owned television channels in digital including seven premium channels: Sky Premier, Sky MovieMax, Sky Cinema, Sky Sports 1, Sky Sports 2, Sky Sports 3 and Sky Sports Extra and four basic channels: Sky One, Sky News, Sky Sports.com TV, and Sky Travel. In addition, the Company currently markets to direct-to-home viewers channels owned and broadcast by third parties. The Directors expect these activities to continue for the foreseeable future.

Results for the year

The audited accounts for the year ended 30 June 2002 are set out on pages 8 to 30. The profit before taxation for the financial year was £122,785,000 (2001: loss of £1,454,000). The Directors do not recommend the payment of a dividend for the year ended 30 June 2002 (2001: nil).

Directors and their interests

The Directors who served during the year are shown on page 1.

The Directors who held office at 30 June 2002 had the following interests in the shares of British Sky Broadcasting Group plc ("BSkyB", "Group"):

Options and awards over shares in BSkyB

	At 30 June 2001 or on appointment	Granted during the year	Exercised during the year	Lapsed during the year	At 30 June 2002	Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
R Freudenstein	997 (a)	-	-	-	997	£9.71	N/A	01.01.2004	30.06.2004
	203,602 (b)	-	-	-	203,602	£6.385	N/A	29.10.2002	29.10.2009
	340,500 (c)	-	-	-	340,500	£10.04	N/A	03.11.2002	03.11.2010
	-	340,500 (c)	-	-	340,500	£8.30	N/A	31.07.2003	21.11.2011
V Wakeling	175,000 (c)	-	175,000	-	-	£5.02	£8.55	23.11.2001	03.11.2010
	340,500 (c)	-	-	-	340,500	£10.04	N/A	03.11.2002	03.11.2010
	-	340,500 (c)	-	-	340,500	£8.30	N/A	31.07.2003	21.11.2011

(a) Options granted under the BSkyB Sharesave Scheme

(b) Options granted under the Unapproved Executive Share Option Scheme

(c) Options granted under the BSkyB Long Term Incentive Plan ("LTIP")

Directors' report (continued)

Directors and their interests (continued)

A F E Ball and M D Stewart are also Directors of the Company's parent undertaking BSkyB. The interests of these Directors in the share capital of BSkyB are disclosed in the Report on Directors' Remuneration in BSkyB's 2002 Annual Report and Accounts, which are publicly available (see note 22).

Details of the Unapproved Executive Share Option Schemes, the Sharesave Scheme and the LTIP are also given in BSkyB's 2002 Annual Report and Accounts.

As at 30 June 2002, the BSkyB ESOP was interested in 6.6 million BSkyB Ordinary Shares in which the Directors who are employees are deemed to be interested by virtue of section 324 of the Companies Act 1985.

Except as disclosed in this report and in BSkyB's 2002 Annual Report and Accounts, no other Director held any interest in the share capital, including options, of the Company or any other member of the Group.

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

Charitable and political contributions

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

Supplier payment policy

The policy of the Company is to agree terms of payment with suppliers prior to entering into a contractual relationship. In the absence of a specific agreement it is the policy of the Company to pay suppliers on a monthly basis. The Company had 12 days' purchases outstanding at 30 June 2002 (2001: 10 days) based on the total amount invoiced by non-programme trade suppliers during the year ended 30 June 2002. Programme creditors include significant balances which are not yet contractually due. In respect of amounts both contractually due and invoiced the outstanding number of days' purchases is below 40 days (2001: 40 days).

Employment policies

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

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

Employment policies (continued)

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

The health and safety of the Group's employees is a matter of primary concern. Accordingly, it is the Group's policy to manage its activities so as to avoid causing any unnecessary or unacceptable risk to the health and safety of its employees. Compliance with the Group's policies is checked via regular assessments and audits, supported by appropriate training courses and the Group's high standards are recognised by external bodies such as the British Safety Council which has awarded the Group's London site with a four-star rating.

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

It is the policy of the Group to develop employee involvement throughout the organisation and to ensure that employees are aware of the financial and economic factors affecting the Group. Communication meetings between management and employees' representatives are held typically on an informal basis where matters of specific interest are discussed. Consultation with employees occurs on a regular basis covering a broad range of areas such as pension provision and health and safety, and their views are taken into consideration when making decisions. The Group publishes an employee magazine covering a wide range of employee issues.

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

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

The Group has an active policy in relation to Corporate Social Responsibility, primarily focusing on providing opportunities for young people in society. To support this, the Group sponsors a range of employee involvement programmes, including volunteering and mentorship (including our award-winning "Reach for the Sky" programme) as well as payroll giving (Give As You Earn) and other forms of charitable support.

Directors' report (continued)

Environmental responsibility

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

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

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

Subsequent events

On 14 August 2002, British Interactive Investments Limited ("BIIL"), a wholly owned subsidiary of the Company was placed into Members Voluntary Liquidation. On the same date, BIIL assigned £115.9 million to the Company as a first and final distribution of its assets. In addition BIIL assigned all and any rights under the Loan Agreement signed 15 November 1999 to the Company.

