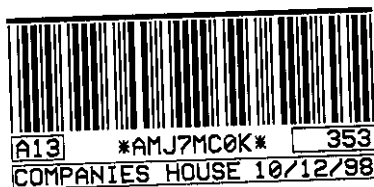


British Sky Broadcasting Limited

Accounts for the year ended 30 June 1998
together with Directors' and Auditors' reports

Registered number: 2906991



Directors and Officers

For the year ended 30 June 1998

Directors

The company's present directors and those who served during the year are as follows:

M W Booth	(appointed 3 December 1997)
R J Brooke	(resigned 21 November 1997)
N J Carrington	(deceased 6 March 1998)
D C Chance	(resigned 30 June 1998)
S H Chisholm	(resigned 3 December 1997)
C K Mackenzie	(resigned 29 August 1997)
M D Stewart	(appointed 4 June 1998)

Secretary

D J Gormley	(appointed 29 August 1997)
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Registered office

Grant Way
Isleworth
Middlesex
TW7 5QD

Auditors

Arthur Andersen
1 Surrey Street
London
WC2R 2PS

Directors' report (continued)

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 1998.

Principal activity and business review

The company operates the leading pay-television broadcasting service in the United Kingdom. The company's principal activities consist of the operation and distribution of eleven wholly-owned television channels including six premium channels: Sky Movies Screen 1, Sky Movies Screen 2, Sky Movies Gold, Sky Sports 1, Sky Sports 2 and Sky Sports 3, and five basic channels: Sky One, Sky News, The Computer Channel, Sky Soap and Sky Travel (the "Sky Basic Channels"). In addition, the company currently markets to direct-to-home viewers channels owned and broadcast by third parties (the "Sky Distributed Channels"). The Sky Distributed Channels include The Disney Channel which is a premium bonus channel. The Sky Distributed Channels (excluding The Disney Channel) and the Sky Basic Channels comprise a basic tier of programming known as the Sky Multi-Channels Package.

Results for the year

The profit before taxation for the financial year was £273.7 million (1997 - £357.8 million). A dividend of £24.80 per ordinary share (1997 - £34.08 per ordinary share), in aggregate £248.0 million (1997 - £340.8 million) is proposed for the year ended 30 June 1998.

Directors and their interests

The directors of the company are shown on page 1.

M W Booth, D C Chance and M D Stewart are also directors of British Sky Broadcasting Group plc ("BSkyB"). The interests of these directors in the share capital of BSkyB are shown in the accounts of that company for the year ended 30 June 1998.

Charitable and political contributions

Charitable contributions in the UK amounted to £318,984 during the year (1997 - £368,000). No political contributions were made during the year or the prior year.

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 31 days' purchases outstanding at 30 June 1998 (1997: 31 days) based on the total amount invoiced by non-programme trade suppliers during the year ended 30 June 1998. 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 31 days (1997: 31 days).

Directors' report (continued)

Employment policies

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

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

Employee consultation

It is the policy of the company to develop employee involvement throughout the organisation and to ensure that employees are aware of the financial and economic factors affecting the company.

Communication meetings between management and employees' representatives are held both formally and informally, where matters of specific interest are discussed. Consultation with employees or their representatives occurs on a regular basis covering pensions and health and safety and their views are taken into consideration when making decisions. The company publishes an employee newspaper covering a wide range of employee issues. Employees also have the opportunity to participate in a range of training programmes.

BSkyB operates a profit related pay scheme and pension scheme for the benefit of all eligible employees.

Environmental responsibility

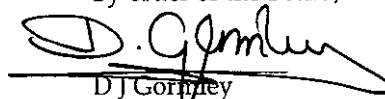
The company recognises the importance of environmental responsibility. The nature of its activities have a minimal effect on the environment but where they do the company acts responsibly and is aware of its obligations at all times.

Auditors

The directors passed an Elective Resolution on 6 April 1995 to dispense with the annual reappointment of auditors.

