BRITISH SKY BROADCASTING GROUP PLC
Form 20-F
October 07, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended 30 June 2005

OR

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

For the transition period from ______________________ to ____________________________

OR

o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report ______________________

Commission file number: 1-13488

British Sky Broadcasting Group plc
(Exact name of Registrant as specified in its charter)
England & Wales
(Jurisdiction of incorporation or organisation)
Grant Way, Isleworth, Middlesex, TW7 5QD, England
(Address of principal executive offices)

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

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

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

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

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

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

Ordinary shares (nominal value 50p per share)	1,867,523,599

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

Yes x No o

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

Item 17 o Item 18 x

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes o No x

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FORWARD LOOKING STATEMENTS

This Annual Report on Form 20-F contains certain forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 with respect to our financial condition, results of operations and business, and our strategy, plans and objectives. These statements include, without limitation, those that express forecasts, expectations and projections with respect to the potential for growth of free-to-air and pay television, advertising growth, DTH subscriber growth and Multiroom and Sky+ penetration, DTH and other revenues, profitability and margin growth, cash flow generation, programming and other costs, subscriber acquisition costs and marketing expenditure, capital expenditure programmes and proposals for returning capital to shareholders.

These statements (and all other forward-looking statements contained in this Annual Report on Form 20-F) are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or implied or forecast in the forward-looking statements. These factors include, but are not limited to, the fact that we operate in a highly competitive environment, the effects of laws and government regulation upon our activities, our reliance on technology, which is subject to risk, change and development, our ability to continue to obtain exclusive rights to movies, sports events and other programming content, risks inherent in the implementation of large-scale capital expenditure projects, our ability to continue to communicate and market our services effectively, and the risks associated with our operation of digital television transmission in the United Kingdom (UK) and Republic of Ireland (Ireland).

Information on some of the risks and uncertainties associated with our business are described in Item 3 Key Information Risk Factors in this Annual Report on Form 20-F. All forward-looking statements in this Annual Report on Form 20-F are based on information known to us on the date hereof. Except as required by law, we undertake no obligation publicly to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

ITEM 3. KEY INFORMATION

SELECTED FINANCIAL DATA

Set forth below is selected financial data for the Group for each of the years in the five year period ended 30 June 2005 and as at 30 June 2005, 2004, 2003, 2002 and 2001.

The information contained in the following tables should be read in conjunction with Item 5 Operating and Financial Review and Prospects , and the Group s current and historical consolidated financial statements and related notes, as well as other information included elsewhere in this document.

The selected profit and loss account data set forth below for each of the years in the three year period ended 30 June 2005 and the balance sheet data at 30 June 2005 and 2004, are derived from the audited Consolidated Financial Statements included in this Annual Report on Form 20-F, which have been prepared in accordance with UK GAAP and differ in certain significant respects from US GAAP. A reconciliation of certain amounts from UK GAAP, as well as a description of principal differences between UK GAAP and US GAAP applicable to the Group, is presented in note 27 to the Consolidated Financial Statements. The selected consolidated profit and loss account data for the years ended 30 June 2002 and 2001, and the balance sheet data at 30 June 2003, 2002 and 2001, are derived from the audited Consolidated Financial Statements appearing in our historical Annual Reports on Form 20-F filed with the Securities and Exchange Commission (SEC).

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	Year ended 30 June					
	2005[1]	**2005**	2004	2003	2002	2001
	(In millions except per share data)					
Profit and Loss Account:						
Amounts in accordance with UK GAAP						
DTH subscribers revenues	$ **5,322**	**£2,968**	£2,660	£2,341	£1,929	£1,537
Cable and DTT subscribers revenues[2]	**393**	**219**	215	202	279	299
Advertising revenues	**590**	**329**	312	284	251	271
Sky Bet[3]	**468**	**261**	191	117	95	78
Sky Active[3]	**165**	**92**	116	101	91	15
Other revenues	**321**	**179**	162	141	131	106
Group turnover	**7,259**	**4,048**	3,656	3,186	2,776	2,306
Operating expenses, net, before amortisation of goodwill and exceptional items	**(5,815)**	**(3,243)**	(3,056)	(2,822)	(2,590)	(2,154)
Amortisation and impairment of intangible fixed assets	**(208)**	**(116)**	(119)	(121)	(119)	(44)
Release of provision against (provision against) ITV Digital programming debtors	**23**	**13**		5	(22)	
Estimated cost of reorganisation of Sky Interactive						(23)
Release of analogue termination provision					4	
Operating expenses, net	**(6,000)**	**(3,346)**	(3,175)	(2,938)	(2,727)	(2,221)
Operating profit	**1,259**	**702**	481	248	49	85
Share of joint ventures and associates operating results	**25**	**14**	(5)	3	(76)	(256)
Joint ventures and associates goodwill amortisation and impairment, net*			10		(1,070)	(101)
Loss on disposal of investments in joint ventures	**(41)**	**(23)**				
Profit on disposal of fixed asset investments			51		2	
Share of joint venture s loss on disposal of fixed asset investments						(70)
Amounts written back to (written off) fixed asset investments, net			24	(15)	(60)	(39)
Release of provision against (provision against) loss on disposal of					10	(10)

subsidiary						
Interest receivable and similar income	**54**	**30**	10	4	11	18
Interest payable and similar charges	**(165)**	**(92)**	(91)	(118)	(148)	(153)
Exceptional finance credit						3
Profit (loss) on ordinary activities before taxation	**1,132**	**631**	480	122	(1,282)	(523)
Tax (charge) credit on profit (loss) on ordinary activities	**(369)**	**(206)**	(158)	62	(107)	(24)
Profit (loss) on ordinary activities after taxation	**763**	**425**	322	184	(1,389)	(547)
Equity dividends[4]	**(305)**	**(170)**	(116)			
Retained profit (loss)	**458**	**255**	206	184	(1,389)	(547)
Earnings (loss) per share basic	**39.8¢**	**22.2p**	16.6p	9.6p	(73.6p)	(29.6p)
Earnings (loss) per share diluted	**39.8¢**	**22.2p**	16.6p	9.5p	(73.6p)	(29.6p)
Dividends per share[4]		**9.0p**	6.0p			
Dividends per share[4]		**16.5¢**	10.9¢			

*Included within joint ventures goodwill amortisation of £1,070 million for fiscal 2002 is £971 million in respect of an impairment of KirchPayTV GmbH & Co KGaA (KirchPayTV) goodwill.

All results relate to continuing operations.

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	Year ended 30 June					
	2005[1]	**2005**	2004	2003	2002	2001
	(in millions except per share data)					
Amounts in accordance with US GAAP						
Total revenues	**$ 6,879**	**£3,837**	£3,535	£3,082	£2,707	£2,296
Amortisation and impairment of intangible fixed assets				(5)	(145)	(58)
Operating profit (loss)	**1,485**	**828**	666	370	(30)	(176)
Joint ventures and associates goodwill amortisation and impairment, net			(3)		(712)	(71)
Loss on disposal of investments in joint ventures	**(25)**	**(14)**				
Income (loss) before income tax	**1,422**	**793**	595	260	(940)	(660)
Net income (loss)	**1,035**	**577**	434	286	(1,047)	(625)
Basic earnings (loss) per share	**54.1¢**	**30.2p**	22.4p	14.9p	(55.5p)	(33.8p)
Diluted earnings (loss) per share	**54.0¢**	**30.1p**	22.3p	14.7p	(55.5p)	(33.8p)
Basic earnings (loss) per ADS[5]	**216.6¢**	**120.8p**	89.7p	59.7p	(221.9p)	(135.4p)
Diluted earnings (loss) per ADS[5]	**215.9¢**	**120.4p**	89.3p	58.9p	(221.9p)	(135.4p)

	As at 30 June					
	2005[1]	**2005**	2004	2003	2002	2001
	(in millions)					
Balance Sheet:						
Amounts in accordance with UK GAAP						
Total assets	**$ 4,160**	**£ 2,320**	£ 2,364	£ 1,990	£ 2,159	£ 3,858
Long-term debt	**(1,929)**	**(1,076)**	(1,076)	(1,152)	(1,577)	(1,768)
Net (liabilities) assets	**(61)**	**(34)**	90	(152)	(352)	1,035
Capital stock[6]	**4,552**	**2,539**	2,614	3,772	3,837	3,901
Number of shares in issue (number)	**1,868**	**1,868**	1,942	1,938	1,893	1,889

	As at 30 June					
	2005[1]	**2005**	2004	2003	2002	2001
	(in millions)					
Amounts in accordance with US GAAP						
Total assets	**$ 5,527**	**£ 3,082**	£ 2,988	£ 2,810	£ 2,853	£ 4,209
Net assets (liabilities)	**1,468**	**818**	812	448	(141)	850

	As at 30 June				
	2005	2004	2003	2002	2001
	(in thousands)				
Distribution of Sky Channels					
DTH homes	**7,787**	7,355	6,845	6,101	5,453
Cable homes(7)	**3,872**	3,895	3,871	4,091	3,486
ITV Digital homes					1,105
Total Sky pay homes	**11,659**	11,250	10,716	10,192	10,044
DTT homes(8)	**4,940**	3,084	1,510		

(1) Solely for convenience, pounds sterling amounts for the year ended 30 June 2005 and as at that date have been translated into US dollars at the noon buying rate of the Federal Reserve Bank of New York on 30 June 2005, which was US$1.7930 per £1.00.

(2) From fiscal 2003, this relates solely to cable subscribers revenues.

(3) Additional detail has been provided with regard to the analysis of interactive revenues between the Group s betting and games revenues Sky Bet and other interactive revenues Sky Active and the prior years comparatives have been reclassified accordingly.

(4) An interim dividend of £77 million, representing 4.0p per share, was paid for the six month period ended 31 December 2004 (7.7¢ in US dollars at date of payment on 22 April 2005) (six month period ended 31 December 2003: £53 million, representing 2.75p per share, 4.9¢ in US dollars at date of payment on 23 April 2004). A final dividend of £93 million, representing 5.0p per share was proposed for the year ended 30 June 2005 (8.8¢ in US dollars at 30 September 2005) (2004: £63 million,

representing 3.25p per share, 6.0¢ in US dollars at date of payment on 19 November 2004). No interim or final dividends were paid or proposed for fiscal 2003, 2002 or 2001.

(5) In our Annual Reports filed on Form 20-F for fiscal 2002 and 2001, the earnings (loss) per American Depositary Share (ADS) was calculated using the weighted average number of ADSs outstanding on the basis of 1 ADS for 6 Ordinary Shares. On 23 December 2002, the ratio was revised to reflect a new ratio of 1 ADS representing 4 Ordinary Shares. Therefore, the current and prior periods earnings (loss) per ADS have been calculated using a weighted average number of ADSs outstanding on the basis of 1 ADS for 4 Ordinary Shares. Earnings (loss) per ADS is not exactly four times earnings (loss) per share due to rounding differences.

(6) Capital stock includes called-up share capital, share premium, shares to be issued, Employee Share Ownership Plan (ESOP) reserve, merger reserve, special reserve and capital redemption reserve.

(7) The number of cable subscribers is as reported to us by the cable operators.

(8) The number of DTT homes consists of the Broadcasters Audience Research Board s (BARB s) estimate of the number of homes with access to Freeview (the free DTT offering available in the UK). These figures may include DTH or Cable homes that already take multichannel television.

Factors which materially affect the comparability of the selected financial data

Accounting changes

During fiscal 2004, US EITF 00-21, Revenue Arrangements with Multiple Deliverables, was adopted. The impact of the adoption of this standard is described in note 27 of the Consolidated Financial Statements included within Item 18.
During fiscal 2003, US Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, was adopted. The impact of the adoption of this standard is described in the notes to the Consolidated Financial Statements included within the Group s Annual Report on Form 20-F for fiscal 2003.

Business combinations

During fiscal 2001, we completed the acquisitions of British Interactive Broadcasting Holdings Limited (BiB) and Sports Internet Group plc (now Sports Internet Group Limited) (SIG). The results of these acquisitions were consolidated from the respective dates of acquisition.

Exchange rates

A significant portion of our liabilities and expenses associated with the cost of programming acquired from US film licensors is denominated in US dollars. For a discussion of the impact of exchange rate movements on our financial condition and results of operations, see Item 11 Quantitative and Qualitative Disclosures about Market Risk Currency Exchange Rates .
Since any dividends we declare are declared in pounds sterling, exchange rate fluctuations will affect the US dollar equivalent of cash dividends receivable by holders of ADSs.
The following table sets forth, for the periods indicated, information concerning the noon buying rates provided by the Federal Reserve Bank of New York for pounds sterling expressed in US dollars per £1.00.

Month	High	Low
April 2005	1.9197	1.8733
May 2005	1.9048	1.8205
June 2005	1.8368	1.7930
July 2005	1.7753	1.7303
August 2005	1.8148	1.7695
September 2005	1.8420	1.7620

Year ended 30 June	Period end	Average(1)	High	Low
2001	1.4041	1.4509	1.5182	1.3737
2002	1.5347	1.4479	1.5347	1.4000
2003	1.6529	1.5915	1.6840	1.5192
2004	1.8126	1.7491	1.9045	1.5728
2005	1.7930	1.8596	1.9482	1.7733

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

On 30 September 2005, the noon buying rate was US$1.7696 per £1.00.

RISK FACTORS

This section describes the significant risk factors affecting our business. These should be read in conjunction with our long-term operating targets, which are set out in Item 5 Operating and Financial Review and Prospects Overview and Recent Developments . These risks could materially adversely affect any or all of our business, financial condition, prospects, liquidity or results of operations. Additional risks and uncertainties of which we are not aware or which we currently believe are immaterial may also adversely affect our business, financial condition, prospects, liquidity or results of operations.

Our business is heavily regulated and changes in regulations, changes in interpretation of existing regulations or failure to obtain required regulatory approvals or licences could adversely affect our ability to operate or compete effectively.

We are subject to regulation primarily in the UK and the European Union. The regimes which affect our business include broadcasting, telecommunications, competition (anti-trust) and taxation laws and regulations. Relevant authorities may introduce additional or new regulations applicable to our business. Our business and business prospects could be adversely affected by the introduction of new laws, policies or regulations or changes in the interpretation or application of existing laws, policies and regulations. Changes in regulations relating to one or more of licensing requirements, access requirements, programming transmission and spectrum specifications, consumer protection, taxation, or other aspects of our business, or that of any of our competitors, could have a material adverse effect on our business and the results of our operations.

As a result of the European Commission s investigations into the sale of broadcasting rights to Football Association Premier League Limited (FAPL) football matches, the FAPL has provisionally agreed with the European Commission, inter alia, that after the 2006/07 FAPL football season, the tendering procedures for television rights will ensure that no single buyer is able to acquire exclusively all of the centrally-marketed live FAPL rights packages (and that these packages will continue to be balanced). The FAPL has also provisionally agreed to examine, jointly with the European Commission, the way in which its tender processes are conducted to ensure that they do not exclude any potential competitors. The European Commission has consulted publicly on the terms of this provisional agreement. The outcome of this consultation has not yet been disclosed. We are not yet able to assess whether these developments will have a material effect on the Group.

The European Commission has published its concluding report on its sector inquiry into the provision of audio-visual content from sports events over 3G networks. The European Commission has identified a number of commercial practices which it considers raise competition concerns in relation to the availability of mobile sports content. The European Commission has stated that it will take account of the findings of the sector inquiry in future proceedings in this area. It has also stated that it will further review, together with the relevant national competition authorities of Member States, potentially harmful situations identified during the sector inquiry, and that procedures will be initiated in cases where behaviour is not adjusted to comply with the requirements of competition law. At this stage, we are

unable to determine whether the

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European Commission s concluding report or any subsequent proceedings might have a material effect on the Group. We cannot assure you that we will succeed in obtaining all requisite approvals and licences in the future for our operations without the imposition of restrictions which may have an adverse consequence to us, nor that compliance issues will not be raised in respect of operations conducted prior to the date of filing of this Annual Report on Form 20-F.

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

We face competition from a broad range of companies engaged in communications and entertainment services, including cable television providers, digital and analogue terrestrial television providers, telecommunications providers, home entertainment products companies, companies developing new technologies and other suppliers of news, information, sports and entertainment, as well as other providers of interactive services. Our competitors include organisations which are publicly funded, in whole or in part, and which fulfil a public service broadcasting mandate. Were such mandate to be changed, this could lead to an increase in the strength of competition from these organisations. Although we have continued to develop our services through technological innovation and in licensing, acquiring and producing a broad range of content, we cannot predict with certainty the changes that may occur in the future which may affect the competitiveness of our businesses. In particular, the means of delivering various of our (and/or competing) services may be subject to rapid technological change.

Viewers with a Sky+ digibox (or any other personal video recorder (PVR)) may choose not to view advertising including that on Sky Channels and Sky Distributed Channels. We therefore cannot assure you that our advertising revenues or programming costs will not be negatively impacted by this behaviour. We also cannot assure you that advertising revenues for Sky Channels currently offered on other platforms will not be negatively impacted in the future by the offering of similar devices by other operators.

Our ability to compete successfully will depend on our ability to continue to acquire, commission and produce, programming content that is attractive to our subscribers. The programme content and third party programme services we have licensed from others are subject to fixed term contracts which will expire or may terminate early. We cannot assure you that programme content or third party programme services (whether on a renewal or otherwise) will be available to us at all or on acceptable financial or other terms (including in relation to technical matters such as encryption, territorial limitation and copy protection). Similarly, we cannot assure you that such programme content or programme services will be attractive to our customers, even if so available.

The future demand and speed of take up of our DTH service will depend upon our ability to package our content attractively and offer it to our customers at competitive prices, competitive pressures from competing services, and our ability to create demand for our products and to attract and retain customers through a wide range of marketing activities. In addition, we operate in a geographic region which has experienced sustained economic growth for a number of years. The effect of a possible slowdown in the rate of economic growth and/or a decline in consumer confidence on our ability to continue to attract and retain subscribers, is uncertain. We therefore cannot assure you that the current or future marketing and other activities we undertake will succeed in generating sufficient demand to achieve our operating targets.

We cannot guarantee that the anticipated business benefits associated with the significant investments in the modernisation of our customer relationship management (CRM) centres, and the replacement of our CRM systems, that we have made and continue to make, will be fully achieved.

Throughout the last five fiscal years, we have invested more than £232 million in our CRM centres and systems. This expenditure has been focused principally on replacing the existing customer management and billing systems with new applications and also on improving the existing physical infrastructure of the centres. The implementation of the new systems involves a number of complex activities, including the

migration of existing customer data onto the new applications. As a result, and in common with other projects of this scale, there is a risk that the implementation may not be completed as currently envisaged, either within the proposed timescale or budget, or that the anticipated business benefits, such as scalability and flexibility in servicing our customers, may not be fully achieved. In addition, the high level of change inherent in the implementation of new systems absorbs considerable management time and may disrupt normal business operations. The transition to management of new customers on the new CRM systems commenced in September 2005, and will be completed in respect of all, or substantially all, subscribers during the 2006 calendar year.

Our business is reliant on technology which is subject to the risk of failure, change and development.

We are dependent upon satellites which are subject to significant risks that may prevent or impair proper commercial operations, including defects, destruction or damage, and incorrect orbital placement. If we, or other broadcasters who broadcast channels on our DTH platform, were unable to obtain sufficient satellite transponder capacity in the future, or our contracts with satellite providers were terminated, this would have a material adverse effect on our business and results of operations. Similarly, loss of the transmissions from satellites that are already operational, or failure of our transmission systems or uplinking facilities, could have a material adverse effect on our business and operations.

We are dependent on complex technologies in other parts of our business, including CRM, broadcast and conditional access systems, airtime sales and supply chain management systems. Were any of these technologies to fail, this could have a material adverse effect on our business.

There is a large existing population of digital satellite reception equipment used to receive our services, including digiboxes and ancillary equipment, in which we have made a significant investment and which is owned by our customers (other than the software in the digiboxes and smart cards, to which we retain title). Were a significant proportion of this equipment to suffer failure, or were the equipment to be rendered either redundant or obsolete by other technology or other requirement or by the mandatory imposition of incompatible technology, or should we need to or wish to upgrade significantly the existing population of digiboxes and/or ancillary equipment with replacement equipment, this could have a material adverse effect on our business.

We are reliant on encryption technologies to restrict unauthorised access to our services.

Access to our services is restricted through a combination of physical and logical access controls, including smart cards which we provide to our individual subscribers. Unauthorised viewing and use of content may be accomplished by counterfeiting the smart cards or otherwise overcoming their security features. A significant increase in the incidence of signal piracy could require the replacement of smart cards sooner than otherwise planned. We continue to work with our technology suppliers to ensure that our encryption technology is as resilient to hacking as possible, however, there can be no assurance that it will not be compromised in the future. We are reliant also upon the encryption or equivalent technologies employed by the cable and other platform operators for the protection of access to the services which we make available.

We undertake significant capital expenditure projects, including technology and property projects.

In August 2004, we announced an incremental capital expenditure programme of approximately £450 million, which was to be incurred over four years in support of our growth strategy. This expenditure is in addition to core capital expenditure, which is expected to be approximately £100 million per annum over the next three years. As is common with capital expenditure projects of this scale, there is a risk that they may not be completed as envisaged, either within the proposed timescale or budget, or that the anticipated business benefits of the projects may not be fully achieved.

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We, in common with other services providers that include third party services which we retail, rely on intellectual property and proprietary rights, including in respect of programming content, which may not be adequately protected under current laws or which may be subject to unauthorised use.

Our services largely comprise content in which we own, or have licensed, the intellectual property rights, delivered through a variety of media, including broadcast programming, interactive television services, and the internet. We rely on trademark, copyright and other intellectual property laws to establish and protect our rights in this content. However, we cannot assure you that our rights will not be challenged, invalidated or circumvented or that we will successfully renew our rights. Third parties may be able to copy, infringe or otherwise profit from our rights or content which we own or license, without our, or the rightsholder s, authorisation. These unauthorised activities may be more easily facilitated by the internet. In addition, the lack of internet specific legislation relating to trademark and copyright protection creates an additional challenge for us in protecting our rights relating to our on-line businesses and other digital technology rights.

We generate wholesale revenues from a limited number of customers.

Our wholesale customers, to whom we offer the Sky Channels and from whom we derive our cable revenues, comprise principally ntl Group Ltd (ntl) and Telewest Communications plc (Telewest). Economic or market factors, or a change in strategy by ntl or Telewest as it relates to the distribution of our channels, may adversely influence the wholesale revenue we receive from ntl or Telewest, which may negatively affect our business.

In October 2005, NTL Incorporated and Telewest Global, Inc. jointly announced a definitive merger agreement under which it is planned ntl will acquire Telewest. The announcement stated that the transaction is expected to close in the first quarter of calendar 2006, and is subject to UK regulatory and shareholder approvals. At this stage, we are not yet able to access whether such a merger will have a material effect on our business.

We are subject to a number of medium and long-term obligations.

We are party to a number of medium and long-term agreements and other arrangements (including in respect of programming and transmission, for example, our transponder leases) which impose financial and other obligations upon us. Were we unable to perform any of our obligations under these agreements and/or arrangements, it could have a material adverse effect on our business.

ITEM 4. INFORMATION ON THE COMPANY

HISTORY AND DEVELOPMENT OF THE GROUP AND BUSINESS OVERVIEW

Introduction

British Sky Broadcasting Group plc and its subsidiaries operate the leading pay television broadcast service in the UK and Ireland. We acquire programming to broadcast on our own channels and supply certain of those channels to cable operators for them to retransmit to their subscribers in the UK and Ireland. We also retail our channels, together with channels broadcast by third parties, to DTH subscribers and retail certain of our channels (in some cases together with channels broadcast by third parties) to a limited number of DSL subscribers (references in this Annual Report on Form 20-F to DTH subscribers includes DSL subscribers). We also make three of our channels available free-to-air via the UK DTT platform, which markets itself under the brand Freeview .

At 30 June 2005, there were 7,787,000 DTH subscribers to our television service, and 3,872,000 subscribers of the cable operators to whom we supply certain of our channels, in the UK and Ireland. According to estimates of BARB, as at 30 June 2005, there were 4,940,000 homes in the UK receiving

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certain of our channels via DTT. Our total revenues in fiscal 2005 were £4,048 million (2004: £3,656 million; 2003: £3,186 million), as set out in the table below.

	Year ended 30 June		
	2005	2004	2003
	(in £ millions)		
DTH subscribers	**2,968**	2,660	2,341
Cable subscribers	**219**	215	202
Advertising	**329**	312	284
Sky Bet	**261**	191	117
Sky Active	**92**	116	101
Other	**179**	162	141
	4,048	3,656	3,186

We are engaged in television broadcasting services and certain ancillary functions, principally within the UK and Ireland, with activities conducted principally from the UK. Our turnover principally arises from services provided to retail and wholesale customers within the UK, with the exception of £128 million (2004: £115 million; 2003: £93 million) which arises from services provided to customers in Ireland and £11 million (2004: £9 million; 2003: £9 million) which arises from services provided to customers in the Channel Islands.
As set forth herein, references to fiscal years are to our fiscal years which end on the Sunday nearest to 30 June in each year. We publish our financial statements in British pounds sterling. References herein to US dollars , dollars , US$, $ and ¢ are to the currency of the United States (US), references to Euro and are to the currency of the Community, and references to pounds sterling , £ , pence and p are to the currency of the UK. Certain pound sterling amounts stated herein have been translated into US dollars at an assumed rate solely for the convenience of the reader and should not be construed as representations that such US dollar amounts actually represent such pound sterling amounts or that such pound sterling amounts could be converted into US dollars at the rate indicated or at any other rate. Unless otherwise stated herein, US dollar amounts have been translated from the corresponding pound sterling amounts at the noon buying rate for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the noon buying rate) on 30 June 2005, which was $1.7930 per £1.00. For information with respect to exchange rates, see Item 3 Key Information Selected Financial Data Exchange Rates .
Our Consolidated Financial Statements included herein are prepared in accordance with accounting principles generally accepted in the UK. UK GAAP differs in certain significant respects from accounting principles generally accepted in the US. A discussion of the principal differences between UK GAAP and US GAAP is contained in note 27 to the Consolidated Financial Statements included within Item 18.
Certain terms used herein are defined in the glossary which appears at the end of this Annual Report on Form 20-F.
The Company, a public company limited by shares and domiciled in the UK, operates under the laws of England and Wales. It was incorporated in England and Wales on 25 April 1988. Our principal executive offices are located at Grant Way, Isleworth, Middlesex, TW7 5QD, England. Tel: +44(0)870 240 3000. A list of our significant subsidiaries is set out in note 14 to the Consolidated Financial Statements included within Item 18.

Programming

We provide subscribers with a broad range of programming options. Our programming is an important factor in generating and maintaining subscriptions to our channels. With respect to the channels we own and operate, we incur significant expense to acquire exclusive UK and Ireland television rights to films, exclusive UK and Ireland television rights to broadcast certain sports events live and television rights to other general entertainment programming. We are dependent upon the licences which grant us these

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rights as well as our Television Licensable Content Service licences, telecommunication licences and authorisations. We also produce and commission original entertainment programming and have acquired the rights to market the television services of third parties to DTH subscribers. Currently, we own, operate and distribute 17 Sky Channels via our DTH service (or 28 including multiplex versions of the Sky Channels, but excluding the business channels SkyVenue and the Pub Channel). We also currently retail to our DTH subscribers 109 Sky Distributed Channels (including multiplex versions of certain channels). A multiplex of a channel is generally either a time-shifted version of that channel, or a version that has predominantly the same theme or content as the primary channel, but where the content is transmitted at different times. We do not own the Sky Distributed Channels, although we have an equity interest in certain of them. In addition to the Sky Distributed Channels, we currently retail to our DTH subscribers the digital audio services Music Choice and Music Choice Extra, certain radio services and the Sky Box Office service (a pay-per-view service offering movies, sporting events and concerts).

The Sky Channels, and their multiplex versions, as at 7 October 2005, were as follows:

Sky Channel	Multiplex/Multiplexes	Channel genre
Sky Movies 1	Sky Movies 3, Sky Movies 5, Sky Movies 7, Sky Movies 9	Movies
Sky Movies 2	Sky Movies 4, Sky Movies 6, Sky Movies 8	Movies
Sky Cinema 1	Sky Cinema 2	Movies
Sky Sports 1		Sports
Sky Sports 2		Sports
Sky Sports 3		Sports
Sky Sports Xtra		Sports
Sky One	Sky Mix	Entertainment
Sky Vegas Live		Interactive entertainment
Artsworld		Entertainment
Sky News		News
Sky Sports News		Sports News
Sky Travel	Sky Travel+1, Sky Travel Extra	Entertainment
Sky Travel Shop		Shopping
Flaunt		Music
The Amp		Music
Scuzz		Music

We retail packages of channels to our DTH subscribers. These are combinations of channels at varying prices. Various combinations of the Sky Basic Channels and the Sky Distributed Channels (other than the Premium Sky Distributed Channels) are available as basic tiers of programming, which since 1 September 2005 range from 21 to 89 television channels (as well as certain music audio and radio services). These basic packages are collectively called the Basic Packages .

We introduced a new style of packaging for new DTH subscribers from 1 September 2005. Existing DTH subscribers at that date will remain with their pre 1 September 2005 packaging until they are transferred across to the new packaging during 2006. The new packaging offers subscribers a choice of up to six mixes of both Sky Basic Channels and Sky Distributed Channels, each mix representing a genre of interest. The six mixes are Variety, Kids, Knowledge, Style and Culture, Music, and News and Events. Subscribers choose either two, four or six mixes to create their Basic Package, to which they have the option to add a combination of one or more Sky Premium Channels, and one or more Premium Sky Distributed Channels.

Prior to 1 September 2005, our DTH subscribers subscribed to one of a number of stand alone Basic Packages, to which they could have added, if they chose, one or more of the Sky Premium Channel Packages, and one or more of the Premium Sky Distributed Channels.

We also offer Sky Box Office to all our DTH subscribers. On the DTH platform, the Sky Premium Channels, the Sky Basic Channels (other than Sky News), Sky Box Office, Music Choice and Music Choice Extra and the Sky Distributed Channels are encrypted in order to limit access to paying subscribers only.

Both ntl and Telewest currently carry versions of all of the Sky Premium Channels (including multiplex channels) and our PremPlus pay-per-view service (see description in Pay-Per-View below) on their digital networks (see Distribution Cable Distribution below).

We also broadcast versions of three of our channels, Sky News, Sky Sports News and Sky Travel, unencrypted free-to-air via DTT in the UK as part of the Freeview offering (see Distribution DTT Distribution below).

In September 2005, we announced that we plan to launch Sky Three, in October 2005, available on our DTH service and which it is intended will be the new name for Sky Travel on DTT. Sky Travel will continue to be available to our DTH subscribers and on ntl s digital network. We also announced that, simultaneously with the launch of Sky Three, it is planned that our existing channel, Sky Mix, will be renamed Sky Two.

According to surveys produced by BARB, as of 30 June 2005, an estimated 30% of the estimated 24.9 million television homes in the UK were equipped with digital satellite reception equipment; 13% subscribed to a cable television or SMATV package (single mast antenna television which is primarily for buildings that receive programming by means of a single satellite antenna connected to a head end and which distributes television signals to individual units in the building by cable); and 19% had digital terrestrial television (the percentage figures given above for each delivery means include homes which receive television services via more than one of such delivery means). According to BARB estimates, during the 52 weeks ended 30 June 2005, the Sky Channels accounted for an estimated 24% of viewing of all satellite and cable channels (excluding BBC1, BBC2, ITV1, Channel 4 (and S4C, not Channel 4, in Wales only) and five (collectively the traditionally analogue terrestrial channels)) in homes that are able to receive those channels in the UK (Multi-Channel Homes) (or an overall 10% viewing share of all channels (including the traditionally analogue terrestrial channels) available within Multi-Channel Homes during the same period). The Sky Distributed Channels accounted for the majority of the balance of viewing of satellite and cable channels in such homes.

For the 52 weeks ended 30 June 2005, BARB estimates that 51.4% of all viewing in UK homes with digital satellite reception equipment (digital satellite homes) was of channels available via the satellite platform other than the traditionally analogue terrestrial channels. BARB estimates that, in the same period, Sky Channels accounted for 28% of multi-channel viewing (i.e. viewing of all channels excluding the traditionally analogue terrestrial channels) in UK digital satellite homes, with an overall 14% viewing share across all channels available (including the traditionally analogue terrestrial channels) within UK digital satellite homes.

In addition to owning the Sky Channels, we hold equity interests in ventures that own 12 (not including time-shifted multiplex versions) of the Sky Distributed Channels (including certain Premium Sky Distributed Channels) which are operated and distributed in the UK, Ireland and the Channel Islands namely Attheraces, Nickelodeon, Nick Jr., Nicktoons TV, National Geographic Channel, Adventure One, Chelsea TV, MUTV, Paramount Comedy, Paramount Comedy 2, The History Channel and the Biography Channel. In addition to the ventures that own the 12 Sky Distributed Channels, we also have a 33.33% equity interest in the venture operating the Sky News Australia Channel, which is based in Australia. In September 2005, we disposed of our 35.8% equity interest in the UK listed company which operates the audio services, Music Choice and Music Choice Extra.

Premium Channels

Sky Premium Channels

Sky Movies 1, Sky Movies 2 and Sky Cinema 1

Sky Movies 1 and Sky Movies 2 operate 24-hours per day, seven days a week and principally show the output of recent release movies, made-for-television movies and certain library movies (in respect of which

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we are typically granted exclusive UK and Ireland rights to broadcast during the relevant pay television window) by major Hollywood and independent US and European licensors. There are four Sky Movies 1 multiplexes (see Programming above) which are provided free to DTH and digital cable subscribers who subscribe to Sky Movies 1, and three Sky Movies 2 multiplexes (see Programming above) which are provided free to digital subscribers who subscribe to Sky Movies 2.

Sky Cinema 1 operates 24-hours per day, seven days a week and primarily features older or classic films. It is available free to DTH and cable subscribers who subscribe to both of our Sky Movies channels. There is one Sky Cinema multiplex, Sky Cinema 2, which is available free to DTH and digital cable subscribers who receive Sky Cinema 1.

As of 30 June 2005, there were approximately 4.9 million UK and Irish DTH and cable subscribers to either Sky Movies 1 or Sky Movies 2 and over 98% of movie subscribers subscribed to both Sky Movies 1 and Sky Movies 2.

Sky Sports 1, Sky Sports 2, Sky Sports 3 and Sky Sports Xtra

Sky Sports 1 and Sky Sports 2 each provide, on average, 22 hours or more of sports programming per day, including live coverage of certain popular sports events. As at 30 June 2005, there were approximately 5.7 million UK and Ireland DTH and cable subscribers to either Sky Sports 1 or Sky Sports 2 and over 98% of these sports subscribers subscribed to both Sky Sports 1 and Sky Sports 2.

Sky Sports 3 currently offers, on average, 18 hours of sports programming each day. It is available free to DTH and cable subscribers who subscribe to either Sky Sports 1 or Sky Sports 2.

Sky Sports Xtra is available as a premium à la carte service as well as being provided free as an additional channel to DTH and digital cable subscribers to both Sky Sports 1 and Sky Sports 2. Sky Sports Xtra currently offers, on average, 16 hours of sports programming per day.

Our programming rights for the Sky Sports channels include exclusive live rights to broadcast, in the UK and Ireland, a number of football, rugby, cricket, motorsport, golf and boxing events. In addition, we purchase rights to broadcast a wide range of additional sports programming on both an ad hoc and longer term basis.

In fiscal 2004, the Group successfully bid for all four packages of exclusive live UK television rights to Football Association Premier League (FAPL) football, two near live packages of delayed UK rights (television and internet respectively) to FAPL football, four of the five packages of live television rights for broadcast in Ireland and two near live packages of delayed rights (television and internet respectively) in Ireland from the beginning of the 2004/05 season to the end of the 2006/07 season. See Government Regulation Competition (Anti-Trust) Law European Union Regime Effect on our Affairs European Commission Investigation Football Association Premier League Limited below for details of the European Commission investigation in relation to the sale of FAPL football broadcast rights.

Since July 2004, the Group has successfully bid for a number of sporting events including (i) exclusive live rights to England s primary domestic cricket matches and all of England s home test matches and one day internationals for the 2006 to 2009 domestic cricket seasons; (ii) exclusive live rights to Football League matches and the Carling Cup for the 2006/07 to 2008/09 domestic football seasons; (iii) a number of rugby union matches including all Autumn international matches, Guinness Premiership matches, England A Team matches from the 2005/06 to 2009/10 seasons and Heineken Cup matches from 2006/07 to 2009/10; (iv) broadcast rights to the UEFA Champions League for a further three seasons from the 2006/07 season; (v) exclusive live rights to the inaugural A1 Grand Prix Series for the 2005/06, 2006/07 and 2007/08 seasons, and; (vi) exclusive live rights to the 32nd America s Cup yachting event to be staged in 2007.

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Premium Sky Distributed Channels

The Disney Channel

Under an agreement with The Walt Disney Company Limited, we have the exclusive rights to distribute, via DTH in the UK and Ireland, the Disney Channel and three themed multiplexes to the core Disney Channel, as a bonus channel to those of our DTH subscribers receiving both of our Sky Movies channels, and to other DTH subscribers on an à la carte basis.

Chelsea TV

Chelsea Digital Media Limited (a company in which we own a 20% equity interest), operates a digital subscription pay television channel dedicated to showing certain programming relating to Chelsea Football Club (Chelsea TV). We offer Chelsea TV to our DTH subscribers solely on an à la carte basis.

MUTV

We are party to a joint venture, MUTV Limited, with Manchester United PLC and Granada Media Group Ltd (each party owning a 33.33% equity interest in MUTV Limited) which operates a digital subscription pay television channel dedicated to showing certain programming relating to Manchester United Football Club (MUTV). We offer MUTV to our DTH subscribers solely on an à la carte basis and also act as agent for the distribution of the channel to cable operators in the UK and Ireland.

FilmFour

We offer FilmFour, a pay television film channel operated by Channel 4, focusing on original British, independent and cult films, together with its two multiplexes, FilmFour+1 and FilmFour Weekly , to our DTH subscribers solely on an à la carte basis.

Music Choice Extra

In addition to Music Choice, which is included in certain of our Basic Packages (see Basic Channels Music Choice below), we offer Music Choice Extra, which consists of 30 digital audio channels, to our DTH subscribers solely on an à la carte basis.

Basic Channels

Sky Basic Channels

Sky One is the general entertainment flagship channel of the Sky Channels. It is targeted primarily at a 16-44 age group audience and includes first-run US entertainment programmes and UK-commissioned factual and drama series and is broadcast on a 24-hour per day basis. According to BARB surveys, during the 52 weeks ended 30 June 2005, Sky One was viewed by approximately 47% of individuals in all UK television homes. Sky Mix (which we plan to rename Sky Two in October 2005) is a multiplex version of Sky One. We plan to launch a new channel, Sky Three, in October 2005. It is envisaged that Sky Three will include a mixed schedule of programming from Sky One s library as well as original lifestyle commissions and travel documentaries from Sky Travel.

Sky News provides 24-hour national and international news coverage. Sky News is broadcast unencrypted and can be seen by any DTH viewer capable of receiving transmissions from the Astra satellites via which we broadcast our services, and internationally in over 80 countries. Sky News is also distributed by all UK cable operators, by certain cable and satellite operators outside the UK and in the UK on DTT as part of the Freeview offering.

Sky Sports News provides 24-hour national and international sports news coverage. It is currently available to our DTH subscribers, to subscribers to ntl and Telewest s digital cable television services, subscribers to certain other smaller cable operators and in the UK on DTT as part of the Freeview offering.

Sky Travel is a travel entertainment and retail business incorporating four travel channels and a web-site. The primary channel, Sky Travel, broadcasts travel entertainment and teleshopping programming and is currently available to our DTH subscribers, on ntl s digital cable television services and in the UK on DTT as part of the Freeview offering. Sky Travel Extra is a multiplex of Sky Travel and is available on DTH and ntl s digital cable television services. Sky Travel +1 was launched in November 2004 as a multiplex of Sky Travel and is available on DTH. Sky Travel Shop is a teleshopping service available on DTH. Viewers of the teleshopping programming and users of the skytravel.co.uk web-site are able to purchase a wide range of flights, hotels and holiday packages by the telephone or internet.

Flaunt, The Amp and Scuzz are music channels currently available to our DTH subscribers and to subscribers to ntl s digital cable television services. In September 2004 we contracted with a third party for it to provide all day-to-day operational services for these channels, though we still retain ultimate editorial control over the content of the channels.

In March 2004, we launched Sky Vegas Live, an interactive entertainment and gambling channel, which currently broadcasts on a 24 hour per day basis and which is currently available to our DTH subscribers.

In March 2005, we acquired the remaining 50% equity interest in Artsworld Channels Limited that we did not already own. Artsworld broadcasts arts oriented programming, including classical music, opera and dance. It is currently available to our DTH subscribers as part of certain Basic Packages.

Basic Sky Distributed Channels

Our agreements with the owners of the Sky Distributed Channels typically grant us the exclusive right to offer these channels to residential DTH subscribers in the UK and Ireland.

We currently act as an agent for The History Channel, the Biography Channel and MUTV for the sale of these channels and their multiplexes (where they exist) to cable operators in the UK and Ireland. The owners of the Sky Distributed Channels generally sell their own advertising time on their channels, although we act as an advertising sales agent for certain of these channels (see Advertising below).

Music Choice

We offer Music Choice, a 24-hour digital audio service consisting of ten digital audio channels, to DTH subscribers. This is included in some of our Basic Packages.

Pay-Per-View

Our Sky Box Office service currently offers our DTH subscribers over 50 screens of television premieres of movies and occasional live sports and other special events on a pay-per-view basis. We have acquired certain exclusive DTH rights from Hollywood and independent distributors, which enable us to show their movies on Sky Box Office. We also offer seven screens of adult movies, between 10.00 pm and 6.00 am, to our DTH subscribers via our 18 Plus Movies service.

Following our purchase of exclusive rights to all of the four live television packages of FAPL football (for the seasons 2004/05 to 2006/07 inclusive), approximately 50 additional live matches (over and above those matches broadcast on our Sky Sports channels) are available on a pay-per-view basis via our PremPlus service for the same seasons, for either a per-match price or for a one-off season ticket price. We also wholesale PremPlus to ntl, Telewest, ntl Ireland, Chorus Communications (Chorus) and Video Networks Limited (VNL), as well as a number of smaller cable operators, for them to distribute to subscribers to their respective networks.

In addition to our own pay-per-view services, we retail to our DTH subscribers eight third-party adult services on a pay-per-night basis.

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Distribution

We distribute our programming services directly to DTH subscribers through the packages described above. Cable subscribers, by contrast, contract with their local cable operators, which in turn acquire the rights to distribute certain of the Sky Channels from us, which they combine with other channels from third parties and distribute to their subscribers. DTT viewers must have either an integrated digital television set or an appropriate set-top box and do not pay a monthly subscription unless they subscribe to the Top Up TV service (see Competition Digital Terrestrial Television Top Up TV below).

	As at 30 June		
	2005	2004	2003
	(in thousands)		
Distribution of Sky Channels			
DTH homes	**7,787**	7,355	6,845
Cable homes	**3,872**	3,895	3,871
Total Sky pay homes	**11,659**	11,250	10,716
DTT homes[(1)]	**4,940**	3,084	1,510

(1) The number in respect of DTT homes consists of BARB s estimate of the number of homes in the UK with access to Freeview services.

DTH Distribution

During fiscal 2005, there were 1,225,000 new subscribers to Sky digital, whilst DTH churn in that same period was 793,000 subscribers, resulting in a net 432,000 increase in our DTH subscriber base for the fiscal year. DTH churn in total was 10.3% in fiscal 2005 (2004: 9.7%; 2003: 9.4%). We define DTH churn as the number of DTH subscribers over a given period who terminate their subscription in its entirety, net of former subscribers who reinstate their subscription in that period (where such reinstatement is within a twelve month period of the termination of their original subscription). In fiscal 2005, we derived £2,968 million of our revenues from DTH subscription revenues (2004: £2,660 million; 2003: £2,341 million).

As at 30 June 2005, we had a total of 7,787,000 DTH subscribers, with over 48.3% of subscribers taking the Sky World with Family Pack package (the channel package option containing all of the Sky Premium Channels and the largest number of Sky Basic Channels).

The future demand and speed of take up of our DTH service will depend upon its attractiveness, the marketing initiatives adopted both by us and others, and the competitive pressures resulting from the availability of competing services such as analogue and digital terrestrial television, and analogue and digital cable television.

The prices (inclusive of VAT, where applicable) to a residential DTH subscriber in the UK and Ireland of our pre 1 September 2005 basic package containing the largest number of basic channels (known as the Family Pack), and the range of prices (inclusive of VAT, where applicable) to a DTH subscriber of taking Sky Premium Channels with the Family Pack (which varies depending upon the number of Sky Premium Channels taken) since the beginning of fiscal 2003, and currently, are shown in the table below:

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	Price of Family Pack (per month)	Range of prices for Sky Premium Channel Packages when taken with Family Pack (per month)
UK		
As of 1 September 2005[1]	£21.00	£30-£42.50
1 September 2004 to 31 August 2005	£19.50	£28-£41
1 January 2004 to 31 August 2004	£19.50	£27-£40
1 January 2003 to 31 December 2003	£18.50	£27-£38
1 July 2002 to 31 December 2002	£16.00	£26-£37
Ireland		
As of 1 September 2005[1]	30.50	41.50- 64.50
1 September 2004 to 31 August 2005	28.50	38.50- 62.50
1 January 2004 to 31 August 2004	28.50	40- 61
1 September 2002 to 31 December 2003	26.99	42- 60
1 July 2002 to 31 August 2002	27.00	37- 53

(1) The price (inclusive of VAT, where applicable) to a residential DTH subscriber in the UK and Ireland of our post 1 September 2005 basic package containing all six genre mixes and therefore the largest number of basic channels (known as the Entertainment Pack) is currently £21.00 and 30.50 per month respectively. The range of prices (inclusive of VAT, where applicable) to a DTH subscriber in the UK and Ireland of taking the Entertainment Pack with Sky Premium Channels (which varies depending upon the number of Sky Premium Channels taken) is currently £32.00 to £42.50, and 41.50 to 64.50 respectively.

We also offer a number of our DTH services to commercial DTH subscribers in the UK and Ireland under a range of contracts. The types of contract, and the channels, which are available to any particular commercial subscriber will depend primarily upon the type of business premises within which they wish to show our services. Our commercial DTH subscribers include offices, retail outlets, hotels, pubs and clubs. Commercial DTH subscribers also include those commercial subscribers that operate a SMATV system (for example in a hotel or office), who are considered as being one commercial DTH subscriber, rather than a number of cable subscribers equal to the number of individual units to which the television signal is distributed. As at 30 June 2005, there were approximately 45,700 subscribers to our commercial DTH services in the UK and Ireland (including approximately 4,500 commercial DTH subscribers operating a SMATV system).

The majority of our UK DTH commercial customers are subscribers under our pubs and clubs subscription agreement. Under that agreement, the subscription prices range from £66 to £2,210 per month (exclusive of VAT). In Ireland, prices to pubs and clubs subscribers range from 190 to 474 per month (exclusive of VAT).

As at 30 June 2005, residential and commercial DTH subscribers represented approximately 67% of the total number of UK and Ireland subscribers to our services (the balance being made up of subscribers to our wholesale customers).

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Digital Satellite Reception Equipment

UK

In order to receive our DTH service, subscribers are required to have a digital satellite system which includes a satellite dish and LNB (low noise block converter), a digibox and a remote control. We have worked with a number of manufacturers and continue to work closely with selected manufacturers to develop digital satellite digiboxes based upon our specifications. In 1999, we began an initiative to accelerate the take up of digital satellite by offering free digital satellite systems. During 2002, in order to receive a free digital satellite system, a subscription to our Sky digital service was required. However, from 1 January 2003, we offered free digiboxes without a requirement to subscribe to one of our services (which was also the case prior to 2002).

Standard installation for all DTH subscribers is currently free (having either been free or costing up to £100 during fiscal 2005 depending on the package taken), whereas non-subscribers to our services taking up the free digibox offer (which is different to purchasing our freesat proposition, see Distribution Free-to-view Satellite Proposition below) during fiscal 2005 were, and currently are, charged £120.

The services received by a non-subscriber to our services taking up the free digibox offer depend upon the number of unencrypted services and free encrypted services available on the Astra satellite system, and also on whether they receive encrypted channels from third party broadcasters on a subscription or pay-per-view basis.

We also offer our subscribers the opportunity to purchase up to three extra digiboxes for use at the same residence as their original digibox, which enables them to watch different satellite programmes in different rooms at the same time using just one satellite dish (known as Multiroom). As well as the cost of the extra digibox (which is currently £99), a monthly subscription charge of £10 is also payable by the subscriber for each additional digibox purchased. Standard installation of the additional boxes has been free since 24 September 2004 (having been £60 from 1 July 2004 until that date). With each additional subscription the subscriber is able to obtain all the channels included in the package in his or her subscription for the original digibox on one extra digibox.