This assignment offset amounts owed to BIIL under the Loan Agreement by the Company at 14 August 2002, totalling £115.9 million. This resulted in a net credit to the profit and loss account of £25.1 million in the year ended 30 June 2003, being the excess of the assets distributed over the £90.8 million carrying value of the investment in BIIL in the Company.

Auditors

On 26 July 2002, Arthur Andersen resigned as auditors and Deloitte & Touche were appointed in their place. The Directors will place a resolution before the next annual general meeting to appoint Deloitte & Touche as auditors on an ongoing basis. The Directors passed an Elective Resolution on 6 April 1995 to dispense with the annual re-appointment of auditors.

Grant Way
Isleworth
Middlesex
TW7 5QD

By order of the Board,

D. Gormley

D J Gormley
Company Secretary

18 October 2002

Directors' responsibilities

Accounts, including adoption of going concern basis

United Kingdom company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period.

In preparing those accounts, the Directors are required to:

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

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

Auditors' report

Independent Auditors' Report to the Member of British Sky Broadcasting Limited:

We have audited the accounts of British Sky Broadcasting Limited for the year ended 30 June 2002 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 26. These accounts have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and Auditors

As described in the Statement of Directors' Responsibilities, the Company's Directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the accounts in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the Directors' Report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

We read the Directors' Report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of the Company's affairs as at 30 June 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
London

18 October 2002

18 October 2002

Profit and loss account

For the year ended 30 June 2002

	Notes	Before exceptional items £000	Exceptional items (see note 4) £000	2002 Total £000	2001 Total £000
Turnover	2	**2,526,530**	**-**	**2,526,530**	2,136,868
Operating expenses, net	3	**(2,293,577)**	**(18,206)**	**(2,311,783)**	(1,932,039)
Operating profit (loss)		**232,953**	**(18,206)**	**214,747**	204,829
Amounts written back to (written off) fixed asset investments	5	**275**	**-**	**275**	(131,220)
Profit (loss) on ordinary activities before interest and taxation		**233,228**	**(18,206)**	**215,022**	73,609
Interest receivable and similar income	6a	**18,883**	**-**	**18,883**	15,081
Interest payable and similar charges	6b	**(111,120)**	**-**	**(111,120)**	(90,144)
Profit (loss) on ordinary activities before taxation	7	**140,991**	**(18,206)**	**122,785**	(1,454)
Taxation (charge) credit	9	**(37,880)**	**5,462**	**(32,418)**	(40,005)
Retained profit (loss) for the financial year	19	**103,111**	**(12,744)**	**90,367**	(41,459)

Details of movements on reserves are shown in note 19.

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

All results relate to continuing activities.

There were no recognised gains or losses in either year other than those included within the profit and loss account.

Balance sheet

As at 30 June 2002

	Notes	2002 £000	2001 £000
Fixed assets			
Tangible assets	10	**209,029**	199,940
Investments	11	**170,326**	54,810
		379,355	254,750
Current assets			
Stocks	12	**364,267**	352,014
Debtors: Amounts falling due within one year	13	**775,434**	798,261
Debtors: Amounts falling due after more than one year	13	**64,514**	135,512
Cash at bank and in hand	15	**52,855**	215,442
		1,257,070	1,501,229
Creditors: Amounts falling due within one year	16	**(1,642,679)**	(1,826,724)
Net current liabilities		**(385,609)**	(325,495)
Total assets less current liabilities		**(6,254)**	(70,745)
Creditors: Amounts falling due after more than one year	16	**(17,084)**	(16,162)
Provisions for liabilities and charges	17	**-**	(26,798)
Net liabilities		**(23,338)**	(113,705)
Capital and reserves – equity			
Called-up share capital	18	**10,000**	10,000
Share premium account	19	**242,213**	242,213
Profit and loss account	19	**(275,551)**	(365,918)
Total shareholder's deficit	19	**(23,338)**	(113,705)

Signed on behalf of the Board

M.D. Stewart.

M D Stewart
Director

18 October 2002

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

Notes to accounts

1 Accounting policies

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

a) Basis of accounting

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

The Company maintains a 52-53 week fiscal year ending on the Sunday nearest to 30 June in each year. In fiscal 2002, this date was 30 June 2002, this being a 52 week year (2001: 1 July 2001, 52 week year).

The Company has taken advantage of the exemption from preparing consolidated accounts afforded by section 228 of the Companies Act 1985, because it is a wholly owned subsidiary of BSkyB which prepares consolidated accounts which are publicly available (see note 22). The Company is also, on this basis, exempt from the requirement of FRS 1 (Revised) to present a cash flow statement.

b) Turnover

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

- Direct-To-Home subscription, wholesale and pay per view revenues are recognised as these services are provided.
- Advertising sales revenues are recognised when the advertising is broadcast.
- Interactive turnover includes income from online advertising, internet, e-commerce, interconnect and text services. Revenues on transactional and interactive sales are recognised when the goods or services are delivered.
- Other revenue principally includes marketing contributions from third party channels and platform access fees. Other revenues are recognised, net of any discount given, when the relevant service has been provided.

c) 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:

Leasehold improvements	Lower of lease period or life of the asset
Equipment, fixtures and fittings:	
- Fixtures and fittings	10% - 20%
- Computer equipment	20% - 33 $^1/_3$%
- Technical equipment	10% - 20%
- Motor vehicles	25%

Notes to accounts (continued)

1 Accounting policies (continued)

d) Investments

Investments in subsidiary undertakings are stated at cost. Provision is made for any impairment.