Grant Way
Isleworth
Middlesex
TW7 5QD

By order of the Board,



DJ Gormley
Company Secretary

2 October 1998

Directors' and auditors' responsibilities

Directors' responsibilities

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

- to select suitable accounting policies and then apply them consistently;
- to make judgements and estimates that are reasonable and prudent;
- to state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- to prepare the accounts on the going concern basis unless it is inappropriate to presume that the 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 to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that these accounts comply with these requirements.

Auditors' responsibilities

Company law requires the auditors to form an independent opinion on the accounts presented by the directors based on their audit and to report their opinion to the shareholders. The Companies Act 1985 also requires auditors to report to the shareholders if the following requirements are not met:

- that the company has maintained proper accounting records and that proper returns adequate for the audit have been received from branches not visited by them;
- that the accounts are in agreement with the accounting records and returns;
- that directors' emoluments and other transactions with directors are properly disclosed in the accounts; and
- that the auditors have obtained all the information and explanations which, to the best of their knowledge and belief, are necessary for the purposes of their audit.

The auditors' opinion does not encompass the directors' report on pages 2 and 3. However, the Companies Act 1985 requires the auditors to report to the shareholders if the matters contained in the report of the directors are inconsistent with the accounts.

Auditors' report

To the Shareholders of British Sky Broadcasting Limited:

We have audited the accounts on pages 6 to 22 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets, and in accordance with the accounting policies set out on pages 8 to 10.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities on page 4, the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

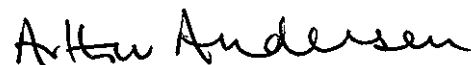
Basis of opinion

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

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

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the company at 30 June 1998 and of the company's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen

Chartered Accountants and Registered Auditors

1 Surrey Street
London
WC2R 2PS

2 October 1998

Profit and loss account

For the year ended 30 June 1998

	Notes	1998 £000	1997 £000
Turnover	2	1,411,624	1,229,299
Operating expenses, net	3	(1,092,359)	(864,485)
Operating profit		319,265	364,814
Amounts written off investments	4	(49,260)	(9,696)
Profit on ordinary activities before interest and taxation		270,005	355,118
Interest receivable and similar income		4,080	2,949
Interest payable and similar charges		(360)	(283)
Profit on ordinary activities before taxation	5	273,725	357,784
Taxation	7	(27,793)	-
Profit for the financial year		245,932	357,784
Dividends - paid and proposed	8	(248,000)	(340,830)
Retained (deficit) profit		(2,068)	16,954

Details of movements in reserves are shown in note 16.

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

All results relate to continuing activities.

Statement of total recognised gains and losses

For the year ended 30 June 1998

There were no recognised gains or losses in the year other than those included within the profit and loss account (1997 - none).

Balance sheet

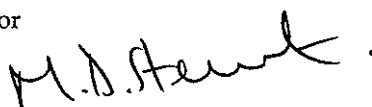
30 June 1998

	Notes	1998 £000	1997 £000
Fixed assets			
Tangible assets	9	129,792	68,640
Investments	10	43,421	37,353
		<u>173,213</u>	<u>105,993</u>
Current assets			
Stocks	11	226,543	213,621
Debtors	12	679,179	776,693
Cash at bank and in hand		65,901	52,065
		<u>971,623</u>	<u>1,042,379</u>
Creditors: Amounts falling due within one year	13	<u>(830,420)</u>	<u>(864,381)</u>
Net current assets		<u>141,203</u>	<u>177,998</u>
Total assets less current liabilities		<u>314,416</u>	<u>283,991</u>
Creditors: Amounts falling due after more than one year	13	(43,167)	-
Provisions for liabilities and charges	14	-	(10,674)
Net assets		<u>271,249</u>	<u>273,317</u>
Capital and reserves			
Called-up equity share capital	15	10,000	10,000
Share premium account	16	242,213	242,213
Profit and loss account	16	19,036	21,104
Shareholders' funds		<u>271,249</u>	<u>273,317</u>

Signed on behalf of the Board

M D Stewart

Director



2 October 1998

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

Notes to accounts

1 Accounting policies

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

a) Basis of accounting

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

The company has taken advantage of Section 228 of the Companies Act 1985 and has not prepared group accounts for the year.

