ARTHUR
ANDERSEN

Sky Subscribers Services Limited

Accounts for the year ended 30 June 1997
together with the Directors' and Auditors' reports

Registered number: 2340150

Directors and Officers

For the year ended 30 June 1997

Directors

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

R J Brooke	
N J Carrington	
D C Chance	
S H Chisholm	
C K Mackenzie	(resigned 29 August 1997)

Secretary

D J Gormley

Registered office

Grant Way
Isleworth
Middlesex
TW7 5QD

Auditors

Arthur Andersen
1 Surrey Street
London
WC2R 2PS

Directors' report

For the year ended 30 June 1997

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 1997.

Principal activity

The principal activity of the company during the year was the provision of ancillary functions supporting the satellite television broadcasting operations of its parent company, British Sky Broadcasting Limited. The company also provides services to a fellow subsidiary undertaking, Satellite Encryption Services Limited ("SESL"), and to third party broadcasters.

Results for the Year

The profit for the financial year was £13.1 million (1996 - £10.4 million). No dividends have been paid or proposed for the year (1996 - nil).

The balance on the profit and loss account was transferred to reserves.

Directors and their interests

The directors of the company are shown on page 1.

R J Brooke, D C Chance and S H Chisholm are also directors of the ultimate parent company, British Sky Broadcasting Group plc ("BSkyB"). N J Carrington was appointed as an alternate Director of BSkyB to D C Chance on 14 August 1996. The interests of R J Brooke, D C Chance, S H Chisholm and N J Carrington in the share capital of BSkyB are shown in the accounts of that company for the year ended 30 June 1997.

C. K. Mackenzie had no interest in the shares of the company, BSkyB or its group of companies (the "group") at 30 June 1997.

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 persons should, as far as possible, be identical with 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 and the group.

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 group publishes an employee newspaper covering a wide range of employee issues. Employees also have the opportunity to participate in a range of training programmes.

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

Liability insurance for company officers

As permitted by the Companies Act 1985 (as amended) the company has maintained insurance cover for the directors and officers against liabilities in relation to their responsibilities as directors and officers.

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 32 days' purchases outstanding at 30 June 1997 based on the total amount invoiced by trade suppliers during the year ended 30 June 1997

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 impact the environment the company acts responsibly and is aware of its obligations at all times.

Directors' report (continued)

Auditors

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 J Gormley
Company Secretary

17 October 1997

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 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 to 4. 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 Sky Subscribers Services Limited:

We have audited the accounts on pages 7 to 16 which have been prepared under the historical cost convention, and in accordance with the accounting policies set out on pages 9 and 10.

Respective responsibilities of directors and auditors

As described on page 5, 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 1997 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

Arthur Andersen
Chartered Accountants and Registered Auditors

1 Surrey Street
London
WC2R 2PS

17 October 1997

Profit and loss account

For the year ended 30 June 1997

	Notes	1997 £000	1996 £000
Turnover	2	89,945	75,175
Operating expenses	3	(76,027)	(64,317)
Operating profit		13,918	10,858
Interest payable and similar charges	4	(804)	(508)
Profit on ordinary activities before taxation	5	13,114	10,350
Taxation	7	-	-
Profit for the financial year		13,114	10,350

Details of movements on reserves are shown in note 15.

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 1997

There were no recognised gains or losses in the year other than those included within the profit and loss account (1996 - none).

Balance sheet

30 June 1997

	Notes	1997 £000	1996 £000
Fixed assets			
Tangible assets	8	27,438	26,468
Current assets			
Stocks	9	153	173
Debtors	10	9,530	3,724
Cash at bank and in hand	11	5,565	22
		15,248	3,919
Creditors: Amounts falling due within one year	12	(41,146)	(41,249)
Net current liabilities		(25,898)	(37,330)
Total assets less current liabilities		1,540	(10,862)
Creditors: Amounts falling due after more than one year	13	(9,037)	(9,749)
		(7,497)	(20,611)
Capital and reserves			
Called-up equity share capital	14	-	-
Profit and loss account	15	(7,497)	(20,611)
		(7,497)	(20,611)

Signed on behalf of the Board

N J Carrington

Director

N. J. C

17 October 1997

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

Notes to accounts

30 June 1997

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.