Shares in BSkyB held by the Employee Share Ownership Plan ("ESOP") are included in the balance sheet as a fixed asset investment until such time as the interest in the shares is transferred unconditionally to the employees. Provision is made for any permanent diminution in the value of shares held by the ESOP.

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

Other fixed asset investments are stated at cost, less any provision for permanent diminution in value.

e) Interests in joint ventures

Interests are stated at cost less provision for any impairment. Provision is made within creditors where the amount provided against individual investments is greater than the investment to date. The Directors have taken the prudent approach of providing against the Company's investments such that the carrying value of the investment reflects the Company's share of the underlying net assets.

Amounts provided may be written back when the Company's share of the underlying net assets of the joint venture increases.

f) Stocks

Raw materials and consumables are stated at the lower of cost and net realisable value.

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

Contractual obligations for programme rights not yet available for transmission are not included in the cost of programme rights, but are disclosed as contractual commitments (see note 20). Programme payments made in advance of the Company having availability to transmit the related acquired and commissioned programmes are treated as prepayments.

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

Notes to accounts (continued)

1 Accounting policies (continued)

f) Stock (continued)

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

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

g) Transponder rentals

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

h) Taxation

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

i) Deferred taxation

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

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

Deferred tax is 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.

Notes to accounts (continued)

1 Accounting policies (continued)

j) 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.

k) Pension costs

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

l) 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.

2 Turnover

All turnover is derived from the Company's sole class of business, being television broadcasting together with certain ancillary functions, and arises principally within the United Kingdom from activities conducted within the United Kingdom, with the exception of £62,416,000 (2001: £32,556,000) which arises from Eire.

The Company's turnover has been analysed as follows:	**2002** **£000**	2001 £000
Direct-to-home subscribers	**1,929,240**	1,536,696
Cable and DTT subscribers	**279,360**	299,139
Advertising	**252,851**	270,467
Interactive	**26,736**	6,716
Other	**38,343**	23,850
	2,526,530	2,136,868

Notes to accounts (continued)

3 Operating expenses, net

	Before exceptional items £000	Exceptional items (see note 4) £000	Total 2002 £000	Total 2001 £000
Programming*	**1,426,639**	**-**	**1,426,639**	1,127,512
Transmission and related functions*	**123,114**	**(4,134)**	**118,980**	122,255
Marketing	**385,295**	**-**	**385,295**	383,615
Subscriber management	**168,973**	**-**	**168,973**	124,068
Administration	**189,556**	**22,340**	**211,896**	174,589
	2,293,577	**18,206**	**2,311,783**	1,932,039

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

4 Exceptional items

	2002 (Charge) credit before taxation £000	2002 Taxation credit (charge) £000	2002 Total £000	2001 Before and after taxation Total £000
Provision against remaining unprovided ITV Digital programming debtors (a)	**(22,340)**	**6,702**	**(15,638)**	-
Release of analogue termination provision (b)	**4,134**	**(1,240)**	**2,894**	-
Exceptional operating items	**(18,206)**	**5,462**	**(12,744)**	-

(a) ITV Digital

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

(b) Release of analogue termination provision

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

5 Amounts written back to (written off) fixed asset investments

The Company participates in various joint ventures. Most of these are held via one of its wholly-owned subsidiary undertakings, Sky Ventures Limited. Funding is provided by the Company to these joint ventures via Sky Ventures Limited. The net provision written back against investments during the year of £275,000 (2001: £131,200,000 written off), relates principally to the release of a provision against funding to Sky Ventures Limited, partly offset by a provision made for operating losses in Sky 5 Text Limited. The joint venture interest in Sky 5 Text Limited is held directly by the Company, rather than Sky Ventures Limited. In 2001, the provision related principally to the underlying pre-acquisition operating losses in British Interactive Broadcasting Limited ("BiB").

6. Interest

a) Interest receivable and similar income

	2002	2001
	£000	£000
Interest receivable on funding to joint ventures	**259**	10,016
Intercompany interest receivable	**10,521**	1,703
Other interest receivable and similar income	**8,103**	3,362
	18,883	15,081

Interest receivable on funding to joint ventures relates to debentures and an uncommitted loan to BiB (BiB was a joint venture until 9 May 2001, from which date it became a subsidiary of the Group), payable at LIBOR plus 1.0%. Intercompany interest is receivable on loans to BiB (after 9 May 2001 when BiB became a subsidiary of the Group) and Sky Ventures Limited (see note 13). Other interest is receivable on bank deposits.

b) Interest payable and similar charges

	2002	2001
	£000	£000
Intercompany interest payable	**110,760**	89,864
Other interest payable and similar charges	**360**	280
	111,120	90,144

Intercompany interest payable includes interest on US$650m Guaranteed Notes at 8.20%, £100m Guaranteed Notes at 7.75%, interest on a £300 million revolving credit facility ("RCF") at between 0.50% and 1.75% above LIBOR, and interest on a £750 million RCF at between 0.50% and 1.40% above LIBOR, all recharged from BSkyB. All Guaranteed Notes are repayable in full in 2009, and the RCFs are both repayable in full in 2004.