Under the provisions of Financial Reporting Standard Number 1(Revised), the company has not presented a cash flow statement because its ultimate parent company, BSkyB, has prepared consolidated accounts which include the results of the company for the year and for the preceding year and which contain a cash flow statement.

b) Turnover

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

c) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation.

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 land and buildings	4%
Leasehold improvements	Period of lease or life of the asset, whichever is less
Fixtures and fittings	10% - 20%
Computer equipment and software	25% - 33.33%
Technical Equipment	10% - 20%
Motor vehicles	25%

d) Fixed asset investments

Investments in subsidiary undertakings are stated at cost less amounts written off. Provisions are made for diminutions in value. Provision is made within creditors where the amount provided against individual investments is greater than the investment to date.

Notes to accounts (continued)

1 Accounting policies (continued)

d) Fixed asset investments (continued)

The ultimate parent company's shares 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. The investment is included in the company's balance sheet as the majority of the beneficiaries of the ESOP are employed by the company. In the event that the shares are not transferred to the employees on exercise of their options, the carrying cost is adjusted to the mid-market price on the date of exercise, with the excess over cost being offset against the cash cost of the bonus. Provision is made for any permanent diminution in the value of shares held.

e) Stocks

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

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

Contractual obligations for programme rights not yet available for transmission are not included in the cost of television programme rights but are disclosed as contractual commitments (see note 17).

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

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

Sport and current affairs	- 100% on first showing
General entertainment	- Reducing balance on each transmission at the following rates: <ul style="list-style-type: none">- 1 showing planned - 100%- 2 showings planned - 60% : 40%- 3 showings planned - 50% : 30% : 20%
Movies	- Straight-line basis over the period of transmission rights. Where movie rights provide for a second availability window, 10% of the cost is allocated to that window.

f) Transponder rentals

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

Notes to accounts (continued)

1 Accounting policies (continued)

g) *Marketing prepayments*

The cost of satellite reception equipment, together with associated costs, provided to new subscribers at no cost during marketing promotions is recorded as prepaid marketing expenditure. These costs are amortised over the period of subscription to which the customer is contractually committed, typically twelve months.

h) *Taxation*

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

i) *Deferred taxation*

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

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 and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if hedged, at the appropriate hedged rate.

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

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.

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

l) *Operating leases*

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

Notes to accounts (continued)

2 Turnover

All turnover is derived from the company's sole class of business, being satellite and cable television broadcasting, and arises principally within the United Kingdom from activities conducted within the United Kingdom. Subscription revenue is recognised over the period to which it relates.

Included in other turnover is £nil (1997: £14.0 million) relating to the agreement to continue to supply certain programming to ONdigital (previously British Digital Broadcasting) following BSkyB's withdrawal from the consortium. See note 13.

The company's turnover has been analysed as being derived from the following sources:

	1998 £000	1997 £000
Direct-to-home subscribers	967,790	861,018
Cable subscribers	227,774	190,772
Advertising	195,000	149,784
Other (see note 3)	21,060	27,725
	<u>1,411,624</u>	<u>1,229,299</u>

3 Operating expenses, net

	1998 £000	1997 £000
Programming*	687,216	568,425
Transmission and related functions*	69,825	46,921
Marketing	167,884	102,660
Subscriber management	85,455	81,210
Administration	81,979	65,269
	<u>1,092,359</u>	<u>864,485</u>

*The above amounts are net of £31.6 million (1997: £5.6 million) receivable from the disposal of programming rights not acquired for use by the Group, and £32.3 million (1997: £15.1 million) in respect of the provision to third party broadcasters of spare transponder capacity. The amounts for 1997 were previously included within other turnover.