During fiscal 2005, we have continued to offer Sky+, a digibox that we have developed which contains two satellite tuners and an integrated personal television recorder allowing programming to be recorded directly on to a hard-disk contained within the digibox. This enables DTH subscribers to watch one live satellite programme (or a previously recorded programme) while simultaneously recording another, to pause or rewind live television and to record automatically some series of programmes. In October 2004, we launched a new, premium version of the Sky+ digibox, called Sky+ 160, to supplement the existing Sky+ digibox. This digibox has an integrated personal television recorder with four times the storage capacity of the existing Sky+ digibox, allowing an average of 80 hours of programming to be recorded, as well as having all of the other functionality of the existing Sky+ digibox. Subscribers pay a one-off fee for the Sky+ and Sky+160 digiboxes, currently ranging from £89 to £299 (depending on which of the two digiboxes is taken and the promotional offers that we frequently run). Standard Installation for the Sky+ and Sky+160 digiboxes during fiscal 2005 was, and currently is, free for new subscribers, £60 for existing subscribers upgrading to Sky+ and £120 for non-subscribers. Subscribers also pay a monthly subscription fee to use the Sky+ recording features, however, if a subscriber subscribes to two or more Sky Premium Channels, no additional monthly subscription fee is charged.

In the first half of calendar year 2006, we are planning to launch our High Definition Television (HDTV) service. A television programme shown in high definition has four times as much picture information shown on the screen as programmes shown in standard definition. This service is planned to be available to customers who take a new version of the Sky+ digibox and the relevant subscription. This new Sky+ digibox will be designed to be capable of decoding and showing both standard definition channels and channels in the HDTV format, as well as having standard Sky+ features and providing access to our existing services. At launch, Sky plans to transmit a range of new channels in the HDTV format across sports, movies, general entertainment and factual programming.

In September 2005, we announced the launch of Sky Gnome, a portable and wireless device that enables DTH viewers to listen to the audio output from the digital television and radio channels that they receive through their digibox throughout the home within approximately 30 metres of the digibox.

Both digital satellite reception equipment and subscriptions to our DTH services are offered by us directly and through a variety of retailers. Such retailers generally receive payments from us in connection with the supply of satellite reception equipment under our free digital satellite reception equipment initiative and a commission for the sale of subscriptions to our DTH services. The level of sales of subscriptions varies depending upon the time of the year and the promotions and special offers made available. Installation services are provided to subscribers by some of the smaller retailers. We also provide installation and equipment repair services. In fiscal 2005, 1.0 million digital satellite reception systems were installed in the UK by or on behalf of one of our subsidiaries (2004: 0.8 million; 2003: 1.0 million).

We have built digital transmission and uplink facilities and have developed (in conjunction with others on a commissioned or licensed basis) a digital conditional access system, customer management systems, EPG and navigation technology, as well as applications and online return path infrastructure to permit us to offer interactive television services.

Ireland

In Ireland, both satellite equipment and subscriptions to our DTH services are offered directly by us and through a large number of Irish retailers. Such retailers, like their UK counterparts, generally receive payments from us in connection with the supply of digital satellite reception equipment under our free digital satellite reception equipment initiative and a commission for the sale of subscriptions to our DTH services. Some of the channels offered in Ireland differ from those offered in the UK.

At 30 June 2005, there were approximately 363,000 DTH subscribers to our services in Ireland.

Whilst our digital DTH services have been available in Ireland since December 1998, it was not until September 2000 that we made available the free digibox offer to DTH subscribers in Ireland. To benefit from this offer, customers in Ireland must subscribe to our services. Since September 2002, a limited range of online interactive services has been provided to our DTH subscribers in Ireland.

Sky Active

Our DTH service allows a broadcaster, such as ourselves, to develop and offer its viewers enhanced and interactive services. We offer enhanced broadcast applications behind a number of Sky Channels, including Sky Movies Active (behind our movie channels), Sky Sports Active (behind our sports channels), Sky News Active (behind Sky News) and the interactive betting service available behind Sky Vegas Live. We, and other broadcasters, are enhancing our channels with interactive services which can be accessed whilst the programming on the channel stays in view. In fiscal 2005, we derived £92 million of Sky Active revenues (2004: £116 million; 2003: £101 million).

We provide an interactive television platform for the development and delivery of interactive services. The platform is also used to deliver the interactive services of third parties. We currently own and operate four stand alone interactive portals on our DTH platform (including the main Sky Active portal) which provide access to a broad range of interactive services including retail, betting, customer services and games.

DTH viewers can access these interactive services by means of either stand alone portals (our Sky Active portal being one of them) or in conjunction with certain broadcast channels. Such interactive services include competitions, voting, messaging services, quizzes, home shopping, holiday bookings, games and betting, some of which relate to the programme content being shown on the relevant channel at the time.

Sky Active (in common with other stand alone interactive portals) is currently offered free of charge to all DTH viewers and each viewer s telephone line is the return path for these interactive services via a modem in the digibox. We derive revenues through interactive services principally from (1) premium rate telephone charges in connection with viewers usage of our services (such as pay-per-play games, voting and entries

to quizzes); (2) revenue sharing in e-commerce transactions (e.g. retailing or betting) completed on the platform; (3) advertising; and (4) tenancy and technology fees charged to content providers who offer services by means of the platform, including licences of our Wireless Mark-Up Language adapted for television browser technology (see Emerging Technologies below) and backend infrastructure to third party broadcasters on the digital DTH platform. In addition, interactive revenues are earned from the digibox subsidy recovery charges (relating to the Group s subsidy of the cost to customers of our digiboxes) which are included within the conditional access, access control charges and EPG charges made to customers on our DTH platform.

We have continued to develop our interactive advertising technology, deploying advertising applications from July 2003 that make use of our browser technology with a view to enabling a wider range of interactive advertising services to be offered. Since our launch of interactive advertising in April 2000, over 700 interactive advertising campaigns have been broadcast by us and others via our DTH platform. In March 2004, we launched the new browser Mini DAL (Dedicated Advertiser Location) template, and to date more than 40 different advertisers have taken advantage of the new functionality offered by this product.

Third party channels (and third party stand alone interactive portals such as PlayJam, Teletext Holidays, Directgov, Fancy A Flutter and YooPlay) make use of the interactive potential of the digital DTH platform. Third party broadcasters such as the British Broadcasting Corporation (BBC), ITV, Channel 4, five , Flextech, UK TV, Discovery, MTV, Nickelodeon, QVC, Cartoon Network, TV-X and the Disney Channel have successfully launched interactive services on our DTH platform, as have a number of third party providers of stand alone interactive services (which are separate from those offered in conjunction with any television channel). These services include enhanced television, information services, games, betting, shopping, voting, holiday bookings, ringtone services and quizzes. Third party channels may offer such interactivity in conjunction with Sky Interactive or provide their interactive services independently, including making use of competing interactive infrastructures connected to our DTH platform.

In April 2005, we launched SkyCard in conjunction with Barclays Bank plc as Barclaycard, an interactive televison credit card backed by a loyalty scheme with a range of rewards for cardholders. SkyCard works like any other credit card but can also be inserted in the interactive slot on the Sky digibox (including Sky+ digiboxes), enabling customers to manage their credit card account via their television.

Sky Bet

The Group offers a range of betting and gaming services under the Sky Bet , Sky Bet Vegas and Sky Vegas brands. The Sky Bet fixed odds sports betting service is available across multiple platforms, including by means of Sky digiboxes (including Sky+ digiboxes), by telephone and on the internet. An on-line casino, licensed in Alderney in the Channel Islands, is offered by us on the internet and can be accessed at www.skybetvegas.com. Sky Bet also continues to develop a range of popular fixed odds numbers betting products offered under its UK bookmaker s permit on our DTH platform, through both the Sky Vegas 24/7 games service and the Sky Vegas Live interactive television channel. In fiscal 2005, we derived £261 million of Sky Bet revenues (2004: £191 million; 2003: £117 million).

Cable Distribution

United Kingdom

Two major multiple system cable operators, ntl and Telewest, operate almost all of the UK broadband cable systems. Both of these operators provide analogue and digital cable services across the majority of their systems and each accounts for a substantial proportion of our wholesale revenues, which are revenues derived from the supply of Sky Channels to UK and Irish cable platforms. In fiscal 2005, we derived £219 million in subscription fees from cable operators (2004: £215 million; 2003: £202 million). We estimate that, as of 30 June 2005, the subscribers to these cable operators networks represented approximately 99% of all cable television subscribers in the UK (measured by reference to total cable subscribers, as reported to us by the cable operators).

UK cable subscribers demonstrated growth in fiscal 2004, increasing from a total of 3,266,000 subscribers to 3,321,000 subscribers. This growth reversed in fiscal 2005, which saw a net decline of 34,000 UK cable subscribers during the period. As at 30 June 2005, there were approximately 3,287,000 UK cable subscribers (including broadband, narrowband and SMATV subscribers) of whom all but a very small proportion take programming from us. Cable operators pay us a monthly per subscriber fee per channel in respect of their subscribers to the Sky Basic Channels and a monthly per subscriber fee per channel package for the Sky Premium Channels. Since January 2002, the wholesale prices we charge have not included any discount structure. Like the previous rate cards setting out our wholesale prices, the current rate card allows cable operators to offer their customers any choice or combination of the Sky Premium Channels. The Sky Basic Channels are not included in our current wholesale rate card and we negotiate separate commercial arrangements with each cable operator for the carriage of these channels.

Both ntl and Telewest currently carry versions of all of the Sky Premium Channels (including multiplex channels) and our PremPlus pay-per-view service on their digital networks. Distribution of Sky Premium Channels to their remaining analogue cable subscribers is more limited. Neither ntl or Telewest offers our Sky Sports Xtra, PremPlus or movie multiplex channels to analogue subscribers and Telewest now only distributes our main Sky Movies channels on a limited basis in analogue. Additionally, ntl distributes all of the Sky Basic Channels other than Artsworld, Sky Travel+1, Sky Travel Shop and Sky Vegas Live on its digital networks and both Sky One and Sky News on its analogue networks. Telewest only carries the Sky Basic Channels Sky One and Sky News on its analogue and digital networks, and Sky Sports News on its digital network. Both ntl and Telewest also carry some Sky Box Office events for re-transmission to their digital cable subscribers, but neither carries the Sky Box Office movies service.

Most narrowband cable networks (these are generally smaller cable companies) have a more limited channel capacity than digital satellite or digital cable and do not generally carry all of the Sky Channels.

Ireland

In Ireland, cable subscriber fees for the Sky Premium Channels are charged on a per subscriber per channel package basis. The level of prices charged to cable operators for most Sky Channels is lower than in the UK.

At 30 June 2005, there were approximately 585,000 (2004: 574,000) cable subscribers (including SMATV) to our programming in Ireland. We currently have arrangements in place with ntl Ireland and Chorus, the two leading Irish cable operators, for the re-transmission of certain of the Sky Channels to their subscribers. Both ntl Ireland and Chorus have launched, albeit on a limited basis, digital cable services in Ireland.

DTT Distribution

We broadcast versions of three of our channels, Sky News, Sky Sports News and Sky Travel (which it is planned will be renamed Sky Three in October 2005), unencrypted free-to-air via DTT in the UK. These channels are broadcast on a DTT multiplex for which the licence is held by Crown Castle UK Limited (which owns and operates shared wireless communications and broadcast infrastructure). The channels broadcast via DTT by us, together with a number of other channels broadcast free-to-air via DTT by other broadcasters, are marketed to consumers under the generic brand Freeview.

DSL Distribution

See Emerging Technologies below in relation to our arrangements with Kingston Communications and VNL.

Free-to-view Satellite Proposition

In October 2004, we launched a new freesat proposition, offering purchasers access to over 200 free-to-view television and radio channels (including regional variants) and interactive services, without a monthly subscription fee. Consumers can purchase a package of digital satellite reception equipment, including a digital satellite viewing card and standard installation, for £150. The free-to-view channels on DTH include Sky News, the BBC s portfolio of digital television and radio services, digital versions of the five traditionally analogue terrestrial channels and their all-digital television services (ITV2, ITV3 and E4). Access to the encrypted signals of ITV1, Channel 4 and five is available as a result of the provision of a digital satellite viewing card which we provide as part of the package. There is no obligation for purchasers of this proposition to subscribe to a pay television service; however, the proposition offers an easy upgrade path to a DTH subscription with us for those customers who choose subsequently to add a pay television service to their viewing options.

Seasonality

New subscriptions to our channels have tended to be highest in the second quarter of our fiscal year, the pre-Christmas period. As a result, our marketing costs have tended to be highest in the second quarter of each fiscal year. There is no assurance that these trends will continue in the future.

Marketing Channels

The principal marketing channels used by us to promote our products and services are press (including both national and regional newspapers and magazines), media inserts, door drops, direct mailings, outdoor activity (such as billboards and bus backs), on air advertising on both national and regional radio and television channels (on both promotional and commercial airtime), outbound calling, on-line advertising on both third party websites and on sky.com, advertising in our customer magazine and point of sale advertising in retail outlets which sell our products and services.

Advertising

In fiscal 2005, we derived £329 million of our revenues from advertising sales revenue (2004: £312 million; 2003: £284 million).

In the UK, advertising agencies plan campaigns on behalf of their clients and allocate a proportion of each client s proposed television spend to the divisions of broadcasters that specialise in the sale of television advertising, which are known as sales houses. The principal broadcasters in the UK with sales houses aside from us are ITV, Channel 4, five , Flextech (whose sales house is known as Interactive Digital Sales (IDS)) and Viacom Brand Solutions (VBS). Normally, advertising agencies do not buy specific spots (defined as 30-second commercials) within particular programmes. Instead, agencies agree to spend a specified share of their clients advertising budgets with each broadcaster. These shares are, to a large degree, based on the percentage share of impacts that each sales house delivers. In advertising terms, an impact is defined as an individual watching one spot. The amount of advertising spend a broadcaster receives is proportionate to its share of audience viewing and the perceived quality of that audience, judged on the demographic profile and the propensity of the audience to buy or use the product or service. The Contract Rights Renewal remedy applicable to ITV plc (CRR see Competition Advertising below) has resulted in the perceived quality of the audience a broadcaster delivers having less relevance now than in the past, and any increase or decrease in investment year on year from an advertiser tends to be based purely on the growth or decline in share of commercial audiences.

We sell advertising for all of the 17 Sky Channels (as well as for their multiplexes) around all programmes that are broadcast on these channels, irrespective of whether the programming was produced in-house or licensed from a third party. We also act as the advertising sales agent for the National Geographic Channel, Adventure One, Hallmark, The History Channel, Biography, MUTV, Chelsea TV, eight Discovery Channels

(Discovery, Real Time, Travel & Living, Wings, Science, Civilisations, Home & Health and Animal Planet), FX, Fashion TV, Chart Show music channels (Chart Show TV, The Vault and B4) and the seven EMAP channels (Q, Kiss, Magic, Kerrang, Smash Hits, The Box and The Hits) as well as for those channels multiplexes where applicable. We sell advertising time across all of our channels, and tailor distribution according to the target audience an advertiser is trying to reach, but can sell on a specific channel basis where requested.

According to BARB estimates, across all UK Multi-Channel Homes, our share (for all of the Sky Channels) of commercial audiences (excluding those of the BBC) at 30 June 2005 was 15.0%, a decrease from 17.0% at the end of the previous fiscal year (2003: 17.5%). Our subscribers households tend to be younger and more affluent than the average UK household and tend to over-represent the 16-34 year old, ABC1 (i.e. upmarket) and male demographic profiles sought by many advertisers.

In fiscal 2006, we are launching a major new research tool, SkyView, which combines viewing data collected from digiboxes with data collected regarding product purchase. It will give advertisers a greater understanding of viewing patterns and how to target their consumers in homes that subscribe to our DTH service.

Sponsorship

In fiscal 2005, we derived £23 million from sponsorship revenue (2004: £21 million; 2003: £19 million), which is included in advertising sales revenue.

We acquire programme sponsors for the Sky Channels and work alongside the sales teams of partner channels (such as National Geographic Channel, Adventure One, The History Channel and Hallmark) to help secure broadcast sponsors for their channels.

Programme Sponsorship is defined as either title sponsorship (e.g. Ford Super Sunday or Gillette Soccer Saturday) or in association sponsorships (e.g. The Simpsons/ Domino s Pizza or 24/ Nissan).

According to our internal estimates and an independent report into the television sponsorship sector, our share (for all of the Sky Channels) of the total broadcast sponsorship business conducted in the UK was approximately 20%, more than any other broadcast sales house, other than ITV, which trades with approximately 45% of the sector. Our broadcast sponsorship revenue is split between over 50 brands on almost 100 programmes, and where possible, broadcast sponsorship accreditation is integrated with spot, interactive and online campaigns.

Competition

We are a channel provider, a distributor of television services and a DTH platform operator. We therefore compete with a number of communications and entertainment companies to obtain programming, for distribution, for viewers and for advertising sales.

Competition from other Television Channels

The Sky Channels compete with other television channels for the acquisition of programming, for viewers, for distribution and for advertising and sponsorship revenue.

In both the UK and Ireland, the television channels with the largest audience shares are the traditionally analogue terrestrial channels, which are broadcast free-to-air. In the UK, these channels are BBC1, BBC2, ITV1, Channel 4 and five , while in Ireland these are RTE1 and Network 2, the Irish language channel TG4, and the commercial channel TV3. In the UK, as well as being available via analogue terrestrial television, the five traditionally analogue terrestrial channels are also available via DTH, cable, DTT and DSL, and, in the case of DTH and DTT, on a free-to-air basis.

In addition to these channels we compete with both the Sky Distributed Channels and with other television channels broadcast via satellite, cable, DTT and/or via DSL. These other channels may be broadcast by satellite free-to-air (either encrypted or unencrypted) or they may be independently-retailed pay television

channels. The free-to-air encrypted and unencrypted channels (which, as at August 2005, amounted to more than 240 digital satellite channels (including radio services)) can be received by anyone with appropriate satellite reception equipment (including the necessary conditional access equipment for the reception of encrypted channels) without payment of a subscription fee. Other than the digital satellite versions of the traditionally analogue terrestrial channels, none of these channels individually has a viewing share in the UK that approaches the combined Sky Channels share. However, the popularity of the non-Sky Channels available on our DTH platform can make our DTH offering more attractive to subscribers and potential customers.

As at 7 October 2005, there were 29 encrypted digital satellite pay television channels for DTH reception retailed independently of us available on a subscription basis, plus 13 such channels available on a pay-per-view basis, and five such channels available either on a pay-per-view or subscription basis. Those channels available only on a pay-per-view, or a pay-per-view and subscription basis, were all adult channels except for two Setanta Sport pay-per-view channels.

As we and other broadcasters all require some combination of films, sports, general entertainment and/or other programming to attract viewers, in both the UK and Ireland, there have been, and may in the future be, bidding competitions which could increase our programming acquisition costs, or which could mean that certain programming in which we are interested may not be available to us.

Cable Operators

Cable operators compete with us as an alternative service to DTH distribution and carry the majority of the Sky Channels. There are areas in the UK and Ireland where it may not be economically feasible to offer cable television services, including some rural areas. Equally, there are also certain areas in the UK and Ireland, such as conservation areas, where, due to planning and local regulations, DTH satellite equipment may not be installed. Both ntl and Telewest provide analogue and digital cable services in the UK. ntl Ireland and Chorus offer both analogue and digital cable and multipoint microwave distribution system (MMDS) television services in Ireland. According to the Office of Communications (Ofcom), cable networks currently cover approximately 50% of UK homes, whilst, according to the Commission for Communications Regulation (Comreg) (the telecommunications regulator in Ireland), cable and MMDS services cover nearly 93% of Irish homes. Approximately 13% of UK homes currently subscribe to a cable television service, whilst 41% of Irish homes currently subscribe to cable and MMDS television services.

In January 2005, ntl and Telewest launched Video-on-Demand (VoD) services in the UK. The services are currently being rolled out across the operators networks. ntl s VoD service is branded ntl On Demand , whilst Telewest s service is branded Teleport . ntl expects to roll out its product to be available across the whole of its network by 2007, while Telewest expects Teleport to be available across the whole of its network by 2006. Movies content for both services is provided by Filmflex, a joint venture between Disney, Sony and the On Demand Group (of which ntl and Telewest are the major shareholders). The cable VoD services also include television programme content, and provide viewers with pause and rewind functionality. Digital cable subscribers to whom the services are available do not need to upgrade their equipment to receive the services.

In October 2005, NTL Incorporated and Telewest Global, Inc. jointly announced a definitive merger agreement under which it is planned ntl will acquire Telewest. The announcement stated that the transaction is expected to close in the first quarter of calendar 2006, and is subject to UK regulatory and shareholder approvals.

Cable distribution of the Sky Channels represents a source of additional operating income for us. A reduction in, or the loss of, such operating income could negatively affect our business.

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Digital Terrestrial Television

Freeview

Take-up of Freeview services has grown quickly since its launch in October 2002. According to BARB estimates, as at 30 June 2005, there were 4,940,000 homes in the UK with access to Freeview services.

It is likely that as a result of the availability of free-to-air television channels via DTT, beyond the five traditionally analogue terrestrial channels, some consumers will choose to take such free-to-air DTT services in preference to a pay service, just as some customers may remain satisfied with analogue free-to-air services.

There is currently no DTT service in Ireland. In 2001, the Irish Government sought to introduce a commercial DTT service with a free-to-air component in Ireland, but in the absence of any viable bids to operate the network, the proposal was withdrawn in 2002. In 2004, the Irish Government commenced a re-evaluation of the options for the roll-out of a DTT network in Ireland. As part of this process, it has announced its intention to establish a pilot DTT service. In June 2005, the Irish Government issued a document inviting expressions of interest in the provision of multiplexing and networking infrastructure required for the pilot DTT service.

Top Up TV

Top Up TV (which launched in March 2004) offers a pay television service via DTT. Top Up TV comprises five DTT channels, on which programming from eleven digital television channels is broadcast (for example, programming from one digital television channel is broadcast on one of Top Up TV s DTT channels between 6 am and midday, whilst programming from a different digital television channel is broadcast on the same DTT channel during other hours of the day). A subscription to the service costs £7.99 per month. A subscription to programming from an adult digital television channel, which is broadcast on one of Top Up TV s DTT channels late at night, costs £9.99 per month.

The service can be received only by households with a DTT set-top box (or an integrated digital television set) which has conditional access technology within it, or with a Conditional Access Module (CAM) plugged into a set-top box (or integrated digital television set) which has a Common Interface Socket. Common Interface Sockets are a mandatory feature on all integrated digital television sets; however, the majority of DTT set-top boxes that have been sold to date do not include such technology.

Free-to-view Satellite Propositions

The introduction by us in October 2004 of our freesat proposition (see Distribution Free-to-view Satellite Proposition above) has provided an alternative multichannel television service to households, which might elect to take up such service instead of our pay-television offerings.

In September 2005, ITV announced that it is working together with the BBC to develop a free digital satellite service to complement Freeview, entitled Freesat and to be operational within the first half of calendar 2006. ITV announced that this new service will enable viewers to access subscription free digital television via satellite and will be aimed primarily at people in the UK currently unable to access Freeview.

Other Technologies (Competition)

Other technologies, such as third generation cellular telephone networks (3G) and DSL networks, provide additional means by which video content can be delivered to viewers. All major cellular network operators in the UK and Ireland now offer 3G services to consumers. However, 3G services have yet to make a significant impact. Although the volume of subscribers to 3 UK (who only operate a 3G mobile network) has shown strong growth (increasing to over 3.2 million by the end of August 2005), 3G penetration amongst more established operators remains low. For example, at the end of June 2005, Vodafone had only 282,000 registered 3G devices amongst a UK subscriber base of 15.5 million.

DSL services have grown significantly in the UK in the recent past, both in terms of the number of providers, and the number of users. According to British Telecom, as at June 2005, there were approximately 5.7 million subscribers to DSL services in the UK. Only a very limited number of these subscribers currently use these services for digital television. Although consumer broadband DSL access remains focused on the provision of internet access, two operators have developed DSL networks with the capacity to deliver digital television services to homes: Kingston Communications in Kingston-upon-Hull and VNL in parts of London. However, we expect several companies to launch similar services over the next 12 months. According to Ofcom, as at the end of December 2004, approximately 20,000 television homes in the UK were viewing television via a DSL platform.

In the UK, the average speed of internet connections continues to grow with typical speeds of approximately 1-2 Megabits per second (Mbit/s). However, some operators are offering substantially higher rates in selected areas. The increase in the average speed of internet connections and the emergence of new codecs such as MPEG-4 and WM9 means consumers can increasingly download video over the internet. Additionally, the use of peer to peer technology for both legitimate and illegitimate video downloading is growing.

Competition in Programming

The operators of such networks compete with us for the acquisition of programming rights. For example, in 2003, Vodafone UK and 3 UK secured the mobile rights to show near live clips of FAPL football for the three seasons beginning with the 2004/05 season, for which we also bid.

Competition in Distribution

The operators of such networks also compete with us as an alternative service to DTH distribution. For example, VNL uses DSL technology to provide broadcast and video-on-demand television services in the London area. Currently, none of the Sky Channels are sold by us to such third party DSL operators on a wholesale basis for distribution by them on their networks (although we wholesale the PremPlus service to VNL (see Programming Pay-Per-View above)). We do however, retail certain of our channels directly to homes connected to Kingston Communications and VNL s DSL networks, having contracted for a network access service with each platform operator (see Emerging Technologies below). In addition, we provide content, such as news and sports clips, for inclusion in the broadband internet services offered by the operators of certain of such networks.

Digital Switchover

The UK Government has indicated that it intends to switch off the transmission of analogue terrestrial television in the UK between 2008 and 2012. On switching off analogue transmission, the coverage of the core multiplexes of the existing DTT network (those carrying the main analogue terrestrial channels) will rise from its current level of approximately 73% to an estimated 98.5%. The licence conditions for Channels 3, 4 and 5 require those channels to achieve substantially the same DTT coverage as is currently achieved in analogue. Following a consultation on planning options for digital switchover which took place in February 2005, Ofcom issued a statement in June 2005 in which it indicated that DTT coverage for the main analogue terrestrial channels should match the existing analogue core coverage of 98.5%. Switching off analogue terrestrial transmission will, in any event, enable DTT to be made available to households who cannot currently receive it.

In March 2005, the UK Government published a green paper entitled Review of the BBC s Royal Charter A strong BBC, independent of government , in which it proposes to give the BBC a new purpose of building digital Britain . In particular, it proposes that the BBC should replicate in digital form substantially the same coverage for its television services as in analogue (98.5%), and that the BBC should help to implement and pay for schemes to assist the most vulnerable people to switch from analogue to digital television. A white paper setting out what the Government intends to put in the next BBC Charter is expected before the end of the 2005 calendar year.

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Following analogue terrestrial transmission being switched off, all analogue households wishing to continue to receive television services will need to convert to digital television. Current options for digital television reception are DTT, digital satellite via our DTH service (either as a subscriber, or as a non-subscriber) or ITV s proposed Freesat service, and, in some areas, cable or DSL, as well as a combination of these services. There may be other options for digital television available in the future. The extent to which households may choose another service in preference to our DTH service is difficult to predict.

Home Videos and DVDs

Home video sales and rentals (including DVDs) have historically been strong in the UK. In addition to offering consumers an alternative source of programming to terrestrial, cable and satellite television, the video window (which includes DVDs) for new films generally starts before both the pay television window and the pay-per-view television window. The video window typically commences approximately four to six months following a film s UK cinema release. Currently, the pay-per-view television window generally commences four to six months later. We have, to date, been able to develop a significant customer base for our pay-per-view services and movie channels, notwithstanding competition from the home video industry and increased competition from DVDs which may increase further as DVD prices fall and a new HD-DVD standard emerges.

Advertising

Our primary competitors for television advertising sales are ITV plc (formed by the merger of Granada plc (Granada) and Carlton Communications plc (Carlton), which completed in February 2004) which sells advertising on ITV1, ITV2, and ITV3, Channel 4 (which also sells advertising for E4), five , IDS (which sells advertising on behalf of the UKTV group of channels and the Flextech channels (Living, Bravo, Trouble and Challenge)), and VBS (which sells advertising on behalf of Viacom, MTV and Nickelodeon). In October 2003, the Secretary of State for Trade and Industry confirmed that the proposed merger between Carlton and Granada could proceed if certain undertakings could be agreed between Granada, Carlton and the Office of Fair Trading. Undertakings were agreed on 14 November 2003 and the CRR remedy was introduced to protect media buyers and advertisers from the increased market power enjoyed by the merged ITV. CRR allows media buyers and advertisers that contracted directly with Carlton and Granada to renew the terms of their existing share deals without change and new advertisers to contract on fair and reasonable terms. In addition, in respect of agreements that include a share commitment, the advertisers/media buyers are able to reduce the share committed to ITV commensurate with any decline in ITV s share of impacts year on year. Based upon the latest BARB survey estimates, ITV1 and Channel 4 were available to approximately 24.7 and 24.6 million television homes, respectively, in the UK (both digital and analogue), with approximately 88% of the estimated 24.9 million television homes in the UK receiving an acceptable five terrestrial analogue signal. In addition, according to BARB survey estimates, as at June 2005, approximately 15.1 million UK homes have access to satellite, cable, or digital terrestrial television. Both ITV1 and Channel 4 have a significantly greater overall UK television viewing share than any individual Sky Channel. As a result of the ability of ITV1 and Channel 4 to reach almost all UK television homes, these channels are able to generate greater advertising revenues than we do. We also compete with the Sky Distributed Channels and all other commercial channels for television advertising sales.

Within UK Multi-Channel Homes, however, the Sky Channels in aggregate attract viewing levels which are comparable to some of the traditionally analogue terrestrial channels. This suggests to us that, as the number of Multi-Channel Homes increases, our competitive position with respect to advertising revenues may improve. Additional growth from the free-to-view offerings, Freeview and our freesat proposition, should also improve the revenue share of the Sky Channels which are available as part of these offerings. The Sky Channels jointly have an overall viewing share (within Multi-Channel Homes) significantly greater than each of Channel 4 and five in those homes, although the Sky Channels combined viewing share is still less than that of ITV1 in these homes. Based upon BARB surveys for the 52 weeks ended 30 June 2005, the viewing shares in UK Multi-Channel Homes of the traditionally analogue terrestrial channels and

the combined Sky Channels were, respectively, BBC1 19.6%, BBC2 6.8%, ITV1 18.5%, Channel 4 7.5%, five 5.2%, and the Sky Channels 10.1% (of which Sky One accounted for 26% of the Sky Channels viewing share (and had an individual viewing share of 2.6%)). The remaining 32.4% of viewing in UK Multi-Channel Homes was of other (non-Sky) satellite, cable and DTT channels.

Technology and Infrastructure

We control access to DTH channels through the use of a conditional access system, VideoGuard (see Encryption of Digital Services below). Apart from the smart card (a credit card size plastic card containing a chip that provides conditional access functionality) and the software in the digibox, to which we retain title, we do not own the satellite reception equipment in DTH subscribers homes (this equipment is owned by viewers, whether or not they are subscribers). All costs associated with the acquisition of subscribers, including the cost of satellite reception equipment, are charged immediately to the profit and loss account and are therefore not included within capital expenditure.

Underpinning the EPG in the digibox is an operating system which we license from OpenTV, Inc. (OpenTV). The OpenTV operating system provides a virtual machine interface which enables applications to be authored once, yet still be capable of running on all our different types of DTH digiboxes once the application is downloaded to the digiboxes. This simplifies the development of applications for the digibox and ensures universal availability of services to all DTH digiboxes. The operating system in each digibox is fully licensed upon payment of a per digibox royalty by the digibox manufacturer to OpenTV.

The deployed digiboxes contain finite memory resources that are used by the operating system and other software components such as the conditional access system, EPG, and interactive applications. We have, to date, been able to carry out software downloads from time to time to reconfigure the memory utilisation in these digiboxes in order to accommodate additional and increasingly complex services. We cannot be certain that this course of action will always be available to us.

Encryption of Digital Services

VideoGuard is a conditional access technology which can be used to encrypt and decrypt digital television and audio services. We use it to control DTH viewers access to encrypted satellite non-subscription channels and encrypted digital pay and pay-per-view television and audio channels broadcast on digital satellite for reception in the UK and/or Ireland.

We use the VideoGuard technology and distribute smart cards in the UK and Ireland under an agreement with NDS Limited which expires in 2010, but is renewable, at our option, for a further three years. NDS supplies smart cards and undertakes ongoing security development and other support services in return for the payment of fees by us.

In conjunction with NDS, we maintain a policy of refining and updating the VideoGuard technology in order to restrict unauthorised DTH reception of our services. We take appropriate measures to counter unauthorised reception, including implementing over-the-air countermeasures altering authorised smart cards in a manner which then renders counterfeit smart cards obsolete and seeking available legal remedies, both civil and criminal, reasonably available to us. We also periodically replace smart cards in circulation with smart cards containing progressively more sophisticated technology. Such replacement has the effect of rendering useless smart cards then in circulation, whether genuine or counterfeit. The first periodic replacement of digital smart cards since our digital launch in October 1998 was successfully completed in November 2003.

We are actively working with cable companies in the UK to investigate the use of any cable piracy devices. We believe that we have suffered a loss of wholesale cable revenue as a result of the availability of cable piracy devices (in relation to both analogue and digital cable services). We are unable to quantify this loss, including whether or not such loss is material. We have not (to date) invoiced any cable company in respect of such lost cable revenues and therefore, such lost revenues have not been recognised within our Consolidated Financial Statements.

The two principal UK cable operators (together with ntl Ireland in respect of certain Sky Channels) receive our signal via secure landlines. In respect of other operators, we generally provide delivery to cable operators via satellite. To enable reception of the satellite signal, a smart card is located at the site of the cable operator s feed into its cable transmission system, permitting decryption of the signal, which the operator in turn distributes to those of its subscribers who are authorised and equipped to receive the service.

Encryption of Channels Retailed by Third Parties

Any potential DTH broadcaster wishing to operate and independently retail an encrypted television service within the UK and Ireland needs either to acquire an alternative encryption and conditional access technology from someone other than us, and build its own decoder base capable of receiving transmissions encrypted using that technology, or, in respect of digital services, to contract with us for conditional access services in respect of access to the installed VideoGuard decoder base.

In addition to providing broadcast conditional access services, both for our own DTH offerings and those of third parties, we provide digital access control services for interactive services produced by us and others, including using a telephone return path to carry out transactions between suppliers and viewers. These broadcast conditional access and access control services are regulated by Ofcom. See Government Regulation Broadcasting and Telecommunications Regulation European Union Electronic Communications Directives .

Satellites

We contract for the majority of the satellite transponders that we use for digital transmissions for reception by both DTH viewers and cable operators from SES ASTRA (SES), the operator of the Astra satellites. SES is 100% owned by SES GLOBAL, a Luxembourg company in which the Luxembourg State and GE Capital hold interests of 11.58% and 24.58%, respectively, with the balance held by other international financial institutions, communications groups, institutional and private investors and Luxembourg public institutions. We have also contracted, via an agreement with BT, for four transponders on the Eurobird satellite, which is owned and operated by Eutelsat.

For the transmission of our DTH service, we have contracted for 31 transponders from SES on SES satellites Astra 2A, 2B and 2D. All but seven of our digital transponder agreements (on SES satellites) are for a period of ten years with varying end dates between 2008 and 2011. We have rights to extend certain of the initial lease periods. Four of the remaining seven transponder agreements have recently been extended; three of these agreements now expire in 2017, and the fourth in 2015. The three remaining transponder agreements were entered into in calendar 2005 to provide additional capacity to facilitate the launch of our HD service. These three agreements expire in 2020. The term of the digital leases on the Eurobird satellite expires in 2013.

We use some of the transponders that we have contracted for the Sky Channels. Some transponder capacity (and in some cases all of the capacity on a particular transponder) is sub-contracted to third parties for the transmission of other channels or services, including certain of the Sky Distributed Channels.

We have been designated a non pre-emptible customer under each of our transponder agreements. This means that, in the event of satellite or transponder malfunction, our use of these transponders cannot be suspended or terminated by SES or Eutelsat in favour of another broadcaster which has pre-emption rights over capacity in preference to some other customers. In addition, in the event of satellite or transponder malfunction, we have arrangements in place with SES pursuant to which back-up capacity may be available for some of our transponders based on an agreed satellite back-up plan.

We have also put in place disaster recovery plans in the event that we experience any significant disruption of our transponder capacity. To date, we have not experienced any such significant disruption. However, the operation of both the Astra and Eutelsat satellites is outside our control and a disruption of

transmissions could have a material adverse effect on our business, depending on the number of transponders affected and its duration.

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

Capital Expenditure Programme

In addition to the core capital expenditure on information systems infrastructure, broadcast infrastructure and new product development (which in fiscal 2005 was £72 million and is expected to be approximately £100 million per annum over the next three years), we continue to invest in our infrastructure, properties and facilities, required to support our growth strategies, in accordance with the capital expenditure programme of approximately £450 million over 4 years announced in August 2004. The capital expenditure programme includes further investment in our CRM centres and systems, increasing contact centre capacity, and building and/or acquiring new facilities and properties. We expect to finance the programme from operating cash flows.

Capital expenditure on our CRM centres and systems and on our Advanced Technology Centre (ATC) is described in further detail below. The remaining expenditures are required in order to service future subscriber growth more effectively, as well as maintain and enhance our broadcasting facilities. In fiscal 2005, the costs incurred in relation to the refurbishment of existing properties and facilities was approximately £75 million. Included in this cost was the acquisition of buildings at our Osterley (Isleworth) campus, the creation of a Sky News Centre and refurbishment of new office headquarters.

As is common with capital expenditure projects of this scale, there are risks that they may not be implemented as envisaged; or that they may not be completed either within the proposed timescale or budget; or that the anticipated business benefits of the projects may not be fully achieved.

The Customer Relationship Management Centres and Sky In-Home Service Limited

Our CRM centres are based in Scotland. The centres functions include the handling of orders from subscribers, the establishing and maintaining of customer accounts, invoicing and revenue collection, telemarketing and customer service. These functions permit the centres to play a key role in both customer acquisition and customer retention. We provide customer management services for the Sky Channels, the Sky Distributed Channels and for two third party channels, North American Sports Network and Setanta Sports. We also deliver customer services for both our own, and certain third party, interactive television services, our telephony services, our video-streaming services, and the personal video recorder TiVo.

The CRM centres also provide the distribution of ordered customer installations into Sky In-Home Service Limited which then provides nationwide installation and servicing of digital satellite reception equipment directly in customer homes. Sky In-Home Service Limited also provides an aftercare service to the DTH subscriber base in relation to digital satellite reception equipment which is both in, and out of, warranty.

During the course of the last five fiscal years, we have invested more than £232 million in our CRM centres. This expenditure has been focused principally on completely replacing the centres existing customer management and billing systems with new applications and also on improving the existing physical infrastructure of the centres. The replacement of the customer management and billing systems will also involve the migration of all existing customer data onto the new applications. This project is ongoing and in accordance with other projects of this size and complexity, there is a risk that the implementation may not be completed as currently envisaged, either within the proposed timescale or budget, or that the anticipated business benefits may not be fully achieved. In addition, the high level of change inherent in the implementation of the new systems absorbs considerable management time and may disrupt normal business operations. The implementation of the new applications has been delayed several times over the lifetime of the project. During fiscal 2005 management made the decision to reduce the risk involved with the implementation by re-phasing the cut-over plan to the new system to begin with new customers only

which commenced on 1 September 2005, completing the migration of all, or substantially all, remaining customers in the 2006 calendar year.

See Item 8 Financial Information Consolidated Statements and Other Financial Information Legal Proceedings for details of a claim by us against Electronic Data Systems Corporation and Electronic Data Systems Limited in respect of the systems integration, software development and business implementation services provided to the Group as part of the Group s investment in CRM software and infrastructure.

Playout and Uplink Facilities

Our uplinking facility, located in Chilworth, England, provides primary uplinking capacity for our digital services to the Astra 2A, 2B and 2D satellites as well as Eutelsat s Eurobird 1 satellite. This is backed up by a second facility which was completed in 2003.

The majority of our television channels are played out from one of the buildings on our main site at Isleworth. The Isleworth-sourced channels are fed to the uplink site at Chilworth using a fibre link, which is backed up by a diversely routed secondary link in case of any malfunction in the primary fibre route. This route passes through the second facility so that, in the case of Chilworth being unavailable, the services can be uplinked directly from the second facility. The compression facilities for the majority of services have been re-engineered to allow this to be achieved. The re-engineering for the remainder of the services is expected to be completed by December 2005. In the event of failure of our primary playout site, we have alternative facilities available, though at the present time, the restoration of services would not be immediate. However, we have completed the construction and commissioning of the ATC which provides a complete alternative playout facility. Over the course of the next 12 months, we will bring it into live operation, providing a playout and broadcast systems disaster recovery capability and gradually evolving this into a live playout facility for our channels, enabling diversification of the playout of our channels. Expenditure on the facility to 30 June 2005 was £39 million, which was funded out of operating cash flows.

For those third parties to whom we sub-lease transponder capacity, we usually have agreements in place to provide uplinking facilities as well.

Emerging Technologies

In the UK, consumer broadband DSL access remains focused on the provision of internet access with typical speeds of approximately 1-2 Megabits per second (Mbit/s). Two operators have developed DSL networks with the capacity to deliver digital television services to homes: Kingston Communications in Kingston-upon-Hull and VNL in parts of London. We retail television services directly to homes connected to both of these DSL networks (having contracted for a network access service with each DSL platform operator).

In Kingston-upon-Hull, we have, since 1 November 2002, retailed certain of the Sky Channels and a number of channels owned by third parties to subscribers via Kingston Communications DSL network (as at 30 June 2005, to approximately 3,200 subscribers).

We began offering subscriptions to certain of the Sky Channels to households connected to VNL s platform in August 2004. VNL distributes pay-television and broadband access services via a DSL platform that it has established in Greater London (as at 31 May 2005 there were approximately 2,300 subscribers to our services on the VNL network), marketed under the brand Homechoice . Although the service has existed for several years, VNL undertook a refinancing in 2003 and has extensively revised its service as a consequence. The latest version of the service was launched commercially in May 2004 and offers access to a range of broadcast channels and video-on-demand content, including movies packaged together with broadband internet access. VNL has indicated that it intends, subject to raising the necessary financing, to extend its DSL platform throughout the UK. We have entered into an agreement with VNL which gives us access to VNL s platform to enable us to retail the Sky Premium Channels to customers who already subscribe to VNL s services. In addition, VNL provides us with certain customer management, billing and

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sales agency services in respect of our subscribers receiving the Sky Premium Channels via VNL s platform. In return for these services, we pay VNL a fixed monthly fee per subscriber who subscribes to a Sky Premium Channel on the VNL platform.

We are currently also evaluating other possible means of distributing our services other than by DTH, cable, DSL and DTT, such as by Digital Audio Broadcasting (DAB), Digital Video Broadcasting Handhelds (DVB-H), the internet, General Packet Radio Service (GPRS) and 3G.

Subscribers to our current broadband internet services are able to download an application that provides access to Sky Sports programming on their PC, including match highlights, interviews, programme clips and Sky Sports News bulletins (Sky Sports Broadband). Before the end of calendar 2005, it is envisaged that DTH subscribers who subscribe to both Sky Sports 1 and Sky Sports 2, and who have broadband internet access, will be able to download Sky Sports Broadband to their PC for free. It is envisaged that subscribers who subscribe to both Sky Movies 1 and Sky Movies 2, and who have broadband internet access, will be able to download for free an application that provides access to a Sky Movies on demand service (Sky Movies Broadband). Sky Movies Broadband is planned to include a selection of approximately 200 movies at launch, which it is planned will increase over time. It is envisaged that subscribers taking a Sky World Package (the pre and post 1 September 2005 package containing all of the Sky Premium Channels), and who have broadband internet access, will be able to download both Sky Sports Broadband and Sky Movies Broadband for free.

Also in late calendar 2005, we are planning to launch a streamed mobile content application service. These plans envisage that subscribers taking a Sky World package will be able to receive news and video updates from Sky News and Sky Sports News via their mobile phone. The application is planned to be available across multiple mobile networks to subscribers with a compatible handset.

We are currently developing our HDTV service (see Distribution DTH Distribution above) which we plan to launch in the first half of calendar 2006. HDTV delivers a superior picture compared to standard definition television and is the preferred format for a growing number of televison productions in various genres including sports, drama, entertainment and music.

We have developed an internet-compatible microbrowser application to work with current digital satellite digiboxes which deploys an enhanced Wireless Mark-Up Language (WTVML). WTVML is based on internet standards which are familiar to Web developers, enabling content to be authored easily, and the nature of the microbrowser makes it suitable for a broad range of e-television and e-commerce applications, facilitating greater interoperability between different television devices and the internet.

WTVML has been published as a European Telecommunications Standards Institute (ETSI) standard, making it available for deployment on other devices and platforms. We launched a new e-business service on our DTH platform in July 2005, which we anticipate will have the effect of stimulating the conversion of many web services into WTVML-based services.

We have also developed technology allowing WTVML services to be transcoded into formats suitable for other networks. This will allow us to manage the deployment and distribution of interactive e-business services to other small footprint devices, including mobile phones and other television networks.

We also participate actively in the Digital Video Broadcasting (DVB) standardisation group and are helping to drive an activity called The Portable Content Format which hopes to build on the above interoperability principles, and create growth in television-based interactive services by delivering interoperability on a large scale.

Minority Equity Investments

In September 2005, we disposed of our 35.8% equity interest in Music Choice Europe plc for £1 million.

In November 2004, we disposed of our 49.5% investment in Granada Sky Broadcasting Limited (GSB) for £14 million.

In March 2005, we acquired 50% of the share capital of Artsworld Channels Limited for cash consideration of £1 million, bringing our total shareholding to 100%.
In March 2004, we disposed of our 20% interest in QVC (UK), operator of QVC The Shopping Channel for £49 million.
In July 2003, we sold our 9.9% equity interest in Chelsea Village plc, the parent company of Chelsea Football Club, for £6 million. In October 2003, we sold our 9.9% equity interest in Manchester United PLC, with whom (together with Granada Media Group Limited) we hold an interest in the MUTV Limited joint venture, for £62 million. Leeds United PLC, the parent company of Leeds United football club, in which we hold a 9.1% stake, went into administration in March 2004.

New Markets

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

GOVERNMENT REGULATION

We are subject to regulation primarily in the UK and the European Union. The regimes which affect our business include broadcasting, telecommunications and competition (anti-trust) laws and regulation.

BROADCASTING AND TELECOMMUNICATIONS REGULATION

UK

Communications Act 2003

The Communications Act 2003 (the Communications Act) forms the basis of the communications regulatory regime in the UK which is enforced by a single unified regulator, Ofcom (which replaced the five previous regulatory bodies responsible for the sector, including the Office of Telecommunications (Oftel) and the Independent Television Commission (ITC)).
Under the Communications Act Ofcom is introducing a new system for the management of spectrum. This is intended to enhance the efficiency of spectrum use through liberalisation of use and trading in spectrum, whilst protecting the quality of spectrum. This new regime may include a voluntary system of Recognised Spectrum Access (RSA) which would afford some protection from interference for satellite downlinks and would include a charging mechanism for the use of relevant spectrum. Ofcom intends to consult the public on the application of RSA to satellite downlinks in the last quarter of calendar 2005.

Ofcom review of public service broadcasting

Ofcom has undertaken, under the Communications Act, a review of public service broadcasting. In September 2004, Ofcom published its second report on this review in which it considered the position of public service broadcasting after digital switchover. In the report, Ofcom makes a number of proposals, one of which is the creation of a Public Service Publisher (PSP), a new publicly-funded service, which Ofcom considers would ensure a continued plurality in the provision of public service broadcasting. Ofcom published its final report on this review in February 2005 in which it expanded on the PSP concept.
Ofcom considers that the PSP would require around £300 million funding a year. It contemplates three possible sources of funding for the PSP: general taxation, an enhanced television licence fee, or a tax on the turnover of UK licensed broadcasters. It is therefore possible, if the Government and Parliament were to accept the PSP proposition and fund it under the broadcaster tax model, that the Group would be required to contribute to such funding.
The Government has subsequently proposed (in the green paper entitled Review of the BBC s Royal Charter A strong BBC, independent of government published in March 2005) that a review of whether there is a case for providing funding to recipients beyond the BBC (such as Ofcom s proposed PSP) should

take place towards the end of the process of digital switchover (see Competition New Technologies (Competition) Digital Switchover section above).

Our Television Services Licences

The broadcasting services provided by us are currently regulated by Ofcom as Television Licensable Content Services (TLCS), Digital Television Programme Services (DPS), and Digital Television Additional Services (DAS) pursuant to the Broadcasting Act 1990, as amended and supplemented by the Broadcasting Act 1996 (together, the Broadcasting Acts) and the Communications Act.

We and our broadcasting joint ventures each currently hold a TLCS licence for each of our respective channels and for a number of other broadcasting services, including our EPG on digital satellite. A TLCS licence permits a channel to be broadcast on cable or satellite but does not confer on a TLCS licensee the right to use any specified satellite, transponder or frequency to deliver the service. TLCS licences are granted for an indefinite duration (for so long as the licence remains in force) and new licences are issued by Ofcom if certain minimum objective criteria are met. We have also been issued a DPS licence, which is required for the distribution of our channels via DTT, and a DAS licence for the distribution of other services (including Sky Text) on DTT.