In addition interest was payable at LIBOR plus 1% on an uncommitted loan from BSkyB Interactive Investments Limited ("BIIL"). On 14 August 2002, BIIL was liquidated and no further interest is payable after this date (see note 24).

7 Profit (loss) on ordinary activities before taxation

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

	2002 £000	2001 £000
Depreciation (see note 10)		
- owned assets	**50,193**	43,388
- assets held under finance leases	**1,258**	-
Rentals on operating leases and similar arrangements: land and buildings	**6,079**	5,231
Rentals on operating leases and similar arrangements: plant and machinery	**71,273**	105,540
Staff costs (see note 8)	**166,807**	150,360

Amounts payable to the auditors are analysed below:

	2002 £000	2001 £000
Audit services	**693**	596
Taxation advice	**356**	619
Other	**704**	-
Audit and audit related services	**1,753**	1,215
Website development	**512**	5,997
Other	**706**	1,403
Non-audit related services	**1,218**	7,400

8 Staff costs

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

	2002 £000	2001 £000
Wages and salaries	**128,494**	112,223
Costs of LTIP and Key Contributor Plan ("KCP") and other share related schemes	**17,018**	13,923
Social security costs	**13,556**	17,998
Other pension costs	**7,739**	6,216
	166,807	150,360

Awards under the KCP made in 2000 take the form of a contingent right to acquire existing BSkyB shares at the vesting date. Awards under the KCP made in 2001 take the form of a market value option to acquire BSkyB ordinary shares with a cash bonus equal to the exercise price of the option. In the case of the latter, to the extent that the market price of the share at the date of vesting of such awards is below the exercise price at the date of exercise, awards are satisfied by a transfer of shares. The number of shares received varies to the extent that performance conditions have been achieved.

Notes to accounts (continued)

8 Staff costs (continued)

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

	2002 Number	2001 Number
Programming	**998**	1,134
Transmission and related functions	**1,133**	1,032
Marketing	**184**	164
Administration	**773**	852
	3,088	3,182

b) Directors emoluments

The remuneration of the Directors was as follows:

	2002 £000	2001 £000
Emoluments	**3,913**	3,678
Amounts received under the LTIP	**5,632**	-
Company contributions to defined contribution pension schemes	**108**	88
	9,653	3,766

Awards under the LTIP take the form of a market value option with a cash bonus equal to the exercise price. The above amounts represent the cash bonus elements of the LTIP awards which vested during the year (i.e. amounts equivalent to the market value of the shares subject to these awards at the date they were granted), and do not include any amounts in respect of gains on options exercised as a result of the LTIP vesting. In 2001, as the market price of a share at the date of vesting of the LTIP was below the exercise price, the awards were treated as lapsed. Instead, participants received shares, for no consideration, equal to the value of their vested awards and no cash bonus was paid.

3 Directors (including the highest paid director) exercised share options in the year (2001: 3 Directors)

All Directors are members of the BSkyB Group defined contribution pension scheme.

The above amounts for remuneration include the following in respect of the highest paid director:

	2002 £000	2001 £000
Emoluments and amounts received under the LTIP	**5,519**	1,937
Company contributions to defined contribution pension schemes	**29**	28

Details of movements on share options and awards for Directors are given in the Directors' Report on page 2.

Notes to accounts (continued)

8 Staff costs (continued)

c) Pensions

The Company operates a defined contribution pension scheme, contributions to which are charged to the profit and loss account as they become payable. The pension charge for the year represents contributions payable by the Company to the scheme and amounted to £7,739,000 (2001: £6,216,000).

9 Taxation

a) Analysis of (charge) credit in year	2002	2001
	£000	£000
Tax (charge) credit on loss on ordinary activities:		
Deferred tax movement on exceptional items (see note 4)	**5,462**	-
Deferred tax movement	**(37,334)**	(40,005)
Withholding tax	**(92)**	-
Group relief payable relating to prior year	**(454)**	-
	(32,418)	(40,005)

b) Factors affecting the tax charge (credit) for the year

The tax charge for the year is higher than the standard rate of corporation tax in the UK (30%) (2001: 30%). The differences are explained below:

	2002	2001
	£000	£000
Profit (loss) on ordinary activities before tax	**122,786**	(1,454)
Profit (loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	**36,836**	(436)
Effects of:		
Non deductible amounts written off fixed asset investments	**-**	39,366
Other expenses not deductible for tax purposes	**2,266**	4,333
Depreciation for the year in excess of capital allowances	**14,310**	(880)
Tax losses utilised	**(40,662)**	(31,151)
Group relief claimed from other BSkyB companies for no charge	**(8,010)**	(4,692)
Other timing differences	**(4,740)**	(6,540)
Withholding tax	**92**	-
Group relief payable relating to prior year	**454**	-
Current tax charge for the year (see note 9a)	**546**	-

Notes to accounts (continued)

10 Tangible fixed assets

The movement in the year was as follows:

	Freehold land £000	Leasehold improvements £000	Equipment, fixtures and fittings £000	Total £000
Cost				
Beginning of year	5,397	77,775	325,518	408,690
Additions	527	3,045	57,289	60,861
Disposals	-	-	(357)	(357)
End of year	**5,924**	**80,820**	**382,450**	**469,194**
Depreciation				
Beginning of year	-	38,586	170,164	208,750
Charge	-	3,453	47,998	51,451
Disposals	-	-	(36)	(36)
End of year	-	**42,039**	**218,126**	**260,165**
Net book value				
Beginning of year	5,397	39,189	155,354	199,940
End of year	**5,924**	**38,781**	**164,324**	**209,029**

Included within equipment, fixtures and fittings are assets held under finance leases with a net book value of £3,611,000 (2001: £3,868,000). £1,258,000 of depreciation was charged on these assets in the year (2001: nil). Freehold land of £5,924,000 (2001: £5,397,000) has not been depreciated.