Notes to accounts (continued)

4 Amounts written off investments

The company holds participating interests in various joint ventures, most of these are held via one of its wholly owned subsidiary undertakings, Sky Ventures Limited. Previously these investments were held by several other of the company's wholly owned subsidiaries. These share holdings were transferred to Sky Ventures Limited, at net book value, on 28th June 1998. Funding is provided by the company to these joint ventures via Sky Ventures Limited. The amounts written off investments, £49,260,000 (1997: £9,696,000), correspond to the underlying losses in British Interactive Broadcasting, The National Geographic Channel, The History Channel (UK), Paramount UK, Playboy TV UK/Benelux Limited (Playboy TV), Granada Sky Broadcasting Limited (GSB), Sky 5 Text Limited, Sky Scottish Limited (which closed during the year) and Sky Music Choice (formerly Music Choice Europe). This is stated net of the amount written back in relation to Nickelodeon UK which is equivalent to the underlying profit made during the year.

5 Profit on ordinary activities before taxation

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

	1998 £000	1997 £000
Depreciation, net	10,623	(1,307)
Auditors' remuneration - audit fees	340	365
Operating lease rentals	60,707	54,204
Staff costs (see note 6)	<u>75,579</u>	<u>73,661</u>

In the year to 30 June 1998, fees paid to the auditors for non-audit services amounted to £599,000 (1997 - £1,055,000). These amounts relate principally to due diligence and other financial advisory work, together with corporate tax and VAT services.

The depreciation charge for 1997 is stated net of a £7,395,000 write back of an exceptional provision in respect of the Chilworth facility.

6 Staff costs

a) Employee costs (including executive directors) during the period amounted to:

	1998 £000	1997 £000
Wages and salaries	65,991	62,455
Costs of Additional Executive Bonus Scheme	442	10,897
Social security costs	5,779	5,256
Other pension costs	<u>3,367</u>	<u>2,682</u>
	<u>75,579</u>	<u>81,290</u>

The cost of £442,000 (1997 - £10,897,000) in respect of the Additional Executive Bonus Scheme represents the cost before taking into account the benefit of hedging (see note 10).

Notes to accounts (continued)

6 Staff costs (continued)

The average monthly number of persons, including executive directors, employed by the company during the year was as follows:

	1998 Number	1997 Number
Programming	568	514
Transmission and related functions	707	605
Marketing	84	78
Administration	631	470
	<u>1,990</u>	<u>1,667</u>

b) Directors

The directors receive no remuneration in respect of their services to the company in the year (1997: none).

c) Pensions

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 period represents contributions payable by the company to the fund and amounted to £3,367,000 (1997 - £2,682,000). There were no contributions payable at the year end (1997 - £nil).

7 Taxation

The tax charge for the year is £27,793,000 (1997 - £nil). This is the mainstream corporation tax charge at 31% which has been reduced by brought forward losses and group relief, for which no consideration is payable.

8 Dividends

	1998 £000	1997 £000
Proposed dividend of £24.80 per Ordinary Share (1997 - £34.083)	<u>248,000</u>	<u>340,830</u>

Notes to accounts (continued)

9 Tangible fixed assets

The movement in the year was as follows:

	Freehold land and buildings £000	Leasehold improvements £000	Equipment, fixtures and fittings £000	Total £000
Cost				
Beginning of year	-	38,453	122,562	161,015
Transfers from (to) group companies	-	15,587	(11,011)	4,576
Additions	4,352	8,471	60,356	73,179
Disposals	-	-	(305)	(305)
End of year	<u>4,352</u>	<u>62,511</u>	<u>171,602</u>	<u>238,465</u>
Depreciation				
Beginning of year	-	19,771	72,604	92,375
Transfer from group company	-	5,980	-	5,980
Charge	-	1,683	8,940	10,623
Disposals	-	-	(305)	(305)
End of year	<u>-</u>	<u>27,434</u>	<u>81,239</u>	<u>108,673</u>
Net Book Value				
Beginning of year	<u>-</u>	<u>18,682</u>	<u>49,958</u>	<u>68,640</u>
End of year	<u>4,352</u>	<u>35,077</u>	<u>90,363</u>	<u>129,792</u>

The transfers during the year ended 30 June 1998 relate to leasehold improvements transferred from BSkyB at net book value and equipment, fixtures and fittings transferred to Sky Subscribers Services Limited at net book value.