Ofcom Powers

In common with all television licences issued by Ofcom, our licences impose on us an obligation to comply with the Codes and Directions issued by Ofcom from time to time. The Codes include requirements as to impartiality and accuracy of news programming, requirements as to taste and decency and the portrayal of sex and violence, and restrictions on the quantity and content of advertisements. These requirements were inherited by Ofcom which took over the responsibility from the ITC (and other legacy regulators) for regulating broadcast content. In July 2005, Ofcom s new Broadcasting Code came into force replacing the six Codes it inherited from the ITC and other legacy regulators (the Broadcasting Standards Commission (BSC) Code on Fairness and Privacy, the BSC Code on Standards, the ITC Programme Code, the ITC Code of Programme Sponsorship, the Radio Authority (RA) News and Current Affairs Code and Programme Code, and the sponsorship rules contained in the RA Advertising and Sponsorship Code). The changes introduced by the Broadcasting Code include a more qualified test concerning harm and offence (allowing greater editorial justification for more challenging material), and some relaxation of the rules concerning sponsorship and commercial references in programmes (notably non-promotional references can be made in programmes to sponsors where editorially justified). In July 2005, Ofcom also published new Rules on the Amount and Distribution of Advertising (RADA) which replaced the ITC s Rules on Amount and Scheduling of Advertising (RASA). RADA does not, however, introduce any new significant obligations on broadcasters in comparison to RASA.

Ofcom may revoke a licence in a range of circumstances, including licence breach, in order to enforce the restrictions contained in the Broadcasting Acts (as amended by the Communications Act) on the ownership of media companies, or in the event that the characteristics of the licensee change so that it would not be granted a new licence. In addition, the amended Broadcasting Acts prohibit disqualified persons from holding certain licences. Disqualified persons include any bodies whose objects are wholly or mainly of a political nature and advertising agencies. Religious bodies are prohibited from holding certain licences but can seek Ofcom s prior approval to hold other types of licences (including a TLCS or DPS licence).

Media Ownership

The UK s rules in respect of media ownership, which are contained in the Broadcasting Acts and the Communications Act, currently preclude us (for as long as the Group is ultimately owned as to over 20% by News Corporation or another member of the same group) from acquiring more than a 20% interest in any Channel 3 licence (which covers the 15 regional ITV1 licences and GMTV). Certain restrictions also apply to the ownership of local radio businesses by persons that own local newspapers in the same area (or to

persons who are connected to such persons). There are also certain restrictions on the ownership of multiple radio multiplex licences. The Communications Act has also introduced a plurality test for media mergers (see Competition (Anti-trust) Law UK Competition Law Regime Enterprise Act 2002 Additional Measures below).

Digital Terrestrial Television

The Broadcasting Act 1996 established a framework for DTT broadcasting in the UK. Certain multiplex frequencies are currently used to transmit public service and other channels. In August 2002, the ITC confirmed its conditional decision to award three multiplex licences to the BBC and Crown Castle UK Limited for an initial twelve year term.

As part of an agreement with Crown Castle UK Limited, we agreed to supply initially versions of three channels, namely Sky News, Sky Sports News and Sky Travel, unencrypted free-to-air via the DTT platform marketed under the brand Freeview (see History and Development of the Group and Business Overview Distribution DTT Distribution above). In September 2005, we announced that we plan to launch Sky Three in October 2005, which it is planned will be the new name for Sky Travel on DTT.

Listed Events Limits on Exclusive Distribution Rights

The Broadcasting Act 1996 (as amended by the Communications Act) provides that no UK broadcaster may undertake the exclusive live broadcast of certain sporting or other events of national interest designated by the Secretary of State from time to time (listed events), whether on a free-to-air or subscription basis, without the previous consent of Ofcom. The effect of these rules is that many leading sports events cannot be shown exclusively live on pay television in the UK. In August 2004, Ofcom published a consultation on a draft Code on listed events which largely seeks to formalise the listed events regime as previously applied by the ITC. Ofcom has not yet published the final Code. In September 2005, the Secretary of State for Culture, Media and Sport indicated that a review of listed events is likely to take place around 2008/09.

A list of designated events in Ireland has also been defined, under the Irish Broadcasting (Major Events Television Coverage) Act 1999 (Designation of Major Events) Order 2003. The effect of these rules is that many leading sports events cannot be shown exclusively live on pay television in Ireland.

Television Access Services

The Communications Act prescribes certain annual targets for television access services (subtitling, audio description and signing) broadcasters licensed channels must meet. Ofcom has set out its guidance on broadcasters compliance with these requirements in its Code on Television Access Services which applies to all licensed channels. Under this Code, Ofcom requires broadcasters to provide quarterly returns to Ofcom reporting on their licensed channels compliance over the previous quarter. In August 2005 Ofcom published its first report on broadcasters compliance in relation to the first quarter of 2005: it noted that whilst the majority of Sky s channels had exceeded the relevant targets in the first quarter of 2005, a number of the relevant targets were not. Ofcom confirmed in this report, however, that it only expects broadcasters to comply with these targets over the course of 2005 (as a whole) and not in each and every quarter of 2005.

Our Telecommunications Licences

We operated under a number of class licences under the Telecommunications Act 1984 in relation to the technical side of our transmissions until 25 July 2003, when these class licences were revoked by the Communications Act and replaced with authorisations or continuation notices. The most important of these relate to conditional access, EPGs and access control services for digital transmissions. These are discussed further in the context of the UK s implementation of European Union legislation (see European Union Electronic Communications Directives below).

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European Union

The Television Without Frontiers Directive

The EC Television Without Frontiers Directive 1989 (TWF Directive), as revised in 1997, sets forth basic principles for the regulation of television broadcasting activity in the European Union. The UK has adopted a variety of measures to give effect to the requirements of the TWF Directive. The European Commission is responsible for monitoring compliance and has authority to initiate infringement proceedings against Member States which fail to implement the TWF Directive properly.

The European Commission is currently consulting on the provisions of the TWF Directive. The principal issue is whether to extend the scope of the TWF Directive, which currently only applies to broadcasting, to include all audiovisual content delivered by electronic means (but excluding private communications). This could mean that non-linear services (such as services delivered using the internet) would be required to meet certain standards including in relation to the protection of minors and human dignity. Other issues for consultation include stricter monitoring and enforcement of the programme and independent production quotas and new provisions in relation to cross-border access to rights to short programme extracts for use in informational programmes (such as news programmes). The Commission expects to put forward proposed legislation to amend the TWF Directive at the end of 2005. If adopted, amendments are unlikely to come into effect for several years. At this stage, the Group is unable to ascertain the outcome of this consultation process.

Programme and Independent Productions Quotas

Articles 4 and 5 of the TWF Directive require Member States to ensure where practicable and by appropriate means that (a) broadcasters reserve a majority proportion of their transmission time for European works, and (b) broadcasters reserve at least 10% of their transmission time or, at the discretion of the Member State, at least 10% of their programming budget for European works created by producers who are independent of broadcasters (in relation to (b) an adequate proportion of such works should be produced within the five years preceding their transmission). The term where practicable and by appropriate means is not defined in the TWF Directive and is left for the interpretation of each Member State. In applying these requirements, broadcast time covering news, games, advertisements, sports events, teletext and teleshopping services are excluded.

A condition requiring licensees to comply with these requirements of the TWF Directive, where practicable, and having regard to any guidance issued by Ofcom for the purpose of giving effect to the relevant provisions of the TWF Directive, was introduced by Ofcom into all Broadcasting Act licences (including TLCS and DPS licences) in December 2003. On 10 February 2005, Ofcom published guidance in relation to compliance with Articles 4 and 5 of the TWF Directive.

Ofcom s guidance requires television broadcasters, who consider that it would not be practicable to meet one or more of the quota requirements, to explain why to Ofcom, which will advise whether any remedial measures are necessary. If Ofcom does not accept that it is not practicable for a broadcaster to meet the relevant quota requirements, possible consequences may include Ofcom issuing a direction under the Broadcasting Act licence requiring compliance with the licence condition and a fine for contravention of the licence condition. Ofcom also has the ultimate power to revoke a broadcaster s Broadcasting Act licence where it is found to be in breach of its licence (if no other remedies are considered appropriate). Ofcom s approach to enforcement of the licence conditions is not yet known and is not addressed in the guidance.

A number of our channels currently meet the relevant quota requirements for both European works and European independent productions. Some of our channels only meet one of the relevant quotas and some do not meet either quota. For those channels that do not currently reserve the required proportion of relevant transmission time to European works or to European independent productions, it may not be practicable to do so, in which case those channels would still comply with the condition in their Broadcasting Act licences. Ofcom has not advised that any remedial measures are necessary in respect of

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these channels, nor has it advised that it does not accept that it is not practicable for any of these channels to meet the relevant quota requirements.

Electronic Communications Directives

The EC Electronic Communications Directives, which include the Access Directive, Authorisation Directive, Framework Directive and Universal Services Directive, (together the EC Directives) provide a framework for the regulation of electronic communications networks and services and associated facilities within the European Union. The EC Directives, notably the Framework and Access Directives, apply to us in relation to the regulation of conditional access services, access control services, EPGs and standards for the transmission of television signals. Their provisions were implemented in the UK by the Communications Act in July 2003 and which conferred the regulatory function in the UK on Ofcom. The European Commission is obliged to undertake a periodical review of the functioning of the EC Directives by July 2006.

Conditional Access Services and Technology

The regulation of conditional access for digital television services is carried out in the UK under the Communications Act, the principal requirements of which include:

- that the provision of conditional access services to other broadcasters should be on fair, reasonable and non-discriminatory terms;
- that providers of conditional access services should co-operate with cable operators regarding transcontrol (the process of changing a conditional access system) at cable head-ends; and
- that, where conditional access technology is licensed to manufacturers of digital decoders, such licences should be on fair, reasonable and non-discriminatory terms.

These requirements have been applied as conditions imposed under the Communications Act on our subsidiary Sky Subscribers Services Limited (SSSL), which has been identified as a provider of conditional access services.

In May 2002, Oftel published its guidelines entitled The pricing of conditional access services and related issues and in October 2002 published revised guidelines on the pricing of conditional access services. These guidelines set out Oftel s policy towards the regulation of the supply of conditional access (and access control) sources (including the structure of tariffs charged for such services). They continue to be applied by Ofcom, which in May 2005 started a review of these guidelines. We are co-operating with this review. At this stage, we are unable to determine whether the review will have a material effect on the Group.

Access Control Services

The provision of access control services (which include services, other than conditional access and EPG services, that control access to digital television services) is also regulated. Our subsidiary, SSSL, is currently designated a regulated supplier in respect of its activities in providing access control services to third parties on our DTH platform and it is, among other things, subject to the obligation to provide such access control services on fair, reasonable and non-discriminatory terms and not to favour related companies. This designation, set out in a continuation notice issued by Oftel under the Communications Act in July 2003, will remain in place for as long as SSSL is considered to have significant market power. In November 2003, Oftel commenced a review under the Communications Act to determine whether any provider of access control services has (or, in the case of SSSL, continues to have) significant market power. The deadline for comments on the consultation document was in January 2004. Ofcom has yet to publish its conclusions to this consultation; in the meantime, SSSL continues to be subject to the regulatory regime under this continuation notice.

We expect that Ofcom s review of its statement of policy and revised guidelines regarding the pricing of conditional access services will also extend to the pricing of access control services.

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Regulation of Electronic Programme Guides

In addition to being required to hold a TLCS license in relation to the broadcasting of our EPG, the provision of EPG services is also regulated. We are required to provide these services to other broadcasters on fair, reasonable and non-discriminatory terms and not to favour related companies. These requirements have been applied under a continuation notice issued by Oftel in July 2003. Ofcom has consulted on replacing this continuation notice with authorisation conditions under the Communications Act, the deadline for comments on the consultation document having been in March 2004. Ofcom has yet to replace this continuation notice following this consultation and therefore the continuation notice still applies. The Communications Act does not, however, envisage that the manner of regulation of EPGs will change.

We are also required to offer listings on our EPG in accordance with Ofcom s Statement on Code on Electronic Programme Guides (July 2004) (EPG Code), which applies to all providers of EPGs licensed under the Broadcasting Acts. This requires us to give public service channels (which currently comprise all BBC television channels, ITV1, Channel 4, five , and S4C Digital and the digital public teletext service) such degree of prominence as Ofcom considers appropriate. Ofcom s EPG Code provides guidance as to its interpretation of this requirement. We are also obliged by Ofcom s EPG Code, *inter alia*, to provide EPG services on fair, reasonable and non-discriminatory terms; not to give undue prominence to connected channels; to maintain and publish an objective policy for allocating listings; and not to require exclusivity on an EPG for any service.

Transmission Standards

The use of standards for the transmission of television signals is also governed by the EC Directives (notably the Access and Universal Services Directives) which required Member States to impose transmission standards on broadcasters of television services. These requirements on technical standards have been implemented in the UK by The Advanced Television Services Regulations 2003 and are administered by Ofcom.

Interoperability

Under the terms of the Framework Directive, the European Commission published its review of progress towards facilitating access for content providers to multiple platforms in July 2004. The European Commission found that there was no case for mandating the use of technical standards for the delivery of interactive services at present, but that Member States should continue to promote open and interoperable standards for interactive digital television. The European Commission will review whether there is sufficient progress again in the second half of the 2005 calendar year.

Ireland

We are currently not regulated by the Irish national communications regulatory authority, the Commission for Communications Regulation (ComReg), as the services offered by us fall under the jurisdiction of Ofcom in the UK. All of the EC Directives were also implemented in Ireland on 25 July 2003. During the consultations concerning the implementation of the EC Directives in Ireland, ComReg indicated that it would be seeking to regulate our Irish operations. However, in June 2003, ComReg clarified that it would not, for the time being, seek to regulate the provision of access to broadcasting networks or the delivery of content services to end users in Ireland under the EC Directives.

The Irish Government s Department of Communications has indicated an intention to introduce new legislation which we understand may, *inter alia*, seek to introduce new consumer protection measures in relation to retailing of broadcasting services to customers in Ireland. A draft legislative bill has not yet been published or laid before the Irish Parliament and no indication has yet been given as to when publication can be expected or what the bill will contain. At this stage, we are therefore unable to ascertain its potential applicability to, or its effect on, the Group.

Environmental

We are subject to environmental regulations that require our compliance. Failure to meet the requirements of such regulations may lead to fines being incurred or damage to our brand image.

Recent regulations based on European Union Directives, notably the Waste Electrical and Electronic Equipment Directive (WEEE Directive) and the Restriction on the use of certain Hazardous Substances in electrical and electronic equipment Directive (RoHS Directive) necessitate the removal of stipulated hazardous substances from products placed on the market after mid 2005 within set timeframes and the recovery and recycling of electrical products to specified levels. Both apply to our purchase and supply of digiboxes and related equipment and require registrations to be completed by us, our suppliers and retailers.

Other changes in the categorisation, segregation, storage and removal of certain hazardous wastes require us to register sites that produce such wastes. Without registration, hazardous wastes are not able to be removed from site for disposal. Incorrect disposal may lead to regulatory action.

We track draft environmental directives and regulations to establish their applicability to the business and enable an appropriate response to be planned and implemented.

COMPETITION (ANTI-TRUST) LAW

We are subject to the European competition law regime (administered by the European Commission and by the competition authorities and civil courts in each Member State) and to individual national regimes in the countries in which we operate, of which the principal country is the UK. We are also subject to specific competition regulation by Ofcom under powers contained in the Communications Act.

UK Competition Law Regime

The Competition Act 1998

On 1 March 2000, the Competition Act 1998 (Competition Act) came into force in the UK. It aligns UK domestic competition law with European law, in particular Articles 81 and 82 of the EC Treaty.

Anti-Competitive Agreements

The Chapter I prohibition of the Competition Act prohibits agreements which have the object or effect of preventing, restricting or distorting competition in the UK. An agreement will only infringe the Chapter I prohibition if it is likely to have an appreciable effect on competition.

Agreements which fall within the scope of the Chapter I prohibition will not be prohibited where they meet specific statutory criteria, that is, where they produce beneficial effects in improving production or distribution or promoting technical or economic progress, provided that consumers receive a fair share of the benefit, that competition will not be substantially eliminated and that no unnecessary restrictions are accepted by the parties.

Abuse of a Dominant Position

The Chapter II prohibition of the Competition Act prohibits abusive behaviour by dominant firms.

Infringement of Chapter I or Chapter II may result in significant consequences including fines, voidness or unenforceability of all or part of infringing agreements, prohibition of infringing conduct and potential liability to affected third parties (notably for damages).

Effect on Our Affairs

In November 2001, the arrangements relating to the Attheraces (ATR) joint venture (made between Arena Leisure plc, the Group, Channel Four Television Corporation and The Racecourse Association Limited (RCA)) were notified to the Office of Fair Trading (OFT) seeking either a clearance or exemption

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under Chapter I of the Competition Act. In April 2004, the OFT issued its decision in which it found that the Chapter I prohibition of the Competition Act had been infringed to the extent that the notified arrangements entailed the collective sale by the 49 racecourses of certain of their media rights to ATR. The OFT did not impose a penalty on the notifying parties. The RCA and the British Horseracing Board appealed the OFT s decision to the Competition Appeal Tribunal (CAT) which issued its judgment in August 2005. The CAT found that the OFT had erred in its decision and was wrong to find an infringement of the Chapter I prohibition. The OFT s infringement decision was therefore set aside.

Enterprise Act 2002

Market Investigations

The market investigation provisions of the Enterprise Act 2002 (Enterprise Act) provide that the OFT may make a market investigation reference to the Competition Commission (CC) where it has reasonable grounds for suspecting that any feature, or combination of features, of a market in the UK for goods or services prevents, restricts, or distorts competition in connection with the supply or acquisition of any goods or services in the UK or a part of the UK. Ofcom has market investigation powers, concurrent with the OFT, in relation to the communications sector. Instead of making a reference to the CC, the OFT or Ofcom may accept remedial undertakings from the companies concerned. Where the OFT (or, in relation to the communications sector, Ofcom) makes a market investigation reference to the CC, the CC will conduct a detailed inquiry. The CC may decide that remedial action is required if it finds that there is an adverse effect on competition in a market under investigation. Ultimately, the CC has extensive powers to impose remedial action including the divestment of parts of a business and the prohibition on the performance of agreements. Any decision by the OFT, the CC or Ofcom relating to market investigations can be appealed to the CAT (on a judicial review basis).

Additional Measures

The Enterprise Act has reformed UK competition law in a number of other ways:

- a criminal cartel offence has been created, applying to individuals participating in arrangements involving price fixing, market sharing, bid rigging or limitations of production. This criminal offence operates alongside the existing civil regime under the Competition Act. Investigations are carried out by the OFT and the Serious Fraud Office. The maximum penalty for infringement (for those individuals found to have committed the offence) is up to five years imprisonment or a fine, or both;

- provisions enabling company directors to be disqualified for involvement in (or failure to take steps to prevent) a breach of UK or European competition law have been introduced; and

- a turnover test has been introduced for establishing jurisdiction over mergers, together with a competition-based test to be applied in assessing them. The UK competition authorities exercise control over mergers that meet a turnover test or a share of supply test (relevant merger situations). The OFT has a duty to refer a case to the CC for investigation where it believes that it is or may be the case that a relevant merger situation has arisen or is proposed and that the relevant merger situation results or may be expected to result in a substantial lessening of competition in the UK.

The Communications Act has amended the Enterprise Act merger control provisions to introduce (among other things) a plurality test for mergers between broadcasters (or involving broadcasters and newspaper enterprises). Under the plurality test, the Secretary of State is able to intervene in, and take certain decisions concerning, mergers involving broadcasters, on the basis of the plurality test. The Government issued guidance in May 2004 stating, however, that its policy is to consider intervention in mergers involving media enterprises only where the media ownership rules have been removed by the Communications Act, save in exceptional circumstances (which would be where the Secretary of State considers that the merger would give rise to serious public interest concerns).

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Effect on our Affairs

Our operations are subject to both the Enterprise Act and the Communications Act. To date, there have been no market investigation references made to the CC which concern any sector in which the Group is active. The Secretary of State has yet to invoke the media plurality intervention powers in relation to a media merger.

Ofcom Competition Jurisdiction

In addition to its concurrent powers under the Competition Act in relation to the communications sector, under the Communications Act Ofcom has (among others) a duty to further the interests of consumers, where appropriate, by promoting competition in relevant markets. It also has powers to use Broadcasting Act licence conditions to ensure fair and effective competition in the provision of licensed services and connected services.

Ofcom has not made any rulings using either its concurrent Competition Act powers or powers to ensure fair and effective competition under the Communications Act that have had a material adverse effect on our business during fiscal 2005.

Irish Competition Law Regime

Our operations in Ireland are subject to the Irish competition law regime which regulates anti-competitive agreements, abuses of dominant positions, and mergers.

European Union Regime

Anti-Competitive Agreements

Article 81(1) of the EC Treaty renders unlawful agreements and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the Common Market (that is, the Member States of the European Union collectively). An agreement may infringe Article 81 only if it is likely to have an appreciable effect on competition. Agreements which fall within the scope of Article 81(1) EC Treaty will not be prohibited where they meet specified statutory criteria, that is, where they produce beneficial effects in improving production or distribution or promoting technical or economic progress, provided that consumers receive a fair share of the benefit, that competition will not be substantially eliminated and that no unnecessary restrictions are accepted by the parties.

Abuse of a Dominant Position

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

Infringement of Article 81 or Article 82 may result in significant consequences including fines, voidness or unenforceability of all or part of infringing agreements, prohibition of infringing conduct and potential liability to affected third parties.

Mergers

The European Commission regulates mergers, full function joint ventures (i.e. ones which perform on a lasting basis all the functions of an autonomous economic entity) and the acquisition of holdings which confer decisive influence over an enterprise and which meet certain turnover thresholds specified in the EC Merger Regulation. Such transactions may not be carried out without prior approval from the European Commission. Where the European Commission has jurisdiction under the EC Merger Regulation, national authorities do not normally have jurisdiction.

Effect On Our Affairs

European Commission Investigation Football Association Premier League Limited

The European Commission s investigation into the FAPL s joint selling of exclusive broadcast rights to football matches has not yet concluded: the Commission published a notice on 30 April 2004 inviting third party comments on its intention to adopt a decision making commitments offered by the FAPL legally enforceable and to close its file. Among other things, these commitments would address the next auction of rights by the FAPL for the 2007/08 and subsequent seasons. The outcome of this consultation has not yet been disclosed and the Commission has not yet adopted a decision.

The Commission confirmed last year in a comfort letter that, on the basis of performance by the Group of certain commitments given by the Group to the Commission, it has fully and finally settled the Commission s other investigations in connection with the Group s bids for all rights in relation to FAPL matches throughout the 2004/05 to 2006/07 FAPL seasons and any resulting agreements between the Group and FAPL.

European Commission Investigation Movie Contracts

The European Commission has announced in a press release (dated 26 October 2004) that it has closed its investigations with a number of major US movie studios into certain terms on which movies produced by them are supplied to distributors, including pay television operators, throughout the European Union. The investigations related to most favoured nations (MFN) clauses in these studios output agreements. The studios offered to withdraw the MFN clauses in their output agreements. The Commission stated in its press release that two studios had not, however, offered to withdraw such clauses, in relation to which it appears that the Commission s case remains open. The Commission has not published any further statement or (final or provisional) decision indicating the actual terms on which it has closed its investigation.

European Commission Sector Inquiry New Media Sports Rights

In September 2005, the European Commission published its concluding report on its sector inquiry into the provision of audio-visual content from sports events over 3G networks, which it had initiated in January 2004.

The European Commission has identified a number of commercial practices which it considers raise competition concerns in relation to the availability of mobile sports content and on which it states that it will focus in the future. Among others, these include: (i) the sale of what the European Commission considers to be bundled audiovisual rights for various retail platforms to one or a few operators, in relation to which the European Commission has said that it will target situations where rights to premium sports remain under-exploited through such bundled sale of rights and subsequent warehousing of rights by powerful operators; and (ii) restricting the length and timing of 3G transmissions of sports coverage, which the European Commission considers may have a negative impact on the value of 3G rights and the take-up of 3G sports services by consumers.

The European Commission has stated that it will take account of the findings of the sector inquiry in future proceedings in this area. It has also stated that it will further review, together with the relevant national competition authorities of Member States, potentially harmful situations identified during the sector inquiry, and that procedures will be initiated in cases where behaviour is not adjusted to comply with the requirements of competition law.

The European Commission has not announced any proceedings arising from situations identified in the sector inquiry or publicly indicated which individual companies might be the subject of proceedings. At this stage, we are unable to determine whether the European Commission s concluding report or any subsequent proceedings might have a material effect on the Group.

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PROPERTY, PLANT AND EQUIPMENT

Our headquarters are located at leasehold and freehold premises in Osterley, England.
The principal properties of the Group are as follows:

Location	Tenure	Use	Term	Current annual rent or licence fee	Approximate square foot net internal area
1, 2, 3a/3b, 4, 5, 6 and 7 Grant Way Centaurs Business Park, Osterley, Isleworth, England	Freehold	Offices, studios, technology and storage	n/a	n/a	272,157
8 Grant Way (Cromwell Centre) Centaurs Business Park, Osterley, Isleworth, England	Leasehold	Offices and storage	Lease expires 1 July 2008	£ 350,000	37,567
Athena Court, Centaurs Business Park, Osterley, Isleworth, England	Leasehold	Offices	Lease expires 23 June 2008	£ 990,000	53,583
New Horizons Court, Courtyard Units 1-7 The Courtyard, Brentford, England	Leasehold	Offices	Lease expires 25 June 2007	£ 546,147	22,152
New Horizons Court, Units 1-4, Brentford, England	Leasehold	Offices	Lease expires 25 December 2011	£ 2,509,434	134,851
West Cross House, Brentford, England	Leasehold	Offices	Lease expires 26 March 2019	£ 1,349,694	72,420
Unit 7 West Cross Industrial Estate, Centaurs Business Park, Osterley, Isleworth, England	Leasehold	Offices	Lease expires 20 May 2014 with break options on 21 May 2007, 21 May 2008 and	£ 125,944	11,248

			21 May 2009		
206 Harlequin Avenue, Brentford, England	Freehold	Office and storage	n/a	n/a	5,000
214 Harlequin Avenue, Brentford, England	Freehold	Office, industrial and car park	n/a	n/a	n/a
The Chilworth Research Centre, Southampton, England	Leasehold	Satellite uplink	Lease expires 25 February 2087	£ 1	93,810
Knowle Lane, Fair Oak, Eastleigh, England	Freehold	Satellite uplink	n/a	n/a	43,087
123 Buckingham Palace Road, London, England	Leasehold	Offices	Lease expires 31 March 2017 with an option to terminate at 24 March 2012	£ 1,834,300	36,500
4 Millbank, Westminster, London, England	Leasehold	Offices and studio	Lease expires 28 September 2014 with a break option on 28 September 2009	£ 281,868	4,917
2nd Floor A, Central House, Otley Road, Harrogate, England	Leasehold	Offices	Lease expires 16 March 2010	£ 56,460	5,473
2nd Floor B, Central House, Otley Road, Harrogate, England	Leasehold	Offices	Lease expires 15 August 2010	£ 121,600	11,830
Marcopolo House and Arches, Queenstown Road, London, England	Leasehold	Sub-let	Lease expires 24 December 2013	£ 2,409,900	85,509
Welby House, 96 Wilton Road, London, England	Leasehold	Offices	Lease expires 15 January 2015	£ 311,250	8,138

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Location	Tenure	Use	Term	Current annual rent or licence fee	Approximate square foot net internal area
1, 2, 4 and 5 Macintosh Road, Kirkton Campus, Livingston, Scotland	Freehold	Contact centres	n/a	n/a	128,000
Carnegie Campus, Dunfermline, Scotland	Freehold	Contact centre	n/a	n/a	75,431
New Logic House, Kirkton South, Livingston, Scotland	Leasehold	Offices	Lease expires 3 October 2017 with a break option on 4 October 2007	£222,000	13,900
Logic House, Kirkton South, Livingston, Scotland	Leasehold	Offices	Lease expires 3 October 2017 with a break option on 30 November 2008	£185,833	9,219
Citygate, Dunfermline, Scotland	Leasehold	Offices	Lease expires 30 June 2007	£294,081	9,650
Centrex, Livingston, Scotland	Leasehold	Offices	Lease expires 30 June 2006	£508,222	16,953

See History and Development of the Group and Business Overview Technology and Infrastructure Capital Expenditure Programme above in relation to our proposed capital expenditure on property.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

INTRODUCTION

The following discussion and analysis is based on, and should be read in conjunction with, the Consolidated Financial Statements, including the related notes, included within Item 18. The financial statements have been prepared in accordance with UK GAAP, which differs in significant respects from US GAAP. Note 27 to our Consolidated Financial Statements provides a description of the significant differences between UK GAAP and US GAAP as they relate to our business, and provides a reconciliation from UK GAAP to US GAAP. The Group will be reporting its financial results in accordance with International Financial Reporting Standards (IFRS), as adopted by the European

Union, from 1 July 2005. Details of our critical accounting policies and information regarding the transition to IFRS are provided in the Critical Accounting Policies and Adoption of New Accounting Standards section below.
OVERVIEW AND RECENT DEVELOPMENTS
We have continued to deliver growth in fiscal 2005, which is reflected in the 11% increase in total revenues compared to fiscal 2004 to £4,048 million. Total operating costs before goodwill and exceptional items increased by 6% to £3,243 million, generating operating profit before goodwill and exceptional items of £805 million. Total operating costs after goodwill and exceptional items increased by 5% to £3,346 million, generating operating profit after goodwill and exceptional items of £702 million. The operating profit margin before goodwill and exceptional items increased to 20% in fiscal 2005, from 16% for fiscal 2004. The operating profit margin after goodwill and exceptional items increased to 17%, from 13% for fiscal 2004. During fiscal 2005, we maintained our investment grade credit rating and have returned £551 million to shareholders, through our ordinary dividend and a share buy-back programme. Profit after tax for fiscal 2005 grew to £425 million, generating earnings per share of 22.2 pence, an increase of 34% on fiscal 2004.
At 30 June 2005, the total number of DTH subscribers in the UK and Ireland was 7,787,000, representing a net increase of 432,000 subscribers in fiscal 2005. During the year, the number of subscribers to one or more premium channels increased by 252,000 to 5,619,000. We remain on track to achieve our target of 8,000,000 DTH subscribers by 31 December 2005. DTH churn for fiscal 2005 was 10.3%, in line with our stated goal of around 10%. We define DTH churn as the number of DTH subscribers over a given period

that terminate their subscription in its entirety, net of former subscribers who reinstate their subscription in that period (where such reinstatement is within a twelve month period of the termination of their original subscription).

The total number of Sky+ households increased by 491,000 in fiscal 2005 to 888,000, which represents 11% penetration of total DTH subscribers. Whilst continuing to penetrate the existing subscriber base, Sky+ also attracts customers who had previously not chosen Sky, with 31% of new Sky+ households in fiscal 2005 being first time subscribers.

The total number of Multiroom households increased by 352,000 in fiscal 2005, to 645,000, which represents 8% penetration of total DTH subscribers. The total number of Multiroom subscriptions reached 682,000 at 30 June 2005, which is in excess of the total number of Multiroom households, as some households take more than two subscriptions. Our long-term target is to achieve 30% Multiroom and 25% Sky+ penetration of DTH subscribers in 2010.

These figures highlight the operational gearing of our business and the profitability of adding new subscribers and increasing the yield per existing subscriber. We have concentrated on raising the rate of subscriber growth by addressing the remaining barriers to consumer adoption through the launch of several initiatives. These have included the re-introduction of the Sky brand, more targeted marketing, increasing the range of entry points to pay-television and continued investment in high-quality programming.

In September 2005, we introduced a simplified pricing and packaging structure that offers customers increased choice and flexibility. For further details, see Item 4 Programming . Whilst increasing the number of available packages fivefold, we have also reduced the number of price points from 96 to 15.

In October 2004, we added Sky+160 to our product portfolio. This product offers customers around four times as much storage as the standard Sky+ box and has two USB connections, increasing its compatibility for future developments. At the same time, we launched a new freesat service offering customers around 200 television and radio channels and interactive services, without a monthly subscription fee. This provides an alternative for approximately 50% of UK households that cannot receive Freeview or require an aerial upgrade.

We plan to launch a comprehensive HDTV service in the first half of calendar year 2006. Good progress was made during fiscal 2005 building the required broadcast infrastructure and facilities and developing the HDTV digibox, which has the connectivity and flexibility to offer advanced services in the future. This premium service is planned to include initially a number of high definition channels, including sports, movies and documentaries.

Since July 2004, we have successfully bid for a number of sporting events, including exclusive live rights to England s primary domestic cricket matches and all of England s home test matches and one day internationals for the 2006 to 2009 domestic cricket seasons; exclusive live rights to Football League matches and the Carling Cup for the 2006/07 to 2008/09 domestic football seasons; a number of rugby union matches including all Autumn international matches, Guiness Premiership matches, England A Team matches from the 2005/06 to 2009/10 seasons and Heineken Cup matches from 2006/07 to 2009/10; broadcast rights to the UEFA Champions League for a further three seasons from the 2006/07 season; exclusive live rights to the inaugural A1 Grand Prix series for the 2005/06, 2006/07 and 2007/08 seasons; and exclusive live rights to the 32nd America s Cup yachting event to be staged in 2007.

Corporate

In August 2004, we commenced proceedings in the High Court of England and Wales for a material amount against Electronic Data Systems Corporation and Electronic Data Systems Limited for damages arising out of deceit, negligent misrepresentation and breach of contract in respect of the systems integration, software development and business implementation services provided to the Group as part of the Group s investment in CRM software and infrastructure. The amount that may be recovered by the Group will not be finally determined until resolution of the claim.

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On 3 November 2004, we signed a new £1 billion Revolving Credit Facility (RCF). The new facility matures in July 2010 and will be used for general corporate purposes and to refinance our previous, undrawn facility, which was due to mature in March 2008. The new facility provides us with an extension to the maturity profile of our previous financing arrangements which it replaced, and delivers continued financial flexibility at more favourable rates to us.

OPERATING RESULTS

Revenues

Our principal revenues result from DTH subscribers, cable subscribers, the sale of advertising on our wholly-owned channels, the provision of interactive betting and games and other interactive services.

Our DTH subscription revenues are a function of the number of subscribers, the mix of services taken and the rates charged. Revenues from the provision of pay-per-view services, which include Sky Box Office, are included within DTH or cable subscriber revenues as appropriate.

Our cable subscription revenues (also referred to as wholesale revenues), which are revenues derived from the supply of Sky Channels to cable platforms, are a function of the number of subscribers on cable operators platforms, the mix of services taken by those subscribers and the rates charged to those cable operators. We are currently a leading supplier of premium pay television programming to cable operators in the UK and Ireland for re-transmission to cable subscribers, although cable operators do not carry all Sky Channels.

Our advertising revenues are a function of the number of commercial impacts, defined as individuals watching one thirty-second commercial on a Sky Channel, together with the quality of impacts delivered, and overall advertising market conditions.

Our Sky Bet revenues are amounts receivable in respect of bets placed on events which occur in the year, and net customer losses in the year in respect of the on-line casino operations and casino-style interactive roulette games.

Our Sky Active revenues include income from online advertising, e-mail, telephony income from the use of interactive services (e.g. voting), interconnect, text services and digibox subsidy recovery revenues earned through conditional access and access control charges made to customers on the Sky digital platform.

Other revenues principally include income from installations, digibox sale revenues (including the sale of Sky+ and Multiroom digiboxes), Sky Talk revenues, service call revenue, warranty revenue, customer management service fees and access control fees.

Operating expenses

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

Programming represents our largest single component of costs. Programming costs include payment for: (i) licences of television rights from certain US and European film licensors; (ii) the rights to televise certain sporting events; (iii) other programming acquired from third party licensors; (iv) the production and commissioning of original programming; and (v) the rights to retail the Sky Distributed Channels and the Music Choice and Music Choice Extra audio services to DTH subscribers. The methods used to amortise programming stock are described in the Critical Accounting Policies section below.

Under our pay television agreements with the US major movie studios, we generally pay a US dollar-denominated licence fee per movie calculated on a per movie subscriber basis, subject to minimum guarantees, which were exceeded some time ago. During fiscal 2005, we managed our US dollar/pound sterling exchange risk primarily by the purchase of forward foreign exchange contracts and currency options (collars) for up to five years ahead (see Item 11 Quantitative and Qualitative Disclosures about

Market Risk Currency Exchange Rates). Offering multiplexed versions of our movie channels on the DTH platform and on digital cable incurs no additional variable rights fees.

Under the DTH distribution agreements for the Sky Distributed Channels, we generally pay a monthly fee per subscriber for each channel, the fee in some cases being subject to periodic increases, or we pay a fixed fee or no such fee at all. A number of our distribution agreements are subject to minimum guarantees, which are linked to the proportion of the total number of subscribers receiving specific packages. Our costs for carriage of the Sky Distributed Channels will (where a monthly per subscriber fee is payable) continue to be dependent on changes in the subscriber base, contractual rates and/or the number of channels distributed.

Transmission and related functions costs, including other technical costs, are primarily dependent upon the number and annual rental cost of the satellite transponders which we use. The most significant components of transmission and related functions costs are transponder rental costs relating to the SES Astra satellites and Eutelsat Eurobird satellite and costs associated with our transmission, uplink and telemetry facilities.

Marketing costs include: (i) above-the-line spend (which promotes our brand and range of products and services generally); (ii) below-the-line spend (which relates to growth and maintenance of the subscriber base, including commissions payable to retailers and other agents directly for the sale of subscriptions and the costs of our own direct marketing to our existing and potential DTH subscribers); and (iii) the cost of providing free or subsidised digital satellite reception equipment to new customers and the installation cost in excess of the relevant amount actually received from the customer.

Subscriber management costs include CRM costs, supply chain costs and associated depreciation. CRM costs are those associated with managing the existing subscriber base, including subscriber handling and DTH subscriber bad debt costs. Supply chain costs relate to systems and infrastructure and the installation costs of satellite reception equipment and installation costs of new products purchased by subscribers such as Sky+ and Multiroom digiboxes, including smart card costs. CRM costs and supply chain costs are largely dependent on DTH subscriber levels. Subscriber management costs exclude both the cost of free or subsidised digital satellite reception equipment and the installation cost to us in excess of the amount actually received from the customer for such equipment and installation, as these costs are included within marketing costs.

Administration costs include channel management, facilities and other operational overhead and central costs, and the cost of awards granted under our employee share option schemes. Amortisation of goodwill arising on the acquisitions of BiB and SIG is included within administrative costs. The goodwill arising on these acquisitions is being amortised over seven years from the respective dates of acquisition, on a straight-line basis.

Betting costs mainly comprise the cost of payouts for winning bets placed through our wholly-owned bookmaker, Hestview Limited, which operates telephone, internet and interactive betting services under the brand name Sky Bet .

For certain trend information related to our operating expenses, see the Trends and other information section below.

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2005 FISCAL YEAR COMPARED TO 2004 FISCAL YEAR

Revenues

The Group s revenues can be analysed as follows:

	Revenues			
	2005		2004	
	£m	**%**	£m	%
DTH subscribers	**2,968**	**73**	2,660	73
Cable subscribers	**219**	**6**	215	6
Advertising	**329**	**8**	312	9
Sky Bet[(i)]	**261**	**7**	191	5
Sky Active[(i)]	**92**	**2**	116	3
Other	**179**	**4**	162	4
	4,048	**100**	3,656	100

(i) Additional detail has been provided with regard to the analysis of interactive revenues between the Group s betting and games revenue Sky Bet and other interactive revenues Sky Active and the prior year comparatives have been reclassified accordingly.

DTH subscriber revenues

The increase of 12% in fiscal 2005 was driven by a 6% increase in the average number of DTH subscribers, and a 5% increase in average DTH subscription revenue per subscriber, to £374 at 30 June 2005 from £356 at 30 June 2004.

The total number of UK and Ireland DTH subscribers increased by 432,000 in fiscal 2005. This was a result of an increase in gross subscriber additions of 25,000 to 1,225,000 in fiscal 2005 and the low level of DTH churn.

DTH churn for the year was 10.3% (2004: 9.7%).

The increase in average DTH subscription revenue per subscriber reflected the change in our UK retail prices in January and September 2004 and increased Multiroom subscription revenues.

Cable subscriber revenues

Cable subscriber revenues increased by £4 million compared to fiscal 2004, driven by an increase of £10 million due to changes to wholesale prices in January and September 2004, and the payment for carriage by cable operators of Sky Sports Xtra and PremPlus, and a decrease of £6 million due to the receipt of audit monies from ntl in the prior year, which did not recur in fiscal 2005.

At 30 June 2005, there were 3,872,000 (2004: 3,895,000) UK and Ireland cable subscribers to our programming.

Advertising revenues

The increase in advertising revenues of 5% reflects the 4% growth in the UK television advertising sector and continued growth in the Group s share of this sector.

Our share of this sector has increased in recent years as viewing levels to our portfolio of channels have increased (in part due to the growth in subscribers to our channels) and as we have added other third party channels to our sales portfolio.

Sky Bet revenues

Sky Bet revenues increased by 37% compared to fiscal 2004. Betting gross margin (including duty and levy) (calculated as Sky Bet revenues less betting costs as a percentage of Sky Bet revenues) increased

from 8% to 10%, driven by the introduction of fixed odds games during the year, such as roulette and multi-line slot games.

Sky Active revenues

Sky Active revenues decreased by 21%. This decrease comprised a reduction due to the winding down and closure of the Sky Buy retail service and the expiry of a number of historical interactive contracts and services, partially offset by increases of 10% in other Sky Active revenue streams (including interactive advertising, games and third party betting and gaming), reflecting the growth in these areas.

Other revenues

Other revenues increased by 10% due to the increase in Sky+ digibox sales and installation volumes, and revenues earned following the commencement of the contract to supply news to five , partly offset by lower installation charges for new subscribers.

Operating expenses, net

The Group s operating expenses can be analysed as follows:

	Operating expenses, net			
	2005		2004	
	£m	**%**	£m	%
Programming	**1,636**	**49**	1,711	54
Transmission and related functions	**171**	**5**	146	4
Marketing	**515**	**15**	396	12
Subscriber management	**396**	**12**	371	12
Administration	**392**	**12**	376	12
Betting	**236**	**7**	175	6
	3,346	**100**	3,175	100

Programming

Programming costs are stated net of amounts receivable from the disposal to third parties of incidental programming rights not acquired for use by the Group of £11 million (2004: £11 million).

Sky Sports channels programming costs decreased by 7% to £747 million in fiscal 2005 from £803 million in fiscal 2004. The renegotiation of the Football Association contract at reduced rates led to this reduction, which was partly offset by the Ryder Cup, a bi-annual event, and investment in production costs supporting increased coverage in a number of sports, most notably football, with an increase of 32 live Barclays Premiership games and delayed footage or extended highlights of every Barclays Premiership match through the *Football First* service.

Sky Movies channels programming costs decreased by 9% to £356 million in fiscal 2005 from £393 million in fiscal 2004, reflecting the impact of the improved rate at which the Group s US dollar-denominated movies expenses were amortised as a result of the weaker dollar. Savings from the renewal of a non-major studio agreement were offset by the additional costs associated with an increase in the average number of movie subscribers.

Third party channel costs, which include our costs in relation to the distribution agreements for the Sky Distributed Channels and Premium Sky Distributed Channels, increased by 1% to £362 million in fiscal 2005 from £360 million in fiscal 2004. This increase was due to a 6% increase in the average number of DTH subscribers offset by a 6% reduction in the cost per subscriber. This saving has been generated by the renewal of certain of our contracts on improved terms and the termination of our contract with GSB, offset by new channels joining the pay television line-up including FX, Turner Classic Movies and UK TV Style Gardens.

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News and entertainment programming costs increased by 10% to £171 million in fiscal 2005 from £155 million in fiscal 2004, due to the higher operating costs of Sky News following the commencement of the contract to supply news to five , the coverage of the tsunami disaster and the elections in the UK, and increased investment in acquired and commissioned programming for Sky One.

Transmission and related functions

Transmission and related functions costs are stated net of amounts receivable for the provision of spare transponder capacity to third party broadcasters of £28 million in fiscal 2005 (2004: £28 million). The total increase of 17% includes higher engineering, support and maintenance costs associated with an expanding broadcast infrastructure following the build of the new Sky News Centre, the ATC and other properties at the Osterley site, the impact of movements in the euro exchange rate on our transponder lease payments and increased music licence fees, graphics and broadcast computing costs.

Marketing

The increase in marketing costs of 30% was driven by the launch of a number of marketing initiatives to attract new subscribers and drive the penetration of the Sky+ and Multiroom products. Above-the-line marketing costs for the year were £74 million, an increase of 50% on the comparable period as a result of the What do you want to watch? campaign and marketing of the new Sky One schedule. The remaining increase reflected increased direct marketing and installation offers across all product categories, partly offset by a volume-related reduction in the cost of our free digital satellite reception equipment offer to new customers.

Subscriber management

Subscriber management costs increased by 7%, reflecting the growing subscriber base, increased call volumes due to higher levels of sales activity and a higher level of Sky+ and Multiroom installations.

Administration

Administration costs, including goodwill amortisation and operating exceptional items, increased by 4%, due to increased technology, facility and information systems development costs, and a charge for restructuring costs following an efficiency and effectiveness review of the business. This increase was offset by the current year receipt of £13 million from the liquidators of ITV Digital as a full and final settlement in respect of amounts owed to us. These amounts had been fully provided for in the year ended 30 June 2002, therefore generating a non-recurring operating exceptional item in the year, which was included within administration costs. Goodwill amortisation is discussed below in the Goodwill section.

Betting

Betting costs increased by 35%, in line with the growth in Sky Bet revenues.

Operating profit and operating margin

Operating profit after goodwill amortisation and exceptional items increased by £221 million to £702 million in fiscal 2005 from £481 million in fiscal 2004. This increase was driven by the increase in DTH and Sky Bet revenues and the reduction in programming costs, as detailed above, partly offset by the increase in marketing and other operating expenses as detailed above.

Operating margin (calculated as total revenues less all operating expenses before goodwill amortisation and exceptional items as a percentage of total revenues) for fiscal 2005 was 20%, up from 16% in fiscal 2004, as a result of the operational gearing of our business as total revenues are increasing at a faster rate than operating costs.

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Goodwill

Goodwill amortisation decreased by 3% to £116 million in fiscal 2005 from £119 million in fiscal 2004. This mainly comprises the amortisation of the £272 million and £543 million of goodwill arising on the acquisitions of SIG and BiB respectively, over seven years from the date of acquisition on a straight-line basis. The reduction in amortisation of £3 million was due to the £3 million provision made in fiscal 2004 against the goodwill that arose on the acquisition of Planetfootball.com Limited (a company which provides website services to the sports industry).

Non-operating exceptional items

2005

Loss on disposal of investments in joint ventures

On 1 November 2004, we sold our 49.5% investment in GSB to ITV plc for £14 million cash consideration. After deducting the carrying value of the investment in GSB and writing back the original goodwill relating to the increase of our interest in GSB to 49.5% in March 1998, which had previously been eliminated against reserves, the disposal generated an accounting loss under UK GAAP of £23 million.

2004

Profit on disposal of fixed asset investments

On 7 October 2003, we disposed of our listed investment in Manchester United plc, realising a profit on disposal of £2 million.

On 1 March 2004, we sold our 20% shareholding in QVC (UK), operator of QVC The Shopping Channel, for £49 million in cash, realising a profit on disposal of £49 million.

Amounts written back to fixed asset investments, net

In accordance with the accounting treatment required by UK GAAP, the £33 million provision held against our investment in Manchester United plc was released during fiscal 2004, following the sale of our shareholding as described above. In fiscal 2004, we made a further provision against our remaining minority equity investments in football clubs, leading to a non-cash exceptional charge of £9 million. The provision was made due to the continued decline over the previous months in the market value of these investments, leading us to believe that a permanent diminution in value had occurred.

Joint ventures and associates

Joint ventures are entities in which we hold a long-term interest and share control under a contractual arrangement. Our share of the net operating results from joint ventures and associates before goodwill increased to a £14 million net profit in fiscal 2005 from a £5 million net loss in fiscal 2004. The increase in our share of net operating results is due to an increase in net operating profits of £8 million, generated primarily from ATR, and a write-down of £11 million by ATR in fiscal 2004, which did not recur in fiscal 2005.

Joint ventures and associates goodwill amortisation, net

In fiscal 2005, joint ventures and associates goodwill amortisation, net, was nil. In fiscal 2004, Sky and Arena Leisure plc acquired Channel 4 s shares and loan notes in ATR, increasing the Group s shareholding to 50% (subsequently reduced to 47.5%, following the issue of shares by ATR in October 2004). At the same time, the shareholder loans were capitalised, giving rise to negative goodwill of £11 million, which was immediately released to the profit and loss account in fiscal 2004. The remaining joint ventures goodwill amortised during fiscal 2004 of £1 million related to goodwill that arose from the purchase of a 50% stake in Artsworld in December 2003.