11 Fixed asset investments

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

	2002 £000	2001 £000
Loans and subscription for shares in subsidiary undertakings (a)	**127,642**	35,548
Loans and subscription for shares in joint ventures (b)	-	205
Investment by ESOP in BSkyB shares (c)	**42,184**	19,057
Other investments	**500**	-
	170,326	54,810

Notes to accounts (continued)

11 Fixed asset investments (continued)

(a) Loans and subscription for shares in subsidiary undertakings

The movement in the year was as follows:	2002 £000	2001 £000
Cost and funding		
Beginning of year	**521,006**	127,236
Subscription for shares	**85,636**	-
Loans advanced in year, net	**5,678**	132,030
Transfer from joint ventures – equity	-	129,740
Transfer from joint ventures – other loans	-	132,000
End of year	**612,320**	521,006
Amounts provided		
Beginning of year	**485,458**	70,038
Amounts (written back) provided (see note 5)	**(780)**	153,680
Transfer from joint ventures – cumulative provisions	-	261,740
End of year	**484,678**	485,458
Net book value		
Beginning of year	**35,548**	57,198
End of year	**127,642**	35,548

All loans to subsidiary undertakings are non-interest bearing, except for a loan of £3,435,000 (2001: £3,435,000) to Sky Ventures Limited, a subsidiary undertaking, which bears interest at LIBOR plus 1.0%.

(b) Loans and subscription for shares in joint ventures

The movement in the year was as follows:	2002 £000	2001 £000
Cost and funding		
Beginning of year	**2,826**	127,593
Loans advanced in year, net	**300**	136,973
Transfer to subsidiary undertakings – equity and debentures	-	(129,740)
Transfer to subsidiary undertakings – other loans	-	(132,000)
End of year	**3,126**	2,826
Amounts provided		
Beginning of year	**2,621**	109,910
Amounts provided (see note 5)	**505**	131,220
Utilisation of provision	-	22,961
Transfer from (to) creditors	-	270
Transfer to subsidiary undertakings – cumulative provisions	-	(261,740)
End of year	**3,126**	2,621
Net book value		
Beginning of year	**205**	17,683
End of year	-	205

Notes to accounts (continued)

11 Fixed asset investments (continued)

Fixed asset investments shown in notes 11(a) and 11(b) above represent the cost of the shares of the wholly-owned subsidiary undertakings and joint ventures (see note 25) plus advances and subscriptions for shares in these undertakings, less provisions for permanent diminution in value

During 2001, BSkyB acquired the remaining 67.5% of issued share capital of BiB, 47.6% on 9 May 2001 and 19.9% on 28 June 2001. As a result, from 9 May 2001 BiB has been treated as a subsidiary undertaking within the accounts of the Company. As part of the acquisition, BiB converted its debentures into Ordinary Share capital, thus diluting the Company's investment in BiB to 19.9%.

(c) Investment by ESOP in BSkyB shares

The movement in the year was as follows:

	Number of Ordinary Shares	Carrying Value £000
At beginning of year	3,354,512	19,057
Share options exercised during the year	(654,875)	(3,750)
Shares purchased during the year	3,900,000	26,877
At end of year	**6,599,637**	**42,184**

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

As at 30 June 2002, the ESOP held 6.6 million Ordinary Shares in the BSkyB Group plc (2001: 3.4 million) at an average value of £6.39 per share (2001: £5.68 per share). The 0.7 million Ordinary Shares utilised during the year relate to the vesting of awards under the KCP.

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

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

12 Stocks

	2002 £000	2001 £000
Television programme rights	**364,183**	351,864
Raw materials and consumables	**84**	150
	364,267	352,014

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

13 Debtors

	2002 £000	2001 £000
Amounts falling due within one year:		
Trade debtors	**151,942**	209,422
Amounts owed by fellow subsidiary undertakings	**407,904**	369,910
Amounts owed by subsidiary undertakings	**52,904**	95,413
Amounts owed by joint ventures	**13,074**	10,813
Amounts owed by related parties (see note 21)	**1,104**	9
Other debtors	**2,657**	2,327
Prepaid programme rights	**68,541**	51,356
Prepaid transponder rentals	**5,668**	7,935
ACT recoverable	**18,200**	-
Deferred tax asset (see note 14)	**2,070**	-
Other prepayments and accrued income	**51,370**	51,076
	775,434	798,261

	2002 £000	2001 £000
Amounts falling due after more than one year:		
Prepaid programme rights	**38,623**	78,329
Prepaid transponder rentals	**9,480**	10,235
Deferred tax asset (see note 14)	**3,506**	37,448
ACT recoverable	**11,238**	8,000
Other prepayments and accrued income	**1,667**	1,500
	64,514	135,512

No interest is charged on amounts owed by fellow subsidiary undertakings or subsidiary undertakings, except as described below. All balances are repayable on demand.