Included within leasehold improvements and equipment, fixtures and fittings there is £3,999,000 and £42,305,000 respectively which will be depreciated from the commercial launch of digital transmission.

Notes to accounts (continued)

10 Fixed asset investments

Fixed asset investments represent the cost of the share and loan capital of subsidiary undertakings and joint ventures held by the company, less provisions made for diminutions in value.

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

	1998 £000	1997 £000
Loans and subscription for shares in subsidiary undertakings and joint ventures	15,913	9,845
Investment by ESOP in BSkyB Group plc shares	27,508	27,508
	<u>43,421</u>	<u>37,353</u>

Investment in subsidiary undertakings and joint ventures

	1998 £000	1997 £000
Cost and funding		
Beginning of year	30,261	13,170
Subscription for shares	150	244
Loans advanced in year, net	23,343	16,847
Acquisition of additional 9.5% stake in Granada Sky Broadcasting	35,820	-
Transfer of investments to Sky Ventures Limited (see note 4)	(67,206)	-
End of year	<u>22,368</u>	<u>30,261</u>
Amounts written off		
Beginning of year	20,416	9,812
Amounts written off (see note 4)	16,954	9,696
Writedown of investment in GSB to net asset value	32,295	-
Transfer (to) from creditors	(7,277)	908
Transfer of investments to Sky Ventures Limited	(55,933)	-
End of year	<u>6,455</u>	<u>20,416</u>
Net book value		
Beginning of year	<u>9,845</u>	<u>3,358</u>
End of year	<u>15,913</u>	<u>9,845</u>

Fixed asset investments shown above represent the cost of the shares of the wholly-owned subsidiary undertakings and joint ventures (as disclosed on page 22) plus advances and subscriptions for shares in these undertakings, less provision for diminutions in value.

Notes to accounts (continued)

10 Fixed asset investments (continued)

Sale of subsidiary undertakings and joint ventures

On 28 June 1998 the company sold its interest in the ordinary share capital of and loan advances to the following investments, for their respective net book values, to Sky Ventures Limited, a wholly owned subsidiary undertaking of the company:

Subsidiary undertakings/ joint ventures	Interest sold	Cumulative loss up to date of disposal £000	Net book value £000
Kidsprog Limited	100%	1,067	4,269
BSkyB History Limited	100%	(939)	(75)
Granada Sky Broadcasting Limited	49.5%	(3,232)	5,802
Manchester United TV Ltd	33.33%	-	25
BSkyB Nature Limited	100%	(2,437)	773
BSkyB Comedy Limited	100%	(943)	477

Investment by ESOP in BSkyB shares

The movement in the year was as follows:

	Number of ordinary shares	Carrying value £'000
Beginning and end of year	4,842,687	27,508

At the beginning of the year the ESOP held 4,842,687 Ordinary Shares in BSkyB, at a carrying value of £5.71 per share, primarily to hedge substantially all the obligations of the the Additional Executive Bonus Scheme against further increases in BSkyB's share price. The shares were originally acquired on 2 January 1996 at £4.06 per share.

During the year the ESOP purchased 3,132,069 shares (1997- 55,567) which were then transferred to employees on the exercise of options under the Executive and Sharesave Schemes.

At the year end 4,050,533 shares are held as a hedge against current obligations under the Additional Executive Bonus Scheme and Share Option Schemes. The remainder are not currently committed.

The market value of the shares held by the ESOP on the last working day of the financial year was £21.4 million (1997: £21.3 million), and the nominal value was £2.42 million (1997: £2.42 million).

The costs of financing the ESOP are charged to the profit and loss account in arriving at operating profit.

Details of the Executive, Sharesave and Additional Executive Bonus Schemes are given in BSkyB's Annual Report.