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Net interest payable

Interest payable and similar charges, net of interest receivable and similar income, decreased by 23%, primarily as a result of an increase in interest receivable due to higher levels of cash on deposit at higher interest rates.

Taxation

The total net tax charge for fiscal 2005 of £206 million includes a current tax charge of £159 million, a deferred tax charge of £68 million and an exceptional tax charge of £4 million, partly offset by a £25 million adjustment in respect of prior years. Excluding the effect of goodwill, joint ventures and exceptional items, the Group s underlying effective tax rate on ordinary activities for the year was 30%. This underlying tax rate is a non-GAAP measure that has been provided as it provides a more relevant indication of the Group s underlying operating performance. A reconciliation of the Group s current tax charge to the UK statutory rate is given in note 8 of the Consolidated Financial Statements included within Item 18.

The net £25 million adjustment in respect of prior years comprises a £7 million benefit in respect of consortium relief on losses purchased from ATR, and the favourable settlement of some prior year items.

The total net tax charge of £158 million for fiscal 2004 included a current tax charge of £127 million and a deferred tax charge of £34 million, offset by a £3 million net adjustment in respect of prior years. Excluding the effect of goodwill, joint ventures and exceptional items, this resulted in an underlying effective tax rate on ordinary activities of 30%.

The increase in the total net tax charge in fiscal 2005 of 30% is due to the increased profitability of the Group.

Profit after taxation

Profit after taxation for fiscal 2005 was £425 million compared with £322 million in fiscal 2004, mainly as a result of an increase in operating profit of £221 million, offset by an exceptional loss on disposal of investments in joint ventures, the absence of a non-operating net exceptional gain relating to fixed asset investments which occurred in the prior year and a £48 million increase in the tax charge, as described above.

Equity dividends

An interim dividend of £77 million (4.0p per share) in respect of the six month period ended 31 December 2004 (six month period ended 31 December 2003: £53 million, representing 2.75p per share) was paid to shareholders on 22 April 2005. In August 2005, the Directors proposed to pay shareholders a final dividend of £93 million (5.0p per share) in respect of the year ended 30 June 2005 (2004: £63 million, representing 3.25p per share), payable on 18 November 2005 to shareholders on the register on 28 October 2005, subject to approval of shareholders at the Annual General Meeting (AGM) on 4 November 2005.

Earnings per share

Basic earnings per share increased by 5.6p to 22.2p in fiscal 2005 from 16.6p in fiscal 2004, due to the improvement in profit after taxation described above. Similarly, diluted earnings per share increased by 5.6p to 22.2p in fiscal 2005 from 16.6p in fiscal 2004.

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2004 FISCAL YEAR COMPARED TO FISCAL YEAR

Revenues

The Group s revenues can be analysed as follows:

	Revenues			
	2004		2003	
	£m	%	£m	%
DTH subscribers	2,660	73	2,341	74
Cable subscribers	215	6	202	6
Advertising	312	9	284	9
Sky Bet[(i)]	191	5	117	4
Sky Active[(i)]	116	3	101	3
Other	162	4	141	4
	3,656	100	3,186	100

(i) Additional detail has been provided with regard to the analysis of interactive revenues between the Group s betting and games revenue Sky Bet and other interactive revenues Sky Active and the prior year comparatives have been reclassified accordingly.

DTH subscriber revenues

The increase of 14% in fiscal 2004 was driven by a 10% increase in the average number of DTH subscribers, and a 3% increase in average DTH subscription revenue per subscriber, to £356 at 30 June 2004 from £344 at 30 June 2003. The total number of UK and Ireland DTH subscribers increased by 510,000 in fiscal 2004. This was a result of gross subscriber additions of 1,200,000 and the low level of DTH churn. DTH churn for the year was 9.7% (2003: 9.4%). The increase in average DTH subscription revenue per subscriber reflected the change in our UK retail prices in January 2004, along with increased subscription revenues from products such as Sky+ and Multiroom digiboxes.

Cable subscriber revenues

The 6% increase in cable subscriber revenues in fiscal 2004 was attributable to the receipt of £6 million of audit monies from ntl and increases in the average revenue per subscriber resulting from changes to wholesale pricing from January 2004.

At 30 June 2004, there were 3,895,000 (2003: 3,871,000) UK and Ireland cable subscribers to our programming.

Advertising revenues

Advertising revenues increased by 10%, reflecting the growth in the UK television advertising sector, growth in Sky s viewing share, the growth in agency commissions earned on the sale of advertising on behalf of those channels that appointed Sky Sales to represent their airtime sales during fiscal 2004 and the growth of airtime sales in Ireland.

Our share of this sector has increased as viewing levels to our channels have increased (in part due to the growth in subscribers to our channels) and as we have added other third party channels to our sales portfolio.

Sky Bet revenues

Sky Bet revenues increased by 63% due to the increase in the total number of bets placed across all platforms from fiscal 2003.

Sky Active revenues

Sky Active revenues increased by 15% due to a combination of increases in retail revenues through Sky Buy, interactive television gaming, third party betting, revenues from interactive advertising, premium rate telephony revenues and platform access fees paid by third party broadcasters and interactive service providers.

Other revenues

Other revenues increased by 15% due to the sale of a greater volume of Sky+ and Multiroom digiboxes and associated installation revenues.

Operating expenses, net

The Group s operating expenses can be analysed as follows:

	Operating expenses, net			
	2004		2003	
	£m	%	£m	%
Programming	1,711	54	1,604	54
Transmission and related functions	146	4	143	5
Marketing	396	12	400	14
Subscriber management	371	12	324	11
Administration	376	12	359	12
Betting	175	6	108	4
	3,175	100	2,938	100

Programming

Programming costs are stated net of amounts receivable from the disposal to third parties of programming rights not acquired for use by the Group of £11 million (2003: £12 million).

Sky Sports channels programming costs increased by 11% to £803 million in fiscal 2004 from £723 million in fiscal 2003. This increase was driven by contractual increases in rights costs and the addition of UEFA Champions League football from the 2003/04 season.

Sky Movies channels programming costs decreased by 1% to £393 million in fiscal 2004 from £397 million in fiscal 2003, reflecting continued weakness of the US dollar and therefore a favourable movement in the average rate at which the Group was able to purchase dollars compared to fiscal 2003. These savings were partially offset by increased subscriber volumes and pricing increases in certain studio contracts.

Third party channel costs increased by 3% to £360 million in fiscal 2004 from £351 million in fiscal 2003. This increase was due to the 10% increase in the average number of DTH subscribers and new channels added to the platform, partially offset by savings resulting from contractual renegotiations as we renewed carriage deals with MTV, Nickelodeon, Paramount, Music Choice, E4, FilmFour and Eurosport.

News and entertainment programming costs increased by 17% to £155 million in fiscal 2004 from £133 million in fiscal 2003 due to the regular review of programme stock balances during fiscal 2004, which resulted in the acceleration of certain amortisation charges totalling £28 million, in accordance with the Group s policy in respect of programme stock accounting.

Transmission and related functions

Transmission and related functions costs, which were stable in fiscal 2004 compared to fiscal 2003, are stated net of amounts receivable for the provision of spare transponder capacity to third party broadcasters of £28 million in fiscal 2004 (2003: £26 million).

Marketing

Marketing costs decreased by 1%, driven by a £22 million reduction in acquisition marketing costs to £256 million, due to lower digibox unit prices and fewer installations. Retention marketing also decreased by £2 million from fiscal 2003 to £32 million. These decreases were partly offset by increased above-the-line expenditure, up £10 million from fiscal 2003 to £49 million, and other marketing costs up £10 million to £59 million, as a result of the Sky+ and programming campaigns which ran in fiscal 2004.

Subscriber management

Subscriber management costs increased by 15% in fiscal 2004 from fiscal 2003. Supply chain costs, including the cost of goods sold in respect of Sky+ and Multiroom digiboxes, increased by 24% to £173 million in fiscal 2004 from £140 million in fiscal 2003, reflecting the growth in Sky+ customers during fiscal 2004. Also included within supply chain costs is the cost of stock for Sky Buy, the Group s retail operation, which increased by £12 million in fiscal 2004 to £18 million. CRM costs increased by £9 million to £157 million in fiscal 2004 from £148 million in fiscal 2003, due to the growing subscriber base. However, CRM cost per subscriber declined by 3% as the associated costs were offset by continued efficiencies achieved in the contact centres. Depreciation costs increased by £5 million to £41 million in fiscal 2004 from £36 million in fiscal 2003, due to increased depreciation in respect of CRM assets developed and capitalised over the previous three years.

Administration

Administration costs, including goodwill amortisation and operating exceptional items, increased by 5%, mainly as a result of increased technology and facilities costs, costs resulting from increased compliance obligations, and the release in fiscal 2003 of a £5 million provision against ITV Digital programming debtors. Goodwill amortisation is explained below in the Goodwill section.

Betting

Betting costs increased by 62%, directly as a result of the growth in Sky Bet revenues.

Operating profit and operating margin

Operating profit after goodwill amortisation and exceptional items increased by £233 million to £481 million in fiscal 2004 from £248 million in fiscal 2003. This increase was driven by the increase in revenues, as detailed above, partly offset by the increase in operating expenses, primarily due to the increase in programming costs and betting costs as detailed above.

Operating margin for fiscal 2004 was 16%, up from 11% in fiscal 2003, largely as a result of total revenues increasing at a faster rate than programming costs.

Goodwill

Goodwill amortisation decreased by 2% to £119 million in fiscal 2004 from £121 million in fiscal 2003. The reduction in amortisation of £2 million was due to the £5 million provision made in fiscal 2003 against goodwill which originally arose on the acquisition of Opta Index Limited (Opta) (a sports media and information company, a subsidiary of SIG, which provided statistics on the sports industry), partly offset by the £3 million provision made in fiscal 2004 against the goodwill that arose on the acquisition of Planetfootball.com Limited (a company which provides website services to the sports industry).

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Non-operating exceptional items

2004

A description of the non-operating exceptional items for fiscal 2004 is included in the 2005 fiscal year compared to 2004 fiscal year Non-operating exceptional items section above.

2003

Amounts written off fixed asset investments, net

At 31 December 2002, we made a further provision against our minority equity investments in football clubs, leading to a non-cash exceptional charge of £21 million. This provision was made due to the continued decline over the previous months in the market value of these investments, leading us to believe that a permanent diminution in value had occurred. At 30 June 2003, we reduced our provision against our investment in Chelsea Village plc by £3 million, following the agreement to sell our minority interest in July 2003.

At 31 December 2002, we reduced our deferred revenue balance by £5 million relating to minority investments in new media companies, and reduced both our investment and provision against our investment by £5 million accordingly. This was a result of the new media companies no longer requiring the services for which the deferred balance was being held.

At 31 December 2002, we made a provision against our investment in OpenTV, leading to a non-cash exceptional charge of £3 million, bringing the carrying value of our investment in OpenTV to nil. Between 12 February 2003 and 24 March 2003, we disposed of our entire investment in OpenTV shares, leading to a nil profit or loss on disposal.

In March 2003, we disposed of our investment in Streetsonline for total consideration of £1 million, which had been held at a cost of £6 million less provision of £6 million. These amounts were written back upon disposal of our investment in Streetsonline, leading to an exceptional credit of £1 million.

Joint ventures and associates

Our share of the net operating results from joint ventures and associates before goodwill decreased to a £5 million net loss in fiscal 2004 from a £3 million net profit in fiscal 2003. This reflected a write down of £11 million by ATR in respect of capitalised infrastructure costs and media rights prepayments, partly offset by an improvement of £3 million due to the improved performance of certain programming joint ventures, including National Geographic Channel and Music Choice Europe.

Joint ventures and associates goodwill amortisation, net

A description of the fiscal 2004 joint ventures and associates goodwill and amortisation, net credit is included in the 2005 fiscal year compared to 2004 fiscal year joint ventures and associates goodwill amortisation, net section above. In fiscal 2003, joint ventures and associates goodwill amortisation, net, was nil.

Net interest payable

Interest payable and similar charges, net of interest receivable and similar income, decreased by 29% as a result of a reduction in average gross debt to £1,102 million for fiscal 2004 from £1,461 million for fiscal 2003 as well as an increase in interest receivable due to higher levels of cash held.

Taxation

The total net tax charge of £158 million for fiscal 2004 included a current tax charge of £127 million and a deferred tax charge of £34 million, offset by a £3 million net credit adjustment in respect of prior years.

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Excluding the effect of goodwill, joint ventures and exceptional items, this resulted in an underlying effective tax rate on ordinary activities of 30%.

The total net tax credit of £62 million for fiscal 2003 included a current pre-exceptional tax charge of £85 million, a tax charge on exceptional items of £2 million, a deferred tax credit of £151 million and our share of joint ventures tax charge of £2 million. Excluding the effect of goodwill, joint ventures and exceptional items, this resulted in an underlying effective tax rate on ordinary activities of 31%, slightly higher than the UK statutory rate due to a number of standard disallowable items.

As a result of the significant investment made in digital, and the resultant losses incurred, the Group accumulated significant tax losses within different Group companies. Under the UK Accounting Standard FRS 19 Deferred Tax , a deferred tax asset in respect of these tax losses may only be recognised in the Group s balance sheet at the point when it is more likely than not that there will be sufficient future taxable profits to offset the tax losses thereby being capitalised.

As the Group s and individual entities profitability continued to rise, it was increasingly possible to satisfy the requirements of FRS 19. During the six months ended 31 December 2002, the Group recognised a £40 million deferred tax asset, principally as a result of the forecast future profitability of one of the Group s trading subsidiaries. Subsequently, following a review of the forecast utilisation of tax losses within the Group, and as a consequence of a planned reorganisation of certain assets within the Group, the Directors were able to conclude that the required FRS 19 conditions had been satisfied in respect of other tax losses in the Group, permitting the Group to recognise a further deferred tax asset of £123 million, which was treated as an exceptional tax credit due to its size. This brought the total deferred tax asset recognised within fiscal 2003 to £151 million, net of utilisation and an adjustment arising from the prior period.

Profit after taxation

Profit after taxation for fiscal 2004 was £322 million compared with £184 million in fiscal 2003, mainly as a result of an increase in operating profit of £233 million, a non-operating net exceptional credit in fiscal 2004 compared to a charge in fiscal 2003 relating to fixed asset investments, a decrease in net interest payable in fiscal 2004, offset by an increased tax charge in fiscal 2004, compared to a tax credit in fiscal 2003.

Equity dividends

An interim dividend of £53 million (2.75p per share) in respect of the six month period ended 31 December 2003 (six month period ended 31 December 2002: nil) was paid to shareholders on 23 April 2004. In August 2004, the Directors proposed to pay shareholders a final dividend of £63 million (3.25p per share) in respect of the year ended 30 June 2004 (2003: nil), paid on 19 November 2004 to shareholders on the register on 29 October 2004, and which was approved by shareholders at the AGM on 12 November 2004.

Earnings per share

Basic earnings per share increased by 7.0p to 16.6p in fiscal 2004 from 9.6p in fiscal 2003, due principally to the improvement in profit after taxation described above. Similarly, diluted earnings per share increased by 7.1p to 16.6p in fiscal 2004 from 9.5p in fiscal 2003.

2005 BALANCE SHEET COMPARED TO 2004 BALANCE SHEET

Intangible assets decreased by £116 million to £301 million at 30 June 2005 from £417 million at 30 June 2004, due to amortisation of goodwill.

Tangible fixed assets increased in the year by £150 million to £526 million at 30 June 2005 from £376 million, due to £244 million of additions, including further investment in CRM, property, the ATC and increased customer contact and staff training facilities, partly offset by depreciation of £92 million. Included

within tangible fixed assets are assets in the course of construction, which increased by £153 million in the year, mainly due to the investment in CRM and the ATC.

Investments in joint ventures decreased by £10 million due to the sale of the Group s investment in GSB.

Net current assets decreased by £138 million, from £366 million at 30 June 2004 to £228 million at 30 June 2005, reflecting a number of movements. Current liabilities increased by £70 million due to an increased tax liability as a result of a higher tax charge in fiscal 2005, a higher final dividend creditor and increased accruals, offset by a reduction in trade creditors due to timing of payments. Deferred tax assets reduced by £51 million due to utilisation in the year, offset by a prior period adjustment. Stock balances decreased by £35 million due to decreases in both volumes and prices. Other debtors decreased by £32 million due to the timing of receipts, partly offset by increased debtors resulting from higher DTH revenues. The remaining movement in current assets resulted from an increase in cash and liquid resources of £50 million.

FOREIGN EXCHANGE

For details of the impact of foreign currency fluctuations on our results of operations, see Item 11 Quantitative and Qualitative Disclosures about Market Risk Currency exchange rates .

CONTINGENT LIABILITIES

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

LIQUIDITY AND CAPITAL RESOURCES

In addition to our cash and liquid resources balance (30 June 2005: £697 million), our long-term funding comes primarily from US dollar and sterling-denominated public bond debt, which was raised in 1996 and 1999. For further details see note 19 of the Consolidated Financial Statements, included within Item 18. We launched Sky digital, our digital DTH service, in October 1998 and we terminated our analogue service in September 2001. As a result, the peak of our funding requirements was in the six month period ended 31 December 2001, when our period end net debt reached £1,833 million. As at 30 June 2005, net debt had been reduced to £379 million. The public bond debt is partly repayable in 2006, with the remainder repayable in 2009, and we currently believe that our financial position at those dates will enable us to meet our repayment requirements. For details of our facilities and long-term funding see note 19 of the Consolidated Financial Statements, included within Item 18. For details of our treasury policy and use of financial instruments see note 20 of the Consolidated Financial Statements, included within Item 18.

We periodically review the terms upon which financing is likely to be available from public and private sources, as well as our anticipated cash needs. On the basis of this review, we may raise additional long-term financing during the remainder of fiscal 2006. Any such financing will be subject to the negotiation of terms and conditions acceptable to us, and we can give no assurance that such financing will occur.

Our principal source of liquidity is our operating cash flow, combined with access to the £1 billion (2004: £600 million) RCF, which we entered into in November 2004. Our operating cash inflow for the current year was £978 million (2004: £882 million) (for further details, see Cash flows below). We expect to continue to generate significant operating cash inflow in fiscal 2006 (for further details, see Trends and other information and Tabular disclosure of contractual obligations below), subject to the factors detailed below. As at 30 June 2005, our RCF was undrawn (2004: undrawn).

Our liquidity and working capital may be affected by a material decrease in cash flow from operations due to factors, among others, such as infringement of intellectual property and proprietary rights, increased competition, failure to obtain required regulatory approvals, long-term obligations, loss of wholesale

revenues and failure of technology. See Item 3 Key Information Risk Factors for a more detailed discussion of our risk factors.

Cash flows

During the year, there was an operating cash inflow of £978 million, compared with an operating cash inflow of £882 million in fiscal 2004. The operating cash inflow was driven by an improvement in operating profits of £221 million, offset by a lower movement in working capital, which decreased by £55 million in fiscal 2005 compared to a decrease of £182 million in fiscal 2004.

During the year, net interest payments were £63 million, compared to £82 million in fiscal 2004. This reduction in payments resulted from increased interest receivable due to higher levels of funds under investment at higher interest rates. Absent any change in the level of net debt, we currently expect the net interest charge for the coming year to be broadly similar to fiscal 2005.

During the year, tax payments were £103 million, compared to £58 million in fiscal 2004. This increase in payments is due to the increased profitability of the Group and the utilisation in the prior year of the Group s paid but unrecovered advanced corporation tax. We currently expect that tax payments will continue to increase as the Group becomes increasingly profitable.

During the year, payments for capital expenditure were £230 million, compared with £132 million in fiscal 2004, following progress on a number of capital expenditure and infrastructure projects. The Group spent £75 million on a combination of infrastructure projects, including the acquisition of four freehold properties previously leased at our Osterley Campus and the construction of the Sky News centre. In addition, the Group continued work on the CRM programme to upgrade its customer service systems, investing £59 million during fiscal 2005 (for further details, see Item 4 The Customer Relationship Management Centres). As part of the Group s business continuity plan, £24 million was invested to build and fit out the ATC building. The remaining £72 million, regarded as core capital expenditure, was spent on information systems infrastructure, broadcast equipment and new product development, including HDTV. We currently expect to continue to invest in capital expenditure across the business, in line with our previously announced plans to spend £450 million over the four years to 30 June 2008. This is in addition to ongoing core maintenance capital expenditure, which is expected to be approximately £100 million per annum over the next three years (for further details, see Item 4 Capital Expenditure Programme).

During the year, non-recurring receipts from the sale of fixed asset investments of £1 million comprised proceeds from the sale of our shareholdings in certain investments. This compared to £116 million in fiscal 2004, which comprised proceeds from the sale of our shareholding in Manchester United plc of £62 million, proceeds from the sale of our shareholding in Chelsea Village plc of £6 million and proceeds from the sale of our shareholding in QVC (UK) of £49 million.

During the year, non-recurring receipts from the sale of investments in joint ventures of £14 million comprised proceeds from the sale of our shareholding in GSB.

During the year, we made equity dividend payments of £138 million, compared to £53 million in fiscal 2004. We expect that future year payments will increase in line with the Board s expected dividend policy described in the Trends and other information section below.

During the year, we also made payments of £416 million to repurchase 74 million shares as part of the share buy-back programme, in line with the authority to repurchase 97 million shares approved by the shareholders at the Company s AGM on 12 November 2004. The buy-back of shares under this programme was completed during the first half of fiscal 2006. The Board currently intends to propose resolutions at the AGM in November 2005 to renew the annual authority to buy back up to a further 5% of its issued share capital.

The above cash flows, in addition to other net cash inflows of £7 million, resulted in a decrease in net debt of £50 million to £379 million.

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Major non-cash transactions

2005

Corporate reorganisation

On 13 April 2005, the High Court approved a reduction in the share capital of BSkyB Investments Limited, a 100% owned subsidiary. This formed part of a corporate reorganisation, allowing the Company access to additional distributable reserves.

Disposal of GSB

In accordance with FRS 10 Goodwill and Intangible Assets (FRS 10), the Group has included the write off of £32 million of unamortised goodwill in the calculation of the loss on disposal of GSB, the effect of which has been included in the profit for the financial year. The goodwill arose on the increase of our interest in GSB to 49.5% in March 1998 and had previously been written off to the profit and loss reserve as permitted prior to FRS 10. Accordingly, an adjustment has been made to write back the £32 million charge to the profit and loss reserve.

2004

Share premium reduction

On 10 December 2003, the High Court approved a reduction in the Company s share premium account of £1,120 million, as approved by the Company s shareholders at the AGM held on 14 November 2003. The reduction had the effect of eliminating the Company s deficit on its profit and loss account as at 30 September 2003 of £1,106 million, and creating a non-distributable special reserve of £14 million, which represents the excess of the share premium reduction over the deficit. The Company s stand alone balance sheet and profit and loss account are not presented within this Annual Report on Form 20-F.

WAPTV

On 30 September 2003, the Company issued 338,755 (2003: 169,375) Ordinary Shares to satisfy the remaining contingent consideration in respect of the acquisition of the remaining 5% in WAPTV Limited which occurred in May 2001.

2003

Issue of shares deferred consideration for BiB

On 11 November 2002, the Company issued 43.2 million shares with a fair value of £253 million to HSBC, Matsushita and BT in respect of deferred consideration for the acquisition of the remaining 67.5% of BiB in May and June 2001.

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Tabular disclosure of contractual obligations

A summary of our contractual obligations and commercial commitments at 30 June 2005 is shown below:

	Payments due by period				
	Total	**Less than 1 year**	**Between 1-3 years**	**Between 3-5 years**	**More than 5 years**
	£m	**£m**	**£m**	**£m**	**£m**
Obligation or commitment					
Purchase obligations:					
Television programme rights[1]	2,260	801	1,070	380	9
Digiboxes and related equipment	155	155			
Third party payments[2]	14	7	7		
Capital expenditure	10	10			
Other	36	25	11		
Long-term debt[3]	1,069		189	880	
Interest costs	294	84	146	57	7
Operating lease obligations[4]	444	95	155	100	94
Capital lease obligations[5]	7			1	6
Total cash obligations	**4,289**	**1,177**	**1,578**	**1,418**	**116**

For the avoidance of doubt, this table does not include commitments relating to employee costs.

(1) ***Purchase obligations Television programme rights***

At 30 June 2005 we had minimum television programming rights commitments of £2,260 million (2004: £2,489 million), of which £642 million (2004: £766 million) related to commitments payable in US dollars for periods of up to eight years (2004: nine years), £45 million (2004: £87 million) related to commitments payable in Swiss francs for periods of up to one year (2004: two years), and £3 million (2004: £6 million) related to commitments payable in Euros for periods of up to one year (2004: two years).

An additional £302 million (US$535 million) of commitments (2004: £265 million (US$483 million)) would also be payable in US dollars over a period of five years (2004: six years), assuming that movie subscriber numbers remained unchanged from current levels. The pounds sterling television programme rights commitments include similar per subscriber based price clauses that would result in additional commitments of £10 million (2004: £3 million) over a period of three years (2004: two years), assuming that movie subscriber numbers remained unchanged from current levels.

The total decrease in our minimum television programming rights commitments of £229 million compared to 30 June 2004, is the result of a decreased average period remaining on our commitments for sports channels and movie channels programming, partly offset by the extension of contracts with certain movie studios and the acquisition of the England Cricket Board, Rugby Union and Football League rights.

(2) ***Purchase obligations Third party payments***

The third party payment commitments are in respect of distribution agreements for Sky Distributed Channels and are for periods of up to four years (2004: five years). The extent of the commitment is largely dependent upon the number of DTH subscribers to the relevant Sky Distributed Channels, and in certain cases, upon inflationary

increases. If both the DTH subscriber levels to these channels and the rate payable for each Sky Distributed Channel were to remain at 30 June 2005 levels, the additional commitment would be £522 million (2004: £844 million).

(3) ***Long-term debt***

Further information concerning long-term debt is given in note 19 of the Consolidated Financial Statements included within Item 18.

(4) ***Operating lease obligations***

At 30 June 2005, our operating lease obligations totalled £444 million (2004: £447 million), the majority of which related to property and transponder leases.

(5) ***Capital lease obligations***

At 30 June 2005, our obligations under capital leases were £7 million (2004: £7 million). This represents financing arrangements in connection with the CRM centre in Dunfermline, Scotland. The CRM centre lease bears interest of 8.5% and expires in September 2020.

Trends and other information

The significant trends which have a material effect on our financial performance are outlined below.

The number of DTH homes increased by 432,000 in fiscal 2005 to 7,787,000, compared to growth of 510,000 in fiscal 2004. We expect growth in subscriber numbers to continue as a result of the implementation of our current marketing strategy, consistent with achieving our target of 8,000,000 DTH subscribers by 31 December 2005 and our longer term target of 10,000,000 DTH subscribers in 2010. Sky+ and Multiroom subscribers both increased substantially in fiscal 2005 by 124% and 120% respectively, representing a penetration of total DTH subscribers of 11% and 8% respectively. We expect Sky+ and Multiroom subscriber growth to continue, consistent with achieving our targets of 25% Sky+ and 30% Multiroom penetration of DTH subscribers in 2010. Retail price increases, the increased number of subscribers to our Multiroom product and the launch of new services, such as HDTV, are expected to generate additional revenue on a per subscriber basis.

The operating margin for fiscal 2005 was 20%, up from 16% in fiscal 2004. We currently expect our operating margin to grow in the long-term, as a result of our strategy to improve subscriber and revenue growth.

During fiscal 2005, the number of cable homes receiving Sky Channels in the UK and Ireland decreased by 23,000 to 3,872,000 following an increase of 24,000 in fiscal 2004. We currently expect cable subscriber numbers to remain stable in the foreseeable future. We currently have agreements with ntl and Telewest for the supply of certain Sky Basic Channels which expire in fiscal 2007.

Advertising revenues increased in fiscal 2004 and 2005. The increase in fiscal 2005 reflects growth of 4% in UK television advertising revenue in the year and continued growth in our share of UK television advertising revenue. We expect that our share of the UK television advertising revenue will continue to increase year on year as a result of increasing subscriber numbers leading to growth in Sky s commercial impacts.

Sky Bet revenues increased in the current and prior year. This growth is expected to continue, with interactive betting and gaming via television being the main contributor to growth. Our growth assumption takes into account the impact of liberalisation of the UK gambling laws following the passing into law of the Gambling Act in April 2005. The Gambling Act is currently expected to become effective in 2007.

The Sky Buy retail service was wound down and closed during the year. This, together with the expiry of a number of historical interactive contracts and services, led to a reduction in Sky Active revenues in fiscal 2005 against fiscal 2004. We currently expect increases in Sky Active revenues from core interactive services such as games, live interactive programming, enhanced television applications (e.g. voting and competitions) and partnered content sites (mainly due to the increase in prevalence of betting and gaming sites).

Programming costs decreased during fiscal 2005, primarily due to renegotiation of the Football Association contract at reduced rates and the impact of the improved rate at which the Group s US dollar-denominated

movies were amortised as a result of the weaker dollar. We will continue to seek to reduce the per subscriber cost of sports and movies programming and the per subscriber cost in relation to the Sky Distributed Channels, as and when the contracts for these are renewed. However, we do expect minor fluctuations depending upon the timing of individual programming agreements. We currently expect that total programming costs will increase in future years, but at a slower rate than our revenues.

Transmission and related functions costs increased during fiscal 2005, after remaining stable in fiscal 2004, resulting in an increased cost per subscriber. Transmission and related functions costs are expected to continue to increase in future years, but the transmission and related functions costs per subscriber are expected to remain stable. The increased costs reflect the costs of launching and operating our planned HDTV service, higher forecast utilities costs and increased depreciation charges.

Marketing costs as a percentage of revenues during fiscal 2005 were in line with the average over fiscals 2002 to 2004. We expect marketing costs to remain around this level in the next few years in line with our marketing initiatives. Marketing costs include above-the-line marketing expenditure, which increased by 50% in fiscal 2005. We expect above-the-line marketing expenditure to remain relatively stable. Also included within marketing costs are the costs of providing free digital satellite reception equipment and installation costs in excess of the relevant amount actually received from customers. It remains our current intention to continue the practice of providing free digital satellite reception equipment and subsidising installation to new subscribers.

Subscriber management costs increased during fiscal 2005 at a lower rate than in fiscal 2004. We expect that subscriber management costs will increase at a higher rate over the next few years due to a greater proportion of Sky+ customers, whose installations carry higher hardware costs than the standard installations, partly offset by a reduction in the cost of standard digiboxes. Additionally, the new CRM system has gone into use in September 2005, which will result in increased depreciation charges in future years. We are also investing in increasing the capacity of our contact centres, which is expected to result in an associated increase in the cost of subscriber management.

Administration costs before goodwill amortisation increased in fiscal 2005 and fiscal 2004, and are expected to continue increasing in the foreseeable future due to the growth in our overall business and to higher depreciation charges relating to investment at the main site in Osterley, including expenditure on the broadcasting infrastructure.

The trends described above reflect our current expectations based on UK GAAP. We do not currently expect that, based on the current standards, the impact of the transition to IFRS, which we are required to adopt in the preparation of our Consolidated Financial Statements from 1 July 2005 (see Adoption of New Accounting Standards Adoption of IFRS below), will materially impact the magnitude and/or the direction of these trends, with the exception of administration costs, which are expected to be lower in future years upon adoption of IFRS. This is due to decreased administration costs following the change in the treatment of goodwill, which is not amortised under IFRS, partly offset by increased charges under IFRS for share-based payments when compared to UK GAAP (see Adoption of New Accounting Standards Adoption of IFRS Share-based payments below for further details). This expected net decrease in administration costs under IFRS is also expected to result in an increase in operating profit under IFRS in comparison with the equivalent operating profit under UK GAAP.

The Group continues to consider the appropriate financial strategy and capital structure for the next phase of the Group s growth. This financial strategy will be consistent with the Group s desire to maintain an investment grade credit rating and retain financial flexibility going forward.

It remains the overall financial policy of the Group to achieve an appropriate balance between distributions to shareholders arising from strong free cash flow generation and maintaining a prudent degree of strategic and financial flexibility. The Group currently intends that the ordinary dividend in fiscal 2006 will grow broadly in line with Group earnings. During fiscal 2005, 74 million Ordinary Shares were purchased by the Company and subsequently cancelled. The Board considers that an on-market share repurchase scheme which is incremental to the ordinary dividend is a flexible, equitable and tax-efficient means by which to

make distributions to shareholders. As a result, the Board intends to propose resolutions at the AGM in November 2005 to renew the annual authority last granted by shareholders in 2004 to buy back up to a further 5% of its issued share capital.

Dividends are paid between Group companies out of profits available for distribution subject to, inter alia, the provisions of our Articles of Association and the Companies Act 1985 (as amended). There are restrictions over the distribution of any profits which are not generated from external cash receipts as defined in Technical Release 7/03, issued by the Institute of Chartered Accountants in England and Wales. The interim dividend of the Company of £77 million in February 2005, relating to the period ended 31 December 2004, and the final dividend of £93 million proposed in August 2005, relating to the year ended 30 June 2005, were resolved or proposed to be paid out of profits available for distribution generated from external cash receipts.

We currently believe that our existing external financing, together with internally generated cash inflows, will continue to be sufficient sources of liquidity to fund our current operations, including our contractual obligations and commercial commitments described above, our approved capital expenditure requirements and any dividends and/or share buy backs proposed.

OFF-BALANCE SHEET ARRANGEMENTS

At 30 June 2005, the Company did not have any undisclosed off-balance sheet arrangements that require disclosure as defined under the applicable rules of the Securities and Exchange Commission.

RESEARCH AND DEVELOPMENT

The Group did not incur significant research and development expenditure in fiscal 2004 or 2003. During fiscal 2005, the Group made payments totalling £11 million to a third party for development of encryption technology. The Group did not incur any other significant research and development expenditure in fiscal 2005.

US GAAP RECONCILIATION

Net profit after tax under UK GAAP in fiscal 2005 was £425 million (2004: £322 million; 2003: £184 million). Under US GAAP net profit after tax was £577 million (2004: £434 million; 2003: £286 million). Net liabilities under UK GAAP at 30 June 2005 were £34 million (2004: net assets of £90 million). Under US GAAP, net assets were £818 million (2004: £812 million).

The principal differences between US GAAP and UK GAAP, as they relate to the Group, arise from the methods of accounting for goodwill, employee stock-based compensation, derivatives, capitalisation of interest, fixed asset investments, development costs, deferred taxation and proposed equity dividends. For a further explanation of the differences between US GAAP and UK GAAP, see note 27 of the Consolidated Financial Statements included within Item 18.

CRITICAL ACCOUNTING POLICIES

The application of UK GAAP often requires our judgement when we formulate our accounting policies and when presenting a true and fair view of our financial position and results in our consolidated financial statements. Often, judgement is required in respect of items where the choice of specific policy to be followed can materially affect our reported results or net asset position, in particular through estimating the lives of recoverability of particular assets, or in the timing of when a transaction is recognised. A description of our significant accounting policies is disclosed in the notes to the Consolidated Financial Statements within Item 18, and our critical accounting policies are discussed below.

We do not believe that we have any critical accounting policies which are specific to US GAAP, as any US GAAP accounting policies that we have deemed to be critical are also critical under UK GAAP.

We consider that our accounting policies in respect of the following are critical:

Goodwill

Where the cost of acquisition of an entity exceeds the fair value attributable to the net assets acquired, the difference is treated as purchased goodwill and capitalised on our balance sheet in the year of acquisition. Determining the fair value of assets acquired and liabilities assumed requires our judgement and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash flows, discount rates and asset lives, among other items. Purchased goodwill arising on acquisitions from 1 July 1998 is capitalised. Prior to 1 July 1998, goodwill arising on acquisitions was eliminated against reserves.

Where capitalised goodwill is regarded as having a limited useful economic life, FRS 10 provides that the cost is amortised on a straight-line basis over that life, of up to 20 years. All goodwill currently held on our balance sheet is being amortised over periods of up to seven years on a straight-line basis. Goodwill is reviewed for impairment if events or circumstances indicate that the carrying value may not be recoverable. Any amortisation or impairment write-down is charged to the profit and loss account.

At 30 June 2005, the carrying value of goodwill amounted to £301 million (2004: £417 million) and represented 13% (2004: 18%) of our total assets. Applying the lives referred to in the previous paragraph has resulted in this year s charge for amortisation amounting to £116 million (2004: £119 million; 2003: £121 million). The charge in fiscal 2004 included a provision of £3 million against goodwill which arose on the acquisition of Planetfootball.com Limited (a company which provides website services to the sports industry). The charge in fiscal 2003 included a provision of £5 million against goodwill which arose on the acquisition of Opta (a sports media and information company, a subsidiary of SIG, which provided statistics on the sports industry).

Goodwill impairment reviews are also an area requiring our judgement, requiring assessment as to whether the carrying value of goodwill can be supported by the net present value of future cash flows derived from assets using cash flow projections, and discounting using an appropriate rate. We completed two significant acquisitions in fiscal 2001. These were the acquisitions of the 67.5% of BiB not previously owned by us and 100% of SIG (a company that we acquired in July 2000, which owns a bookmaker which operates telephone and interactive betting services under the brand name Sky Bet). In accordance with FRS No. 11, Impairment of Fixed Assets and Goodwill , impairment reviews were performed on the carrying values of BiB and SIG goodwill balances at the end of the first full financial year after acquisition, at 30 June 2002, which did not indicate impairment. Consistent with our strategy, the business plans on which these reviews were based reflect significant projected increases in betting and other interactive revenues over the subsequent five years and the carrying value of the goodwill is therefore heavily dependent on the forecast performance of, and projections for, these businesses. The Group continues to monitor the performance of these businesses and is satisfied that no impairment of goodwill has occurred.

The treatment of goodwill under US GAAP differs significantly from that under UK GAAP. Under US GAAP, goodwill is not amortised over its useful life; instead, it is tested for impairment on an annual basis and whenever indicators of impairment arise. As is the case under UK GAAP, goodwill impairment reviews are an area requiring our judgement, requiring assessment as to whether the carrying value of goodwill can be supported by the net present value of future cash flows derived from assets using cash flow projections, and discounting using an appropriate rate. Furthermore, the goodwill arising on the increase of our interest in GSB to 49.5% in March 1998, which was included in the calculation of the loss on disposal, had previously been eliminated against reserves under UK GAAP, but was held as an intangible asset under US GAAP (see note 27 of the Consolidated Financial Statements included within Item 18 for further details).

Revenues and bad debt provisions

The main source of our revenue is from subscribers. Revenues from the provision of DTH subscription services are charged to contract customers in advance on a monthly basis. Revenues are invoiced and recorded as part of a periodic billing cycle, and are recognised as the services are provided. Pay-per-view

revenue is recognised when the event, movie or football match is viewed. Cable revenue is recognised as the services are provided to the cable companies and is based on the number of subscribers taking the Sky Channels, as reported to us by the cable companies, and the applicable wholesale prices. The overriding principle followed is to recognise revenues in line with the provision of service, and accordingly, this leaves little scope for subjectivity. In fiscal 2005, subscription revenues from DTH subscribers and cable companies comprised 79% of total turnover (2004: 79%; 2003: 80%).

Management judgement is required to evaluate the likelihood of collection of customer debt. This evaluation requires estimates to be made, and a provision is made for those amounts which we determine are unlikely to be recovered. Currently, our provision is partly based upon the historical trends in the percentage of total subscriber debts which are not recovered. As DTH subscriber revenues are billed in advance and corrective action is taken early within the billing cycle, bad debts are a relatively low percentage of sales. Additionally, more detailed reviews are carried out in respect of more significant balances, which include cable subscriber revenues, whereby specific provisions are made where deemed appropriate.

The remaining 21% of turnover (2004: 21%; 2003: 20%) comprises advertising, Sky Bet, Sky Active and other revenues. Recognition of these revenues takes place once the advertising is broadcast, or when the relevant goods or services have been delivered or provided. Sky Bet revenues represent amounts receivable in respect of bets placed on events which occur in the year and net customer losses in the year in respect of the on-line casino operations and casino-style interactive roulette games.

Under UK GAAP, betting costs from on-line casino operations and casino-style interactive roulette games are offset against betting revenues within turnover , and costs from all other betting are shown within operating expenses, net . Our treatment under US GAAP of costs from betting, aside from on-line casino operations and casino-style interactive roulette games, differs from that under UK GAAP (see note 27 of the Consolidated Financial Statements included within Item 18 for further details).

Tangible fixed assets

Tangible fixed assets represented 23% of our total assets (2004: 16%). Tangible fixed assets are stated at cost, net of accumulated depreciation and any provision for impairment. Our depreciation policy in respect of tangible fixed assets is disclosed in note 1 of the Consolidated Financial Statements included within Item 18. We estimate the useful life of these assets based on their periods of expected use and this estimation is judgemental. We review the period of expected use on a regular basis. We begin amortisation of these assets when they become available for use. Tangible fixed asset impairment reviews are also an area requiring our judgement in determining whether the carrying value of our tangible fixed assets can be supported by the net present value of future cash flows derived from the asset using cash flow projections, and discounted using an appropriate rate. We perform impairment reviews if events or circumstances indicate that the carrying value of tangible fixed assets may not be recoverable. There have been no material impairments in the current year.

FRS No. 15, Tangible Fixed Assets , specifies criteria for the recognition of tangible fixed assets, including a detailed definition of costs that are capitalised in relation to self-constructed assets. As at 30 June 2005, the net book value of costs capitalised on the balance sheet in respect of our CRM project was £160 million (2004: £118 million). Capitalised costs include technology hardware and software assets, site preparation and development costs, and associated consultancy expenditures. All of the CRM project costs capitalised during the year were associated with the CRM systems (2004: 100%). These assets are being depreciated over periods of between three and four years. All CRM-related assets were brought into use in September 2005. The only difference between UK GAAP and US GAAP relates to the capitalisation of interest costs on funds invested in the construction of major capital assets (see note 27 of the Consolidated Financial Statements included within Item 18 for further details).

Amortisation of programme stock

A significant proportion of programming costs relate to the amortisation of television programme rights. Programming costs constituted 49% of operating expenses after goodwill and exceptional items in the year (2004: 54%; 2003: 55%). Our investments in television programme rights are amortised over the planned number of showings according to the type of programme right, with the exception of movie rights and certain sports rights, which are discussed below. The amortisation methods used are based on programme genre and have been based on the repeatability and value to us of showing the programme. This basis is regularly reviewed. The principle followed is to match the benefit received from the showing of the programme to the cost of the programme rights. Acquired movie rights are amortised on a straight-line basis over the period of the transmission rights. Our own in-house movie productions are amortised in line with anticipated revenue over a maximum of five years. Where contracts for sports rights provide for multiple seasons or competitions, the amortisation of each contract was previously based on anticipated revenue. From fiscal 2005, these contracts are now amortised on a straight-line basis across the season or competition as our estimate of the benefits received from these rights was determined to be more appropriately aligned with a straight-line amortisation profile. This change in estimate did not have any impact on the amortisation charge for fiscal 2005, as all associated programme stock would be fully amortised over the fiscal year under either method. Provisions are made for any programme rights which are surplus to our requirements or will not be shown for any other reason. There is no difference in the Group s treatment of amortisation of programme stock between UK GAAP and US GAAP.

Deferred tax

We recognise deferred tax assets and liabilities in respect of 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. Deferred tax liabilities existing at the balance sheet date are provided for in full 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 assets are recognised when, on the basis of all available evidence, it is regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

We regularly review our deferred tax assets for recoverability and the expected reversals of existing timing differences. If our ability to generate sufficient future taxable income changes, or if there is a material change in the actual tax rates or time period within which the underlying timing differences become taxable or deductible, we could be required either to write down our deferred tax assets further, resulting in an increase in our effective tax rate and an adverse impact on our financial results, or to recognise additional deferred tax assets, resulting in a decrease in our effective tax rate and a positive impact on our financial results.

At 30 June 2005, we have recognised a deferred tax asset of £100 million (2004: £151 million) and have unrecognised deferred tax assets of £330 million (2004: £450 million) in respect of capital losses related to the Group s holding of KirchPayTV, £24 million (2004: £21 million) in respect of capital losses in respect of football clubs and other investments, £14 million (2004: £13 million) on UK losses in the Group and £64 million (2004: £64 million) on trading losses in the Group s German holding companies of KirchPayTV. The Directors consider that at 30 June 2005 there was sufficient evidence to support the recognition of our deferred tax asset on the basis that it was more likely than not that there would be suitable taxable profits against which this asset could be utilised and from which future reversals of underlying timing differences could be deducted.

The treatment of deferred tax under US GAAP differs from that under UK GAAP (see note 27 of the Consolidated Financial Statements included within Item 18 for further details).

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Exceptional items

Operating exceptional items are those that, in management s judgement, are items that arise from events or transactions that fall within the ordinary activities of the Group but which individually or, if of a similar type, in aggregate, need to be disclosed separately because of their size or incidence if the financial statements are to properly reflect the results for the period. These items are included in the line of the profit and loss account to which they relate, but are disclosed in a separate column to provide the reader with a better understanding of the ongoing performance of the business.

The determination of which items should be separately disclosed as operating exceptional items requires a degree of judgement based on the materiality and nature of the items.

Non-operating exceptional items are defined by UK GAAP, although management judgement is required in determining whether such items are individually sufficiently material or if of a similar type, in aggregate, to warrant separate disclosure. These items are included below operating profit in the profit and loss account, within the same separate column as the operating exceptional items.

The treatment of exceptional items under US GAAP differs from that under UK GAAP (see note 27 of the Consolidated Financial Statements included within Item 18 for further details).

ADOPTION OF NEW ACCOUNTING STANDARDS

No new UK GAAP accounting standards were adopted during fiscal 2005.

In fiscal 2004, the following UK GAAP accounting standard came into force and was adopted by us:

UITF abstract 38 Accounting for ESOP trusts (UITF 38)

This abstract requires that the Company s shares held by the Group s ESOP, which were previously held within fixed asset investments, be presented as a deduction from shareholders funds. In addition, the charge to the profit and loss account in relation to awards under the Long-Term Incentive Plan (LTIP), the Key Contributor Plan (KCP) and the Equity Bonus Plan (EBP), which was previously based on the cost of shares held by the ESOP, is now based on the difference between the market price on the date of grant and the exercise price. The adoption of UITF 38 was treated as a prior year adjustment with comparative figures being restated accordingly.

No new UK GAAP accounting standards were adopted during fiscal 2003.

Details of new US GAAP accounting standards issued during the year are given in note 27 of the Consolidated Financial Statements included within Item 18.

Adoption of IFRS

The Group will be reporting its financial results in accordance with IFRS, as adopted by the European Union (EU), from 1 July 2005. The transition date for the Group s adoption of IFRS of 1 July 2004 is determined in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards . This transition date complies with the Securities and Exchange Commission s (SEC) decision to provide an exemption from the provision of a second year of comparative financial information for foreign registrants in the first year in which they adopt IFRS. In subsequent years, the Group will produce two years of comparative financial information for SEC reporting purposes.

As noted in the 2004 Annual Report on Form 20-F, the Group established an IFRS transition steering committee to oversee the transition to IFRS. The Committee s main responsibilities have been monitoring the progress of a dedicated transition working group, making key decisions relating to the transition, and reporting to the Audit Committee in relation to the transition. Implementation plans have been completed to modify the Group s procedures, systems and controls, and an IFRS training programme for the Group s finance function has also been completed.

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Some uncertainties remain as to whether the International Accounting Standards Board (IASB) and other related bodies will issue new or revised standards that, subject to their adoption by the EU, will either be mandatory for the Group s 30 June 2006 financial statements, or may be adopted early voluntarily. Such uncertainties limit the Group s current ability to assess the final impact of IFRS on its financial statements.
Particular uncertainty surrounds IAS 39 Financial Instruments: Recognition and Measurement , which has been adopted by the EU on a partial basis, with certain requirements of the standard issued by the IASB having been removed (the carve-outs). The carve-outs relate to the use of the full fair value option in accounting for certain types of financial liabilities that the Group does not currently hold and a method of hedging interest rate risk that the Group currently does not employ. Therefore the current modifications to IAS 39 have not affected the Group and we expect that the Group will be compliant with both the IASB and the EU versions of the standards.
The adoption of IFRS will lead to some significant changes in the Group s accounting policies, results, and the presentation of its financial statements, and other disclosures within the Annual Report on Form 20-F, which are currently in accordance with UK GAAP. Based on the Group s assessment of current IFRS requirements, the principal effects on the Group s financial statements are as follows:

Share-based payments

Under UK GAAP, the Group recognises a charge in the profit and loss account for its LTIP, EBP and KCP based on the difference between the exercise price of the award and the market price of a BSkyB share on the date of grant (the intrinsic value). No charge is recognised in respect of the Executive Share scheme, as the awards had an intrinsic value of nil, nor in respect of the Sharesave scheme due to a specific exemption under UK GAAP for such schemes.
Under IFRS 2 Share-based Payment , the Group is required to recognise a charge in the income statement for all share options and awards, based on the fair value of the awards as calculated at the grant date using an option-pricing model. This method of valuation is used to calculate the charge for all share option schemes, including the Executive and Sharesave Schemes, resulting in an additional charge under IFRS compared to UK GAAP.