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 the preceding year and which contain a cash flow statement.

b) Turnover

Turnover, which excludes value added tax, mainly arises from the company's principal activity of providing ancillary functions supporting the satellite television broadcasting operations of its parent company, British Sky Broadcasting Limited.

c) Tangible fixed assets

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.

The principal annual rates used for this purpose are as follows:

Computer equipment	-	25% to 33%
Plant and machinery	-	20%
Fixtures and fittings	-	10% to 20%
Leasehold improvements	-	Period of lease or life of the asset, whichever is shorter
Freehold buildings	-	4%

d) Stocks

Stocks are stated at the lower of cost and net realisable value.

e) 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, calculated on a sum of digits basis, is charged as interest payable over the period of the lease.

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

1 Accounting policies (continued)

f) Taxation

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

g) 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.

h) Pension costs

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

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

i) Government grants

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

2 Turnover

The company provides support services (including conditional access and subscriber management) and acts as an agent for its parent's direct-to-home pay TV business. The company makes a per subscriber charge for the provision of these services. The company also provides similar services to a fellow subsidiary undertaking, SESL, and to third party broadcasters.

Accordingly, all turnover arose within the United Kingdom, and is derived principally from the provision of these services.

3 Operating expenses

These principally comprise costs incurred providing its parent's broadcasting operations with the aforesaid services and other ancillary functions.

Notes to accounts (continued)

4 Interest payable and similar charges

	1997 £000	1996 £000
Finance lease interest	804	508

5 Profit on ordinary activities before taxation

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

	1997 £000	1996 £000
Depreciation	4,143	1,813
Amortisation of government grant	(1,484)	(911)
Operating lease rentals	-	302
Staff costs (see note 6)	21,632	16,199
Auditors' remuneration – non audit services	38	14

Fees paid to Arthur Andersen for audit services for the years ended 30 June 1997 and 1996 were borne by the Company's parent company.

6 Staff costs

Employee costs during the year amounted to:

	1997 £000	1996 £000
Wages and salaries	19,824	14,760
Social security costs	1,392	1,103
Other pension costs	416	336
	21,632	16,199

The average monthly number of persons employed by the company during the year was 1,982 (1996 – 1,708). These figures represent the actual number of permanent employees, as opposed to full-time equivalent employees (including those on temporary contracts) which was previously used.

Directors remuneration

The directors received no remuneration in respect of their services as directors of the company (1996 – nil).

Pensions

The group operates a defined contribution plan, contributions to which are charged to the profit and loss account on an accruals basis. The pension charge for the year represents contributions payable by the company to the plan and amounted to £416,000 (1996 – £336,000). There were no contributions payable at the year end (1996 – nil).

7 Taxation

The tax charge for the year is nil (1996 – nil) since any taxable profit of the company is covered by brought forward trading losses or group relief, for which no consideration is payable.

8 Tangible fixed assets

The movement in the year was as follows:

	Freehold land and buildings £000	Plant, fixtures and fittings £000	Total £000
Cost			
Beginning of year	15,457	21,365	36,822
Additions	675	4,438	5,113
End of year	16,132	25,803	41,935
Depreciation			
Beginning of year	1,397	8,957	10,354
Charge	575	3,568	4,143
End of year	1,972	12,525	14,497
Net Book Value			
Beginning of year	14,060	12,408	26,468
End of year	14,160	13,278	27,438

Included in freehold land and buildings are assets held under finance leases, with a net book value of £8,291,000 (1996 – £7,191,000). Depreciation charged during the year on such assets amounted to £320,000 (1996 - nil). Also included in freehold land and buildings is land at Livingston (£85,000) and Dunfermline (£310,000) which has not been depreciated during the year.