The Company has loaned £87,800,000 (2001: £19,700,000) (net of provisions of £261,740,000 in 2002 and 2001) to BiB on which interest is charged at LIBOR plus 1.0%. This loan was matched by an equal amount that was loaned to the Company by British Interactive Investments Limited ("BIIL") on which interest has been charged at LIBOR plus 1.0% (see note 16). The loan from BIIL is repayable only to the extent that the loan to BiB has been repaid and therefore these two loans have been offset. Interest accrued on the loan to BiB is included within amounts owed by fellow subsidiary undertakings (see above) and interest accrued on the loan from BIIL is included within amounts owed to subsidiary undertaking (see note 16).

On 25 January 2002, the Company entered into 5 revolving credit facility arrangements ("RCFs") with a fellow subsidiary undertaking, British Sky Broadcasting Finance Limited ("BSkyB Finance"). At the same time, BSkyB Finance entered into reciprocal facilities on the same terms with the following group undertakings:

13 Debtors (continued)

- Sky Sports Ventures Limited
- WAP TV Limited
- Surrey Group Limited
- Sky New Media Ventures Limited
- Sky Subscribers Services Limited ("SSSL")

Each of these facilities was for £100 million, with the exception of the RCF with SSSL, which is for £500 million. All of the RCFs are repayable on demand and are non-interest bearing.

14 Deferred tax

	2002 £000	2001 £000
Included within debtors due within one year:		
- accelerated capital allowances	**2,070**	-
- tax losses carried forward	**-**	-
- other	**-**	-
	2,070	-
Included within debtors due after more than one year:		
- accelerated capital allowances	**3,506**	(8,734)
- tax losses carried forward	**-**	40,662
- other	**-**	5,520
	3,506	37,448
Deferred tax asset		
Beginning of year	**37,448**	77,453
Charge in the profit and loss account during the year	**(31,872)**	(40,005)
End of year	**5,576**	37,448

A deferred tax asset of £5,576,000 has been recognised at 30 June 2002 (30 June 2001: £37,448,000) (see note 9). This asset has arisen principally as a result of depreciation exceeding capital allowances. Given recent and forecast trading, the Directors are of the opinion that the level of profits in the foreseeable future is more likely than not to be sufficient to recognise the remaining deferred tax asset.

15 Cash at bank and in hand

In accordance with the terms of the Group's arrangements with Midland Bank, the cash at bank balance is offset against borrowings elsewhere within the Group and so is not available for any other purpose. No interest is receivable from other group undertakings in respect of these arrangements.

16 Creditors

	2002 £000	2001 £000
Amounts falling due within one year:		
Trade creditors	**15,426**	19,815
Programme creditors	**245,585**	299,400
Amounts due to parent company	**808,951**	989,604
Amounts due to fellow group undertakings	**76,205**	30,620
Amounts due to subsidiary undertakings	**24,837**	64,198
Amounts due to joint ventures	**8,068**	5
Amounts due to related parties (see note 21)	**17,714**	12,469
UK corporation tax	**4,739**	4,739
VAT	**97,822**	58,487
Social security and PAYE	**4,497**	3,959
Other creditors	**19,828**	3,275
Obligations under finance leases	**1,342**	1,934
Accruals and deferred income	**317,665**	338,219
	1,642,679	1,826,724
Amounts falling due after more than one year:		
Obligations under finance leases	**126**	967
Accruals and deferred income	**16,958**	15,195
	17,084	16,162

No interest is charged on amounts due to fellow subsidiary undertakings or joint ventures, except as described in note 13. These amounts are repayable on demand.

An amount of £38,277,000 (2001: £17,667,000) due to the parent undertaking represents the loan from BSkyB to the ESOP to enable it to purchase the shares in BSkyB as disclosed in note 11. No interest is payable on the loan and the loan is repayable on demand.

In the prior year amounts due to subsidiary undertakings included a loan of £261,740,000 which was only repayable from repayment of loans to BiB. In the current year these balances have been netted against the loan to BiB (see note 13).

Obligations under finance leases are repayable as follows:

	2002 £000	2001 £000
Amounts payable		
– within one year	**1,342**	1,934
– between one and two years	**126**	967
	1,468	2,901

New finance leases of £1.0 million were entered into during the year in respect of information technology assets. Repayments of £2.4 million (2001: £1.0 million) were made during the year. The finance lease bears interest at 0%.