Financial instruments and hedge accounting

The Group manages its interest rate and foreign currency exposures using a combination of interest rate swaps, cross-currency interest rate swaps, options on interest rate swaps (swaptions), forward exchange contracts and currency options (collars).
Under UK GAAP, where the Group has taken out financial instruments to provide an economic hedge for foreign currency exposures, the rates inherent in the hedging contracts are used to translate the hedged items. The derivative financial instruments are not recognised on the balance sheet, and the gain or loss on the instrument is not recognised in the profit and loss account until maturity of the instrument.
Under IFRS, the Group is required to record all foreign currency transactions at spot exchange rates at the transaction date, and to state all foreign currency monetary assets and liabilities at closing exchange rates at each balance sheet date. This results in foreign currency creditors, programming additions and amortisation, US dollar debt and accrued interest thereon being initially recorded at the spot exchange rates at the transaction date, with restatement of foreign currency creditors, US dollar debt and accrued interest at each balance sheet date. The Group is required to recognise its derivative financial instruments on the balance sheet at fair value from inception of the contract, with changes in fair value being recognised in the income statement. Where hedge accounting of cash flows is achieved, the portion of the gain or loss on the hedging instrument (i.e. the change in its fair value) that is determined to be an effective hedge is initially recognised through equity in a hedging reserve, and is then reclassified to the income statement during the same periods in which the underlying hedged exposure affects the income statement.
The Group s foreign exchange hedging policy was revised during the year to extend the maturity profile of hedging instruments to match the time horizon of the underlying contracts more appropriately, and to

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extend the range of permitted instruments to protect exposures rather than fix transaction rates. The Group does not see a requirement to change its current hedging policy as a result of the new requirements for achieving hedge accounting under IAS 39 and expects to be able to achieve hedge accounting for the majority of its derivative financial instruments.

Goodwill

Under UK GAAP, the Group amortises goodwill on a straight-line basis over periods of no longer than 20 years. Under IFRS, the Group s goodwill balances that existed at the date of transition to IFRS are no longer amortised and instead are subject to annual impairment testing.

Furthermore, under UK GAAP, goodwill arising on acquisition which had been written off to reserves is recycled to the profit and loss account on disposal of the investment. Under IFRS, any such goodwill remains written off against reserves, resulting in a different gain or loss on disposal of such investments.

Dividends

Under UK GAAP, a dividend declared after the balance sheet date, but before the date of signing the financial statements, is treated as an adjusting post balance sheet event, and the associated dividend payable is recorded as a liability within the year end balance sheet. Under IFRS, such a dividend is recorded as a liability in the accounting period in which it is approved.

Intangible assets

Certain assets, principally software acquired and developed that is not integral to a related item of hardware, which are classified as tangible fixed assets under UK GAAP must instead be classified as intangible assets under IFRS. These assets are reclassified on transition to IFRS, and continue to be amortised over their useful economic lives, which have not changed as a result of the reclassification. In addition, under IFRS, certain smartcard development expenditure that was expensed under UK GAAP, must be capitalised.

Presentation of the financial statements

IAS 1 Presentation of Financial Statements (IAS 1) does not provide definitive guidance on the format of the income statement or balance sheet, but stipulates certain line items that, as a minimum, must be disclosed. Additional line items, headings and subtotals are presented on the face of the Group s income statement and balance sheet where such presentation is relevant to the understanding of the Group s financial performance. IAS 1 includes a requirement that all deferred tax assets must be classified as non-current assets under IFRS.

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ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS AND SENIOR MANAGEMENT

Our Directors are as follows:

Name	Age	Position with the Company
Chase Carey	51	*Director
Jeremy Darroch	43	Director (Chief Financial Officer)(i)
David DeVoe	58	*Director
David Evans	65	**Director
Nicholas Ferguson	57	**Director
Andrew Higginson	48	**Director(ii)
Allan Leighton	52	**Director (Audit Committee Chairman)
James Murdoch	32	Director (Chief Executive Officer)
Rupert Murdoch	74	*Chairman
Jacques Nasser	57	**Director (Remuneration Committee Chairman)
Gail Rebuck	53	**Director
Lord Rothschild	69	**Director (Deputy Chairman & Senior Independent Non-Executive Director)
Arthur Siskind	67	*Director
Lord St John of Fawsley	76	*Director
Lord Wilson of Dinton	63	**Director (Corporate Governance & Nominations Committee Chairman)

* Non-Executive

** Independent Non-Executive

(i) Jeremy Darroch was appointed as Chief Financial Officer (CFO) of the Company with effect from 16 August 2004, following Martin Stewart s resignation from the Board of the Company on 4 August 2004.

(ii) Andrew Higginson was appointed as a Director of the Company on 1 September 2004.

Our senior executives who are not members of the Board of Directors (Senior Executives) are as follows:

Name	Age	Position with the Company
Dawn Airey	44	Managing Director, Sky Networks
James Conyers	40	General Counsel
Beryl Cook	44	Director for People and Organisational Development
Robin Crossley	47	Strategic Adviser, Technology
Mike Darcey	40	Group Director of Strategy
Julian Eccles	47	Director of Corporate Communications and Corporate Affairs
Jon Florsheim	45	Chief Marketing Officer
Richard Freudenstein	40	Chief Operating Officer
David Gormley	42	Company Secretary
Jeff Hughes	35	Group Director for IT and Strategy

Nick Milligan	44	Managing Director, Sky Media
Vic Wakeling	62	Managing Director, Sky Sports
Alun Webber	39	Group Director of Engineering and Platform Technology

None of the Senior Executives listed above hold more than 1% of the issued share capital in the Company.
Further information with respect to the Directors and Senior Executives is set forth below.

Board of Directors

Chase Carey was appointed as a Director of the Company on 13 February 2003. Mr Carey has been a Non-Executive Director of News Corporation since 2002 and was an Executive Director from 1996 until 2002. Mr Carey is President and Chief Executive Officer (CEO) of The DIRECTV Group, Inc. (DIRECTV) and serves on the Boards of Gateway, Inc. and Yell Group plc. Mr Carey previously served as Co-Chief Operating Officer of News Corporation and as a Director and Co-Chief Operating Officer of Fox Entertainment Group (FEG). Mr Carey has also held the positions of Chairman and CEO of Fox Television, Director of Star Group Limited (Star), Director of NDS Group plc (NDS) and Director of Gemstar-TV Guide International, Inc. (Gemstar).

Jeremy Darroch was appointed as Chief Financial Officer (CFO) and a Director of the Company on 16 August 2004. Mr Darroch joined Dixons Group plc (Dixons) in January 2000 as Retail Finance Director, rising to the position of Group Finance Director in February 2002. Prior to Dixons, Mr Darroch spent 12 years at Procter & Gamble in a variety of roles in the UK and Europe, latterly as European Finance Director for its Health Care businesses.

Mr Darroch is a member of the 100 Group of Finance Directors.

David DeVoe was appointed as a Director of the Company on 15 December 1994. Mr DeVoe has been an Executive Director of News Corporation since October 1990, Senior Executive Vice President of News Corporation since January 1996, CFO and Finance Director of News Corporation since October 1990 and Deputy Finance Director from May 1985 to September 1990. Mr DeVoe has been a Director of News America International (NAI) since January 1991 and a Director of Star since July 1993. Mr DeVoe has also been a Director of FEG since 1991 and a Senior Executive Vice President and CFO since August 1998. Mr DeVoe has been a Director of NDS since 1996 and a Director of Gemstar since June 2001.

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

Nicholas Ferguson was appointed as a Director of the Company on 15 June 2004. Mr Ferguson is Chairman of SVG Capital, a publicly-quoted private equity group, and was formerly Chairman of Schroder Ventures. He is also Chairman of the Courtauld Institute of Art and the Institute of Philanthropy.

Andrew Higginson was appointed as a Director of the Company on 1 September 2004. Mr Higginson is Finance and Strategy Director of Tesco plc (Tesco). Mr Higginson was appointed to the Board of Tesco in 1997, having previously been the Group Finance Director of the Burton Group plc. Mr Higginson is a member of the 100 Group of Finance Directors and Chairman of Tesco Personal Finance.

Allan Leighton was appointed as a Director of the Company on 15 October 1999. Mr Leighton joined ASDA Stores Limited as Group Marketing Director in March 1992. In September 1996 he was appointed Chief Executive and in November 1999 he was appointed President and CEO of Wal-Mart Europe. Mr Leighton resigned all of these positions in September 2000. Mr Leighton is Non-Executive Chairman of BHS Limited and Royal Mail Group plc and is a Non-Executive Director of George Weston Limited and Selfridges & Co Limited.

James Murdoch was appointed as a Director of the Company on 13 February 2003 and CEO with effect from 4 November 2003. Until Mr Murdoch s appointment as CEO, he was Chairman and CEO of Star from May 2000. Prior to 4 November 2003, Mr Murdoch was Executive Vice President of News Corporation and a member of News Corporation s Board of Directors and Executive Committee and served on the Board of NDS. Mr Murdoch serves on the Board of YankeeNets and the Board of Trustees of the Harvard Lampoon. Mr Murdoch attended Harvard University. James Murdoch is the son of Rupert Murdoch.

Rupert Murdoch was appointed as a Director of the Company in November 1990, when he founded British Sky Broadcasting, and was appointed Chairman in June 1999. Mr Murdoch has been CEO of News Corporation since 1979, Chairman since 1991 and was Managing Director from 1979 until November 2004. Mr Murdoch has also served as a Director of FEG and its predecessor companies since 1985, Chairman since 1992 and CEO since 1995. In addition, Mr Murdoch has been a Director of Star since 1993, Gemstar since 2001, DIRECTV since 2003 and China Netcom Group Corporation (Hong Kong) Limited since October 2004.

Jacques Nasser was appointed as a Director of the Company on 8 November 2002. Mr Nasser is a Senior Partner of One Equity Partners. In addition, Mr Nasser serves on the Board of Quintiles Transnational Corporation, Brambles Industries and the International Advisory Board of Allianz A.G. Mr Nasser served as a Member of the Board of Directors, and as President and CEO of Ford Motor Company from 1998 to 2001. Mr Nasser has received an honorary Doctorate of Technology and graduated in Business from the Royal Institute of Melbourne. Because of Mr Nasser s significant contributions to the wellbeing of humanity and to the country of Lebanon, he has received the Order of the Cedar. In recognition of Mr Nasser s work for Australian industry, as an adviser to government, and for education in the area of technology, he has been awarded an Order of Australia and a Centenary Medal.

Gail Rebuck was appointed as a Director of the Company on 8 November 2002. Ms Rebuck is Chairman and Chief Executive of The Random House Group Limited (Random House), the UK s largest trade publishing company. In 1982, Ms Rebuck became a founder Director of Century Publishing (Century). Century merged with Hutchinson in 1985 and in 1989 Century Hutchinson was acquired by Random House Inc. In 1991, Ms Rebuck was appointed Chairman and Chief Executive of Random House. Ms Rebuck was a Trustee of the Institute for Public Policy Research from 1993 to 2003 and was for three years a member of the Government s Creative Industries Task Force. Ms Rebuck is on the Board of The Work Foundation, a member of the Court of the University of Sussex, on the Advisory Board of the Cambridge Judge Institute, and the Council of the Royal College of Art. Ms Rebuck was awarded a CBE in the 2000 New Year s Honours List.

Lord Rothschild was appointed as a Director, Deputy Chairman and Senior Independent Non-Executive Director of the Company on 17 November 2003. Lord Rothschild is Chairman of RIT Capital Partners plc and Five Arrows Limited. He co-founded Global Asset Management, which is now part of UBS, and J Rothschild Assurance, the life assurance company now part of St James s Place Capital plc. From Oxford University Lord Rothschild joined the family bank, N.M. Rothschild & Sons, and subsequently ran the corporate finance department and became chairman of the executive committee, before leaving N.M. Rothschild & Sons in 1980 to develop his interests in the financial sector. In addition to his career in the world of finance, he has been involved in philanthropy and public service.

Arthur Siskind was appointed as a Director of the Company on 19 November 1991. Mr Siskind has been the Senior Advisor to the Chairman of News Corporation since January 2005. Mr Siskind has been an Executive Director of News Corporation since 1991 and was Group General Counsel of News Corporation from March 1991 until December 2004. Mr Siskind was Senior Executive Vice President of News Corporation from January 1996 until December 2004 and an Executive Vice President of News Corporation from February 1991 until January 1996. Mr Siskind has been a Director of NDS since 1996 and was a Director of NAI from 1991 until January 2005 and a Director of Star from 1993 until January 2005. Mr Siskind was Senior Executive Vice President and General Counsel of FEG from August 1998 until January 2005 and a Director from August 1998 to March 2005. Mr Siskind has been a member of the Bar of the State of New York since 1962.

Lord St John of Fawsley was appointed as a Director of the Company on 20 November 1991. Lord St John was a Director of the N.M. Rothschild Trust from 1990 to 1998. Lord St John is Chairman of the Royal Fine Art Commission Trust and was Chairman of the Royal Fine Art Commission from 1985 to 2000. Lord St John is a member of the Privy Council and holds the Order of Merit of the Italian Republic. Lord St John has held the offices of Minister of State for Education, Minister of State for the Arts, Leader of the House of

Commons and Chancellor of the Duchy of Lancaster. Lord St John has also been Master of Emmanuel College, Cambridge. Lord St John is a regular commentator on television and radio.

Lord Wilson of Dinton was appointed as a Director of the Company on 13 February 2003. He has been a Non-Executive Director of Xansa plc since April 2003. Lord Wilson entered the Civil Service as an assistant principal in the Board of Trade in 1966. Lord Wilson subsequently served in a number of departments, including 12 years in the Department of Energy, where his responsibilities included nuclear power policy, the privatisation of Britoil, personnel and finance. Lord Wilson headed the Economic Secretariat in the Cabinet Office under Mrs Thatcher from 1987 to 1990 and, after two years in the Treasury, was appointed Permanent Secretary of the Department of the Environment in 1992. Lord Wilson became Permanent Under Secretary of the Home Office in 1994 and Secretary of the Cabinet and Head of the Home Civil Service in January 1998. Since his retirement in September 2002, Lord Wilson has been Master of Emmanuel College, Cambridge. Lord Wilson was made a peer in November 2002.

Alternate Directors

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

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

Rupert Murdoch, David DeVoe, Arthur Siskind and Chase Carey have appointed each of the others to act as their Alternate Director and, in addition, each has appointed Leslie Hinton to act as his Alternate Director. David Evans has appointed Allan Leighton as his Alternate Director.

Leslie Hinton served as a Director of the Company from 15 October 1999 until 13 February 2003. Following his resignation as a Director, Mr Hinton was immediately appointed as an Alternate Director of the Company. Mr Hinton was appointed President of Murdoch Magazines in the US in 1990, two years later becoming CEO of Fox Television Stations and in 1995 he became Executive Chairman of News International Limited. Mr Hinton is a member of News Corporation s Executive Committee. In 1996 he joined the board of the Press Association in Britain, and this year was appointed a Non-Executive Director of Johnston Press plc.

Senior Executives

Our Senior Executives are as follows:

Dawn Airey joined us in January 2003 as Managing Director of Sky Networks. She is responsible for all wholly-owned Sky Channels (with the exception of Sky Sports) and is also responsible for Sky Media (airtime sales).

James Conyers joined us in April 1993 as Assistant Solicitor. During 1998 he was appointed as our Deputy Head of Legal and Business Affairs. In January 2004 he was appointed as our Head of Legal and Business Affairs, and in September 2005 he was appointed as our General Counsel.

Beryl Cook joined us in April 2004 as our Director for People and Organisational Development.

Robin Crossley joined Sky in 1988 and was appointed National Operations Manager in 1989. He left in 1991 but subsequently rejoined us in June 1995 as Director of Digital Development. In January 2001 he was appointed Strategic Adviser, Technology.

Mike Darcey joined us in February 1998 as our Head of Strategic Planning and has served as our Group Director of Strategy since July 2002.

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Julian Eccles joined us in March 2000 as our Director of Communications and Corporate Affairs. He will be leaving the Company following the transition to a new Group Director of Communications, who will be appointed with effect from 1 November 2005.
Jon Florsheim joined us in April 1994 as Marketing Director, Direct to Home and in October 1998, he was appointed Director of Distribution and Marketing. In August 2000, Mr Florsheim was appointed as Managing Director, Sales, Marketing and Interactive and in March 2005 he was appointed as Chief Marketing Officer.
Richard Freudenstein joined us in October 1999 as General Manager and was appointed as Chief Operating Officer in October 2000.
David Gormley joined us in March 1995 as Assistant Company Secretary and was appointed as Group Company Secretary in November 1997.
Jeff Hughes joined us in May 2005 as our Group Director for IT and Strategy.
Nick Milligan joined us in June 2004 as Managing Director of Sky Media.
Vic Wakeling joined us in 1991 as Head of Football, taking over as Head of Sport in January 1994. In August 1998, he was appointed Managing Director of Sky Sports.
Alun Webber joined us in 1995 and was part of the core team which launched Sky Digital, and established the Sky Interactive venture. In April 2002, he was appointed Group Director of Engineering and Platform Technology.
Except as set forth in this item, there is no arrangement or understanding between any of the above listed persons and any other person pursuant to which he or she was elected as a Director or Senior Executive.

EMPLOYEES

The average monthly number of full time equivalent persons (including temporary employees) employed by us during the previous three fiscal years was as follows:

	2005	2004	2003
Programming	**1,424**	1,295	1,106
Transmission and related functions	**1,403**	1,394	1,383
Marketing	**238**	209	199
Subscriber management	**5,662**	5,418	5,381
Administration	**1,079**	1,051	954
Betting	**152**	133	109
	9,958	9,500	9,132

There were approximately 278 temporary staff included within the average number of full time equivalent people employed by the Group during the 2005 fiscal year.

CORPORATE GOVERNANCE

The Company, as a foreign issuer with American Depositary Shares listed on the New York Stock Exchange (NYSE), is obliged to disclose any significant ways in which its corporate governance practices differ from the NYSE s corporate governance listing standards. Furthermore, the Company must comply fully with the provisions of the listing standards which relate to the composition, responsibilities and operation of audit committees. These provisions incorporate the rules concerning audit committees implemented by the SEC and the NYSE under the US Sarbanes-Oxley Act of 2002.
The Company has reviewed the NYSE s listing standards and believes that its corporate governance practices are generally consistent with the standards, with the following exception. The standards state that companies must have a nominating/corporate governance committee composed entirely of

independent directors. The Company s Corporate Governance & Nominations Committee is made up of a majority of Independent Non-Executive Directors.
In July 2003, the UK Financial Services Authority issued the revised code on Corporate Governance (the Combined Code). The Combined Code applies to companies listed on the London Stock Exchange for reporting years beginning on or after 1 November 2003, and therefore in relation to the Company from the financial year ended 30 June 2005. Accordingly, this Annual Report on Form 20-F explains the Company s compliance with the Combined Code during the financial year ended 30 June 2005.
The Company is committed to high standards of corporate governance and, except as noted below, has complied throughout the year with the best practice provisions of the Combined Code.

THE BOARD

The Board currently comprises fifteen Directors, made up of the CEO and CFO (the Executive Directors) and thirteen Non-Executive Directors, nine of whom are deemed to be independent under the provisions of the NYSE s corporate governance listing standards and eight under the provisions of the Combined Code. The Non-Executive Directors of the Company bring a wide range of experience and expertise to the Company s affairs, and they carry significant weight in the Board s decisions.
The roles of the Chairman and CEO are separate and have been since the Company obtained its listing in 1994. Lord Rothschild holds the position of Senior Independent Non-Executive Director and Deputy Chairman.

BOARD PRACTICES

The Board is scheduled to meet at least six times a year to review appropriate strategic, operational and financial matters as required. During the financial year, one of these meetings was held over two days when the Board met to review the future strategy and direction of the Group. A schedule of matters reserved for the full Board s determination and/or approval is in place, which includes:

- approval of the annual budget and any changes to it;
- a major change in the nature, scope or scale of the business of the Group;
- approval of the interim and final financial results;
- approval of any dividend policy;
- changes relating to the Group s capital structure, including reductions of capital and share buy-backs;
- the entering into by the Group of a commitment or arrangement (or any series of related commitments or arrangements) which, whether budgeted or unbudgeted, involves or could reasonably involve, the payment or receipt by the Group of amounts equal to or in excess of £100 million in aggregate value;
- the entering into by the Group of a commitment or arrangement (or any related series of commitments or arrangements) with News Corporation, any of its subsidiaries, or a related party which involves, or could reasonably involve, the payment or receipt by the Group of amounts equal to or in excess of £25 million in aggregate value.

The Board has also delegated specific responsibilities to Board Committees, notably the Audit, Remuneration and Corporate Governance & Nominations Committees, as set out below. Directors receive Board and Committee papers several days in advance of Board and Committee meetings and also have access to the advice and services of the Company Secretary. In addition, the Board members have access to external professional advice at the Company s expense. Non-Executive Directors serve for an initial term of three years, subject to election by shareholders following appointment, subsequent re-election by shareholders, and Companies Act provisions relating to the removal of directors. In addition, reappointment

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for a further term is not automatic, but may be mutually agreed. All of the Directors are required to retire and offer themselves for re-election at least once in every three years.

The Board notes that provision A.7.2 of the Combined Code requires that Directors who have been serving on the Board for more than nine years should retire and stand for re-election at each AGM. The Company does not currently comply with this provision, as Directors who were previously elected by the shareholders prior to the introduction of this provision shall only be subject to annual re-election from the expiry of the current term of office that the Director is serving.

A committee of senior management generally meets on a weekly basis to allow prompt discussion of relevant business issues. It is chaired by the CEO and comprises the CFO and other Senior Executives from within the Group.

Following appointment to the Board, all new Directors receive an induction tailored to their individual requirements. The induction process involves a meeting with all of the Company s Executive Directors and Senior Executives. This facilitates their understanding of the Group and the key drivers of the business performance. The Directors are also provided with copies of the Company s corporate governance practices and procedures.

Directors regularly receive additional information from the Company between Board meetings, including a monthly report which is sent to all the Directors updating them on the performance of the Group.

Where appropriate, additional training and updates on particular issues are arranged. For example, over the last financial year the Audit Committee has received specific briefings on the introduction of IFRS and its likely impact on future reporting by the Company. The Board has also received a briefing on the new Disclosure and Listing Rules which became effective from 1 July 2005.

During the fiscal year, the Directors carried out an evaluation of the performance of the Board, its Committees and individual Directors. The process was carried out internally and was driven by the Corporate Governance & Nominations Committee, with the assistance of the Company Secretary and members of the legal department. The evaluation confirmed that the Board was satisfied with the Board s overall performance but identified some areas for improvement which are now being addressed.

During the fiscal year, the Senior Independent Non-Executive Director held a formal meeting of the Non-Executive Directors, without Executive Directors present, to discuss the functioning of the Board. As a result of this meeting certain changes to the operation of the Board and its Committees will be implemented. There was also a meeting of the Non-Executive Directors without the Chairman present to evaluate his performance led by the Senior Independent Non-Executive Director.

Following this year s review the Corporate Governance & Nominations Committee and Board have confirmed that all Directors standing for re-election at the forthcoming AGM continue to perform effectively and demonstrate commitment to their roles.

Board Committees

Remuneration Committee

The Remuneration Committee, on behalf of the Board, is principally concerned with the remuneration (in all its forms) of Executive Directors and other Senior Executives who report directly to the CEO, as well as the review of the design and structure of the Group s package of employee incentives. The Remuneration Committee has clearly defined terms of reference, meets at least twice a year, and takes advice from the CEO and independent consultants as appropriate in carrying out its work.

The members of the Remuneration Committee are Jacques Nasser (Chairman), David Evans and Nicholas Ferguson, all of whom are Independent Non-Executive Directors, in compliance with the Combined Code.

Rupert Murdoch and David DeVoe have a standing invitation to attend meetings of the Remuneration Committee: their attendance at these meeting is as observers only and in a non-voting capacity.

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Corporate Governance & Nominations Committee
The Corporate Governance & Nominations Committee is chaired by Lord Wilson of Dinton and its other members are Lord Rothschild and Arthur Siskind. The Corporate Governance & Nominations Committee met twice during the year. Its main duties include:

- the identification and nomination, for approval by the Board of candidates to fill Board vacancies as they arise;
- the drafting of requirements for a particular appointment to the Board, taking into consideration the present balance of skills, knowledge and experience on the Board;
- the regular review of the structure, size and composition of the Board and to recommend any changes to the Board or succession planning;
- the provision of a formal letter of appointment, setting out clearly what is expected of new appointees to the Board, in terms of time commitment, term of office and committee service as well as their duties and liabilities as a Director, including details of the Company s Corporate Governance policies and Directors & Officers Liability Insurance Cover;
- the monitoring of the Company s compliance with applicable Codes and other requirements of Corporate Governance;
- the supervision of the annual review by the Board of the independence of directors and the performance of the Board and individual directors.

Both Andrew Higginson and Jeremy Darroch were appointed as Directors during the fiscal year. Their nomination and recruitment to the Board was completed in fiscal 2004 and was explained in this item in the Company s 2004 Annual Report on Form 20-F. There have been no nominations to the Board during the year.

The Corporate Governance & Nominations Committee led the evaluation of the Board that was completed during the year, the results of which are discussed earlier in this Item (see Board Practices above).

The Committee also reviewed the independence of the Non-Executive Directors and recommended to the Board that there be no changes to the independence status of the current Non-Executive Directors as disclosed in the previous year.

The Corporate Governance & Nominations Committee also reviewed the letter of appointment of the Non-Executive Directors. All Non-Executive Directors who have been appointed to the Board of Directors since the introduction of the Combined Code in 2003, have signed letters of appointment with the Company. Following the review of the letter it is now in the process of being signed by the rest of the Non-Executive Directors.

Audit Committee
The Audit Committee, which consists exclusively of Independent Non-Executive Directors, has clearly defined terms of reference as laid out by the Board. The composition of the Audit Committee is currently Allan Leighton (Chairman), Gail Rebuck and Andrew Higginson, who joined the Board on 1 September 2004. Until Mr Higginson joined the Committee, its composition did not comply with the Combined Code. The CFO and representatives from the external auditor and the internal auditor attend meetings at the request of the Audit Committee members. It is also usual practice for the CEO to attend meetings of the Audit Committee. Other finance and business risk executives attend meetings from time to time and the Company Secretary is Secretary to the Committee. The Audit Committee Chairman reports regularly to the Board on its activities. David DeVoe and Arthur Siskind have a standing invitation to attend meetings of the Audit Committee: their attendance at these meetings is as observers only and in a non-voting capacity. Following Mr Higginson s appointment, all three members of the Audit Committee are independent for the purposes of the Combined Code and rule 10A-3(b)(i) under the US Securities Exchange Act of 1934. The

members have wide ranging experience that they bring to the work of the Audit Committee. The Audit Committee met seven times during the year. Its duties include:

- making recommendations to the Board in relation to the appointment, reappointment and removal of the external auditors and discussing with the external auditors the nature, scope and fees for the external auditors work;
- reviewing and making recommendations to the Board regarding the approval, or any amendment to, the quarterly, half year and annual financial statements of the Group;
- reviewing and approving the Group s US Annual Report on Form 20-F prior to its filing;
- reviewing the Group s significant accounting policies;
- reviewing the Group s systems of internal control;
- reviewing the Group s treasury policies;
- reviewing the plans, findings and resources of the Group s internal audit function and assessing its effectiveness annually;
- monitoring the Group s whistle-blowing policy;
- approving non-audit services provided by Deloitte & Touche LLP.

News UK Nominees Limited, a subsidiary of News Corporation, is a major shareholder in the Group. The Audit Committee receives, on a quarterly basis, a schedule of all transactions between companies within the News Corporation Group and the Group, and any other related party transactions, showing cumulatively all transactions which have been entered into during the year and which exceed £100,000 in value.

Furthermore, Audit Committee approval is required for the entering into by the Group of a commitment or arrangement (or any series of related commitments or arrangements) with News Corporation or any of its subsidiaries, or any other related party which involves or could reasonably involve the payment or receipt by the Group of amounts equal to or in excess of £10 million, but not exceeding £25 million in aggregate value. Any transaction in excess of £25 million in aggregate value must be submitted to the Audit Committee and, if approved by the Audit Committee, must also be submitted to the full Board for approval.

COMPENSATION

The Executive Directors and Senior Executives compensation consists of salary, annual bonus, long-term incentives, pensions and other benefits. This reward structure is regularly reviewed by the Remuneration Committee (the Committee) to ensure that it is achieving the Group s objectives.

Salary

The basic salary for each Executive Director and Senior Executive is determined by the Committee taking account of the recommendation of the CEO (other than in respect of his own salary) and information provided from external sources relative to the industry sectors in which the Group operates.

Annual bonus

Executive Directors and Senior Executives participate in a bonus scheme under which awards are made to participants at the discretion of the Committee. The level of award is dependent on both personal performance during the relevant financial year and the performance of the Group through the achievement of commercial and strategic objectives.

The performance measures that are used in calculating the bonus of the CEO and the CFO are operating profit, free cash flow and growth in DTH subscribers. For the Senior Executives these measures amount to

75% of that person s bonus, with the remaining 25% based on individual Key Performance Indicators pertinent to the Senior Executives business responsibilities.

Long Term Incentive Plan

The Company operates an LTIP, under which awards may be made to any Executive Directors and Senior Executives of the Group at the discretion of the Committee. Awards under the scheme are made as a nil priced option. Awards are not transferable or pensionable and are made over a number of shares in the Company, determined by the Committee.

Design of LTIP plan

During the year the Committee reviewed the operation of the LTIP. This involved discussions with management, advisors and consultation with institutional shareholder groups.

In reviewing the design of the LTIP, the Committee adopted a proposal which they felt reduced Executives reliance on annual vesting of LTIP awards. The proposal was that, in year one, an Executive be granted an award of shares that would vest after three years, subject to performance conditions. In year two, a further discretionary award, of up to 100% of the year one award, could be made. This award would vest at the same time as the year one award.

By granting awards in this way, participants could potentially receive awards annually but vesting would take place every two years. Shareholders were consulted initially on these changes and suggestions they made were adopted in drawing up the detailed programme, and shareholders were again consulted when the revised proposals were made.

The awards vest, in full or in part, dependent on the satisfaction of specified performance targets. Measurements of the extent to which performance targets have been met are reviewed by the Committee at the date of vesting of each award.

During the fiscal year, awards under the plan were made to James Murdoch and Jeremy Darroch. Further information on these awards can be found in this Item (see 2004 Awards below).

Performance conditions attaching to past LTIP awards

The Committee noted that awards made in 2004 were subject to new performance conditions. However, certain Senior Executives held LTIP awards granted previously which were all subject to different performance targets. The Committee noted the need for alignment of performance goals and the possibility of confusion in respect of awards from different years. The Committee therefore discussed how outstanding 2003 and 2002 awards might be aligned to the new performance conditions.

Before making any changes, the Committee consulted with a range of shareholders on their views about changing the performance conditions, which ensured that the value of the shares with legacy conditions equated, broadly, to the value of shares under the new conditions.

The Committee agreed therefore that, as the awards were due to vest annually on 31 July, 31 July 2004 would be used for the date of the switch over of the performance conditions. For an award that had been made on 31 July 2003 and was subject to vesting over three years, at 31 July 2004, (the date that performance conditions were to be switched over), the award was assumed to be one third through its vesting period. Therefore, one third of the award would be subject to testing under the old performance conditions and two thirds of the award would be subject to testing under the new performance conditions.

In order to calculate a fair estimate of the number of shares which might have vested under legacy performance conditions, a recognised option pricing model was employed. This calculated that, of the one third of 2003 awards being measured at the switchover date, 20% would have vested and the balance would have lapsed. Of the two thirds of the 2002 awards being measured at the switchover date, 43% would have vested and the balance would have lapsed.

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Following these changes, further discussions were held with some of our shareholders to seek feedback on the changes and they were broadly supportive of the Committee s recommendations.

2004 Awards

The performance conditions attaching to the 2004 awards are subject to 70% on internal measures and 30% on the Total Shareholder Return (TSR) measures. The internal measures are DTH subscriber growth, free cash flow per share and earnings per share. The TSR is measured solely against the FTSE 100.

Details of outstanding awards under the LTIP are shown below:

	Number of shares under award									
Name of Director	At 30 June 2004	Granted during the year	Exercised during the year	Lapsed during the year	At 30 June 2005	Exercise price	Market price at date of exercise	Date of award	Date from which exercisable	Expiry date
James Murdoch		450,000			450,000	£ 0.00		11.08.04	11.08.07	11.08.14
Jeremy Darroch		250,000			250,000	£ 0.00		16.08.04	16.08.07	16.08.14
Martin Stewart	150,000		150,000(ii)			£ 8.30	£ 5.71	21.11.01	n/a	n/a
	113,555		5,200(ii)		108,355	£ 5.55	£ 5.71	02.08.02	31.07.05	31.07.12
	113,555			113,555(i)		£ 5.55		02.08.02	n/a	n/a
	5,733		765(ii)		4,968	£ 5.60	£ 5.71	13.08.02	31.07.05	31.07.12
	5,733			5,733(i)		£ 5.60		13.08.02	n/a	n/a
	220,000			220,000(i)		£ 0.00		13.08.03	n/a	n/a

In previous years, awards under the LTIP took the form of market value options with a cash bonus equal to the lower of the exercise price and the share price at the date of exercise, with the exception of shares awarded as part of an agreement to meet the employer s National Insurance obligations, which did not attract a cash bonus.

The awards granted during 2003 and 2004 took the form of nil-priced options and were not enhanced to meet the employer s National Insurance obligations.

Notes:

(i) These awards were released on 31 July 2004. Further details can be found in this Item (see Agreements with Martin Stewart below).

(ii) These awards vested on 31 July 2004 and were exercised by Martin Stewart during the fiscal year. The aggregate amount that he received was £890,560. In 2004, the aggregate amount received by Directors was £12,789,000.

Equity Bonus Plan

In August 2002, the Company introduced an EBP for Executive Directors and Senior Executives. This plan is no longer being used by the Company.

Details of outstanding awards under the EBP are shown below:

	Number of shares under award[i]					
						Market
	At	Granted	Exercised	Lapsed	At	

Name of Director	30 June 2004	during the year	during the year	during the year	30 June 2005	Exercise price[(i)]	price at date of exercise	Date from which exercisable	Expiry date
Martin Stewart	26,000		26,000(ii)			n/a	£5.71	n/a	n/a
	26,000			26,000(iii)		n/a	n/a	n/a	n/a
	55,000			55,000(iii)		n/a	n/a	n/a	n/a

Notes:
(i) Awards under the EBP take the form of a contingent right to acquire existing shares in the Company at the vesting date, for nil consideration.

(ii) These awards vested on 31 July 2004 and were exercised by Martin Stewart during the fiscal year. The aggregate amount that he received was £148,460 (2004: nil).

(iii) These awards were released on 31 July 2004. Further details can be found in this Item (see Agreements with Martin Stewart below).

Management LTIP

The Company operates a Management LTIP. It is the intention that designated managers will participate in the Management LTIP, except for Executive Directors and Senior Executives. Previously this scheme was only open to a small number of Executives within the Group but this is to change going forward (see Executive Schemes below). Awards under this scheme are made at the discretion of the CEO. The Management LTIP is a replicate scheme of the LTIP, with the same performance conditions. Awards that are exercised under the Management LTIP can only be satisfied by the issue of shares purchased in the market.

Share option schemes

The Company operates Her Majesty s Revenue & Customs (HMRC) Approved and Unapproved Executive Share Option Schemes (Executive Schemes) and a Sharesave Scheme.

Executive Schemes

Previously, grants under the Executive Schemes were made on an annual basis. The Company has decided that going forward it will grant awards under the Management LTIP and that no awards will be issued under the Executive Schemes.

Executive Directors and Senior Executives who participate in the LTIP do not participate in the Executive Schemes. No options were granted to any of the Executive Directors or Senior Executives under the Executive Schemes during the fiscal year (2004: nil).

The Company followed a policy of granting options to employees, at the discretion of the relevant Senior Executives. Awards granted under the Executive Schemes have been based on Earnings Per Share (EPS) targets. The use of EPS as a performance measure for the awards aligns the interests of employees with those of shareholders. Growth in EPS will have to exceed the Retail Prices Index (RPI) plus 3% per annum in order for awards to vest.

Measurements of the extent to which performance targets have been met are reviewed by the Committee at the date of vesting of each award, taking account of independent advice as necessary.

Options granted after November 2000 may be exercised over a phased period of years, provided that, in normal circumstances, no part of an option will be capable of exercise earlier than one year from the date of grant. Awards made since August 2002 become capable of vesting over a period of four years, with one third of the award capable of vesting annually in each of years two, three and four, subject to the achievement of the performance target. Awards that do not vest in years two or three remain capable of vesting in the following years, subject to the achievement of performance targets.

The Executive Schemes expired on 23 November 2004, and an ordinary resolution was approved by shareholders at the 2004 AGM authorising the renewal of the scheme for a further ten years.

Sharesave Scheme

The Sharesave Scheme is open to all employees, including Executive Directors. Options are normally exercisable after either three, five or seven years from the date of grant. The price at which options are offered is not less than 80% of the middlemarket price on the dealing day immediately preceding the date of invitation. It is the policy of the Group to make an invitation to employees to participate in the scheme

following the announcement of the end of year results. Jeremy Darroch was granted an option on 1 October 2004 over 4,281 shares at an exercise price of 386p per share under the terms of the Sharesave Scheme. This option becomes exercisable on 1 February 2010 and will lapse on 1 August 2010.

Pensions

The Group provides pensions to eligible employees through the BSkyB Pension Plan (Pension Plan), which is a defined contribution plan. Employees may contribute up to 4% of pensionable salary into the Pension Plan each year and the Group makes an employer s contribution of up to a maximum of 8% of pensionable salary. Contributions into the approved plan are subject to HMRC limits. The Group does not currently operate a Supplementary Pension Scheme in excess of the HMRC earnings cap.

For those Executive Directors and Senior Executives whose Pension Plan contributions are restricted due to HMRC limits, employee contributions are reduced and, where employer contributions need to be restricted, a cash supplement is paid to the individual equal to the shortfall in the 8% employer contribution rate. This is currently under review following the pensions simplification proposals announced by HMRC.

The amounts received by the Executive Directors during the 2005 fiscal year under pension arrangements are detailed below.

Martin Stewart received a payment of £6,365 (2004: £10,511; 2003: £4,213) in relation to the shortfall in his pension arrangements. Employer contributions of £16,780 (2004: £25,171; 2003 £27,473) were paid into the Pension Plan.

James Murdoch received a payment of £23,125 (2004: £3,854; 2003: nil) in relation to the shortfall in his pension arrangements. Employer contributions of £36,555 (2004: £6,092; 2003: nil) were paid into the Pension Plan.

Jeremy Darroch received a payment of £6,219 (2004: nil; 2003: nil) in relation to the shortfall in his pension arrangements. Employer contributions of £26,949 (2004: nil; 2003: nil) were paid into the Pension Plan.

Other benefits

Executive Directors are entitled to a company car, life assurance equal to two times base salary, increased to four times base salary when they become members of the Pension Plan and medical insurance.

Service agreements

Policy

The Committee introduced a policy that Executive Directors service agreements will contain a maximum notice period of one year. The Committee will consider on a case by case basis the terms of employment under which a departing Director is engaged. A large proportion of each Executive Director s total direct remuneration is linked to performance and therefore will not be payable to the extent that the relevant targets are not met.

James Murdoch

James Murdoch has a service agreement with the Company which was deemed to commence on 27 November 2003 and shall continue unless, or until, terminated by either party giving to the other not less than 12 months notice in writing. James Murdoch s remuneration consists of a base salary of £825,000 per annum. James Murdoch will be paid a bonus amount depending upon the performance criteria adopted by the Committee for each financial year during the continuance of his service agreement with the Company, including earnings growth, subscriber growth, magnitude of free cash flow and such other criteria which may be agreed with James Murdoch. The amount paid in respect of the fiscal year ended 30 June 2005 was £1.2 million.

James Murdoch is also entitled to other benefits, namely pension benefits, company car, life assurance equal to four times base salary, medical insurance, an entitlement to participate in the LTIP and a relocation allowance (Expense Allowance) of £200,000 per annum up until 27 November 2006.

James Murdoch has a non-compete clause in his service agreement specifying that he shall not be able to work for any business or prospective business carried on within the UK, which wholly or partially competes with the Group s businesses at the date of termination of his agreement. Such restriction will be for a period of six months.

On termination of the agreement, James Murdoch will be entitled to one year s salary, pension and life assurance benefits from the date of termination, plus his Expense Allowance equal to the value received over the previous twelve months, except that the Expense Allowance would be reduced to the extent that it would have ceased to be payable in the following twelve months. James Murdoch will also be entitled to a pro-rata bonus up to the date of termination. James Murdoch would be entitled to a bonus in full if he terminated his employment for cause.

Jeremy Darroch

Jeremy Darroch has a service contract with the Company that commenced on 16 August 2004 and shall continue unless, or until, terminated by either party giving to the other not less than 12 months notice in writing. Jeremy Darroch s remuneration consists of a base salary of £500,000 per annum and an annual discretionary bonus to be agreed by the Committee. The Committee has determined that in respect of the fiscal year ended 30 June 2005 Jeremy Darroch s bonus will be £640,000. He is also entitled to other benefits, namely pension benefits, company car, life assurance equal to four times base salary and medical insurance. He also participates in the LTIP.

Jeremy Darroch has a non-compete clause in his service agreement specifying that he shall not be able to work for any business or prospective business carried on within the UK, which wholly or partially competes with the Group s businesses at the date of termination of his agreement. Such restriction will be for a period of twelve months.

On termination of the agreement, Jeremy Darroch will be entitled to one year s salary, pension and life assurance benefits from the date of termination and a pro-rata bonus up to the date of termination. Jeremy Darroch would be entitled to a bonus in full if he terminated his employment for cause.

Agreements with Martin Stewart

Martin Stewart resigned as a Director of the Company on 4 August 2004. The Company agreed with Martin Stewart that he would serve his one year notice period from 1 August 2004 to 31 July 2005.

During the notice period, the non-compete terms of the agreement prevented Martin Stewart from taking up another position at a competing company, but did not stop him seeking employment elsewhere, with non-competing companies. Components of the package paid to Martin Stewart during this period were essentially the same as he would have received during normal employment except that:

a) His annual bonus was paid out at the 2003 level, as a proxy for a normal annual bonus, and paid in two equal instalments on 31 January 2005 and 31 July 2005.

b) He also received a sum of £1,273,982 to compensate him for the loss of the LTIP and EBP awards due to vest in 2005 and 2006. This was paid on 31 August 2004. The total payment was based on the average closing price of a BSkyB share for the period 1 January 2004 to 31 July 2004. The payment was a pro-rated amount as if his employment with the Company had ended on 31 July 2004, equal to 730/1096 of the LTIP and EBP award vesting in July 2005 and 365/1096 of the LTIP and EBP award vesting in August 2006. The balance of the 2002 LTIP award that did not vest at 31 July 2004 was carried over and measured at 31 July 2005.

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2002 Awards

The Company s TSR performance against the Media Comparator Group	The Company s TSR performance against the FTSE 100			
	Below median	Median to upper quartile	Upper quartile or above	Upper decile or above
1st highest TSR	70%	80%	100%	100%
2nd highest TSR	60%	70%	95%	100%
3rd highest TSR	50%	65%	80%	90%
4th highest TSR	45%	55%	65%	75%
5th highest TSR	40%	50%	60%	70%
6th highest TSR	30%	40%	50%	60%
7th highest TSR or lower	5%	5%	5%	5%

At 31 July 2004, the Company was placed seventh against the Media Comparator Group and was below median against the FTSE 100, and therefore 5% of the award vested to Martin Stewart, representing 5,965 shares. Shares that did not vest have rolled over and vested subject to satisfaction of the performance conditions at 31 July 2005.
At 31 July 2005, the Company was placed eighth against the Media Comparator Group and was below median against the FTSE 100, and therefore 5% of the award vested to Martin Stewart, representing 5,666 shares. The remaining shares that Martin Stewart held under the award lapsed. Subsequent to the vesting of these shares it was agreed that the new performance conditions that applied to the 2002 LTIP awards (see Performance conditions attaching to past LTIP awards above), should be applied to the awards held by Martin Stewart and therefore the total number of shares that vested to him was 58,928 shares. The remaining shares that Martin Stewart held under the award lapsed.
50% of the award granted to Martin Stewart that was due to vest on 31 July 2005 was released by Martin Stewart on 31 July 2004 and was replaced by a pro-rata payment.

c) During the notice period, Martin Stewart continued to participate in the Company s pension scheme and received his company car and certain computer equipment.

Non-Executive Directors

The basic fees payable to the Non-Executive Directors, set by the Board of Directors, were £40,600 each for the financial year. It is intended that in future these will be increased on an annual basis by 5% or RPI, whichever is the greater, unless the Board determines otherwise. The basic fees payable to the Non-Executive Directors for the year ending 30 June 2006 will increase to £42,600. The Non-Executive Directors are paid an additional £5,000 per annum each, for membership of each of the Audit Committee, the Remuneration Committee and the Corporate Governance & Nominations Committee. The Chairman of the Board, the Audit Committee, the Remuneration Committee, the Corporate Governance & Nominations Committee and the Senior Independent Non-Executive Director each receive an additional £5,000 per annum. Each Non-Executive Director is engaged by the Company for an initial term of three years. Re-appointment for a further term is not automatic, but may be mutually agreed.
During the year, the Committee was asked to review the level of fees paid to the Non-Executive Directors. The Committee made a recommendation to the Board which was accepted, that due to the greater time constraints and increased workload placed on the Chairman of the Board, the Audit Committee, the Remuneration Committee, the Corporate Governance & Nominations Committee and that of the Senior Independent Non-Executive Director, their additional fees be increased from £5,000 to £10,000 with effect from 1 July 2005.

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The dates on which the Non-Executive Directors initial service agreements/letters of appointment commenced and current expiry dates are as follows:

	Commencement Date	Expiry date of current service agreement or letter of appointment
Chase Carey(iii)	13 February 2003	3 November 2006
David DeVoe(i) (ii)	15 December 1994	4 November 2005
David Evans(i)	21 September 2001	4 November 2005
Nicholas Ferguson	15 June 2004	November 2007*
Andrew Higginson	1 September 2004	November 2007*
Allan Leighton(i)	15 October 1999	4 November 2005
Rupert Murdoch(i) (ii)	3 November 1990	4 November 2005
Jacques Nasser	8 November 2002	November 2007*
Gail Rebuck	8 November 2002	November 2007*
Lord Rothschild	17 November 2003	November 2007*
Arthur Siskind(ii)	19 November 1991	4 November 2005
Lord St John of Fawsley(iii)	20 November 1991	3 November 2006
Lord Wilson of Dinton(i)	13 February 2003	4 November 2005

* These letters of appointment will expire on the day of the Company s November 2007 AGM, the date of which has yet to be agreed.

All Directors are subject to retirement by rotation and reappointment by shareholders in accordance with the Company s current Articles of Association (see Item 10 Memorandum and Articles of Association).

Notes:

(i) Directors retiring by rotation and offering themselves for reappointment by shareholders at the Company s next AGM, to be held on 4 November 2005.

(ii) Arthur Siskind is subject to annual reappointment by shareholders in accordance with requirement A.7.2. of the Combined Code as he has served as a Non-Executive Director for longer than nine years. For the same reason, and assuming that they are reappointed at the AGM of the Company to be held on 4 November 2005, Rupert Murdoch and David DeVoe will thereafter be subject to annual reappointment by shareholders.

(iii) Chase Carey and Lord St John of Fawsley will be subject to retirement by rotation and reappointment by shareholders at the Company s AGM in 2006, to be held on 3 November 2006. In accordance with the Company s current Articles of Association, one-third of the Directors must retire by rotation. Therefore, assuming that the Board continues to comprise fifteen directors, five Directors will be required to retire by rotation at the Company s AGM in 2006 (in addition to those then subject to annual reappointment). Accordingly, the remaining three Directors to retire by rotation in 2006 will be selected by drawing lots from those Directors who would otherwise be due to retire by rotation at the AGM of the Company to be held in 2007.

Non-Executive Directors service agreements do not contain a notice period.