Notes to accounts (continued)

11 Stocks	1998 £000	1997 £000
Television programme rights	226,106	212,627
Raw materials and consumables	437	994
	<u>226,543</u>	<u>213,621</u>

At least 68% of all the existing programme rights at 30 June 1998 will be amortised within one year.

12 Debtors

	1998 £000	1997 £000
Amounts falling due within one year:		
Trade debtors	86,877	61,500
Amounts due from fellow subsidiary undertakings	225,001	83,066
Amounts due from parent company	199,513	409,765
Amounts due from subsidiary undertakings	1,865	2,335
Amounts due from joint ventures	6,456	224
Amounts due from related parties (see note 18)	3,656	2,718
Other debtors	4,576	21,268
Programme prepayments	31,455	26,584
Prepaid transponder rentals	18,673	17,837
Other prepayments and accrued income	52,511	78,143
	<u>630,583</u>	<u>703,440</u>
Amounts falling due after more than one year:		
Programme prepayments	27,419	37,500
Prepaid transponder rentals	20,023	29,115
Other prepayments and accrued income	1,154	6,638
	<u>679,179</u>	<u>776,693</u>

Notes to accounts (continued)

13 Creditors

	1998 £000	1997 £000
Amounts falling due within one year:		
Trade creditors	16,297	31,236
Programme creditors	146,842	166,988
Amounts due to parent company	29,473	17,667
Amounts due to fellow subsidiary undertakings	17,358	136
Amounts due to subsidiary undertakings	121,705	131,752
Amounts due to joint ventures	793	327
Amounts due to related parties (see note 18)	49,360	34,924
Corporation tax	15,986	-
VAT	35,926	33,741
Other creditors	12,209	9,596
Accruals and deferred income	134,273	95,394
Social security and PAYE	2,198	1,790
Proposed dividends	248,000	340,830
	<u>830,420</u>	<u>864,381</u>
Amounts falling due after more than one year:		
Accruals and deferred income (see note 2)	43,167	-
	<u>873,587</u>	<u>864,381</u>

No interest is charged on amounts due to the parent company, fellow subsidiary undertakings or joint ventures. These amounts are payable on demand.

An amount of £17.7m (1997: - £17.7m) due to the ultimate parent company represents the loan to the ESOP to enable it to purchase the shares in BSkyB Group plc as disclosed in note 10. No interest is payable on the loan and is repayable on demand.

Following the grant in December 1997 of the three digital terrestrial television licences to ONdigital, £60 million has been received by the Group. This has been 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 Marcopolo property. The net balance after costs will be credited to income over the 5 year period of programme supply.

Notes to accounts (continued)

14 Provisions for liabilities and charges

The movement during the year on the remaining provisions set up on the acquisition of Sky was as follows:

	1998 £000	1997 £000
Beginning of year	10,674	14,603
Utilised up to 31 December 1997	(1,811)	(3,929)
Transfer to creditors	(8,863)	-
End of year	-	10,674

During the period to 31 December 1997 a further £1,811,000 of the provision was utilised. The remaining balance of £8,863,000 was transferred to creditors.

15 Called-up equity share capital

	1998 £000	1997 £000
<i>Authorised</i>		
12,000,000 Ordinary Shares of £1 each	12,000	12,000
<i>Allotted, called-up and fully-paid</i>		
10,000,002 Ordinary Shares of £1 each	10,000	10,000

16 Reconciliation of movement on shareholders' funds

	Share capital £000	Share premium account £000	Profit and loss account £000	Total shareholders' funds £000
As at 1 July 1996	10,000	242,213	4,150	256,363
Profit for the year	-	-	357,784	357,784
Dividends	-	-	(340,830)	(340,830)
As at 1 July 1997	10,000	242,213	21,104	273,317
Profit for the year	-	-	245,932	245,932
Dividends	-	-	(248,000)	(248,000)
As at 30 June 1998	10,000	242,213	19,036	271,249

Notes to accounts (continued)