Notes to accounts (continued)

17 Provisions for liabilities and charges

	Transition provision £000	Analogue termination provision £000	2002 Total £000	2001 Total £000
At beginning of year	**18,587**	**8,211**	**26,798**	223,638
Released to profit and loss account	**-**	**(4,134)**	**(4,134)**	-
Utilised in year	**(18,587)**	**(4,077)**	**(22,664)**	(196,840)
At end of year	**-**	**-**	**-**	26,798

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

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

18 Called-up equity share capital

	2002 £000	2001 £000
Authorised		
12,000,000 Ordinary Shares of £1 each	**12,000**	12,000
Allotted, called-up and fully-paid		
10,000,002 Ordinary Shares of £1 each	**10,000**	10,000

19 Reconciliation of movements in shareholder's deficit

	Share capital £000	Share premium account £000	Profit and loss account £000	Total shareholder's deficit £000
As at 1 July 2001	**10,000**	**242,213**	**(365,918)**	**(113,705)**
Profit for the year	-	-	90,367	90,367
As at 30 June 2002	**10,000**	**242,213**	**(275,551)**	**(23,338)**

Notes to accounts (continued)

20 Guarantees and other financial commitments

a) Future expenditure

	2002 **£000**	2001 £000
Contracted for but not provided for in the accounts		
- set-top boxes and related equipment	**104,940**	73,800
- television programme rights	**2,165,616**	2,839,100
- third party payments	**58,333**	63,991
- capital expenditure	**1,780**	6,849
	2,330,669	2,983,740

Of the commitments for television programme rights, some £1,005 million (2001: £1,147 million) relates to commitments which are payable in US dollars and are for periods of up to seven years. At 30 June 2002 the US dollar commitments have been translated at the year end rate of US$1.5347: £1 (2001: US$1.4041: £1), except for US$585 million (2001: US$462 million) covered by forward rate contracts or other hedging instruments, where the average forward or hedged rate of US$1.3856: £1 (2001: US$1.4281: £1) has been used.

According to the terms of certain of the movie programme rights contracts, the minimum contracted amount is subject to price escalation clauses. The extent of the escalation, and hence of the commitment, is dependent both upon the number of subscribers to the relevant movie channel and upon the audience achieved on US theatrical release. If subscriber numbers were to remain at 30 June 2002 levels, the commitment in respect of subscriber escalation would be some £251 million (US$386 million) (2001: £377 million (US$529 million)) and would be in addition to the figures shown above. Certain contracts may be extended at the licensor's option depending on subscriber levels to the relevant movie channel.

At 30 June 2002 we had minimum third party payment commitments in respect of distribution agreements for the Sky distributed channels of approximately £58.3 million (2001: approximately £64 million). An additional £885.3 million of commitments would also be payable, assuming that DTH subscribers remained unchanged from the current levels.

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

b) Contingent liabilities

The Company has contingent liabilities by virtue of its indirect investments in unlimited companies or partnerships, which include Nickelodeon UK, The History Channel (UK), Paramount UK, QVC and National Geographic Channel UK. The Directors do not expect any material loss to arise from the above contingent liabilities.

c) Guarantees

The Company has given joint and several guarantees, together with Sky Subscribers Services Limited, a wholly owned subsidiary, in relation to the £300 million and the £750 million revolving credit facilities partially drawn down by its parent undertaking, BSkyB.

20 Guarantees and other financial commitments (continued)

The Company has given joint and several guarantees, together with Sky Subscribers Services Limited, in relation to the issue in the US public debt market of US$300 million of 7.30% Guaranteed Notes repayable in October 2006, US$600million of 6.875% Guaranteed Notes repayable in February 2009 and in relation to US$650 million and £100 million 10 year global bonds issued under Regulation S/144A and subsequently registered with the SEC, both repayable in July 2009.

d) Lease and similar commitments

The Company 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 Company has agreements for the use of transponders on the Astra and Eutelsat satellites.

The minimum annual rentals under these arrangements are as follows:	Property £000	Transponder, computer and technical equipment £000	Total £000
Year ended 30 June 2002			
Operating leases and similar arrangements which expire:			
- within one year	**808**	**387**	**1,195**
- between two and five years	**364**	**10,591**	**10,955**
- after five years	**7,701**	**43,104**	**50,805**
	8,873	**54,082**	**62,955**
Year ended 30 June 2001			
Operating leases and similar arrangements which expire:			
- within one year	89	4,077	4,166
- between two and five years	1,438	3,498	4,936
- after five years	5,481	53,126	58,607
	7,008	60,701	67,709

At 30 June 2002, the Company had no forward rate contracts to purchase Euros. At 30 June 2001, the Company had forward rate contracts to purchase Euros 32,673,000, covering certain commitments in relation to transponder rental costs, at average rates of Euros 1.6058: £1.

21 Transactions with related parties

The Group, including the Company, conducts business transactions on a normal commercial basis with, and receives a number of services from, shareholder companies or members of their groups and associated undertakings. These transactions are described in the consolidated accounts of the Group.

The Company has taken advantage of the exemption given by Financial Reporting Standard 8 "Related Party Disclosures" not to provide further details of transactions with fellow group undertakings and other related parties as it is a wholly owned subsidiary of BSkyB and disclosures of such transactions are made in the consolidated accounts of the Group, which are publicly available.

Notes to accounts (continued)

22 Ultimate parent undertaking

The Company is a wholly-owned subsidiary undertaking of British Sky Broadcasting plc, a company incorporated in Great Britain and registered in England and Wales. The only group in which the results of the Company are consolidated is that headed by BSkyB.

The consolidated accounts of this Group are available to the public and may be obtained from the Company Secretary, British Sky Broadcasting Group plc, Grant Way, Isleworth, Middlesex, TW7 5QD.