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Directors emoluments

The emoluments of the Directors for the years ended 30 June 2005, 2004 and 2003 are shown below:

	Salary and fees	**Bonus scheme**	**Benefits**	**Total emoluments before pensions**	**Pensions**	**Total emoluments including pensions 2005**	Total emoluments including pensions 2004	Total emoluments including pensions 2003
	£	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Executive								
James Murdoch	**750,000**	**1,200,000**	**216,697**	**2,166,697**	**59,680**	**2,226,377**	1,480,578	13,946
Jeremy Darroch[(i)]	**440,000**	**640,000**	**14,049**	**1,094,049**	**33,168**	**1,127,217**		
Non-Executive								
Chase Carey	**40,600**			**40,600**		**40,600**	38,600	13,946
David Devoe	**40,150**			**40,150**		**40,150**	48,151	17,741
David Evans	**45,600**			**45,600**		**45,600**	43,600	39,994
Nicholas Ferguson	**45,600**			**45,600**		**45,600**	2,012	
Andrew Higginson[(ii)]	**38,000**			**38,000**		**38,000**		
Allan Leighton	**50,600**			**50,600**		**50,600**	46,747	41,750
Rupert Murdoch	**45,400**			**45,400**		**45,400**	48,375	17,741
Jacques Nasser	**50,700**			**50,700**		**50,700**	43,792	26,923
Gail Rebuck	**45,600**			**45,600**		**45,600**	43,600	25,596
Lord Rothschild	**50,600**			**50,600**		**50,600**	29,744	
Arthur Siskind	**45,400**			**45,400**		**45,400**	46,010	15,843
Lord St John of Fawsley[(iii)]	**50,400**			**50,400**		**50,400**	47,035	40,673
Lord Wilson of Dinton	**50,600**			**50,600**		**50,600**	44,894	13,946
Former Directors								
Tony Ball[(iv)]							13,184,745	2,459,737
Philip Bowman[(v)]							18,069	46,750
Martin Stewart[(vi)]	**500,000**	**1,773,982**	**20,000**	**2,293,982**	**23,145**	**2,317,127**	1,059,926	956,436
John Thornton[(vii)]							46,110	53,744
Total emoluments	**2,289,250**	**3,613,982**	**250,746**	**6,153,978**	**115,993**	**6,269,971**	16,271,988	3,784,766

Notes:

(i) Jeremy Darroch was appointed CFO of the Company on 16 August 2004.

(ii) Andrew Higginson was appointed as a Director of the Company on 1 September 2004.

(iii) Lord St John of Fawsley received a payment of £10,000 relating to unpaid fees for the period September 2002 to November 2003, when he was the Senior Independent Director and Chairman and member of the Nominations Committee.

(iv) Tony Ball resigned as a Director of the Company on 4 November 2003. Details of the emoluments Tony Ball received during the fiscal year ended 30 June 2004 were disclosed in the Company s 2004 Annual Report on Form 20-F.

(v) Philip Bowman resigned as a Director of the Company on 14 November 2003.

(vi) Martin Stewart resigned as a Director of the Company on 4 August 2004.

(vii) John Thornton resigned as a Director of the Company on 11 May 2004.

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Executive Bonuses
The amounts received by the Directors under bonus schemes for the year are shown below:

Executive Director	Bonus Scheme
	£
James Murdoch	1,200,000
Jeremy Darroch	640,000
Martin Stewart[(i)]	500,000

Notes:

(i) Martin Stewart also received a payment of £1,273,982 for the release of his share awards under the LTIP and EBP at 31 July 2004.

Executive Directors Bonus
The amounts shown above are those which have been approved by the Committee for the year ended 30 June 2005.

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

Name of Director	**At 30 September 2005**	At 30 June 2005	At 30 June 2004
David Evans	**16,000***	16,000*	8,000*
Nicholas Ferguson	**10,000**	10,000	
Andrew Higginson	**2,000**	2,000	
Lord Rothschild	**100,000**	100,000	100,000
Lord St John of Fawsley	**2,000**	2,000	2,000
Lord Wilson of Dinton	**486**	486	486

* Held in the form of 4,000 ADRs (2004: 2,000 ADRs), one ADR is equivalent to four ordinary shares.
Lord Rothschild is also deemed to be interested in 2 million Ordinary Shares registered in the name of Bank of New York Nominees, as a result of being a director of RIT Capital Partners plc; and in 15,250 Ordinary Shares as a result of being a trustee of a Charitable Foundation where Lord Rothschild is not a beneficiary and in 3,500 Ordinary Shares of another Charitable Trust where again Lord Rothschild is not a beneficiary but is a Trustee.
Except as disclosed in this Item, no other Director held any interest in the share capital, including options, of the Company, or of any subsidiary of the Company, during the fiscal year. All interests at the date shown are beneficial and, except as disclosed in this Item, there have been no other changes between 1 July 2005 and 30 September 2005.
At 30 September 2005, the ESOP was interested in 3,235,201 Ordinary Shares in which the Directors who are employees are deemed to have an interest by virtue of Section 324 of the Companies Act 1985.
At 30 September 2005 37.19% of the Company s shares are held by News UK Nominees Limited, a company incorporated under the laws of England and Wales which is an indirect wholly owned subsidiary of News Corporation. According to a definitive proxy statement filed by News Corporation with the SEC on 8 September 2005: (i) AE Harris Trust is the beneficial owner of 2.6% of the Non-Voting Class A Common Stock of News Corporation, and 28.9% of the Voting Class B Common Stock of News Corporation; (ii) Cruden Financial Services LLC, a Delaware corporation (Cruden Financial Services), is the corporate trustee of AE Harris Trust, and has the

powers to vote and to dispose or to direct the vote and disposition of the Voting Class B Common Stock held by AE Harris Trust. As a result of Rupert Murdoch s ability to

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appoint certain members of the board of directors of Cruden Financial Services, Rupert Murdoch may be deemed a beneficial owner of the shares beneficially owned by the AE Harris Trust. Rupert Murdoch, however, disclaims beneficial ownership of such shares; and (iii) Rupert Murdoch is the beneficial owner of 3.3% of the Non-Voting Class A Common Stock and 29.9% of the Voting Class B Common Stock of News Corporation, consisting of the shares described above held by AE Harris Trust, as well as shares held in the K. Rupert Murdoch 2004 Revocable Trust and shares held by members of Rupert Murdoch s family.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

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

PRINCIPAL SHAREHOLDERS

The following table sets forth, as of 30 September 2005, the amount and percentage of ordinary shares owned by each shareholder, including our directors and officers as a group, known to us to own more than 3% (directly and indirectly) of our ordinary shares.

Identity of Person or Group	Amount Owned	Percent of Class
News UK Nominees Limited[1] One Virginia Street London E98 1XY	686,021,700	37.19%
Franklin Resources, Inc. and its affiliates One Franklin Parkway San Mateo CA 94403-1906	168,104,571	9.01%
Janus Capital Management LLC 151 Detroit St. Denver CO 80206	79,154,541	4.08%
Barclays PLC 54 Lombard Street London EC3P 3AH	77,388,712	4.15%

(1) On 30 June 2004, BSkyB Holdco, Inc. transferred its entire shareholding in us to News UK Nominees Limited, a wholly-owned subsidiary of News Corporation which remains interested in the shares.

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

On 6 June 2005, Barclays PLC notified us that it had a 3.38% interest in our shares. On 2 August 2005, Barclays PLC further notified us that its interest in our shares had increased to 4.15%.

Franklin Resources, Inc. notified us of the following changes in its interest in our shares:

Date Notified	Percentage Ownership
9 August 2004	3.58%
12 August 2004	4.08%
15 September 2004	5.05%

15 November 2004	6.00%
3 May 2005	7.06%
9 June 2005	8.03%
11 July 2005	9.01%

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On 16 February 2005, News Corporation notified us that its interest in our shares had increased to 36.01%. On 13 September 2005, News Corporation further notified us that its interests in our shares had increased to 37.00%. These increases were as a result of the Company s share buy-back programme, the number of shares held by News Corporation remains unchanged.

On 11 August 2004, Janus Capital Management LLC (Janus) notified us that it had a 3.01% interest in our shares. On 11 October 2004, Janus further notified us that its interest in our shares had increased to 4.08%.

On 16 February 2004, FMR Corp. notified us that it had a 3.01% interest in our shares. On 28 June 2004, FMR Corp. notified us that it no longer had a notifiable interest in our shares.

Major shareholders have the same voting rights as all other shareholders.

On 30 September 2005, 3,874,338 ADSs were held of record by 13 holders in the US and 28,019 ordinary shares were held of record by 62 US persons.

RELATED PARTY TRANSACTIONS

For details of transactions with related parties, see note 26 of the Consolidated Financial Statements included within Item 18. The Audit Committee receives, on a quarterly basis, a schedule of all transactions between companies within the News Corporation Group and the Group, and any other related party transactions, showing cumulatively all transactions which have been entered into during the year and which exceed £100,000 in value.

ITEM 8. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

Financial statements

The financial statements filed as part of this Annual Report filed on Form 20-F are included on pages F-1 to F-81.

Legal proceedings

In August 2004, the Group commenced proceedings in the High Court of England and Wales for a material amount against Electronic Data Systems Corporation and Electronic Data Systems Limited for damages arising out of deceit, negligent misrepresentation and breach of contract in respect of the systems integration, software development and business implementation services provided to the Group as part of the Group s investment in CRM software and infrastructure. The amount that may be recovered by the Group will not be finally determined until resolution of the claim.

Additionally, certain regulatory proceedings which could have material consequences for us are described within Item 4 Information on the Company .

Dividend distributions

In order to facilitate the investment in organic growth following the launch of the Sky digital service, and to maintain operational leverage at efficient levels, the Board announced on 5 May 1999 that it had decided to suspend dividend payments to shareholders.

Dividend payments were resumed during fiscal 2004, when the Company paid an interim dividend of 2.75 pence per share to shareholders on 23 April 2004. A final dividend of 3.25 pence per share for the year ended 30 June 2004 was paid on 19 November 2004. In fiscal 2005, the Company paid an interim dividend of 4.0 pence per share to shareholders on 22 April 2005. The Board has also proposed a final dividend for the year ended 30 June 2005 of 5.0 pence per share, payable on 18 November 2005 to shareholders on the register on 28 October 2005, subject to approval of shareholders at the AGM in

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November 2005. The Board intends that the total ordinary dividend in fiscal 2006 will grow broadly in line with Group earnings.

During fiscal 2005, the Company repurchased for cancellation 74 million shares (representing 4% of share capital at the beginning of fiscal year 2005) as part of the share buy-back programme, in line with the authority to repurchase 97 million shares approved by the shareholders at the Company s AGM on 12 November 2004. The buy-back of shares under this programme was completed during the first half of fiscal 2006. The Board currently intends to propose resolutions at the AGM in November 2005 to renew the annual authority to buy back up to a further 5% of its issued share capital. In pursuing a continued buy-back authority, the Board considers that it was appropriate that the Company conditionally entered into a voting agreement with News UK Nominees Limited, dated 21 September 2005, which would limit the exercise of its voting rights to its current shareholding of 37.19%. The voting arrangement is conditional on the buy-back proposals being approved by shareholders.

SIGNIFICANT CHANGES

Other than those events described in other Items in this Annual Report on Form 20-F, there have not been any significant changes to our financial condition or results of operations since 30 June 2005.

ITEM 9. THE OFFER AND LISTING

LISTING DETAILS AND MARKETS

Our ordinary shares are admitted to the Official List of the London Stock Exchange and our ADSs are listed on the New York Stock Exchange. The principal trading market for our ordinary shares is the London Stock Exchange. The Bank of New York is the depositary of the American Depositary Receipts, which evidence the ADSs.

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

	Shares (Pence)		**ADSs[(i)] ($)**	
	High	**Low**	**High**	**Low**
Fiscal year ended 30 June				
2001	1,320	642	80 2/3	37 7/100
2002	936	544	53	32 1/100
2003	706	458	47 3/25	28 53/100
2004	776	584 1/2	59 6/25	40 13/50
2005	625	465 1/2	46 33/100	33 39/50

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	Shares (Pence)		ADSs(i) ADSs(i) ($)	
	High	Low	High	Low
Fiscal year ended 30 June				
2004				
First Quarter	724	614 1/2	47 6/25	40 13/50
Second Quarter	709	614	51 1/4	41 9/100
Third Quarter	776	678 1/2	59 6/25	50 3/5
Fourth Quarter	696 1/2	584 1/2	51 3/10	43 33/100
2005				
First Quarter	625	465 1/2	46 33/100	33 39/50
Second Quarter	570 3/4	483	44 1/2	34 67/100
Third Quarter	595	540 1/2	44 93/100	40 39/100
Fourth Quarter	572 1/2	509	43 63/100	36 19/25
2006				
First Quarter	579	522	42 11/25	36 49/100

	Shares (Pence)		ADSs(i) ($)	
	High	Low	High	Low
Month ended				
30 April 2005	572 1/2	540	43 63/100	41 1/10
31 May 2005	548	515	41 43/100	38 31/20
30 June 2005	541 1/2	509	39 3/5	36 19/25
31 July 2005	547 1/2	522	38 7/10	36 49/100
31 August 2005	576	541	41 1/2	38 7/20
30 September 2005	579	552	42 11/25	39 11/25

(i) Each ADS represents four ordinary shares (up until 23 December 2002, each ADS represented six ordinary shares). Prior year ADS figures in the above tables have been restated to reflect this change in ratio.

ITEM 10. ADDITIONAL INFORMATION

MEMORANDUM AND ARTICLES OF ASSOCIATION

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

The Memorandum and Articles of Association of the Company are registered at Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ, Wales under company number 2247735.

The current Articles of Association (Articles) of the Company, contain, inter alia, provisions to the following effect:

Directors material interests

Subject to the Companies Act 1985 (and any statutory amendment, modification or re-enactment of it for the time being in force (the Act)), and provided the Director has disclosed to the other Directors the nature and extent of his material interest, a Director may be party to or in any way interested in any arrangement or transaction with the Company or in which the Company is in any way interested and he may hold and be remunerated in respect of any office or place of profit of the Company or any other company in which the Company is in any way interested and he (or any firm of which he is a member) may act in a professional capacity for the Company or any such other body and be remunerated therefore and

in any such case as aforesaid (save as otherwise agreed by him) he may retain for his own absolute use and benefit all profits and advantages accruing to him thereunder or in consequence thereof.

Save as otherwise provided in the Articles, a Director shall be prohibited from voting at a meeting of the Directors on material matters in which he has directly or indirectly a material interest (other than an interest in shares, debentures or other securities of, or otherwise in or through the Company). A Director shall not be counted in the quorum at a meeting in relation to any resolution on which he is not entitled to vote. Subject to the provisions of the Act and every other statute for the time being in force concerning companies and affecting the Company (the Statutes), a Director shall be entitled to vote (and be counted in the quorum) in respect of any resolution at a meeting of the Directors concerning any of the following matters:

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

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

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

(iv) any proposal concerning a superannuation fund or retirement benefits scheme which has been approved by, or is subject to, and conditional upon approval by the Board of the HMRC for taxation purposes;

(v) any arrangement for the benefit of employees of the Company or any of its subsidiaries including but not limited to, an employees share scheme which has been approved by, or is subject to and conditional upon approval by, the Board of the HMRC for taxation purposes and which does not accord to any Directors any privilege not accorded to the employees to whom the arrangement relates; and

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

The Articles also specifically provide that a Director is to be treated as interested in a matter the subject of a resolution if it relates to a transaction or arrangement with a person or body corporate of or in which he is an officer, employee, shareholder, consultant, advisor, representative or otherwise interested. Any question as to the right of a Director to vote, including whether he has a material interest in a material matter the subject of a resolution, may be decided by a resolution of the majority of those Directors who do not have a like interest to the Director or Directors in question. The quorum for meetings of the Directors is currently three Directors.

Directors compensation

The ordinary remuneration of the Non-Executive Directors shall not in aggregate exceed £750,000 per annum or such higher amount as may from time to time be determined by ordinary resolution of the Company. Such remuneration shall be divisible among the Directors as they may agree or, failing agreement, equally, except that any Directors who shall hold office for only part of the period in respect of which such remuneration is payable shall be entitled only to rank in such division for a proportion of remuneration related to the period during which he has held office.

Under the current Articles, the Directors may also be paid all expenses properly incurred by them in attending meetings of the Directors or any committee of the Directors or general meetings of the Company or otherwise in connection with the discharge of their duties as Directors. Any Director who holds any executive office or who serves on any committee of the Directors, or who otherwise performs services

which in the opinion of the Directors are outside the scope of the ordinary duties of a Director, may be paid such extra remuneration by way of bonus, commission or otherwise, as the Directors may determine.

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

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

Borrowing powers

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

No age disqualification for Directors

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

No share qualification for Directors

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

Dividends

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

No dividend shall be paid otherwise than out of profits available for distribution under the provisions of the Statutes. Any dividend unclaimed after a period of twelve years from the date of declaration of such dividend shall be forfeited and shall revert to the Company.

Directors appointment and removal

The Directors and the Company (by Ordinary Resolution) may appoint a person who is willing to act as a Director, either to fill a vacancy or as an additional Director. A Director appointed by the Directors shall retire at the next AGM and will put himself forward to be elected by the shareholders.

At each AGM, there shall retire from office by rotation:

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

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

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

Winding-up

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

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

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

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

Redemption

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

Further capital calls

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

Variation of rights

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

General meetings

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

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

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

Limitations on non-resident or foreign shareholders

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

Transfer of shares

Any member may transfer all or any of his shares by instrument of transfer in the usual common form or in any other form which the Directors may approve. The instrument of transfer of a share shall be signed by or on behalf of the transferor and, except in the case of fully-paid shares, by or on behalf of the transferee.

Where any class of shares is for the time being a participating security, title to shares of that class which are recorded as being held in uncertificated form, may be transferred by the relevant system concerned. The Directors may in their absolute discretion and without giving any reason refuse to register any transfer of shares (not being fully paid shares). The Directors may also refuse to register a transfer of shares unless the instrument of transfer:

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

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

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

The Directors of the Company may refuse to register the transfer of a share in uncertificated form to a person who is to hold it thereafter in certificated form in any case where the Company is entitled to refuse (or is excepted from the requirements) under the Uncertificated Securities Regulations 2001 to register the transfer; and they may refuse to register any such transfer in favour of more than four transferees. The Directors may refuse to register any transfer if it is their opinion that such transfer would or might (i) prejudice the Group s right to hold, be awarded or granted or have renewed or extended, any licence granted under the Broadcasting Acts, or (ii) give rise to or cause a variation to be made to, or a revocation or determination of, any such licence by Ofcom.

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

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

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

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

Untraced shareholders

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

Alteration of share capital

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

The Company may from time to time by ordinary resolution:

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

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

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

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

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

At the AGM of the Company held on 14 November 2003, shareholders approved a special resolution, authorising the Directors to reduce the Company s share premium account by £1,120 million. In addition to the approval of the reduction by shareholders, the Company required the approval of the High Court, which was granted on 10 December 2003. The reduction became effective on 11 December 2003.

At the AGM of the Company held on 12 November 2004, shareholders approved a special resolution allowing the Company to buy-back up to 97,000,000 ordinary shares in the market, which was approximately 5% of the issued ordinary share capital at 1 October 2004. The authority expires on 11

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November 2005, 12 months from the date of the passing of the special resolution. Buy-backs are by market purchases through the London Stock Exchange. Any shares purchased are cancelled thereby reducing the number of shares in issue. As at 27 September 2005, the Company had purchased, and subsequently cancelled, 97,000,000 ordinary shares of 50p each, representing approximately 5.26% of the issued share capital of the Company, for a consideration of £544 million.

At the AGM held on 12 November 2004, shareholders approved an ordinary resolution in relation to Rule 9 of the City Code of Takeovers and Mergers (the City Code) which waived the compulsory bid obligation that arises for News UK Nominees Limited when the Company repurchases shares under the authority granted by the special resolution detailed above. Under Rule 9 of the City Code, any person who acquires shares which, taken together with the shares already held by him or acquired by persons acting in concert with him, carry 30% or more of the voting rights in a company which is subject to the City Code is normally required to make a general offer to all of the remaining shareholders to acquire their shares. Similarly, when any person or persons acting in concert already hold 30% or more but less than 50% of the voting rights in such a company, a general offer will normally be required to be made if any further shares are acquired. An offer under Rule 9 must be in cash at the highest price paid within the preceding 12 months for any shares acquired in the company by the person required to make the offer or any person acting in concert with him. The holding of News UK Nominees Limited as at the date of the AGM was 686,021,700 ordinary shares, representing 35.33% of the voting rights in the Company. If the compulsory bid obligation under Rule 9 had not been waived and the Company had repurchased shares under the authority granted by the special resolution detailed above and, at the time, the voting rights attributable to the aggregate holding of News UK Nominees Limited had continued to exceed 30% of the voting rights of the Company or, if, in the meantime, its holding had fallen below this level and, as a result had increased to 30% or more of such voting rights, News UK Nominees Limited would have been required to make a cash offer for the issued shares of the Company which it did not already own. The Panel agreed to waive the compulsory bid obligation arising in respect of a repurchase by the Company of its shares subject to approval of the ordinary resolution on a poll, subsequently received at the AGM, from shareholders independent of News UK Nominees Limited. The waiver in this ordinary resolution, which is valid only for so long as the authority granted pursuant to the special resolution detailed above remains in force, applies only in respect of increases in the percentage interest of News UK Nominees Limited resulting from market purchases by the Company of its own shares and not in respect of other increases in its holding. The authority granted by the special resolution detailed above has been exercised in full and the holdings of News UK Nominees Limited and the percentage of the voting rights in the Company attributable to such holdings now represent 37.19% of the Company s issued share capital.

At the Company s next AGM, to be held on 4 November 2005, shareholders will be asked to approve a special resolution that will extend the buy-back authority for a further year, allowing the Company to buy-back up to 92,000,000 ordinary shares in the market, which is approximately 5% of the issued share capital of the Company at 27 September 2005. Shareholders will also be asked to approve an ordinary resolution in relation to Rule 9 of the City Code, explained above, which will waive the compulsory bid obligation whilst the buy-back authority remains in force. In addition, in pursuing a continued buy-back authority, the Board considers that it was appropriate that the Company conditionally entered into a voting agreement with News UK Nominees Limited, dated 21 September 2005, which would limit the exercise of its voting rights to its current shareholding of 37.19%. The voting agreement is conditional on the buy-back proposals being approved by shareholders.

Issue of shares

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

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Disclosure of interests in the Company s shares

There are no provisions in the Articles whereby persons acquiring, holding or disposing of a certain percentage of the Company s shares are required to make disclosure of their ownership percentage, although there are such requirements under the Companies Act.

The basic disclosure requirement under Sections 198 to 211 of the Companies Act imposes upon a person interested in the shares of the Company a statutory obligation to notify the Company in writing and containing details set out in the Companies Act where:

(i) he acquires (or becomes aware that he has acquired) or ceases to have (or becomes aware that he has ceased to have) an interest in shares comprising any class of the Company s issued and voting share capital; and

(ii) as a result, either he obtains, or ceases to have:

   (a) a material interest in 3%, or more; or

   (b) an aggregate interest (whether material or not) in 10%, or more of the Company s voting capital; or

   (c) the percentage of his interest in the Company s voting capital remains above the relevant level and changes by a whole percentage point.

A material interest means, broadly, any beneficial interest (including those of a spouse or a child or a step-child, those of a company which is accustomed to act in accordance with the relevant person s instructions or in which one third or more of the votes are controlled by such person and certain other interests set out in the Companies Act) other than those of an investment manager or an operator of a unit trust/recognised scheme/collective investment scheme/open-ended investment company.

Sections 204 to 206 of the Companies Act set out particular rules of disclosure where two or more parties (each a concert party) have entered into an agreement to acquire interests in shares of a public company, and the agreement imposes obligations/restrictions on any concert party with respect to the use, retention or disposal of the shares in the company and an acquisition of shares by a concert party pursuant to the agreement has taken place.

Under Section 212 of the Companies Act, the Company may by notice in writing require a person that the Company knows or has reasonable cause to believe is or was during the preceding three years interested in the Company s shares to indicate whether or not that is correct and, if that person does or did hold an interest in the Company s shares, to provide certain information as set out in the Companies Act.

Sections 324 to 329 of the Companies Act further deal with the disclosure by persons (and certain members of their families) of interests in shares or debentures of the companies of which they are directors and certain associated companies.

There are additional disclosure obligations under Rule 3 of the Substantial Acquisitions Rules where a person acquires 15% or more of the voting rights of a listed company or when an acquisition increases his holding of shares or rights over shares so as to increase his voting rights beyond that level by a whole percentage point. Notification in this case should be to the Company, the Panel on Takeovers and Mergers and the UK Listing Authority through one of its approved regulatory information services no later than twelve noon on the business day following the date of the acquisition.

The City Code on Takeovers and Mergers also contains strict disclosure requirements with regard to dealings in the securities of an offeror or offeree company on all parties to a takeover and also to their respective associates during the course of an offer period.

Except where otherwise expressly stated, a reference in the articles to any statute or provision of a statute includes a reference to any statutory amendment, modification or re-enactment of it for the time being in force.

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MATERIAL CONTRACTS

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

RCFs

In November 2004, the Group entered into a £1 billion RCF. This agreement has been included as an exhibit as part of this Annual Report on Form 20-F and is also described in note 19 of the Consolidated Financial Statements included within Item 18.

EXCHANGE CONTROLS

There are no UK government laws, decrees, regulations or other legislation which restrict or which may affect the import or export of capital, including the availability of cash and cash equivalents for use by us or the remittance of dividends, interest and other payments to non-resident holders of our securities, except as otherwise described in the Memorandum and Articles of Association Dividends section above, and the Taxation section below.

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

TAXATION

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

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

The summary of US tax consequences may not completely or accurately describe tax consequences to all US Holders. For example, special rules may apply to US Holders of stock representing 10% or more of the total combined voting power of the Company, US expatriates, insurance companies, tax-exempt organisations, banks and other financial institutions, persons subject to the alternative minimum tax,

securities broker-dealers, traders in securities that elect to mark-to-market, and persons holding their shares or ADSs as part of a straddle, hedging or conversion transaction, among others.

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

US Holders of ADSs will be treated as owners of the shares underlying the ADSs. Accordingly, except as noted, the UK and US tax consequences discussed below apply equally to US Holders of ADSs and shares.

Taxation of distributions

Under current UK taxation legislation, no tax is withheld from dividend payments by the Company and generally no UK tax is payable by US Holders who are not resident or ordinarily resident for tax purposes in the UK on dividends declared on the shares.

For dividends paid on or after 6 April 1999, US Holders who are not resident or ordinarily resident for tax purposes in the UK ceased to be entitled to receive a UK/ US Double Tax Treaty Payment in relation to dividends declared on the shares because of reductions in the tax credit attaching to dividends provided for in the Finance (No. 2) Act 1997.

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

For US federal income tax purposes, the gross amount of any distribution made by the Company to a US Holder with respect to any shares or ADSs held by the US Holder generally will be includable in the income of the US Holder as dividend income to the extent that such distribution is paid out of the Company s current or accumulated earnings and profits as determined under US federal income tax principles (subject to the discussion below under US passive foreign investment company rules). Dividends will generally constitute foreign source passive income for foreign tax credit purposes. The dividend income generally will not be eligible for the dividends received deduction allowed to corporations. If the amount of any distribution exceeds the Company s current and accumulated earnings and profits as so computed, such excess first will be treated as a tax-free return of capital to the extent of the US Holder s tax basis in its shares or ADSs, and thereafter as gain from the sale or exchange of property.

Dividends received by an individual US Holder before 1 January 2009 with respect to such US Holder s shares or ADSs will generally be subject to a reduced rate of US federal taxation, provided that certain holding period and other requirements are met, and provided further that the Company is a qualified foreign corporation. A qualified foreign corporation includes a foreign corporation that is eligible for the benefits of certain comprehensive income tax treaties with the US. US Treasury Department guidance indicates that a foreign corporation organised in the UK, such as the Company, will qualify. US Holders should consult their own tax advisors regarding the application of these rules.

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

The amount of any dividend paid in non-US currency will be equal to the US dollar value of such currency on the date the dividend is included in income, regardless of whether the payment is in fact converted into US dollars. A US Holder will generally be required to recognise US source ordinary income or loss when such US Holder sells or disposes of non-US currency. The US Holder will have a tax basis in this non-US currency equal to the US dollar value of the currency on the date the dividend is included in the US Holder s income. This foreign currency gain or loss will generally be US source ordinary income or loss.

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Taxation of capital gains

US Holders who are not resident or ordinarily resident for tax purposes in the UK will not be liable for UK tax on capital gains realised on the disposal of their ADSs or shares unless they carry on a trade in the UK through a branch, agency or permanent establishment, or a profession or vocation in the UK through a branch or agency and such ADSs or shares are used, held or acquired for the purposes of the trade, profession, vocation, branch, agency or permanent establishment.

The surrender of ADSs in exchange for shares should not usually give rise to UK corporation tax, or US or UK capital gains tax, for US Holders.

In general, for US federal income tax purposes, a US Holder will recognise capital gain or loss if such US Holder sells or exchanges shares or ADSs, provided that such shares or ADSs are capital assets in the hands of such US Holder (subject to the discussion below under US passive foreign investment company rules). Any gain or loss will generally be US source gain or loss. For an individual, any capital gain will generally be subject to US federal income tax at preferential rates if the individual has held the shares or ADSs for more than one year.

US passive foreign investment company rules

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

(i) 75% or more of its gross income is passive income; or

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

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

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

Inheritance and gift taxes

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

UK stamp duty and stamp duty reserve tax

A transfer for value of the shares executed on or after 1 October 1999 will generally be subject to UK ad valorem stamp duty, normally at the rate of 0.5% of the amount or value of the consideration given for the

transfer, rounded up (if necessary) to the nearest multiple of £5. Stamp duty is normally a liability of the purchaser. An agreement to transfer shares or any interest therein for money or money s worth will normally give rise to a charge to stamp duty reserve tax (SDRT) at the rate of 0.5% of the amount or value of the consideration for the shares or interest therein (with no rounding up or down). However, if a duly stamped instrument of transfer of the shares is executed in pursuance of the agreement and duly produced within six years of the date on which the agreement for sale is made (or, if the agreement is conditional, the date on which the condition is satisfied) any SDRT paid is generally repayable with interest, and otherwise the SDRT charge is cancelled. SDRT is in general payable by the purchaser. The UK Finance Act 1996 makes it clear that (contrary to previous UK HMRC practice) SDRT will be levied in respect of agreements to transfer chargeable securities (which include shares) even where a person not resident in the UK buys chargeable securities from another non-resident and the transaction is carried out outside the UK.

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

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

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

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

US information reporting and backup withholding

Dividend payments on the shares or ADSs and proceeds from the sale, exchange or other disposition of the shares or ADSs may be subject to information reporting to the Internal Revenue Service and possible US backup withholding at a rate of 28%. US federal backup withholding generally is imposed on specified payments to persons that fail to furnish required information. Backup withholding will not apply to a holder who furnishes a correct taxpayer identification number or certificate of foreign status and makes any other required certification, or who is otherwise exempt from backup withholding. Any US persons required to establish their exempt status generally must file Internal Revenue Service Form W-9, Request for Taxpayer Identification Number and Certification.

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

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DOCUMENTS ON DISPLAY

Certain documents referred to in this Annual Report on Form 20-F can be inspected at our offices at Grant Way, Isleworth, Middlesex, TW7 5QD, England.

We are subject to the periodic reporting and other informational requirements of the US Securities Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C., 20549. The public may obtain information regarding the SEC s Public Reference Room by calling the SEC at 1-202-551-8090. Our public filings with the SEC are also available on the website maintained by the SEC at www.sec.gov.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Introduction

Our treasury function is responsible for raising finance for the Group s operations, together with associated liquidity management, and the management of foreign exchange, interest rate and credit risks. Treasury operations are conducted within a framework of policies and guidelines authorised and reviewed by both the Audit Committee and the Board, who receive regular updates of treasury activity. Derivative instruments are transacted for risk management purposes only. It is our policy that all hedging is to cover known risks and that no trading in financial instruments is undertaken. Regular and frequent reporting to management is required for all transactions and exposures, and the internal control environment is subject to periodic review, both by our internal audit team and by our Treasury Committee.

Our principal market risks are exposures to changes in interest rates and currency exchange rates, which arise both from our sources of finance and from our operations. Following evaluation of those positions, we selectively enter into derivative financial instruments to manage these exposures. The principal instruments currently used are interest rate swaps and options on interest rate swaps (swaptions) to hedge interest rate risks, forward exchange contracts, currency options (collars) and similar financial instruments to hedge transactional currency exposures, and cross-currency interest rate swaps to hedge exposures on long-term foreign currency debt.

From 1 July 2003, we have formulated our policies for hedging with regard to US GAAP requirements on hedge accounting, and therefore the majority of our existing derivative arrangements qualified for hedge accounting under US GAAP during fiscal years 2005 and 2004; see note 27 of the Consolidated Financial Statements included within Item 18 for further details.

Interest rate management

We have financial exposures to both UK and US interest rates, arising primarily from long-term bonds. We manage our exposures by borrowing at fixed rates of interest and by using interest rate swap and swaption agreements to adjust the balance between fixed and floating rate debt. All of our US dollar-denominated debt has been swapped to pounds sterling, using cross-currency swap arrangements, which, in addition to the translation of the principal amount of the debt to pounds sterling, also provide for the exchange, at regular intervals, of fixed-rate amounts of dollars for fixed-rate amounts of pounds sterling. All of our debt exposure is denominated in pounds sterling after cross-currency swaps are taken into account; at 30 June 2005, the split of our aggregate net borrowings into their core currencies was US dollar 91% and pound sterling 9% (30 June 2004: US dollar 90% and pound sterling 10%). We also enter into pound sterling interest rate swap and swaption arrangements, which provide for the exchange, at specified intervals, of the difference between fixed rates and variable rates, calculated by reference to an agreed notional pounds sterling amount. Certain of the swaption agreements can be cancelled prior to the maturity of the bonds. The counterparties have a minimum long-term rating of A or equivalent with Moody s and Standard & Poor s.

Our hedging policy requires that between 50% and 80% of our borrowings are held at fixed rates after taking account of interest rate swap and swaption agreements. At 30 June 2005, 72% of our borrowings were at fixed rates after taking account of interest rate swap and swaption agreements (30 June 2004: 77%). The fair value of interest rate swap and swaption agreements and cross-currency swaps held, as of 30 June 2005, was £103 million against the Group s favour, compared to £105 million against the Group s favour at 30 June 2004.

At 30 June 2005, the Group had outstanding cross-currency swap, interest rate swap and swaption agreements with net notional principal amounts totalling £1,018 million, compared to £968 million at 30 June 2004. This movement reflects the new interest rate swap and swaption agreements designed to achieve a more appropriate balance between fixed and floating rate debt.

In November 2004, we entered into a £1 billion RCF. This facility was used to cancel an existing £600 million RCF and is available for general corporate purposes. At 30 June 2005, the £1 billion facility was undrawn (2004: undrawn). The £1 billion facility has a maturity date of July 2010, and interest accrues at a margin of between 0.45% and 0.55% per annum above the London Inter-Bank Offer Rate (LIBOR), dependent on our leverage ratio of net debt to earnings before interest, taxes, depreciation and amortisation (EBITDA) (as defined in the loan agreement). The current applicable margin is 0.45%, which is based on a net debt to EBITDA ratio of 1.00:1 or below. Should this ratio increase above 1.00:1 and up to 2.00:1, the margin would increase to 0.50%, and above 2.00:1, the margin increases to 0.55%. The ratio of net debt to EBITDA at 30 June 2005 was 0.5:1, indicating a margin of 0.45%.

To ensure continuity of funding, our policy is to ensure that available funding matures over a period of years. At 30 June 2005, 49% of our total available funding was due to mature in more than five years (2004: 31%).

In order to manage interest rate risk on interest receivable, at 30 June 2005 forward rate agreements with a notional value of £53 million (2004: nil) were entered into which fix the interest rate receivable on sterling deposits for three months from 27 June 2005 at a rate of 5.060% and for three months from 26 September 2005 at a rate of 5.105%.

At 30 June 2005, a one percentage point increase in interest rates, from 1 July 2005, would result in a £3 million increase in our annual net interest expense (2004: £2 million) generated by our interest receivable and payable on our bank accounts, RCF and interest rate swap and swaption agreements and a one percentage point decrease in interest rates, from 1 July 2005, would result in a £2 million decrease in the Group s annual net interest expense (2004: £2 million) generated by interest receivable and payable on our bank accounts, RCF and interest rate swap and swaption agreements.

At 30 June 2005, our annual interest charge would be unaffected by any change to the Group s credit rating in either direction (2004: nil).

Currency exchange rates

Our revenues are substantially denominated in pounds sterling, although a significant proportion of operating costs are denominated in US dollars. In fiscal 2005, 13% of operating costs (£409 million) were denominated in US dollars (30 June 2004: 14% (£439 million)). These costs relate mainly to our long-term programming contracts with US suppliers.

During the year, we managed our US dollar/pound sterling exchange risk exposure on US programming contracts by the purchase of forward exchange contracts, currency options (collars) and similar financial instruments for up to five years ahead. All US dollar-denominated forward exchange contracts, currency options (collars) and similar financial instruments entered into by us are in respect of firm commitments only and those instruments maturing over the 12 months following 30 June 2005 represent approximately 80% (30 June 2004: 80%) of US dollar-denominated costs falling due in that period. At 30 June 2005, we had outstanding commitments to purchase, in aggregate, US$670 million (2004: US$705 million) at average rates of US$1.79 to £1.00 (2004: US$1.62 to £1.00). In addition, at 30 June 2005, currency options (collars) were held relating to the purchase of a total of US$114 million (2004: nil).

As at 30 June 2005, some £187 million (2004: £250 million) of these forward contracts, currency options (collars) and similar financial instruments are to hedge liabilities in respect of available programming and hence these liabilities are recorded on the balance sheet at the hedged rate under UK GAAP. The remaining forward contracts, currency options (collars) and similar financial instruments are to hedge future payments for programmes yet to become available and are therefore disclosed within commitments rather than being recorded within liabilities.

Our primary Euro exposure arises as a result of revenues generated from our subscribers in Ireland, being approximately 3% of total revenue in fiscal 2005 (2004: 3%). These Euro-denominated revenues are offset to a certain extent by Euro-denominated costs, relating mainly to certain transponder rentals, the net position being a Euro surplus. Euro 4 million were exchanged for US dollars on currency spot markets during fiscal 2005 (2004: nil) and no surplus Euros were exchanged for pounds sterling during fiscal 2005 (2004: Euro 15 million). At 30 June 2005, Euro 82 million (£56 million) has been retained to meet obligations under forward exchange contracts for the purchase of Swiss Francs (2004: Euro 122 million (£81 million)).

We purchased the programming rights to certain UEFA Champions League football matches until the end of the 2005/06 season. Payments in respect of these rights are made pursuant to the contract in Swiss Francs, which means that we are exposed to the Swiss Franc/pound sterling exchange rate. In line with our policy of limiting foreign exchange transactions to fixed price instruments, 76% of this exposure (CHF 76 million) was hedged during the year via the use of forward contracts for the exchange of Euros and pounds sterling for Swiss Francs. Subsequent to 30 June 2005, 100% of this exposure has been hedged.

It is our policy that all anticipated foreign currency exposures are substantially hedged in advance of the fiscal year in which the exposure occurs. The impact on our annual profit of a 10% movement in pound sterling, from 1 July 2005, against all currencies in which we have significant transactions is estimated to be a £8 million movement (2004: £4 million) to the profit and loss account, with a strengthening of pound sterling resulting in a decrease in profits.

The accounting policies in respect of market risk sensitive instruments are disclosed in notes 1 and 20 of the Consolidated Financial Statements included within Item 18. The accounting policies in respect of market risk-sensitive instruments under UK GAAP vary in certain significant respects from US GAAP as disclosed in note 27 of the Consolidated Financial Statements included within Item 18.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable

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

The constituent instruments defining the rights of holders of ordinary shares have not been materially modified. Pursuant to the terms of the Deposit Agreement, The Bank of New York, as Depositary, has agreed to notify holders of ADSs of all actions of the Company in which shareholders of ordinary shares are entitled to exercise voting rights, thus facilitating the exercise of voting rights by holders of ADSs. The address of The Bank of New York is 101 Barclay Street, New York, New York, 10286.

ITEM 15. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarised and reported within the time periods specified in the SEC s rules and forms. The Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the CEO and CFO, of the effectiveness of the design and operation of these disclosure controls and procedures at 30 June 2005. Based on that evaluation, the CEO and CFO of the Company have concluded that the Company s disclosure controls and procedures are effective. No change in the Company s internal control over financial reporting has occurred during the year ended 30 June 2005 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

It is the opinion of the Board that the Audit Committee does not include an Audit Committee Financial Expert. The Audit Committee members have considerable financial and business experience and the Board considers that the membership as a whole has sufficient recent and relevant financial experience to discharge its functions without the need to formally designate a member as the financial expert.

ITEM 16B. CODE OF ETHICS

On 19 June 2003 the Group adopted a code of ethics that applies to the Group s principal executive officer and principal financial officer, who also serves as the principal accounting officer. The full text of the code of ethics is incorporated by reference to the Annual Report on Form 20-F of British Sky Broadcasting Group plc for the fiscal year ended 30 June 2003 filed with the SEC on 5 December 2003.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

- those services which the auditors are prohibited from providing;
- those services which are acceptable for the auditors to provide and the provision of which has been pre-approved by the Audit Committee; and
- those services for which the specific approval of the Audit Committee is required before the auditors are permitted to provide the service.

The policy defines the types of services falling under each category and sets out the criteria which need to be met and the internal approval mechanisms required to be completed prior to any engagement. An analysis of all services provided by the external auditors is reviewed by the Audit Committee on a quarterly basis.

There were no services provided during the year that were not pre-approved by the Audit Committee in accordance with the Group policy.

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Information on our principal accountant fees and services is analysed below.

	2005	2004	2003
	£m	£m	£m
Audit fees	**1**	1	1
Audit-related fees	**1**	1	1
Audit and audit-related fees	**2**	2	2
Tax fees			1
CRM centre development	**7**	7	5
Other services			1
All other fees	**7**	7	6

Audit-related fees relate to advice on accountancy matters and agreed procedures relating to the Group s conversion to IFRS. Tax fees relate to ad hoc tax advice.
During fiscal 2005, the auditors received £7 million (2004: £7 million; 2003: £5 million) in respect of ongoing CRM centre development services. Due to the complex and long-term nature of the CRM centre development work, the Group is satisfied that Deloitte & Touche LLP should continue to provide these services. The Audit Committee was satisfied throughout the year that the objectivity and independence of Deloitte & Touche LLP was not in any way impaired by either the nature of the non-audit related services undertaken during the year, the level of non-audit fees charged, or any other facts or circumstances.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES
Not applicable
ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS
The following table provides information about purchases of equity securities by the Company during the fiscal year.

Period	**Total number of shares purchased[(i)]**	**Average price paid per share**	**Total number of shares purchased as part of publicly announced plans or programmes[(ii)]**	**Maximum number of shares that may yet be purchased under the plans or programmes**
July				
August				
September				
October				
November	6,535,000	£5.49	6,535,000	90,465,000
December	16,304,000	£5.59	16,304,000	74,161,000
January				74,161,000

February	21,000,000	£5.79	21,000,000	53,161,000
March	8,150,000	£5.70	8,150,000	45,011,000
April	500,000	£5.75	500,000	44,511,000
May	6,800,000	£5.30	6,800,000	37,711,000
June(iii)	17,700,000	£5.29	15,030,000	22,681,000
Total for year ended 30 June 2005	**76,989,000**	**£5.56**	**74,319,000**	**22,681,000**
July	1,100,000	£5.26	1,100,000	21,581,000
August	7,600,000	£5.53	7,600,000	13,981,000
September	13,981,000	£5.70	13,981,000	

(i) All share purchases were open market transactions and are included in the month of settlement.

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(ii) On 12 November 2004, the Company s shareholders approved a resolution at the AGM for the Company to purchase up to 97,000,000 Ordinary Shares. The authority to buy-back these shares expires on 11 November 2005.

(iii) Included within the total number of shares purchased in June 2005, are a total of 2,670,000 of the Company s Ordinary Shares, which were purchased by the Trustee of the British Sky Broadcasting Group ESOP. These shares are held by the ESOP and will be used to satisfy the future exercise of share options and share awards by the Group s employees.

PART III

ITEM 17. FINANCIAL STATEMENTS

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

ITEM 18. FINANCIAL STATEMENTS

The financial statements of British Sky Broadcasting Group plc filed as a part of this Annual Report on Form 20-F are included on pages F-1 through F-81 as follows:

	Page
Report of Independent Registered Public Accounting Firm, Deloitte & Touche LLP	F-1
Consolidated Profit and Loss Accounts for the years ended 30 June 2005, 2004 and 2003	F-2
Consolidated Balance Sheets at 30 June 2005 and 2004	F-3
Consolidated Cash Flow Statements for the years ended 30 June 2005, 2004 and 2003	F-4
Notes to Consolidated Financial Statements	F-7

ITEM 19. EXHIBITS

The following exhibits are filed as part of this Annual Report on Form 20-F.

Number	Description	Exhibit No. In Document Incorporated By Reference
1[(i)]	Memorandum and Articles of Association	A
2[(ii)]	Specimen share certificate	2
4.1	Agreement dated 3 November 2004 with respect to a £1,000,000,000 Revolving Credit Facility among British Sky Broadcasting Group plc, as borrower, Barclays Bank plc, as agent, and others	
4.2[(iii)]	Service agreement dated 13 May 2004 with the Chief Executive Officer	4.2
4.3[(iii)]	Service agreement dated 16 August 2004 with the Chief Financial Officer	4.3
8	List of Subsidiaries	
11[(iv)]	Code of Ethics	11
12.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
12.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
13	Written statement of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)	
15	Consent of Deloitte & Touche LLP	

(i) Incorporated by reference to the Special Report on Form 6-K of British Sky Broadcasting Group plc filed with the SEC on 18 August 2003.

(ii) Incorporated by reference to the Annual Report on Form 20-F of British Sky Broadcasting Group plc for the fiscal year ended 30 June 2001 filed with the SEC on 1 October 2001.

(iii) Incorporated by reference to the Annual Report on Form 20-F of British Sky Broadcasting Group plc for the fiscal year ended 30 June 2004 filed with the SEC on 26 October 2004.

(iv) Incorporated by reference to the Annual Report on Form 20-F of British Sky Broadcasting Group plc for the fiscal year ended 30 June 2003 filed with the SEC on 5 December 2003.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorised the undersigned to sign this annual report on its behalf.

British Sky Broadcasting Group plc

By: Jeremy Darroch

Jeremy Darroch
Chief Financial Officer

Date: 7 October 2005

FINANCIAL STATEMENTS OF BRITISH SKY BROADCASTING GROUP PLC
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Members of:
British Sky Broadcasting Group plc
Grant Way
Isleworth
Middlesex
TW7 5QD

We have audited the accompanying consolidated balance sheets of British Sky Broadcasting Group plc and subsidiaries (collectively, the Group) as at 30 June 2005 and 2004, and the related consolidated profit and loss accounts and consolidated cash flow statements for each of the three years in the period ended 30 June 2005, and notes thereto, all expressed in pounds sterling. These consolidated financial statements are the responsibility of the Group s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Group is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2005 and 2004, and the consolidated results of its operations and its consolidated cash flows for each of the three years in the period ended 30 June 2005 in conformity with accounting principles generally accepted in the United Kingdom.

Accounting principles generally accepted in the United Kingdom vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 27 to the consolidated financial statements.

Our audits also comprehended the translation of pounds sterling amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 27 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers in the United States of America.

Deloitte & Touche LLP
London, United Kingdom
7 October 2005

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CONSOLIDATED PROFIT AND LOSS ACCOUNTS

		30 June 2005			30 June 2004			30 June 2003		
	Notes	**Before goodwill and exceptional items**	**Goodwill and exceptional items**	**Total**	Before goodwill and exceptional items	Goodwill and exceptional items	Total	Before goodwill and exceptional items	Goodwill and exceptional items	Total
		£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Turnover: Group and share of joint ventures turnover		**4,115**		**4,115**	3,738		3,738	3,263		3,263
Less: share of joint ventures turnover		**(67)**		**(67)**	(82)		(82)	(77)		(77)
Group turnover	2	**4,048**		**4,048**	3,656		3,656	3,186		3,186
Operating expenses, net	3	**(3,243)**	**(103)**	**(3,346)**	(3,056)	(119)	(3,175)	(2,822)	(116)	(2,938)
Operating profit		**805**	**(103)**	**702**	600	(119)	481	364	(116)	248
Share of joint ventures and associates operating results	13	**14**		**14**	(5)	10	5	3		3
Loss on disposal of investments in joint ventures	4		**(23)**	**(23)**						
Profit on disposal of fixed asset investments	4					51	51			
Amounts written back to (written off) fixed asset investments, net	4					24	24		(15)	(15)
Profit on ordinary activities before interest and taxation		**819**	**(126)**	**693**	595	(34)	561	367	(131)	236
Interest receivable and similar income	5	**30**		**30**	10		10	4		4
Interest payable and similar charges	5	**(92)**		**(92)**	(91)		(91)	(118)		(118)
Profit on ordinary activities before taxation	6	**757**	**(126)**	**631**	514	(34)	480	253	(131)	122

Tax (charge) credit on profit on ordinary activities	8	**(202)**	**(4)**	**(206)**	(158)		(158)	(59)	121	62
Profit on ordinary activities after taxation		**555**	**(130)**	**425**	356	(34)	322	194	(10)	184
Equity dividends	9			**(170)**			(116)			
Retained profit for the financial year	23			**255**			206			184
Earnings per share basic	10			**22.2p**			16.6p			9.6p
Earnings per share diluted	10			**22.2p**			16.6p			9.5p

There were no recognised gains or losses in any of the three years in the period ended 30 June 2005, other than those included within the profit and loss account.
Details of movements on reserves are shown in note 23.
All results relate to continuing operations.