9 Stocks

	1997 £000	1996 £000
Finished goods	153	173

10 Debtors

	1997 £000	1996 £000
Amounts falling due within one year:		
Trade debtors	497	500
Amounts owed by fellow subsidiary undertakings	4,422	-
Amounts owed by related parties (see note 17)	1,490	-
VAT	2,487	2,257
Other debtors	-	584
Prepayments and accrued income	634	383
	9,530	3,724

11 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.

12 Creditors: Amounts falling due within one year

	1997 £000	1996 £000
Obligations under the finance lease (see note 13)	46	31
European Coal and Steel Community Loan	1,938	-
Bank loans and overdrafts	-	84
Trade creditors	3,328	2,695
Amounts owed to fellow subsidiary undertakings	3,693	7,045
Amounts owed to parent company	20,448	21,071
Amounts owed to related parties (see note 17)	5,976	5,922
Social security and PAYE	400	276
Other creditors	9	32
Accruals and deferred income	5,114	3,753
Government grants	194	340
	41,146	41,249

No interest is payable on amounts due to parent company or fellow subsidiary undertakings. These amounts are payable on demand(see note 19).

13 Creditors: Amounts falling due after more than one year

	1997 £000	1996 £000
Obligations under the finance lease	8,390	7,026
European Coal and Steel Community loan	-	1,938
Government grants	647	785
	9,037	9,749

Obligations under the finance lease represent amounts drawn down in connection with the new Subscriber Management Centre in Dunfermline. Repayments of £146,000 are made each quarter. A proportion of these payments is allocated to the capital amount outstanding based on the sum of digits method. Interest accrues on the finance lease at a rate of 8.5%.

Obligations under the finance lease are payable as follows:

	1997 £000	1996 £000
Amounts payable		
- within 1 year	46	31
- within 2 to 5 years	507	355
- after 5 years	7,883	6,671
	8,436	7,057

14 Called up equity share capital

	1997 £	1996 £
Authorised		
100 ordinary shares of £1 each	100	100
Allotted, called up and fully paid		
2 ordinary shares of £1 each	2	2

15 Reconciliation of movements in shareholders' deficit

The movements on shareholders' deficit includes all movements on reserves.

	Share capital £000	Profit and loss account £000	Total shareholders' deficit £000
At 30 June 1995	-	(30,961)	(30,961)
Profit for the year	-	10,350	10,350
At 30 June 1996	-	(20,611)	(20,611)
Profit for the year	-	13,114	13,114
At 30 June 1997	-	(7,497)	(7,497)

16 Guarantees and other financial commitments

a) Guarantees:

The company and certain other group undertakings have given joint and several guarantees in relation to the £1,000 million Revolving Credit Facility granted to a fellow group undertaking, 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 group subsequently entered into swap transactions to convert the proceeds into sterling, half of which will carry a fixed rate of interest of 8.384% per annum for the full ten years and the remainder fixed at 7.94% per annum for five years and thereafter floating at 62 basis points over 6 month LIBOR.

b) Capital commitments:

	1997 £000	1996 £000
Contracted but not provided in the accounts	955	2,696

Notes to accounts (continued)

17 Transactions with related parties and major shareholders

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 these transactions or those with fellow group undertakings as it is a wholly owned subsidiary of BSkyB.

18 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, 6 Centaurs Business Park, Grant Way, Isleworth, Middlesex, TW7 5QD.

19 Financing arrangements

The company's balance sheet at 30 June 1997 shows net current liabilities of £25,898,000 and an accumulated deficit of £7,497,000 . The company is principally funded by interest free advances from other group undertakings, primarily its parent. The directors of British Sky Broadcasting Group plc have confirmed that, if required, support will be provided to the company, at least until 18 October 1998, such that the company can continue to meet all third party liabilities as they fall due.

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