17 Guarantees and other financial commitments

a) Future expenditure

	1998 £000	1997 £000
Contracted for but not provided for in the accounts		
- television programme rights	1,678,751	1,994,062
- capital expenditure	13,136	24,532
	<u>1,691,887</u>	<u>2,018,594</u>

Of the above commitments for television programme rights, some £788 million (1997 - £990 million) relates to commitments which are payable in US dollars and are for periods up to nine years. At 30 June 1998 all US dollar amounts have been translated at the year end rate of \$1.6679: £1 (1997 - \$1.6683: £1), except for those amounts covered by forward rate contracts or other hedging instruments, where the average forward or hedged rate of \$1.6306 : £1 (1997: \$1.6061: £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 1998 levels, the commitment in respect of subscriber escalation would be some £269 million (\$449 million) (1997 - £483 million (\$807 million)) and would be in addition to the figures shown above.

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

b) Contingent liabilities

On 4 August 1998 the completion agreement for the British Interactive Broadcasting Limited (BiB) joint venture was signed by the group, British Telecommunications Holdings Limited, Midland Bank plc and Matsushita Electric Europe (Headquarters) Limited. The shareholders have agreed to meet a funding requirement of £275 million, according to their shareholdings, of which the group's share is £89.4 million, to establish the technological infrastructure for digitally transmitted interactive services and to establish a base of digital satellite set-top boxes to receive BiB's services.

In preparation for the commercial launch of digital the group has made or contemplates commitments to set-top box manufacturers, in relation to the supply of set-top boxes for the period to October 1999, up to a maximum of £254 million. This amount includes the subsidies which have been committed to by BiB. The commitment will also reduce further as the proportion of boxes sold by the manufacturers into the retail market increases, as opposed to boxes sold to the group for its own direct sales.

Notes to accounts (continued)

17 Guarantees and other financial commitments (continued)

The company has given joint and several guarantees under the £1,000 million Revolving Credit Facility partially drawn down by a fellow subsidiary, BSkyB Finance Limited.

The company has given joint and several guarantees in relation to the issue in the US public debt market of US\$300 million of 7.30% Guaranteed Notes repayable in October 2006.

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

c) *Lease and similar commitments*

The company leases certain land and buildings on long- and short-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 satellites. The minimum annual rentals under these arrangements are shown below.

	Property £000	Transponder, computer and technical equipment £000
Year ended 30 June 1998		
Operating leases and similar arrangements which expire:		
- within 1 year	-	289
- within 2-5 years	316	38,459
- after 5 years	3,559	17,974
	<u>3,875</u>	<u>56,722</u>

Year ended 30 June 1997

Operating leases and similar arrangements which expire:

- within 1 year	11	23
- within 2-5 years	61	27,364
- after 5 years	4,262	38,789
	<u>4,334</u>	<u>66,176</u>

In addition to the above amounts, the company remains liable for leases, which are for periods of up to 20 years, in respect of former premises which have been sublet and for the use of four transponders which has been rented on similar terms to those entered into by the company. The company's additional commitment should the sub-lessee default in respect of the premises amounts to some £1.3 million and in respect of the transponders, £7.7 million per annum.

Notes to accounts (continued)

18 Related party transactions

The group, including the company, conducts business transactions on a normal commercial basis with, and receives a number of services from The News Corporation Group and the Granada Group, shareholders of BSkyB. 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 as it is a wholly owned subsidiary of BSkyB.

19 Ultimate parent company

The company is a wholly-owned subsidiary undertaking of BSkyB, a company 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 Secretary, British Sky Broadcasting Group plc, Grant Way, Isleworth, Middlesex, TW7 5QD.

20 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 (Formerly BSkyB Investments Limited)	England and Wales	912 ordinary shares of £1 each (100%)	Investment holding company
British Sky Broadcasting SA	Luxembourg	12,500 ordinary shares of £12 each (100%)	Digital satellite transponder leasing company
Joint Ventures			
British Interactive Broadcasting Limited	England and Wales	1 ordinary share of £1 (32.5%)	The transmission of interactive services.