See notes to consolidated financial statements.

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CONSOLIDATED BALANCE SHEETS

	Notes	30 June 2005	2004
		£m	£m
Fixed assets			
Intangible fixed assets	11	**301**	417
Tangible fixed assets	12	**526**	376
Investments:			
Investments in associates		**1**	1
Investments in joint ventures:			
Share of gross assets		**47**	72
Share of gross liabilities		**(26)**	(45)
Transfer from creditors		**1**	5
Total investments in joint ventures and associates	13	**23**	33
Other fixed asset investments	14	**2**	2
Total investments		**25**	35
		852	828
Current assets			
Stocks	15	**340**	375
Debtors: Amounts falling due within one year			
deferred tax asset	16	**43**	49
other	17	**299**	321
		342	370
Debtors: Amounts falling due after more than one year			
deferred tax asset	16	**57**	102
other	17	**32**	42
		89	144
Cash and liquid resources:			
current asset investments		**54**	173
cash at bank and in hand		**643**	474
		697	647
		1,468	1,536
Creditors: Amounts falling due within one year	18	**(1,240)**	(1,170)
Net current assets		**228**	366
Total assets less current liabilities		**1,080**	1,194

Creditors: Amounts falling due after more than one year			
long-term borrowings	19	**(1,076)**	(1,076)
accruals and deferred income	19	**(25)**	(28)
		(1,101)	(1,104)
Provisions for liabilities and charges	21	**(13)**	
		(34)	90
Capital and reserves equity			
Called-up share capital	22	**934**	971
Share Premium	23	**1,437**	1,437
Employee Share Ownership Plan (ESOP) reserve	23	**(32)**	(30)
Merger reserve	23	**149**	222
Special reserve	23	**14**	14
Capital redemption reserve	23	**37**	
Profit and loss account	23	**(2,573)**	(2,524)
Shareholders (deficit) funds	23	**(34)**	90

See notes to consolidated financial statements.

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CONSOLIDATED CASH FLOW STATEMENTS

	Notes	30 June		
		2005	2004	2003
		£m	£m	£m
Net cash inflow from operating activities	a	**978**	882	664
Dividends received from joint ventures		**12**	4	4
Returns on investments and servicing of finance				
Interest received and similar income		**28**	7	3
Interest paid and similar charges		**(91)**	(89)	(127)
Interest element of finance lease payments				(1)
Net cash outflow from returns on investments and servicing of finance		**(63)**	(82)	(125)
Taxation				
UK corporation tax paid		**(101)**	(55)	(18)
Consortium relief paid		**(2)**	(3)	
Net cash outflow from taxation		**(103)**	(58)	(18)
Capital expenditure and financial investment				
Payments to acquire tangible fixed assets		**(230)**	(132)	(98)
Receipts from sales of fixed asset investments		**1**	116	1
Net cash outflow from capital expenditure and financial investment		**(229)**	(16)	(97)
Acquisitions and disposals				
Funding to joint ventures and associates		**(4)**	(5)	(15)
Repayments of funding from joint ventures and associates		**8**	6	5
Receipts from sales of investments in joint ventures		**14**		
Net cash inflow (outflow) from acquisitions and disposals		**18**	1	(10)
Equity dividends paid		**(138)**	(53)	
Net cash inflow before management of liquid resources and financing		**475**	678	418
Management of liquid resources	c	**164**	(511)	1
Financing				
Proceeds from issue of Ordinary Shares			20	5
Proceeds from issue of shares held in ESOP		**4**		

Purchase of own shares for ESOP		**(14)**	(22)	
Share buy-back		**(416)**		
Capital element of finance lease payments	b		(1)	(2)
Net decrease in debt due after more than one year	b		(75)	(425)
Net cash outflow from financing		**(426)**	(78)	(422)
Increase (decrease) in cash	c	**213**	89	(3)

See notes to consolidated financial statements.

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CONSOLIDATED CASH FLOW STATEMENTS (Continued)

a) Reconciliation of operating profit to operating cash flows

	2005			2004			2003		
	Before goodwill and exceptional items	**Goodwill and exceptional items**	**Total**	Before goodwill and exceptional items	Goodwill and exceptional items	Total	Before goodwill and exceptional Items	Goodwill and exceptional Items	Total
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Operating profit	**805**	**(103)**	**702**	600	(119)	481	364	(116)	248
Depreciation	**92**		**92**	102		102	98		98
Amortisation of goodwill and other intangible fixed assets		**116**	**116**		119	119		121	121
Loss on disposal of tangible fixed assets	**2**		**2**	1		1			
Decrease (increase) in stock	**35**		**35**	(5)		(5)	44		44
Decrease in debtors	**34**		**34**	17		17	88		88
(Decrease) increase in creditors	**(14)**		**(14)**	170		170	66		66
Increase (decrease) in provision	**12**		**12**	(3)		(3)	(1)		(1)
Foreign exchange movement	**(1)**		**(1)**						
Net cash inflow from operating activities	**965**	**13**	**978**	882		882	659	5	664

b) Analysis of changes in net debt

	At 1 July 2003	Cash flow	At 1 July 2004	Cash flow	Exchange	**At 30 June 2005**
	£m	£m	£m	£m	£m	**£m**
Overnight deposits	33	40	73	172		**245**
Other cash	14	49	63	41		**104**
Cash	47	89	136	213		**349**
Short-term deposits		338	338	(45)	1	**294**
Commercial paper		173	173	(119)		**54**
Liquid resources		511	511	(164)	1	**348**

Cash and liquid resources	47	600	647	49	1	**697**
Debt due after more than one year	(1,144)	75	(1,069)			**(1,069)**
Capital element of finance leases	(8)	1	(7)			**(7)**
Total debt and capital element of finance leases	(1,152)	76	(1,076)			**(1,076)**
Total net debt	(1,105)	676	(429)	49	1	**(379)**

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

	2005	2004	2003
	£m	£m	£m
Increase (decrease) in cash	**213**	89	(3)
(Decrease) increase in short-term deposits	**(45)**	338	(1)
(Decrease) increase in commercial paper	**(119)**	173	
(Decrease) increase in liquid resources	**(164)**	511	(1)
Cash outflow resulting from decrease in debt and lease financing		76	427
Foreign exchange movement	**1**		
Decrease in net debt	**50**	676	423
Net debt at beginning of year	**(429)**	(1,105)	(1,528)
Net debt at end of year	**(379)**	(429)	(1,105)

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CONSOLIDATED CASH FLOW STATEMENTS (Continued)

d) Major non-cash transactions

2005

Corporate reorganisation

On 13 April 2005, the High Court approved a reduction in the share capital of BSkyB Investments Limited, a 100% owned subsidiary. This formed part of a corporate reorganisation, allowing British Sky Broadcasting Group plc (the Company) access to additional distributable reserves.

Disposal of Granada Sky Broadcasting (GSB)

In accordance with FRS 10 Goodwill and Intangible Assets (FRS 10), the Group has included the write off of £32 million of unamortised goodwill in the calculation of the loss on disposal of GSB, the effect of which has been included in the profit for the financial year. The goodwill arose on the increase of our interest in GSB to 49.5% in March 1998 and had previously been written off to the profit and loss reserve as permitted prior to FRS 10. Accordingly, an adjustment has been made to write back the £32 million charge to the profit and loss reserve.

2004

Share premium reduction

On 10 December 2003, the High Court approved a reduction in the Company s share premium account of £1,120 million, as approved by the Company s shareholders at the Annual General Meeting held on 14 November 2003. The reduction had the effect of eliminating the Company s deficit on its profit and loss account as at 30 September 2003 of £1,106 million, and creating a non-distributable special reserve of £14 million, which represents the excess of the share premium reduction over the deficit.

WAPTV

On 30 September 2003, the Company issued 338,755 (2003: 169,375) Ordinary Shares to satisfy the remaining contingent consideration in respect of the acquisition of the remaining 5% interest in WAPTV Limited which occurred in May 2001.

2003

Issue of shares deferred consideration for British Interactive Broadcasting Limited (BiB)

On 11 November 2002, the Company issued 43.2 million shares with a fair value of £253 million to HSBC, Matsushita and BT in respect of deferred consideration for the acquisition of the remaining 67.5% of BiB in May and June 2001.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting policies

Description of business

British Sky Broadcasting Group plc (BSkyB) and its subsidiaries (collectively, the Group) operate the leading pay television broadcasting service in the United Kingdom (UK) and Republic of Ireland (Ireland), deriving revenues from television broadcasting services and certain ancillary functions, which are provided to both retail and wholesale customers.

Sky is an established and widely-recognised brand, with a reputation for offering choice, quality and innovation. The Group operates and distributes 28 wholly-owned channels via its digital service and retails a further 109 third party channels to DTH viewers. In addition to this, the Group operates the Sky Box Office service, which provides pay-per-view services covering movies, sporting events and concerts.

The Consolidated Profit and Loss Account presentation includes the Group s results before goodwill and exceptional items in addition to results after goodwill and exceptional items as this presentation provides an alternative basis that may be used to assess the ongoing operating performance of the Group.

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

a) Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain investments, and in accordance with applicable UK financial reporting and accounting standards. These standards differ in certain significant respects from those applicable in the US (see note 27).

The Group has taken advantage of the exemption in Urgent Issues Task Force Abstract 17 (Revised 2003) Employee share schemes and has not applied the abstract to the Group s Her Majesty s Revenue and Customs (HMRC) approved Sharesave Scheme.

b) Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all of its subsidiary undertakings. All companies are consolidated using acquisition accounting, and all inter-company balances and transactions have been eliminated on consolidation.

In the preparation of these consolidated financial statements, estimates and assumptions have been made by management concerning selection of useful economic lives of fixed assets and goodwill, provisions necessary for trade receivables and liabilities, the carrying value of investments, income tax valuation allowances and other similar evaluations. Actual results could differ from those estimates.

The Group maintains a 52 or 53 week fiscal year ending on the Sunday nearest to 30 June in each year. In fiscal year 2005 this date was 3 July 2005, this being a 53 week year (2004: 27 June 2004, 52 week year; 2003: 29 June 2003, 52 week year).

c) Acquisitions

On the acquisition of a business, fair values are attributed to the Group s share of separable net assets acquired. Subsidiary undertakings are accounted for from the effective date of acquisition or from when the Group s shareholding in an associate or joint venture increases to give the Group control, until the effective date of disposal. Adjustments are also made to bring the accounting policies into line with those of the Group. Where statutory merger relief is applicable, the difference between the fair value of the shares issued as purchase consideration and the nominal value of the shares issued as purchase consideration is

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

treated as a merger reserve in the consolidated accounts. The results and cash flows relating to an acquired business are included in the consolidated profit and loss account and the consolidated cash flow statement from the date of acquisition.

d) Goodwill and other intangible assets

Where the cost of acquisition exceeds the fair values attributable to the net assets acquired, the difference is treated as purchased goodwill and capitalised on the Group balance sheet in the year of acquisition. Purchased goodwill arising on acquisitions from 1 July 1998 is capitalised. Prior to 1 July 1998, goodwill arising on acquisitions was eliminated against reserves. As permitted by FRS 10, this goodwill has not been restated on the balance sheet. On disposal or closure of a previously acquired business, any goodwill previously written off to reserves is included in calculating the profit or loss on disposal.

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

Where capitalised goodwill and intangible assets are regarded as having a limited useful economic life, the cost is amortised on a straight-line basis over that life of up to 20 years. Any amortisation or impairment write-downs are charged to the profit and loss account.

e) Tangible fixed assets

Tangible fixed assets are stated at cost, net of accumulated depreciation and any provision for impairment. Land and assets in the course of construction are not depreciated.

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

Freehold buildings	4%
Leasehold improvements	Lower of lease period or life of the asset
Equipment, fixtures and fittings:	
Fixtures and fittings	10% 20%
Computer equipment	20% 33 1/3%
Technical equipment	10% 20%
Motor vehicles	25%

f) Impairment of fixed assets and goodwill

Intangible fixed assets, goodwill and tangible fixed assets are reviewed for impairment if events or circumstances indicate that the carrying value may not be recoverable. Goodwill and intangible fixed assets are also reviewed for impairment at the end of the first full financial year after acquisition. Should an impairment review be required, this is performed in accordance with FRS 11, Impairment of fixed assets and goodwill (FRS 11).

g) Interests in joint ventures

Joint ventures are entities in which the Group holds a long-term interest and shares control under a contractual arrangement. These investments are dealt with by the gross equity method of accounting. Provision is made within creditors where the Group s share of a joint venture s loss exceeds the Group s funding to date.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

h) Fixed asset investments

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

i) Stocks

Acquired and commissioned television programme rights

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

Contractual obligations for programme rights not yet available for transmission are not included in the cost of programme rights, but are disclosed as contractual commitments (see note 24). Payments made upon receipt of commissioned and acquired programming, but in advance of the legal right to broadcast the programmes, are treated as prepayments. Programme rights are recorded in stock at cost when the programmes are available for transmission. Amortisation is provided to write off the cost of programme rights. The principal rates used for this purpose are:

Sports	100% on first showing, or where contracts provide for sports rights for multiple seasons or competitions, the amortisation of each contract is principally on a straight-line basis across the season or competition.
Current affairs	100% on first showing.
General entertainment	Straight-line basis on each transmission.
	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.

Digiboxes and related equipment

Digiboxes and related equipment includes digiboxes (including Sky+ digiboxes), Low Noise Blockers (LNBs) and mini-dishes. These stocks are valued at the lower of cost and net realisable value (NRV), the latter of which reflects the value to the business of the digibox and the related equipment in the hands of the customer. Any subsidy is expensed on enablement, which is the process of activating the viewing card once inserted in the digibox upon installation, so as to enable a viewer to view encrypted broadcast services, and effectively represents the completion of the installation process for new subscribers.

Raw materials, consumables and goods held for resale

Raw materials, consumables and goods held for resale are valued at the lower of cost and NRV.

j) Transponder rental prepayments

Payments made in respect of future 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 10 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

k) Taxation

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

l) Deferred taxation

Deferred tax is recognised in respect of 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 carried forward tax losses can be offset or 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.

m) Foreign currency

Trading activities denominated in foreign currencies are recorded in sterling at actual exchange rates as of the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign exchange contract or other hedging instrument. Monetary assets, liabilities and commitments denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end or, if hedged, at the appropriate hedged rate.

n) Derivatives and other financial instruments

The Group uses a number of derivative financial instruments to hedge its exposures to fluctuations in interest and foreign exchange rates. Receipts and payments on interest rate instruments are recognised on an accruals basis over the life of the instrument. Gains and losses on those instruments which are designated as hedges are not recognised until the underlying creditor being hedged is recognised.

Cash flows associated with derivative financial instruments are classified in the cash flow statement in a manner consistent with those of the underlying transactions being hedged. If an instrument ceases to be designated as a hedge, for example, by the underlying hedged position being eliminated, the instrument is marked to market and any resulting gain or loss is recognised immediately in the profit and loss account. The Group does not hold or issue derivative financial instruments for speculative purposes.

o) Turnover

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

Revenues from the provision of direct-to-home (DTH) subscription services are recognised as the services are provided, net of any discount given. Pay-per-view revenue is recognised when the event, movie or football match is viewed.

Cable revenues are recognised as the services are provided to the cable retailers and are based on the number of subscribers taking the Sky Channels, as reported to the Group by the cable retailers, and the applicable rate card.

Advertising sales revenues are recognised when the advertising is broadcast.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Sky Bet revenues include income from betting and gaming, which represent a) amounts receivable in respect of bets placed on events which occur in the year; and b) net customer losses in the year in respect of the online casino operations and casino-style interactive roulette games.

Sky Active revenues include income from online advertising, e-mail, telephony income from the use of interactive services (e.g. voting), interconnect, text services and digibox subsidy recovery revenues earned through conditional access and access control charges made to customers on the Sky digital platform. All Sky Active revenues are recognised when the goods or services are delivered.

Other revenues principally include income from installations, digibox sale revenues (including the sale of Sky+ and Multiroom digiboxes), Sky Talk revenues, service call revenue, warranty revenue, customer management service fees and access control fees. Other revenues are recognised, net of any discount given, when the relevant service has been provided.

Revenues derived from the sale of surplus programming and surplus transponder capacity are recognised net against programming and transmission and related functions costs respectively, since these cash flows are incidental to the Group s main revenue-generating activities.

p) Pension costs

The Group provides pensions to eligible employees through the BSkyB Pension Plan, a defined contribution pension scheme. The amount charged to the profit and loss account in the year represents the cost of contributions payable by the Group to the scheme in that year. The assets of the BSkyB Pension Plan are held independently of the Group.

q) Leases

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are treated as tangible fixed assets. Depreciation is provided over the shorter of the lease term and the asset s useful economic life, and the deemed capital element of future rentals is included within creditors. Deemed interest is then taken to the profit and loss account as interest payable over the life 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

	2005	2004	**2003**
	£m	£m	£m
DTH subscribers	**2,968**	2,660	2,341
Cable subscribers	**219**	215	202
Advertising	**329**	312	284
Sky Bet(i)	**261**	191	117
Sky Active(i)	**92**	116	101
Other	**179**	162	141
	4,048	3,656	3,186

(i) Additional detail has been provided with regard to the analysis of interactive revenues between the Group s betting and games revenues Sky Bet and other interactive revenues Sky Active and the prior year comparatives have been reclassified accordingly.

All Group turnover is derived from the Group s sole class of business, being television broadcasting together with certain ancillary functions. Turnover arises principally within the UK from activities conducted

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

from the UK, with the exception of £7 million of turnover (2004: £7 million; 2003: nil) which relates to activities conducted from the Channel Islands. The Group s sole class of business is consistent with its internal management reporting structure. In order to provide shareholders with additional information, the Group s turnover has been analysed as shown above.

All turnover arises from services provided to the UK, with the exception of £128 million (2004: £115 million; 2003: £93 million) which arises from services provided to Ireland and £11 million (2004: £9 million; 2003: £9 million) which arises from services provided to the Channel Islands.

The Group s profit before tax and its net assets relate to activities conducted in the UK, with the exception of £4 million profit (2004: £3 million profit; 2003: £1 million loss) and £8 million net assets (2004: £4 million net assets; 2003: £1 million net assets) which relate to activities conducted in the Channel Islands.

Long-lived assets outside the UK comprise less than 10% (2004: less than 10%) of consolidated long-lived assets.

All Group turnover is derived from the provision of services, with the exception of £80 million (2004: £67 million; 2003: £26 million) which relates to the sale of tangible goods and amounts received from customers for digital satellite reception equipment.

3. Operating expenses, net

	2005			2004			**2003**		
	Before goodwill and exceptional items	**Goodwill and exceptional items**	**Total**	**Before goodwill and exceptional items**	**Goodwill and exceptional items**	**Total**	**Before goodwill and exceptional items**	**Goodwill and exceptional items**	**Total**
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Programming(i)	**1,636**		**1,636**	1,711		1,711	1,604		1,604
Transmission and related functions(i)	**171**		**171**	146		146	143		143
Marketing	**515**		**515**	396		396	400		400
Subscriber management	**396**		**396**	371		371	324		324
Administration (ii)	**289**	**103**	**392**	257	119	376	243	116	359
Betting	**236**		**236**	175		175	108		108
	3,243	**103**	**3,346**	3,056	119	3,175	2,822	116	2,938

(i) The amounts shown are net of £11 million (2004: £11 million; 2003: £12 million) receivable from the disposal of programming rights not acquired for use by the Group, and £28 million (2004: £28 million; 2003: £26 million) in respect of the provision to third-party broadcasters of spare transponder capacity.

(ii) Administration costs include goodwill amortisation of £116 million (2004: £119 million, 2003: £121 million), net of an exceptional credit of £13 million (2004: nil, 2003: £5 million).

Included within operating expenses, net, is £172 million (2004: £169 million; 2003: £171 million) which relates to the cost of tangible goods sold and digital satellite reception equipment provided to customers.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Exceptional items

	2005			2004			**2003**		
	Credit (charge) before taxation	**Taxation (charge) credit**	**Total**	Credit (charge) before taxation	Taxation (charge) credit	Total	**Credit (charge) before taxation**	**Taxation (charge) credit**	**Total**
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Settlement of ITV Digital programming debtors (a)	**13**	**(4)**	**9**						
Release of provision against ITV Digital programming debtors (e)							5	(2)	3
Exceptional Operating Items	**13**	**(4)**	**9**				5	(2)	3
Loss on disposal of investment in joint ventures (b)	**(23)**		**(23)**						
Profit on disposal of fixed asset investments (c)				51		51			
Amounts written back to (written off) fixed asset investments, net (d) (f)				24		24	(15)		(15)
Recognition of deferred tax asset (g)								123	123
Exceptional Non-Operating Items	**(23)**		**(23)**	75		75	(15)	123	108
Total Exceptional Items	**(10)**	**(4)**	**(14)**	75		75	(10)	121	111

2005

a) Settlement of ITV Digital programming debtors

In July 2005, the Group received £13 million from the liquidators of ITV Digital as a full and final settlement in respect of amounts owed to the Group. This receipt is recorded as an exceptional item within operating profit due to the distortion that its inclusion within operating expenses would have on the operating expenses line item to which it was attributed.

b) Loss on disposal of investment in joint ventures

In November 2004, the Group sold its 49.5% investment in GSB for £14 million in cash, realising a loss on disposal of £23 million. This included the write back of £32 million of goodwill which had previously been written off to reserves, as permitted prior to the implementation of FRS 10. The loss on disposal is a non-operating exceptional item as defined by FRS 3 Reporting Financial Performance (FRS 3) and is therefore recorded as an exceptional item below operating profit.

2004

c) Profit on disposal of fixed asset investments

In March 2004, the Group sold its 20% shareholding in QVC (UK), operator of QVC The Shopping Channel, for £49 million in cash, realising a profit on disposal of £49 million. The profit on disposal is a non-operating exceptional

item as defined by FRS 3 and is therefore recorded as an exceptional item below operating profit.

In October 2003, the Group disposed of its listed investment in Manchester United plc, realising a profit on disposal of £2 million. The profit on disposal is a non-operating exceptional item as defined by FRS 3 and is therefore recorded as an exceptional item below operating profit.

d) Amounts written back to fixed asset investments, net

The Group reduced its provision against its minority equity investments in football clubs by £33 million, due to the disposal of its investment in Manchester United plc in October 2003, for £62 million in cash. The Group also increased its provision against its remaining minority equity investments in football clubs by

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

£9 million. The reduction of £33 million in the provision is recorded as an exceptional item below operating profit as it relates directly to the disposal of the investment as detailed above. The increase of £9 million in the remaining provision is recorded as an exceptional item below operating profit due to the distortion that its inclusion within operating expenses would have on the individual operating expenses line to which it was attributed.

2003

e) Release of provision against ITV Digital programming debtors

The Group provided in full against all unprovided balances owed by ITV Digital, following the announcement by the joint administrators of ITV Digital on 30 April 2002 of the closure of pay television services on the platform and their intention to close the administration. During 2003, the Group received £5 million from ITV Digital s administrators and released £5 million of its exceptional operating provision accordingly. The reduction was recorded as an exceptional item within operating profit due to the distortion that its inclusion within operating expenses would have on the individual operating expenses line item to which it was attributed.

f) Amounts written off fixed asset investments, net

At 31 December 2002, the Group made a further provision against its minority investments in football clubs, leading to a non-cash exceptional charge of £21 million. Subsequently, the Group reduced its provision against its investment in Chelsea Village plc at 30 June 2003 by £3 million, following the agreement to sell its minority investment in July 2003. The increase of £21 million in the provision is recorded as an exceptional item below operating profit due to the distortion that its inclusion within operating expenses would have on the individual operating expenses line item to which it was attributed. The reduction of £3 million in the remaining provision is recorded as an exceptional item below operating profit as it relates directly to the disposal of the investment.

At 31 December 2002, the Group reduced its deferred revenue balance relating to minority investments in new media companies by £5 million, and reduced both its investment and its provision against the investment in these companies accordingly. The reduction is recorded as an exceptional item below operating profit due to the distortion that its inclusion within operating expenses would have on the individual operating expenses line item to which it was attributed.

At 31 December 2002, the Group made a provision against its investment in OpenTV shares, leading to a non-cash exceptional charge of £3 million, bringing the carrying value of the Group s investment in OpenTV to nil. During February and March 2003, the Group disposed of its entire investment in OpenTV shares, leading to a nil profit or loss on disposal. The provision is recorded as an exceptional item below operating profit due to the distortion that its inclusion within operating expenses would have on the individual operating expenses line item to which it was attributed.

g) Recognition of deferred tax asset

At 30 June 2003, following a review of the forecast utilisation of tax losses within the Group, and as a consequence of a planned reorganisation of certain assets within the Group, there was sufficient evidence to support the recognition of a deferred tax asset arising on losses incurred in the Company. Accordingly, a deferred tax credit of £123 million was recognised as an exceptional item. The credit is recorded as an exceptional item below operating profit due to the distortion that its inclusion would have on the tax expense line item to which it was attributed.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Interest

a) Interest receivable and similar income

	2005	2004	2003
	£m	£m	£m
Interest receivable on cash and liquid resources	**29**	8	2
Other interest receivable and similar income		1	1
Share of joint ventures and associates interest receivable	**1**	1	1
Total interest receivable and similar income	**30**	10	4

b) Interest payable and similar charges

	2005	2004	2003
	£m	£m	£m
On bank loans, overdrafts and other loans repayable within five years, not by instalments:			
£1 billion revolving credit facility (RCF)[(i)]	**2**		
£750 million RCF[(i)]			27
£600 million RCF[(i)]	**4**	6	4
£200 million RCF[(ii)]		2	2
US$650 million of 8.200% Guaranteed Notes repayable in 2009	**33**	30	31
£100 million of 7.750% Guaranteed Notes repayable in 2009	**8**	8	8
US$600 million of 6.875% Guaranteed Notes repayable in 2009	**30**	30	30
US$300 million of 7.300% Guaranteed Notes repayable in 2006	**14**	14	14
Finance lease interest	**1**		1
Other interest payable and similar charges			1
Share of joint ventures and associates interest payable		1	
Total interest payable and similar charges	**92**	91	118

(i) In November 2004, the Group entered into a £1 billion RCF. This facility was used to cancel an existing £600 million RCF (which was used to cancel a previously existing £750 million RCF), and is available for general corporate purposes, but was undrawn at 30 June 2005. The £1 billion RCF has a maturity date of July 2010. The £2 million charge for the year (2004: nil; 2003: nil) represents the commitment fee to 30 June 2005.

(ii) In March 2003, the Group voluntarily cancelled £100 million of its £300 million RCF. The remaining £200 million RCF expired without being renewed on 29 June 2004.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Profit on ordinary activities before taxation

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

	2005	2004	2003
	£m	£m	£m
depreciation:			
owned assets	**92**	100	96
assets held under finance leases		2	2
amortisation and impairment of intangible assets	**116**	119	121
joint ventures and associates goodwill amortisation, net		(10)	
amounts (written back to) written off fixed asset investments, net		(24)	15
loss on disposal of investments in joint ventures	**23**		
loss on disposal of fixed assets	**2**	1	
profit on disposal of fixed asset investments		(51)	
rentals on operating leases and similar arrangements:			
land and buildings	**10**	10	9
plant and machinery	**86**	74	80
sub-lease rentals on operating leases received in respect of plant and machinery	**(22)**	(28)	(26)
sub-lease rentals on operating leases received in respect of land and buildings	**(1)**	(1)	(2)
staff costs	**379**	332	305

Amounts payable to the auditors are analysed below:

	2005	2004	2003
	£m	£m	£m
Audit fees	**1**	1	1
Audit-related fees	**1**	1	1
Audit and audit-related fees	**2**	2	2
Tax fees			1
CRM centre development	**7**	7	5
Other services			1
All other fees	**7**	7	6

Audit-related fees relate to advice on accountancy matters and agreed procedures relating to the Group s conversion to IFRS. Tax fees relate to ad hoc tax advice.

During the year, the auditors received £7 million (2004: £7 million; 2003: £5 million) in respect of ongoing CRM centre development services. Due to the complex and long-term nature of the CRM centre development work, the Group is satisfied that Deloitte & Touche LLP should continue to provide these services. The Audit Committee was

satisfied throughout the year that the objectivity and independence of Deloitte & Touche LLP was not in any way impaired by either the nature of the non-audit related services undertaken during the year, the level of non-audit fees charged, or any other facts or circumstances.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Staff costs

a) Employee costs

Employee costs for permanent employees, temporary employees and Executive Directors during the year were as follows:

	2005	2004	2003
	£m	£m	£m
Wages and salaries	**327**	275	234
Costs of LTIP, KCP, EBP and other share-related incentive schemes	**6**	16	33
Social security costs	**32**	29	26
Other pension costs	**14**	12	12
	379	332	305

The Group operates a defined contribution pension scheme through the BSkyB Pension Plan (the Plan). The pension charge for the year represents the cost of contributions payable by the Group to the Plan during the year and amounted to £14 million (2004: £12 million; 2003: £12 million). The Group s contributions owing to the Plan at 30 June 2005 were £1 million (2004: £1 million).

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

	2005	2004	2003
	Number	Number	Number
Programming	**1,424**	1,295	1,106
Transmission and related functions	**1,403**	1,394	1,383
Marketing	**238**	209	199
Subscriber management	**5,662**	5,418	5,381
Administration	**1,079**	1,051	954
Betting	**152**	133	109
	9,958	9,500	9,132

There are approximately 278 temporary staff included within the average number of full time equivalent people employed by the Group.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

b) Directors emoluments

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

	Salary and fees	Bonus scheme	Benefits	Total emoluments before pension	Pensions	Total emoluments including pension 2005	Total emoluments including pensions 2004	Total emoluments including pensions 2003
	£	£	£	£	£	£	£	£
Executive								
James Murdoch(i)	**750,000**	**1,200,000**	**216,697**	**2,166,697**	**59,680**	**2,226,377**	1,480,578	13,946
Jeremy Darroch(ii)	**440,000**	**640,000**	**14,049**	**1,094,049**	**33,168**	**1,127,217**		
Non-Executive								
Chase Carey	**40,600**			**40,600**		**40,600**	38,600	13,946
David Devoe	**40,150**			**40,150**		**40,150**	48,151	17,741
David Evans	**45,600**			**45,600**		**45,600**	43,600	39,994
Nicholas Ferguson(iii)	**45,600**			**45,600**		**45,600**	2,012	
Andrew Higginson(iv)	**38,000**			**38,000**		**38,000**		
Allan Leighton	**50,600**			**50,600**		**50,600**	46,747	41,750
Rupert Murdoch	**45,400**			**45,400**		**45,400**	48,375	17,741
Jacques Nasser	**50,700**			**50,700**		**50,700**	43,792	26,923
Gail Rebuck	**45,600**			**45,600**		**45,600**	43,600	25,596
Lord Rothschild(v)	**50,600**			**50,600**		**50,600**	29,744	
Arthur Siskind	**45,400**			**45,400**		**45,400**	46,010	15,843
Lord St. John of Fawsley (vi)	**50,400**			**50,400**		**50,400**	47,035	40,673
Lord Wilson of Dinton	**50,600**			**50,600**		**50,600**	44,894	13,946
Former Directors								
Martin Stewart(vii)	**500,000**	**1,773,982**	**20,000**	**2,293,982**	**23,145**	**2,317,127**	1,059,926	956,436
Tony Ball(viii)							13,184,745	2,459,737
Philip Bowman(ix)							18,069	46,750
John Thornton(x)							46,110	53,744
Total emoluments	**2,289,250**	**3,613,982**	**250,746**	**6,153,978**	**115,993**	**6,269,971**	16,271,988	3,784,766

Gains on exercise of LTIP and EBP awards are disclosed below.

(i) James Murdoch was appointed CEO on 4 November 2003. James Murdoch s salary and fees for fiscal 2004 include £13,015, received for his services as a Non-Executive Director. James Murdoch s salary and fees for fiscal 2003 were received for his services as a Non-Executive Director.

(ii) Jeremy Darroch was appointed CFO of the Company on 16 August 2004.

(iii) Nicholas Ferguson was appointed as a Director of the Company on 15 June 2004.

(iv) Andrew Higginson was appointed as a Director of the Company on 1 September 2004.

(v) Lord Rothschild was appointed as a Director of the Company on 17 November 2003.

(vi) Lord St John of Fawsley received a payment of £10,000 relating to unpaid fees for the period September 2002 to November 2003, when he was Senior Independent Director and Chairman and member of the Nominations Committee.

(vii) Martin Stewart resigned as a Director of the Company on 4 August 2004.

(viii) Tony Ball resigned as a Director of the Company on 4 November 2003.

(ix) Philip Bowman resigned as a Director of the Company on 14 November 2003.

(x) John Thornton resigned as a Director of the Company on 11 May 2004.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Executive bonuses

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

	Bonus scheme
	£
Executive Director	
James Murdoch	1,200,000
Jeremy Darroch	640,000
Martin Stewart[(i)]	500,000

(i) Martin Stewart also received a payment of £1,273,982 for the release of his share awards under the LTIP and EBP at 31 July 2004.

Executive Directors Bonus

The amounts shown above are those which have been approved by the Remuneration Committee for the year ended 30 June 2005.

Pensions

Martin Stewart received a payment of £6,365 (2004: £10,511; 2003: £4,213) in relation to the shortfall in his pension arrangements. Employer contributions of £16,780 (2004: £25,171; 2003: £27,473) were paid into the BSkyB Pension Plan.

James Murdoch received a payment of £23,125 (2004: £3,854; 2003: nil) in relation to the shortfall in his pension arrangements. Employer contributions of £36,555 (2004: £6,092; 2003: nil) were paid into the BSkyB Pension Plan.

Jeremy Darroch received a payment of £6,219 (2004: nil; 2003: nil) in relation to the shortfall in his pension arrangements. Employer contributions of £26,949 (2004: nil; 2003: nil) were paid into the BSkyB Pension Plan.

LTIP

Details of outstanding awards under the LTIP are shown below:

	Number of shares under award									
	At 30 June 2004	Granted during the year	Exercised during the year	Lapsed during the year	At 30 June 2005	Exercise Price	Market price at date of exercise	Date of award	Date from which exercisable	Expiry Date
Name of Director										
James Murdoch		450,000			450,000	£ 0.00		11.08.04	11.08.07	11.08.14
Jeremy Darroch		250,000			250,000	£ 0.00		16.08.04	16.08.07	16.08.14
Martin Stewart	150,000		150,000(ii)			£ 8.30	£ 5.71	21.11.01	n/a	n/a
	113,555		5,200(ii)		108,355	£ 5.55	£ 5.71	02.08.02	31.07.05	31.07.12
	113,555			113,555(i)		£ 5.55		02.08.02	n/a	n/a
	5,733		765(ii)		4,968	£ 5.60	£ 5.71	13.08.02	31.07.05	31.07.12
	5,733			5,733(i)		£ 5.60		13.08.02	n/a	n/a
	220,000			220,000(i)		£ 0.00		13.08.03	n/a	n/a

In previous years, awards under the LTIP took the form of market value options with a cash bonus equal to the lower of the exercise price and the share price at the date of exercise, with the exception of shares awarded as part of an agreement to meet the employer s National Insurance obligations, which did not attract a cash bonus.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The awards granted during fiscal 2003 and fiscal 2004 took the form of nil-priced options and were not enhanced to meet the employer s National Insurance obligations.

Notes:

(i) These awards were released on 31 July 2004.

(ii) These awards vested on 31 July 2004 and were exercised by Martin Stewart during the year. The aggregate amount that he received was £890,560. In 2004, the aggregate amount received by Directors was £12,789,000 (2003: nil).

EBP

Details of outstanding awards under the EBP are shown below:

	Number of shares under award(i)								
	At 30 June 2004	Granted during the year	Exercised during the year	Lapsed during the year	At 30 June 2005	Exercise price(i)	Market price at date of exercise	Date from which exercisable	Expiry Date
Name of Director									
Martin Stewart	26,000		26,000 (ii)			n/a	£5.71	n/a	n/a
	26,000			26,000 (iii)		n/a	n/a	n/a	n/a
	55,000			55,000 (iii)		n/a	n/a	n/a	n/a

Notes:

(i) Awards under the EBP take the form of a contingent right to acquire existing shares in the Company at the vesting date, for nil consideration.

(ii) These awards vested on 31 July 2004 and were exercised by Martin Stewart during the year. The aggregate amount that he received was £148,460 (2004: nil; 2003: nil).

(iii) These awards were released on 31 July 2004.

The performance conditions applicable to the awards are measured over one financial year. The shares awarded in 2002 would have delivered the shares in equal measures at 31 July 2004 and 31 July 2005. The shares that were awarded in 2003 would have all been delivered at 31 July 2006.

Sharesave Scheme options

Details of outstanding options held under the Sharesave Scheme are shown below:

Number of options							
At 30 June	Granted during	Exercised during	At 30 June	Exercise	Market price at date of	Date from which	Expiry

	2004	the year	the year	2005	price	exercise	exercisable	Date
Name of Director								
Jeremy Darroch		4,281		4,281	£3.86	n/a	01.02.10	01.08.10

Options under the Company s Sharesave scheme are not subject to performance conditions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Taxation

a) Analysis of charge (credit) in year

	2005			2004			2003		
	Tax charge on profit before exceptional items	**Exceptional tax charge**	**Total**	Tax charge on profit before exceptional items	Exceptional tax charge	Total	Tax charge on profit before exceptional items	Exceptional tax charge (credit)(i)	Total
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Current tax:									
UK corporation tax	**159**	**4**	**163**	127		127	85	2	87
Adjustment in respect of prior years	**(8)**		**(8)**	(8)		(8)			
Total current tax charge	**151**	**4**	**155**	119		119	85	2	87
Deferred tax:									
Origination and reversal of timing differences	**68**		**68**	34		34	(26)	(123)	(149)
(Decrease) increase in estimate of recoverable deferred tax asset in respect of prior years	**(17)**		**(17)**	5		5	(2)		(2)
Total deferred tax charge (credit)	**51**		**51**	39		39	(28)	(123)	(151)
Share of joint ventures and associates tax charges							2		2
	202	**4**	**206**	158		158	59	(121)	(62)

All taxation relates to UK corporation tax.

(i) In 2003, the Group recorded a deferred tax credit of £163 million relating to deferred tax assets not previously recognised. The Directors considered that there was sufficient evidence to support the recognition of these deferred tax assets on the basis that it was more likely than not that there would be suitable taxable profits against which these assets could be utilised. £123 million of the deferred tax credit was treated as an exceptional item.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

b) Factors affecting the current tax charge for the year

The current tax charge for the year is lower (2004: lower; 2003: higher) than the standard rate of corporation tax in the UK (30%) applied to profits on ordinary activities before tax. The differences are explained below:

	2005	**2004**	**2003**
	£m	£m	£m
Profit on ordinary activities before taxation	**631**	480	122
Less: share of joint ventures and associates (profit) loss before taxation	**(15)**	5	(3)
Profit on ordinary activities before taxation (excluding joint ventures and associates)	**616**	485	119
Profit on ordinary activities before taxation (excluding joint ventures and associates) multiplied by standard rate of corporation tax in the UK of 30% (2004 and 2003: 30%)	**185**	146	36
Effects of:			
Loss (gain) exempt from taxation	**5**	(15)	
Goodwill amortisation	**35**	33	36
Other permanent differences	**2**	(9)	6
Utilisation of tax losses	**(49)**	(29)	(7)
Other timing differences	**(19)**	(4)	14
Consortium relief	**2**	3	
Tax charge on partnership profits	**2**	2	2
Current tax charge for the year	**163**	127	87

c) Factors that may affect future tax charges

At 30 June 2005, a deferred tax asset of £14 million (2004: £13 million) arising from UK losses in the Group, has not been recognised. These losses can be offset only against taxable profits generated in the entities concerned. Although the Directors ultimately expect sufficient profits to arise, there is currently insufficient evidence to support recognition of a deferred tax asset relating to these losses. The losses are available to be carried forward indefinitely under current law.

A deferred tax asset of £64 million (2004: £64 million) has not been recognised in respect of trading losses in the Group s German holding companies of KirchPayTV GmbH & Co KGaA (KirchPayTV), and a deferred tax asset of £330 million (2004: £450 million) has not been recognised in respect of potential capital losses related to the Group s holding of KirchPayTV on the basis that these timing differences are not more likely than not to be realised.

The Group has realised and unrealised capital losses in respect of football club and other investments estimated to be in excess of £24 million (2004: £21 million) which have not been recognised as a deferred tax asset, on the basis that they are not more likely than not to be realised.

9. Equity dividends

	2005	2004	2003
	£m	£m	£m
Interim dividend paid of 4.00p (2004: 2.75p; 2003: nil) per Ordinary Share	**77**	53	
Final proposed dividend of 5.00p (2004: 3.25p; 2003: nil) per Ordinary Share	**93**	63	

	170	116

The ESOP has waived its rights to dividends.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Earnings per share

Basic earnings per share represents the profit on ordinary activities after taxation attributable to the equity shareholders, divided by the weighted average number of Ordinary Shares in issue during the year, less the weighted average number of Ordinary Shares held in the Group s ESOP trust during the year.

Diluted earnings per share represents the profit on ordinary activities after taxation attributable to the equity shareholders, divided by the weighted average number of Ordinary Shares in issue during the year, less the weighted average number of Ordinary Shares held in the Group s ESOP trust during the year, plus the weighted average number of dilutive shares resulting from share options and other potential Ordinary Shares outstanding during the year.

The weighted average number of shares was:

	2005	2004	2003
	Millions of shares	Millions of **shares**	Millions of **shares**
Ordinary Shares	**1,917**	1,940	1,921
ESOP trust Ordinary Shares	**(4)**	(2)	(6)
Basic shares	**1,913**	1,938	1,915
Dilutive Ordinary Shares from share options and other potential Ordinary Shares outstanding	**6**	8	27
Diluted shares	**1,919**	1,946	1,942

The number of anti-dilutive shares at 30 June 2005 was 29,366,767 shares (2004: 21,897,027 shares; 2003: 36,779,664 shares), comprising wholly of share options.

11. Intangible fixed assets

The movement in the year was as follows:

	Goodwill
	£m
Cost	
At 30 June 2003	820
At 30 June 2004	820
At 30 June 2005	**820**
Amortisation	
At 30 June 2003	284
Charge	119
At 30 June 2004	403
Charge	116
At 30 June 2005	**519**

Net book value	
At 30 June 2003	536
At 30 June 2004	417
At 30 June 2005	**301**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Goodwill of £272 million, £543 million and £5 million, arising on the acquisitions of Sports Internet Group plc (now Sports Internet Group Limited) (SIG), BIB and WAPTV respectively, is being amortised over periods of seven years on a straight-line basis.

In accordance with FRS 11, impairment reviews were performed on the carrying values of BiB and SIG goodwill balances at the end of the first full financial year after acquisition, at 30 June 2002, which did not indicate impairment. Consistent with Group strategy, the business plans on which these reviews were based reflect significant projected increases in betting and other interactive revenues over the subsequent five years. The Group continues to monitor the performance of these businesses and is satisfied that no impairment of goodwill has occurred.

At 30 June 2004, the Group made a provision of £3 million, included within amortisation, against goodwill which arose on the acquisition of planetfootball.com Limited (a subsidiary of SIG, which provides website services to the sports industry), reducing the carrying value to nil. The provision was made as a result of an impairment review which showed that the expected future cash flows of the business would not support a carrying value for the goodwill.

At 31 December 2002, the Group made a provision of £5 million, included within amortisation, against goodwill which arose on the acquisition of Opta Index Limited (Opta) (a subsidiary of SIG, which provided statistics on the sports industry), reducing the carrying value to nil. The provision was made as a result of the Group s announcement in December 2002 that it would close Opta.

12. Tangible fixed assets

The movement in the year was as follows:

	Freehold land and buildings(i)	Short leasehold improvements	Equipment, fixtures and fittings	Assets in course of construction	Total
	£m	£m	£m	£m	£m
Cost					
At 30 June 2003	45	70	649	29	793
Additions			61	72	133
Disposals			(2)		(2)
At 30 June 2004	45	70	708	101	924
Additions	25		66	153	244
Disposals			(167)		(167)
Transfers		(28)	28		
At 30 June 2005	**70**	**42**	**635**	**254**	**1,001**
Depreciation					
At 30 June 2003	10	43	394		447
Charge	1	3	98		102
Disposals			(1)		(1)
At 30 June 2004	11	46	491		548
Charge	2	5	85		92
Disposals			(165)		(165)
Transfers		(20)	20		
At 30 June 2005	**13**	**31**	**431**		**475**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Freehold land and buildings[(i)]	Short leasehold improvements	Equipment, fixtures and fittings	Assets in course of construction	Total
	£m	£m	£m	£m	£m
Net book value					
At 30 June 2003	35	27	255	29	346
At 30 June 2004	34	24	217	101	376
At 30 June 2005	**57**	**11**	**204**	**254**	**526**

(i) The amounts shown include assets held under finance leases with a net book value of £6 million (2004: £6 million). The cost of these assets was £8 million (2004: £8 million) and the accumulated depreciation was £2 million (2004: £2 million). Depreciation charged during the year on these assets was nil (2004: £2 million; 2003: nil).

Depreciation was not charged on £21 million of land (2004: £9 million).

13. Investments in joint ventures and associates

The movement in the year was as follows:

	2005	2004
	£m	£m
Cost and funding, excluding goodwill		
Beginning of year	**234**	235
Loans advanced	**4**	5
Loans repaid	**(8)**	(6)
Disposals[(iii)]	**(18)**	
Transfer to Group undertaking[(iv)]	**(1)**	
End of year	**211**	234
Transfer from creditors[(i)]	**1**	5
Movement in share of underlying net liabilities		
Beginning of year	**(206)**	(207)
Additions		10
Share of operating results	**14**	(5)
Share of interest receivable	**1**	1
Share of interest payable		(1)
Disposals[(iii)]	**14**	
Dividends received	**(12)**	(4)

End of year	**(189)**	(206)
Goodwill		
Beginning of year		
Additions(v)		(10)
Amortisation, net(v)		10
End of year		
Net book value		
Beginning of year	**33**	30
End of year(ii)	**23**	33

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(i) The investment in joint ventures and associates excludes cumulative losses of £1 million (2004: £5 million), which represent losses in excess of the funding provided. The related obligation is recorded within creditors.

(ii) The net book value above includes a listed investment with a net book value of £1 million at 30 June 2005 (2004: £5 million). The aggregate market value of this investment at 30 June 2005 was £1 million (2004: £8 million).

2005

(iii) On 1 November 2004, the Group sold its 49.5% investment in GSB for £14 million in cash, realising a loss on disposal of £23 million. The carrying value of the investment prior to disposal was £4 million.

(iv) On 4 March 2005, the Group purchased 50% of the outstanding share capital of Artsworld Channels Limited (Artsworld), bringing its total shareholding to 100%. Accordingly, Artsworld is now consolidated within the Group from that date.

2004

(v) In 2004, goodwill additions included £11 million of negative goodwill arising on the acquisition of an additional 16.7% stake in Attheraces Holdings Limited. This was written off to the profit and loss account immediately on acquisition. In addition, £1 million of goodwill has arisen on the purchase of certain joint ventures and associates.

The following information is given in respect of the Group s share of joint ventures and associates:

	2005	2004	2003
	£m	£m	£m
Turnover	**72**	83	77
Fixed assets	**3**	3	4
Current assets	**47**	71	83
Liabilities due within one year	**(27)**	(40)	(48)
Liabilities due after more than one year	**(1)**	(6)	(11)

Associates with a net book value of £1 million (2004: £1 million) are included in the total investment in joint ventures and associates.