23 Financing

The Company's balance sheet at 30 June 2002 shows net liabilities of £23,338,000 and net current liabilities of £385,609,000.

The Directors of BSkyB have confirmed that they will continue to provide support to British Sky Broadcasting Limited to enable the Company to meet its liabilities as they fall due for at least the next twelve months from the date of signing the accounts.

Accordingly the accounts have been prepared assuming that the Company will continue as a going concern.

24 Subsequent Events

On 14 August 2002, BIIL, a wholly owned subsidiary of the Company was placed into Members Voluntary Liquidation. On the same date, BIIL assigned £115.9 million to the Company as a first and final distribution of its assets. In addition BIIL assigned all and any rights under the Loan Agreement signed 15 November 1999 to the Company.

This assignment offset amounts owed to BIIL under the Loan Agreement by the Company at 14 August 2002, totalling £115.9 million. This resulted in a net credit to the profit and loss account of £25.1 million in the year ended 30 June 2003, being the excess of the assets distributed over the £90.8 million carrying value of the investment in BIIL in the Company.

Notes to accounts (continued)

25 Principal investments

Details of the principal investments of the Company are as follows:

Name	Country of incorporation/ registration	Description and proportion of shares held (%)	Principal activity
Direct holdings			
Sky Subscribers Services Limited	England and Wales	2 Ordinary Shares of £1 each (100%)	Providing ancillary functions supporting the satellite television broadcasting operations of the Company
Sky Ventures Limited	England and Wales	912 Ordinary Shares of £1 each (100%)	Holding company for joint ventures
British Sky Broadcasting SA	Luxembourg	12,500 Ordinary Shares of £12 each (100%)	Digital satellite transponder leasing company
Sky New Media Ventures plc	England and Wales	12,500 Ordinary Shares of £1 each (100%)	Holding company for new media investments
British Interactive Broadcasting Holdings Limited (i)	England and Wales	129,740 Ordinary Shares of £1 each (19.9%)	The transmission of interactive services
Joint ventures			
Sky Five Text Limited	England and Wales	1 Ordinary Share of £1 (50%)	The transmission of a text service for Channel 5

(i) The remaining 80.1% is held by BSkyB (see note 11).

26 Regulatory update

Office of Fair Trading ("OFT")

The OFT announced its current investigation of the Group on January 11, 2000. The investigation initially commenced under the Fair Trading Act 1973. On December 5, 2000, the OFT indicated that it wished to continue its inquiry under the Competition Act, and on December 17, 2001, the OFT announced that it had issued a Rule 14 Notice to the Group and proposed to make a decision that the Group had behaved anti-competitively, infringing UK competition law. The Group maintained that it had not infringed the Competition Act and welcomed the opportunity to put its case to the OFT.

On January 18, 2002, the Group informed the cable companies and ITV Digital that it was modifying its wholesale prices for its premium channels to be consistent with the OFT's new position on wholesale pricing set out in its Rule 14 Notice. The effect of these new wholesale prices has been broadly neutral on the Group's wholesale revenue. These prices were modified further with effect from July 1, 2002, again for consistency with the OFT's position. The effect of these new wholesale prices is expected to be broadly neutral on the Group's wholesale revenue. Both of these sets of modifications addressed, but in no way implied acceptance of, the allegations made by the OFT against the Group in its Rule 14 Notice.

Notes to accounts (continued)

26 Regulatory update (continued)

In April and May 2002, the Group submitted written and oral representations to the OFT on its Rule 14 Notice. Since then, the Group has responded to further requests from the OFT for information. The Group is presently awaiting the OFT's response to the Group's written and oral representations on the Rule 14 Notice and to the further information the Group has provided. An adverse decision would be appealable to the Competition Commission Appeal Tribunal.[1]

EC investigation

The European Commission is currently investigating certain agreements, decisions or practices leading to the acquisition of broadcasting rights to football events within the EEA, including the sale of exclusive broadcast rights to Premier League football by The Football Association Premier League Limited ("FAPL"). It is too early to assess whether the investigation will have any impact on the Group's current agreements for FAPL rights, which were notified to the European Commission on June 21, 2002 seeking either a clearance or exemption from Article 81 of the EC Treaty. The FAPL has also notified the rules of the FAPL to the European Commission.[1]

Ireland

The Group is currently not regulated by the Irish national telecommunication regulatory authority, the Office of the Director of Telecommunication Regulation ("ODTR"). The services offered by the Group fall under the jurisdiction of Oftel and the ITC in the UK. On August 16, 2002 the ODTR published a consultation document in respect of the implementation, in Ireland, of a package of new directives concerning the electronic communications sector adopted by the European Union in April 2002. It is possible, depending on how they are implemented, that the ODTR may seek to regulate the Group's Irish operations. In addition, the Government of Ireland has indicated it may introduce a list of designated events (pursuant to the Broadcasting (Major Events Television Coverage) Act 1999) in respect of television coverage in Ireland of certain events of major importance to Irish society. The Irish Cabinet adopted such a list of events on 15 October 2002 and is expected to present it to the Irish Parliament shortly thereafter. It is too early to say what impact this legislation (following the introduction of the list) may have on our business in Ireland.

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