14. Other fixed asset investments

Principal Group investments

The investments of the Group which principally affect the consolidated results and net assets of the Group are as follows:

Name	**Country of incorporation/ operation**	**Description and proportion of shares held (%)**	**Principal activity**
Subsidiaries: Direct Holdings			
British Sky Broadcasting Limited[(a)]	England and Wales	10,000,002 Ordinary Shares of £1 each (100%)	Operation of a pay television broadcasting service in the UK and Ireland
Sky Television Limited	England and Wales	13,376,982 Ordinary Shares of £1 each (100%)	Holding company

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Name	Country of incorporation/ operation	Description and proportion of shares held (%)	Principal activity
Sports Internet Group Limited	England and Wales	38,247,184 Ordinary Shares of 5p each (100%)	Holding company
British Interactive Broadcasting Holdings Limited	England and Wales	651,960 Ordinary Shares of £1 each (100%)	The transmission of interactive services
BSkyB Investments Limited	England and Wales	100 Ordinary Shares of £1 each (100%)	Holding company
Subsidiaries: Indirect holdings			
Sky Subscribers Services Limited	England and Wales	3 Ordinary Shares of £1 each (100%)	The provision of ancillary functions supporting the satellite television broadcasting operations of the Group
Sky In-Home Service Limited	England and Wales	1,576,000 Ordinary Shares of £1 each (100%)	The supply, installation and maintenance of satellite television receiving equipment
Hestview Limited	England and Wales	108 Ordinary Shares of £1 each (100%)	Licensed bookmakers
Sky Interactive Limited	England and Wales	3 Ordinary Shares of £1 each (100%)	The provision of interactive television services
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 Limited	England and Wales	12,500 Ordinary Shares of £1 each (100%)	Holding company for new media investments
BSkyB Investments (Guernsey) LLP	England and Wales	300,100,000 Ordinary Shares of £1 each (100%)	Investment of surplus cash
Joint ventures and associates			
Nickelodeon UK	England and Wales	104 B Shares of £0.01 each (50%)	The transmission of children s television channels
The History Channel (UK)	England and Wales	50,000 A Shares of £1 each (50%)	The transmission of history and biography television programming

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Name	Country of incorporation/ operation	Description and proportion of shares held (%)	Principal activity
Paramount UK[b],[d]	England and Wales	Partnership interest (25%)	The transmission of general entertainment comedy channels
Australian News Channel Pty Limited	Australia	1 Ordinary Share of AUS$1 (33.33%)	The transmission of a 24-hour news channel
MUTV Limited[e]	England and Wales	100 B Shares of £1 each (33.33%)	The transmission of the Manchester United football channel
National Geographic Channel[c]	England and Wales	Partnership interest (50%)	The transmission of natural history and adventure channels
Music Choice Europe plc[d]	England and Wales	11,880,303 Ordinary Shares of £0.01 each (35.80%)	The transmission of audio music channels
Attheraces Holdings Limited[d]	England and Wales	1,500 Ordinary Shares of £1 each (47.50%), 20 Recoupment Shares of £0.01 each	The transmission of a horse racing channel and related on-line activities
Chelsea Digital Media Limited	England and Wales	19,800 B Shares of £0.01 each (20%) and 7,000,000 redeemable preference shares of £1 each	The production and marketing of the Chelsea Football Club football channel

Notes

(a) 50.01% directly held by British Sky Broadcasting Group plc and 49.99% held by BSkyB Investments Limited.

(b) The registered address of Paramount UK is 180 Oxford Street, London W1D 1DS.

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

(d) These entities report their financial results for each 12 month period ending 31 December.

(e) MUTV Limited reports its financial results for each 12 month period ending 30 September.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The movement in other investments was as follows:

	2005	2004
	£m	£m
Cost		
Beginning of year	**1,020**	1,105
Disposals (i) to (v)	**(14)**	(85)
End of year	**1,006**	1,020
Provision		
Beginning of year	**1,018**	1,061
Disposals (i), (ii), (v)	**(14)**	(19)
Released during the year, net (iv), (vi)		(24)
End of year	**1,004**	1,018
Net book value		
Beginning of year	**2**	44
End of year	**2**	2

2005

(i) In January 2005, the Group sold its 4.76% equity investment in Sunderland Football Club plc, reducing both the cost and the associated provision by £7 million to reflect the disposal.

(ii) In October 2004, the Group sold its investment in Innovation Finance & Equity Exchange NV (formerly known as Letsbuyit.com) reducing both the cost and the associated provision by £7 million to reflect the disposal.

2004

(iii) In March 2004, the Group sold its 20% shareholding in QVC (UK), operator of QVC The Shopping Channel, for £49 million in cash, realising a profit on disposal of £49 million. The carrying value of this investment prior to disposal was nil.

(iv) In October 2003, the Group announced that it had sold its entire holding in Manchester United plc for £62 million, recognising a profit on disposal of £2 million following the release of a £33 million provision previously held against the investment.

(v) In August 2003, the Group sold its 9.9% equity investment in Chelsea Village plc, reducing the cost by £25 million and the associated provision by £19 million to reflect the disposal.

(vi) The Group increased its provision against its remaining minority equity investments in football clubs by £9 million during the prior year.

Further analysis of the listed investment is shown below:

	2005	2004

	£m	£m
Carrying value of listed investment included above (i)	**1**	1
Aggregate market value of listed investment at end of year	**1**	1

(i) Investment listed on OFEX.

No tax liability would arise on the sale of this listed investment at the market value shown above as no gain would arise.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. Stocks

	2005	2004
	£m	£m
Television programme rights	**310**	322
Digiboxes and related equipment	**28**	49
Raw materials and consumables	**2**	2
Other goods held for resale		2
	340	375

At least 86% (2004: 87%) of the existing television programme rights at 30 June 2005 will be amortised within one year.

During fiscal 2004, a review of programme stock balances resulted in the acceleration of certain amortisation charges totalling £28 million.

16. Deferred tax asset

	2005	2004
	£m	£m
Included within debtors due within one year:		
tax losses carried forward	**34**	43
accelerated capital allowances	**9**	6
	43	49
Included within debtors due after more than one year:		
tax losses carried forward	**34**	75
accelerated capital allowances	**5**	15
short-term timing differences	**18**	12
	57	102
	100	151
Deferred tax asset		
Beginning of year	**151**	190
Charge in the profit and loss account during the year	**(51)**	(39)
End of year	**100**	151

The total deferred tax asset recognised at 30 June 2005 includes £68 million (2004: £118 million) of tax losses carried forward that can be offset only against future taxable profits generated by the company in which these tax losses reside. The Directors consider that there is sufficient evidence to support the recognition of this deferred tax asset on the basis that it is more likely than not that there will be suitable taxable profits against which this asset can be

utilised.

During the year the Group disposed of subsidiaries holding unrecognised tax losses of £120 million (2004: nil).

The amount of unrecognised deferred tax present within the Group is disclosed in note 8.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. Other debtors

	2005	2004
	£m	£m
Amounts falling due within one year		
Trade debtors	**134**	165
Amounts owed by joint ventures and associates	**6**	8
Amounts owed by other related parties	**1**	2
Other debtors	**4**	3
Prepaid programme rights	**47**	35
Prepaid transponder rentals	**15**	15
Other prepayments	**20**	16
Accrued income	**72**	77
	299	321
Amounts falling due after more than one year		
Prepaid programme rights	**4**	6
Prepaid transponder rentals	**23**	30
Other prepayments and accrued income	**5**	6
	32	42

Trade debtors are shown net of certain provisions. The total amount provided at 30 June 2005 was £43 million (2004: £46 million). The current year charge to the profit and loss account in respect of these provisions was £19 million (2004: £5 million; 2003: £16 million).

The Group does not have any significant concentrations of credit risk.

18. Creditors: Amounts falling due within one year

	2005	2004
	£m	£m
Trade creditors(i)	**345**	390
Amounts due to joint ventures and associates	**3**	8
Amounts due to other related parties	**34**	40
UK corporation tax	**100**	48
VAT	**101**	92
Social security and PAYE	**10**	8
Proposed dividend	**93**	63
Defined contribution pension scheme creditor	**1**	1
Other creditors	**42**	60
Accruals	**324**	293
Deferred income	**187**	167
	1,240	1,170

(i) Included within trade creditors are £187 million (2004: £250 million) of US dollar-denominated programme creditors. Approximately 80% (2004: 80%) of these were covered by forward exchange contracts and collars.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	2005	2004
	£m	£m
Long-term borrowings		
US$650 million of 8.200% Guaranteed Notes repayable in 2009 (a)	**413**	413
£100 million of 7.750% Guaranteed Notes repayable in 2009 (a)	**100**	100
US$600 million of 6.875% Guaranteed Notes repayable in 2009 (a)	**367**	367
US$300 million of 7.300% Guaranteed Notes repayable in 2006 (a)	**189**	189
Obligations under finance leases (b)	**7**	7
	1,076	1,076
Other		
Accruals and deferred income	**25**	28
	1,101	1,104

(a) Guaranteed notes

At 30 June 2005, the Group had in issue the following publicly-traded guaranteed notes:

US$650 million of 8.200% Guaranteed Notes, repayable in July 2009. At the time of issuing these notes, the US dollar proceeds were swapped into pounds sterling (£413 million) at an average fixed rate of 7.653% payable semi-annually. In December 2002, the Group entered into further swap arrangements relating to £63.5 million of this debt, which arrangements were subsequently amended in March 2003 and July 2004, the effect of which was to fix the interest rate on £63.5 million at 5.990% until January 2004, after which time it reverted to a floating six months London Inter-Bank Offer Rate (LIBOR) plus a margin of 2.460%, except that should LIBOR be less than 2.750% for the period January to July 2004, 2.890% for the period July 2004 to January 2005, or 2.990% thereafter, the effective rate shall be deemed to be 7.653%. After July 2004, the margin over LIBOR increases from 2.460% to 2.840%. In order to increase its exposure to floating rates, in July 2003, the Group entered into another interest rate hedging arrangement in respect of a further £63.5 million of the above-mentioned debt, the effect of which was that, from July 2003 until July 2009, the Group will pay floating six months LIBOR plus a margin of 2.8175% on this £63.5 million, except that should LIBOR be less than 2.750% for the period January to July 2004, or less than 2.990% thereafter, the Group shall revert back to 7.653%. At 30 June 2005, none of the floor levels had been breached, therefore the Group continues to pay the relevant floating rates.

£100 million of 7.750% Guaranteed Notes, repayable in July 2009. The fixed coupon is payable annually. In March 2004, the Group entered into an interest rate swap arrangement in respect of £50 million of this debt, whereby the previously fixed rate of 7.750% was swapped to a floating rate of LIBOR plus a margin of 2.050% from July 2004 to July 2005. On 9 July 2005, and every 9 July thereafter, the counterparty had the right, but not the obligation, to cancel this swap, returning the Group to its previous fixed rate of 7.750%. The counterparty cancelled this swap on 9 July 2005.

US$600 million of 6.875% Guaranteed Notes, repayable in February 2009. At the time of issuing these notes, the US dollar proceeds were swapped into pounds sterling (£367 million) at an average fixed rate of 8.200%, payable semi-annually. In July 2003, the Group entered into a further interest rate hedging arrangement in respect of £61.2 million of this swapped debt. The effect of this new hedging arrangement was that, from July 2003 until February 2009, the Group will pay floating six months LIBOR plus a margin of 3.490% on £61.2 million of its swapped debt. However, at each six monthly reset date, the counterparty to this transaction has the right to cancel the

transaction with immediate effect. In October 2003, the Group entered into a further interest rate hedging arrangement in respect of an additional £61.2 million of this swapped debt, the effect of which was to reduce the rate payable to 7.950% for the period August 2003 to February 2004. Thereafter, until August 2006, the rate payable is 7.950% plus any margin by which the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

floating six monthly LIBOR reset rate exceeds the sum of the previous reset rate plus 0.500%. Thereafter, the rate reverts to a fixed 8.180%. In February 2005, the 7.950% interest rate on this swap was renegotiated to 8.020% with all the other aspects of the swap remaining unchanged.

US$300 million of 7.300% Guaranteed Notes, repayable in October 2006. At the time of issuing these notes, the Group entered into swap transactions to convert the dollar proceeds to pounds sterling (£189 million), half of which carries a fixed rate of interest of 8.384% until maturity, payable semi-annually. The remainder was fixed at 7.940% until 15 April 2002, thereafter floating at 0.620% over six months LIBOR, again payable semi-annually. In respect of this remaining floating exposure, on 16 January 2002, the Group entered into a further interest rate hedging arrangement to fix the rate at 6.130% from 15 April 2002, payable semi-annually for the remainder of the life of the notes.

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

	Year ending 30 June			
	2007	2008	2009	2010
	£m	£m	£m	£m
US$650 million of 8.200% Guaranteed Notes repayable in July 2009				413
£100 million of 7.750% Guaranteed Notes repayable in July 2009				100
US$600 million of 6.875% Guaranteed Notes repayable in February 2009			367	
US$300 million of 7.300% Guaranteed Notes repayable in October 2006	189			
	189		367	513

(b) Finance leases

The minimum lease payments under finance leases, including interest amounts, fall due as follows:

	£m
Amounts repayable in the year ending 30 June:	
2006	**1**
2007	**1**
2008	**1**
2009	**1**
2010	**1**
After five years	**17**
	22

The present value of finance lease liabilities are broken down as follows:

	£m
Capital amount	**7**
Interest amount	**3**
	10

At 30 June 2005, obligations under finance leases represent financing arrangements in connection with the CRM centre in Dunfermline. Repayments of £1 million (2004: £1 million) were made against the lease. A proportion of these payments has been allocated to any capital amount outstanding. The lease bears interest at a rate of 8.5% and expires in September 2020.

(c) Undrawn RCFs

In November 2004, the Group entered into a £1 billion RCF. This facility was used to cancel an existing £600 million RCF and is available for general corporate purposes. The £1 billion facility has a maturity date

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

of July 2010, and interest accrues at a margin of between 0.45% and 0.55% above LIBOR, dependent on the Group s leverage ratio of net debt to earnings before interest, taxes, depreciation and amortisation (EBITDA) (as defined in the loan agreement). At the current ratio of net debt: EBITDA, the margin would be 0.45% above LIBOR if the Group were to make a drawing on the facility.

The £1 billion RCF contains certain financial covenants which are tested at the end of each six-monthly accounting period. The key financial covenants are the ratio of Net Debt to EBITDA (as defined in the loan agreement) and EBITDA to Net Interest Payable (as defined in the loan agreement). The Group must currently maintain these ratios as follows:

Net Debt to EBITDA must be no more than 3:1

EBITDA to Net Interest Payable must be at least 3.5:1

At 30 June 2005, the ratio of Net Debt to EBITDA (as defined in the loan agreement) was 0.5:1. In the current year, the ratio of EBITDA to Net Interest Payable was 14.7:1.

Both the bank facilities and the publicly-traded guaranteed notes have been issued by the Company and are guaranteed by both British Sky Broadcasting Limited (BSkyB Limited) and Sky Subscribers Services Limited (SSSL). Additionally, the £1 billion RCF is guaranteed by BSkyB Investments Limited.

Commitment fees of £2 million (2004: £5 million; 2003: £3 million) were payable for undrawn amounts available under the RCFs, based on a rate equal to 40% of the applicable margin of 0.45% over LIBOR.

20. Derivatives and other financial instruments

Treasury policy and risk management

The Group s treasury function is responsible for raising finance for the Group s operations, together with associated liquidity management, and the management of foreign exchange, interest rates and credit risks. Treasury operations are conducted within a framework of policies and guidelines authorised and reviewed by both the Audit Committee and the Board, who receive regular updates of treasury activity. Derivative instruments are transacted for risk management purposes only. It is the Group s policy that all hedging is to cover known risks and that no trading in financial instruments is undertaken.

Regular and frequent reporting to management is required for all transactions and exposures, and the internal control environment is subject to periodic review, both by the Group s internal audit team and by its Treasury Committee.

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

Interest rate management

The Group has financial exposures to both UK and US interest rates, arising primarily from long-term bonds. The Group manages its exposures by borrowing at fixed rates of interest and by using interest rate swap and swaption agreements to adjust the balance between fixed and floating rate debt. All of the Group s US dollar-denominated debt has been swapped to pounds sterling, using cross-currency swap arrangements, which, in addition to the translation of the principal amount of the debt to pounds sterling, also provide for the exchange, at regular intervals, of fixed-rate amounts of dollars for fixed-rate amounts of pounds sterling. All of the Group s debt exposure is denominated in pounds sterling after cross-currency

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

swaps are taken into account; at 30 June 2005, the split of the Group s aggregate net borrowings into their core currencies was US dollar 91% and pound sterling 9% (2004: US dollar 90% and pound sterling 10%).

The Group also enters into pound sterling interest rate swap and swaption arrangements, which provide for the exchange, at specified intervals, of the difference between fixed rates and variable rates, calculated by reference to an agreed notional pounds sterling amount. Certain of the swaption agreements can be cancelled prior to the maturity of the bonds. The counter-parties have a minimum long-term rating of A or equivalent with Moody s and Standard & Poor s.

At 30 June 2005, 72% of the Group s borrowings were at fixed rates after taking account of interest rate swaps and swaption agreements (30 June 2004: 77%). The fair value of interest rate swap and swaption agreements and cross-currency swaps held, as of 30 June 2005, was approximately £103 million against the Group s favour, compared to £105 million against the Group s favour at 30 June 2004.

At 30 June 2005, the Group had outstanding cross-currency swap, interest rate swap and swaption agreements with net notional principal amounts totalling £1,018 million, compared to £968 million at 30 June 2004. This movement reflects new interest rate swap and swaption agreements designed to achieve a more appropriate balance between fixed and floating rate debt.

Currency exchange rates

The Group s revenues are substantially denominated in pounds sterling, although a significant proportion of operating costs are denominated in US dollars. In the year to 30 June 2005, 13% of operating costs (£409 million) were denominated in US dollars (2004: 14% (£439 million)). These costs relate mainly to the Group s long-term programming contracts with US suppliers.

During the year, the Group managed its US dollar/pound sterling exchange risk exposure on US programming contracts by the purchase of forward exchange contracts, collars and similar financial instruments for up to five years ahead. All US dollar-denominated forward exchange contracts, collars and similar financial instruments entered into by the Group are in respect of firm commitments only and those instruments maturing over the 12 months following 30 June 2005 represent approximately 80% (2004: 80%) of US dollar-denominated costs falling due in that period.

At 30 June 2005, the Group had outstanding commitments to purchase, in aggregate, US$670 million (2004: US$705 million), at average rates of US$1.79 to £1.00 (2004: US$1.62 to £1.00). In addition, at 30 June 2005, collars were held relating to the purchase of a total of US$114 million (2004: nil).

The Group s primary Euro exposure arises as a result of revenues generated from the Group s subscribers in Ireland, being approximately 3% of total revenue in the year (2004: 3%). These Euro-denominated revenues are offset to a certain extent by Euro-denominated costs, relating mainly to certain transponder rentals, the net position being a Euro surplus.

The Group has purchased the programming rights to certain UEFA Champions League football matches until the end of the 2005/06 season. Payments in respect of these rights are made pursuant to the contract in Swiss francs, which means that the Group will be exposed to the Swiss franc/pound sterling exchange rate. In line with the Group s policy of limiting foreign exchange transactions to fixed price instruments, 76% of this exposure (CHF 76 million) (2004: 90%; CHF 100 million) was hedged during the year via the use of forward contracts for the exchange of Euros and sterling for Swiss francs. Since 30 June 2005, 100% of this exposure has been hedged.

Euros 4 million were exchanged for US dollars on currency spot markets during the year (2004: nil) and no surplus Euros were exchanged for pounds sterling during the current year (2004: Euro 15 million). At 30 June 2005, Euro 82 million (£56 million) has been retained to meet obligations under forward exchange contracts for the purchase of Swiss francs.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Interest rate risks

After taking into account interest rate swaps, cross-currency interest rate swaps and forward rate agreements entered into by the Group, the interest rate profile of the Group s financial liabilities was as follows:

	2005			2004		
	Fixed	**Floating**	**Total**	Fixed	Floating	Total
£m	**777**	**299**	**1,076**	827	249	1,076
Weighted average interest rate	**7.7%**	**7.7%**	**7.7%**	7.8%	7.6%	7.8%
Weighted average period for which the rate is fixed (years)	**3.3**	**n/a**	**n/a**	4.3	n/a	n/a
Weighted average term (years)	**3.3**	**3.9**	**3.4**	4.3	4.2	4.3

Further details of interest rates on long-term borrowings are given in note 19.

Cash and liquid resources of £697 million (2004: £647 million) comprises cash at bank of £104 million (2004: £63 million), bank deposits of £539 million (2004: £411 million) in a variety of maturities of up to six months (2004: nine months), and purchased corporate commercial paper of £54 million (2004: £173 million) in a variety of maturities of up to three months (2004: six months), all attracting rates of interest of London Inter-Bank Bid Rate (LIBID) or above.

In addition, in order to manage interest rate risk on interest receivable, at 30 June 2005 forward rate agreements with a notional value of £53 million (2004: nil) were entered into which fixed the interest rate receivable on sterling deposits for three months from 27 June 2005 at a rate of 5.060% and for three months from 26 September 2005 at a rate of 5.105%.

Currency risks

The table below shows the Group s currency exposures after hedging that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the net monetary assets and liabilities of the Group that are not denominated in the functional currency of the operating unit involved and principally consist of cash deposits, trade debtors and trade creditors.

	Net foreign currency monetary assets (£m)					
	2005			2004		
	USD	**Euros**	**Total**	USD	Euros	Total
Functional currency of Group operating unit						
Pounds sterling	**6**	**85**	**91**	42	41	83

The Group also held open various forward exchange contracts and collars at 30 June 2005 which were taken out to hedge expected future foreign currency commitments.

Liquidity risks

The profile of the Group s financial liabilities, other than short-term creditors, is shown in note 19. The profile of provisions is shown in note 21.

The Group s undrawn committed bank facilities, subject to covenants, were as follows:

	2005	2004

	£m	£m
Expiring in more than two years	**1,000**	600
Total	**1,000**	600

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The £600 million facility was cancelled on 4 November 2004 and was replaced by the £1 billion facility, which matures on 30 July 2010.

Fair values

Set out below is a comparison by category of the book values and the estimated fair values of the Group s financial assets and financial liabilities, and associated derivative financial instruments, as at 30 June 2005 and 30 June 2004:

	2005		2004	
	Book value	**Fair value**	Book value	Fair value
	£m	**£m**	£m	**£m**
Primary financial instruments held or issued to finance the Group s operations				
Quoted bond debt	**(1,069)**	**(1,062)**	(1,069)	(1,060)
Finance leases	**(7)**	**(7)**	(7)	(7)
Bank deposits	**539**	**539**	411	411
Commercial paper	**54**	**54**	173	173
Cash at bank	**104**	**104**	63	63
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate swaps and swaption agreements		**3**		(18)
Cross-currency swaps		**(106)**		(87)
Forward exchange contracts		**5**		(41)
Currency options (collars)		**2**		

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

The differences between book values and fair values reflect unrealised gains or losses inherent in the instruments, based on valuations as at 30 June 2005 and 30 June 2004. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

In addition to the financial instruments in the above fair value table, the Group had holdings in the equity share capital of other listed investments at 30 June 2005 and 30 June 2004. See notes 13 and 14 for disclosure of their book values and fair values.

Included within the fair value of forward exchange contracts are a number of US-denominated forward exchange contracts which the Group has taken out with counterparty banks on behalf of two of its joint ventures: The History Channel (UK) and Nickelodeon UK. On the same dates as these forward contracts were entered into, the Group entered into equal and opposite forward contracts with the respective joint ventures. As a result, the net fair value of these contracts to the Group was nil. The gross sterling equivalent face value of these forward contracts at 30 June 2005 was £11 million (2004: £2 million).

Hedges

The Group s policy is to hedge the following exposures:

- interest rate risk, using interest rate swap and swaption agreements
- transactional currency exposures, using forward exchange contracts and collars

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

exposures on long-term foreign currency debt, using cross-currency swap arrangements and interest rate swap and swaption agreements

Gains and losses on hedging instruments which are eligible for hedge accounting treatment are not recognised until the underlying hedged item is recognised.

Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	2005			2004		
	Gains	**Losses**	**Total net gains (losses)**	Gains	**Losses**	**Total net gains (losses)**
	£m	**£m**	**£m**	£m	**£m**	**£m**
Unrecognised gains and losses at the beginning of the year	**8**	**(154)**	**(146)**	39	(83)	(44)
Gains and losses arising in previous years that were recognised in the year	**(1)**	**41**	**40**		46	46
Gains and losses arising before the beginning of the year that were not recognised in the year	**7**	**(113)**	**(106)**	39	(37)	2
Gains and losses arising in the year that were not recognised in the year	**15**	**(5)**	**10**	(31)	(117)	(148)
Unrecognised gains and losses on hedges at the end of the year	**22**	**(118)**	**(96)**	8	(154)	(146)
Of which:						
Gains and losses expected to be recognised in the next year	**3**	**(3)**		1	(41)	(40)
Gains and losses expected to be recognised after the next year	**19**	**(115)**	**(96)**	7	(113)	(106)

21. Provisions for liabilities and charges

	Provision for redundancy expenses	**Other provisions**	**Total provisions**
	£m	**£m**	**£m**
At 1 July 2003		3	3
Utilised in year		(1)	(1)
Released in year		(2)	(2)

At 30 June 2004			
Provided in year	11	2	13
At 30 June 2005	**11**	**2**	**13**

The Group has provided £11 million for the expected costs of redundancy and related expenses following an efficiency review. It is expected that this provision will be utilised in 2006 and 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. Called-up share capital

	2005	2004
	£m	£m
Authorised		
3,000,000,000 (2004: 3,000,000,000) Ordinary Shares of 50p	**1,500**	1,500
Allotted, called-up and fully paid equity		
1,867,523,599 (2004: 1,941,712,786) Ordinary Shares of 50p	**934**	971

Allotted and fully paid during the year	**Number of Ordinary Shares**
Beginning of year	1,941,712,786
Options exercised under the Sharesave Scheme at between £3.720 and £6.112	129,813
Shares repurchased and subsequently cancelled	(74,319,000)
End of year	**1,867,523,599**

Movements in share capital in the year ended 30 June 2005 are described in note 23.

Share option and contingent share award schemes

The number of newly issued shares which may be allocated under the Executive and Sharesave Schemes on any day shall not, when aggregated with the number of newly issued shares which have been allocated in the previous 10 years under the Schemes and any other Employee Share Scheme adopted by the Company, exceed such number as represents five percent of the ordinary share capital of the Company in issue immediately prior to that day. In determining this limit no account shall be taken of any newly issued shares where the right to acquire the newly issued shares was released, lapsed, cancelled or otherwise became incapable of exercise. Options and Awards which will be satisfied by ESOP shares do not fall within these headroom limits.

Total options and awards in existence at 30 June 2005 were as follows:

Scheme	**Number of Ordinary Shares**
Executive Share Option Scheme Options[a]	45,309,551
Sharesave Scheme Options[b]	5,131,741
LTIP Awards[c]	4,827,243
KCP Awards[d]	2,830,259
EBP Awards[e]	348,000
	58,446,794

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(a) Executive Share Option Scheme Options

Options in existence at 30 June 2005 under the Executive Schemes are shown in the table below:

Date of grant	Number of Ordinary Shares	Option price	Exercisable from(i)
		£	
10-Jun-97	5,020	5.975	10-Jun-00
4-Feb-98	8,298	3.615	4-Feb-01
1-Dec-98	2,491,840	5.010	1-Dec-01
7-May-99	4,589	4.350	7-May-02
29-Oct-99	3,007,150	6.385	29-Oct-02
22-Nov-99	107,775	6.495	22-Nov-02
5-Apr-00	41,517	13.970	5-Apr-03
12-May-00	20,800	12.980	12-May-03
22-May-00	21,842	10.530	22-May-03
23-May-00	81,632	9.800	23-May-03
12-Jun-00	12,247	11.430	12-Jun-03
30-Jun-00	100,931	12.880	30-Jun-03
26-Jul-00	29,101	12.370	26-Jul-03
30-Aug-00	141,223	11.400	30-Aug-03
23-Nov-00	3,724,008	9.900	23-Nov-01
1-Dec-00	2,399,000	9.840	1-Dec-03
26-Feb-01	66,746	9.340	26-Feb-02
21-May-01	74,644	7.190	21-May-02
4-Jun-01	94,480	7.165	4-Jun-02
26-Jul-01	184,815	7.080	26-Jul-02
6-Nov-01	7,017,358	7.940	6-Nov-02
13-Nov-01	26,668	8.360	13-Nov-02
4-Jan-02	53,593	7.890	4-Jan-03
14-Feb-02	12,479	7.005	14-Feb-03
26-Feb-02	20,343	6.850	26-Feb-03
14-May-02	32,689	6.820	14-May-03
5-Jun-02	600,000	7.350	31-May-04
28-Jun-02	13,725	6.180	28-Jun-03
5-Aug-02	7,368,094	5.300	5-Aug-04
20-Sep-02	47,815	5.185	20-Sep-04
30-Sep-02	17,912	5.305	30-Sep-04
2-Jan-03	229,296	6.390	2-Jan-05
18-Mar-03	74,672	6.100	18-Mar-05
1-Sep-03	6,654,047	6.620	1-Sep-05
25-Feb-04	1,498	7.155	25-Feb-06
6-Aug-04	10,304,173	5.030	6-Aug-06
9-Sep-04	74,051	4.930	9-Sep-06
8-Oct-04	26,534	5.100	8-Oct-06
17-Nov-04	104,157	5.473	17-Nov-06
8-Jun-05	12,789	5.385	8-Jun-07

45,309,551

(i) Unapproved options granted up to and including August 2000 became exercisable in full three years after the date of grant (subject to the satisfaction of performance conditions). Options granted between November 2000 and June 2002 inclusive become exercisable over a period of four years from the date of grant, with a quarter vesting on each of the first, second, third and fourth anniversaries of grant (subject to the satisfaction of performance conditions), with the exception of the options granted on 1 December 2000, which became exercisable in full three years after the date of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

grant, and those granted on 5 June 2002, which became exercisable in full on 31 May 2004. Options granted since June 2002 become exercisable over a period of four years from the date of grant, with a third vesting on each of the second, third and fourth anniversaries of grant (subject to the satisfaction of performance conditions). All approved options become exercisable in full three years after the date of grant (subject to the satisfaction of performance conditions).

The Company operates HMRC Approved and Unapproved Executive Share Option Schemes (Executive Schemes). Grants under the Executive Schemes were made on an annual basis. The Company followed a policy of granting options to employees, at the discretion of the relevant Senior Executive.

Awards granted under the Executive Schemes have been based on EPS targets. The use of EPS as a performance measure for the awards aligns the interests of employees with shareholders. Growth in EPS will have to exceed growth in the Retail Prices Index plus 3% per annum in order for awards to vest.

Measurements of the extent to which performance targets have been met are reviewed by the Remuneration Committee at the date of vesting of each award, taking account of independent advice as necessary.

(b) Sharesave Scheme Options

Options in existence at 30 June 2005 under the Sharesave Scheme are shown in the table below:

Date of grant	Number of Ordinary Shares	Option price	Exercisable from
		£	
27-Oct-97	1,467	3.720	1-Jan-05
28-Sep-98	51,670	3.780	1-Dec-05
18-Oct-99	511	4.620	1-Jan-05
18-Oct-99	20,909	4.620	1-Jan-07
3-Oct-00	39,353	9.710	1-Jan-06
3-Oct-00	13,538	9.710	1-Jan-08
28-Sep-01	12,800	6.112	1-Jan-05
28-Sep-01	76,858	6.112	1-Jan-07
28-Sep-01	22,592	6.112	1-Jan-09
30-Sep-02	813,801	4.750	1-Feb-06
30-Sep-02	219,044	4.750	1-Feb-08
30-Sep-02	55,215	4.750	1-Feb-10
3-Oct-03	452,843	5.300	1-Feb-07
3-Oct-03	131,365	5.300	1-Feb-09
3-Oct-03	29,933	5.300	1-Feb-11
1-Oct-04	2,254,668	3.860	1-Feb-08
1-Oct-04	935,174	3.860	1-Feb-10
	5,131,741		

The Sharesave Scheme is open to all employees, including Executive Directors. Options are normally exercisable after either three, five or seven years from the date of grant. The price at which options are offered is not less than 80% of the middle-market price on the dealing day immediately preceding the date of invitation. It is the policy of the Group to make an invitation to employees to participate in the scheme following the announcement of the end of year results.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(c) LTIP Awards

Awards in existence at 30 June 2005 under the LTIP are shown in the table below:

Date of grant	Number of Ordinary Shares	Option price	Exercisable from
		£	
2-Aug-02	902,113	5.550	31-Jul-05
13-Aug-02	43,250	5.600	31-Jul-05
2-Jan-03	91,880	6.390	31-Jul-05
13-Aug-03	860,000	0.000	31-Jul-06
12-Feb-04	80,000	0.000	31-Jul-06
11-Aug-04	2,600,000	0.000	11-Aug-07
16-Aug-04	250,000	0.000	16-Aug-07
	4,827,243		

The Company operates an LTIP for Executive Directors and Senior Executives, under which awards may be made to any employee or full-time Director of the Group at the discretion of the Remuneration Committee. An award under the existing LTIP comprises a performance-based share award, which may be in a variety of forms, including grants of shares, nil-priced options or market-value options with a cash bonus, all of which have the same value to the participant. Awards are not transferable or pensionable and are made over a number of shares in the Company, determined by the Remuneration Committee. The awards vest, in full or in part, dependent on the satisfaction of specified performance targets.

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

Where the market price of a share at the date of vesting is below the exercise price, awards in this form have been treated as having lapsed and participants have been eligible to receive shares for no consideration, equal to the value of their vested award.

(d) KCP Awards

Awards in existence at 30 June 2005 under the KCP are shown in the table below:

Date of grant	Number of Ordinary Shares	Option price	Exercisable from
		£	
13-Aug-03	123	0.000	31-Jul-04
13-Aug-03	1,058,794	0.000	31-Jul-05
11-Aug-04	887,842	0.000	11-Aug-05
11-Aug-04	883,500	0.000	11-Aug-06
	2,830,259		

It is intended that designated managers will participate in the KCP, except for Executive Directors and Senior Executives. Previously this scheme has only been open to a small number of Executives within the Group. Awards under this scheme are made at the discretion of the CEO. The KCP is a replica scheme of the LTIP, with the same performance conditions. Awards that are exercised under the KCP can only be satisfied by the issue of shares purchased in the market.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(e) EBP Awards

Awards in existence at 30 June 2005 under the EBP are shown in the table below:

Date of grant	Number of Ordinary Shares	Option Price	Exercisable from
		£	
2-Aug-02	93,000	n/a	31-Jul-05
2-Jan-03	20,000	n/a	31-Jul-05
13-Aug-03	215,000	n/a	31-Jul-06
12-Feb-04	20,000	n/a	31-Jul-06
	348,000		

In August 2002, the Company introduced an EBP for Executive Directors and Senior Executives. This plan rewards performance against key commercial measures over the financial year, with stretching targets derived from the Group s business plan.

Awards under the plan are made in the form of a contingent right to acquire the Company s shares, for nil consideration, which are acquired in the market and are subject to performance achieved in the financial year of award.

23. Reconciliation of movement in shareholders funds

Movement in shareholders funds includes all movements in reserves.

	Share capital	Share premium	Shares to be issued	ESOP reserve	Merger reserve	Special reserve	Capital redemption Reserve	Profit and loss account	Total equity shareholders (deficit) funds
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 July 2002	947	2,410	256		267			(4,180)	(300)
Issue of share capital	22	126	(253)		111			(1)	5
Profit for the financial year								190	190
Transfer from merger reserve					(79)			79	
At 1 July 2003 as previously stated	969	2,536	3		299			(3,912)	(105)
Prior year adjustment				(35)				(12)	(47)
At 1 July 2003 as restated	969	2,536	3	(35)	299			(3,924)	(152)
	2	21	(3)						20

Issue of share capital								
ESOP shares utilised			27				11	38
ESOP shares purchased			(22)					(22)
Profit for the financial year							322	322
Dividends							(116)	(116)
Share premium reduction		(1,120)			14		1,106	
Transfer from merger reserve				(77)			77	
At 1 July 2004	971	1,437	(30)	222	14		(2,524)	90
ESOP shares utilised			12				7	19
ESOP shares purchased			(14)					(14)
Profit for the financial year							425	425
Dividends							(170)	(170)
Transfer from merger reserve				(73)			73	
Write back of goodwill on disposal							32	32
Share buy-back	(37)					37	(416)	(416)
At 30 June 2005	**934**	**1,437**	**(32)**	**149**	**14**	**37**	**(2,573)**	**(34)**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Share buy-back

On 12 November 2004, the Company s shareholders approved a resolution at the AGM for the Company to purchase up to 97 million Ordinary Shares. During the financial year, the Company purchased, and subsequently cancelled, 74 million Ordinary Shares at an average price of £5.60 per share, with a nominal value of £37 million, for a consideration of £416 million. Consideration included stamp duty and commission of £3 million. This represents 4% of called-up share capital at the beginning of the financial year.

Goodwill

In accordance with FRS 10, the Company has included the write off of £32 million of unamortised goodwill in the calculation of the loss on disposal of GSB, the effect of which has been included in profit for the financial year. The goodwill arose on the increase of our interest in GSB to 49.5% in March 1998 and had previously been written off to the profit and loss reserve as permitted prior to FRS 10. Accordingly, an adjustment has been made to write back the £32 million charge to the profit and loss reserve.

At 30 June 2005, the cumulative goodwill written off directly to reserves by the Group amounted to £492 million (2004: £524 million).

Share premium reduction

On 10 December 2003, the High Court approved a reduction in the Company s share premium account of £1,120 million, as approved by the Company s shareholders at the AGM held on 14 November 2003. The reduction had the effect of eliminating the Company s deficit on its profit and loss account as at 30 September 2003 of £1,106 million, and creating a non-distributable special reserve of £14 million, which represents the excess of the share premium reduction over the deficit.

Share option schemes

During the period, the Company issued shares with a market value of £1 million (2004: £26 million) in respect of the exercise of options awarded under various share option schemes.

At 30 June 2005, the Group s ESOP held 5,609,212 Ordinary Shares in the Company at an average value of £5.78 per share. The 1,808,303 shares utilised during the period relate to the exercise of LTIP, EBP, KCP, Executive Share Option Scheme and Sharesave Scheme awards.

The movement in the ESOP shares held was as follows:

	Number of Ordinary Shares	£m
Beginning of year	4,747,515	30
Share options exercised during the year	(1,808,303)	(12)
Shares repurchased by the Group for the ESOP during the year	2,670,000	14
End of year	**5,609,212**	**32**

Merger reserve

During the year, £36 million (2004: £36 million; 2003: £35 million) relating to the amortisation of BiB goodwill and £37 million (2004: £41 million; 2003: £44 million) relating to the amortisation of SIG goodwill was transferred from the Group merger reserve to the Group profit and loss reserve.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Dividends

Dividends are paid between Group companies out of profits available for distribution subject to, inter alia, the provisions of the companies Articles of Association and the Companies Act 1985 (as amended). There are restrictions over the distribution of any profits which are not generated from external cash receipts as defined in Technical Release 7/03, issued by the Institute of Chartered Accountants in England and Wales. The interim dividend of the Company of £77 million paid in April 2005, relating to the period ended 31 December 2004, and the final dividend of £93 million proposed in August 2005, relating to the year ended 30 June 2005, were paid or proposed to be paid out of profits available for distribution generated from external cash receipts.

Contingent consideration

On 30 September 2003, the Company issued 338,755 Ordinary Shares to satisfy the remaining contingent consideration in respect of the acquisition of the remaining 5% interest in WAPTV Limited which occurred in May 2001.

In fiscal 2003, the Company issued 43.2 million shares with a fair value of £253 million to HSBC, Matsushita and BT (the selling shareholders) in respect of deferred consideration for the acquisition of the remaining 67.5% of BiB in May and June 2001. The Group also agreed with the selling shareholders certain other terms relating to the agreement reached on 15 July 2000 for the acquisition by the Group of the interest of the selling shareholders in BiB. These included the waiver of the selling shareholders rights under the earn out provisions. The earn out provisions provided that if the valuation of BiB was £3 billion or more in January or July 2003, further contingent consideration would have been payable to the selling shareholders. Additional Group merger reserve of £111 million was created in relation to 20.8 million shares issued to BT in respect of deferred consideration for the acquisition of 19.9% of BiB.

24. Guarantees, contingencies and other financial commitments

(a) Future expenditure

	Year ending 30 June						**Total at**	Total at
	2006	2007	2008	2009	2010	After 5 years	**30 June 2005**	30 June 2004
	£m	£m	£m	£m	£m	£m	**£m**	£m
Contracted for but not provided for in the accounts								
television programme rights[(i)]	801	744	326	255	125	9	**2,260**	2,489
Digiboxes and related equipment	155						**155**	70
third party payments[(ii)]	7	5	2				**14**	41
capital expenditure	10						**10**	17
other purchase obligations	25	9	2				**36**	61
	998	758	330	255	125	9	**2,475**	2,678

(i) At 30 June 2005, the Group had minimum television programming rights commitments of £2,260 million (2004: £2,489 million), of which £642 million (2004: £766 million) related to commitments payable in US dollars for periods of up to eight years (2004: nine years), £45 million (2004: £87 million) related to commitments payable in Swiss francs for periods of up to one year (2004: two years) and £3 million (2004: £6 million) related to commitments payable in Euros for periods of up to one year (2004: two years).

An additional £302 million (US$535 million) of commitments (2004: £265 million (US$483 million)) would also be payable in US dollars, assuming that movie subscriber numbers remain unchanged

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

from current levels. The pounds sterling television programme rights commitments include similar per subscriber based price clauses that would result in additional commitments of £10 million (2004: £3 million) if subscriber numbers were to remain at 30 June 2005 levels.

(ii) The third party payment commitments are in respect of distribution agreements for the television channels owned and broadcast by third parties, retailed by the Group to DTH viewers (Sky Distributed Channels) and are for periods of up to four years (2004: five years). The extent of the commitment is largely dependent upon the number of DTH subscribers to the relevant Sky Distributed Channels, and in certain cases, upon inflationary increases. If both the DTH subscriber levels to these channels and the rate payable for each Sky Distributed Channel were to remain at 30 June 2005 levels, the additional commitment would be £522 million (2004: £844 million).

(b) Contingent liabilities

The Group has contingent liabilities by virtue of its investments in unlimited companies, or partnerships, which include Nickelodeon UK, The History Channel (UK), Paramount UK and National Geographic Channel UK.

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

(c) Contingent assets

Under the terms of one of the Group s channel distribution agreements, BSkyB Limited is entitled to a payment between January and March 2007, equal to a proportion of the fair value of certain of the channels under that distribution agreement. The fair value of the channels is to be determined as at 31 December 2006. Accordingly, it is not yet possible to determine the value of the payment to be received.

The Group has served a claim for a material amount against an information and technology solution provider, which provided services to the Group as part of the Group s investment in CRM software and infrastructure. The amount that will be recovered by the Group will not be finally determined until resolution of the claim.

(d) Guarantees

The Company and certain of its subsidiaries have undertaken, in the normal course of business, to provide support to several of the Company s subsidiaries, to meet their liabilities as they fall due. The liabilities of these subsidiaries are already included in the Group s consolidated accounts. These undertakings have been given for at least one year from the date of the signing of the UK statutory accounts of the subsidiary entity. A payment under these undertakings would be required in the event of a subsidiary being unable to pay its liabilities. The maximum potential amount of future payments which would be made by the Company to its wholly-owned subsidiaries under these undertakings cannot be determined as the net liability position of the subsidiaries up to at least one year into the future is not known.

Two of the Group s subsidiary undertakings, BSkyB Limited and SSSL, have given joint and several guarantees in relation to the Company s £1 billion RCF and the US$650 million, US$600 million, US$300 million and £100 million Guaranteed Notes (see note 19). Additionally, the Company s £1 billion RCF is guaranteed by BSkyB Investments Limited.

The Company and certain of its subsidiaries have undertaken, in the normal course of business, to provide support to several of the Company s investments in both limited and unlimited companies and partnerships, to meet their liabilities as they fall due. Several of these undertakings contain maximum financial limits. These undertakings have been given for at least one year from the date of the signing of the UK statutory accounts of the related entity. A payment under these undertakings would be required in the event of an investment being unable to pay its liabilities. The Company has provided parental company

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

guarantees of £14 million to creditors of Hestview Limited (2004: £3 million to creditors of Sky Interactive Limited). The letters of credit of £5 million that BSkyB Limited provided to Sky Interactive Limited in respect of Sky Buy expired during the year and were not replaced.

The Company and certain of its subsidiaries have agreed to provide additional funding to several of its investments in limited and unlimited companies and partnerships, in accordance with funding agreements. Payment of this additional funding would be required if requested by the investees in accordance with the funding agreements. The maximum potential amount of future payments which may be required to be made by the Company and certain of its subsidiaries to its investments, in both limited and unlimited companies and partnerships under the undertakings and additional funding agreements, is £7 million (2004: £9 million).

(e) Lease and similar commitments

The minimum annual rentals under these arrangements are as follows:

	Land and buildings	Plant and machinery	Total
	£m	£m	£m
30 June 2005			
Operating leases and similar arrangements which expire:			
within one year	**1**	**5**	**6**
between two and five years	**3**	**62**	**65**
after five years	**10**	**16**	**26**
	14	**83**	**97**
30 June 2004			
Operating leases and similar arrangements which expire:			
within one year		3	3
between two and five years	3	52	55
after five years	10	23	33
	13	78	91

The rents payable under these leases are subject to renegotiation at the various intervals specified in the leases. Summarised below at 30 June 2005, are the minimum lease payments for non-cancellable operating leases and similar arrangements.

	Operating leases and similar arrangements
	£m
Year ending 30 June:	
2006	95

2007	85
2008	70
2009	64
2010	36
After five years	94
	444

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Summarised below at 30 June 2005, are the minimum sub-lease rentals to be received under non-cancellable operating sub-leases.

	Sub-leases
	£m
Year ending 30 June:	
2006	21
2007	21
2008	21
2009	19
2010	18
After five years	5
	105

25. Regulatory update

European Commission Investigation Football Association Premier League Limited (FAPL)

The European Commission s investigation into the FAPL s joint selling of exclusive broadcast rights to football matches has not yet concluded: the Commission published a notice on 30 April 2004 inviting third party comments on its intention to adopt a decision making commitments offered by the FAPL legally enforceable and to close its file. Among other things, these commitments would address the next auction of rights by the FAPL for the 2007/08 and subsequent seasons. The outcome of this consultation has not yet been disclosed and the Commission has not yet adopted a decision.

The Commission confirmed last year in a comfort letter that, on the basis of performance by the Group of certain commitments given by the Group to the Commission, it has fully and finally settled the Commission s other investigations in connection with the Group s bids for all rights in relation to FAPL matches throughout the 2004/05 to 2006/07 FAPL seasons and any resulting agreements between the Group and FAPL.

European Commission Investigation Movie Contracts

The European Commission has announced in a press release (dated 26 October 2004) that it has closed its investigations with a number of major US movie studios into certain terms on which movies produced by them are supplied to distributors, including pay television operators, throughout the European Union. The investigations related to most favoured nations (MFN) clauses in these studios output agreements. The studios offered to withdraw the MFN clauses in their output agreements. The Commission stated in its press release that two studios had not, however, offered to withdraw such clauses, in relation to which it appears that the Commission s case remains open. The Commission has not published any further statement or (final or provisional) decision indicating the actual terms on which it has closed its investigation.

European Commission Sector Inquiry New Media Sports Rights

In September 2005, the European Commission published its concluding report on its sector inquiry into the provision of audio-visual content from sports events over 3G networks, which it had initiated in January 2004.

The European Commission has identified a number of commercial practices which it considers raise competition concerns in relation to the availability of mobile sports content and on which it states that it will focus in the future. Among others, these include: (i) the sale of what the European Commission considers to be bundled audiovisual rights for various retail platforms to one or a few operators, in relation to which

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

the European Commission has said that it will target situations where rights to premium sports remain under-exploited through such bundled sale of rights and subsequent warehousing of rights by powerful operators; and (ii) restricting the length and timing of 3G transmissions of sports coverage, which the European Commission considers may have a negative impact on the value of 3G rights and the take-up of 3G sports services by consumers.

The European Commission has stated that it will take account of the findings of the sector inquiry in future proceedings in this area. It has also stated that it will further review, together with the relevant national competition authorities of Member States, potentially harmful situations identified during the sector inquiry, and that procedures will be initiated in cases where behaviour is not adjusted to comply with the requirements of competition law.

The European Commission has not announced any proceedings arising from situations identified in the sector inquiry or publicly indicated which individual companies might be the subject of proceedings. At this stage, the Group is unable to determine whether the European Commission s concluding report or any subsequent proceedings might have a material effect on the Group.

Ofcom review of conditional access guidelines

In May 2005, the Office of Communications (Ofcom) initiated a review of its guidelines entitled The pricing of conditional access services and related issues . These guidelines, which were originally adopted by the Office of Telecommunications (Oftel) in May 2002, set out Ofcom s policy towards the regulation of the supply of conditional access (and access control) services (including the structure of tariffs charged for such services).

The Group is co-operating with this review. At this stage, the Group is unable to determine whether the review will have a material effect on the Group.

26. Transactions with related parties and major shareholders

(a) Transactions with major shareholders

The Group conducts business transactions on an arm s length basis with companies which are part of the News Corporation group, a major shareholder.

Fox Entertainment Group (FEG) supplied programming with a total value of £69 million in the year (2004: £66 million; 2003: £63 million), the majority of which is supplied under arrangements with variable annual values dependent on the number of films supplied. The Group also earned £1 million from FEG in respect of programming-related fees (2004: £1 million; 2003: £1 million).

NDS Limited (NDS) supplied smart cards and encryption services with a value of £62 million in the year (2004: £55 million; 2003: £50 million) under a contract extending to September 2010. The Group also has a number of contracts with NDS for the supply of digital equipment, of which £4 million (2004: £3 million; 2003: £4 million) was paid during the year.

The Group earned £6 million from News Optimus Limited (formerly Broadsystem Ventures Limited) in respect of telephony services during the year (2004: £8 million; 2003: £4 million). News Optimus Limited and Broadsystem Limited also supplied telephony services with a value of £1 million (2004: £1 million; 2003: £3 million).

News International plc provided media-based advertising services and rental premises at a cost to the Group in the year of £8 million (2004: £5 million; 2003: £5 million). The Group also earned £2 million (2004: £3 million; 2003: £2 million) from News International plc for the provision of airtime.

News America Incorporated recharged the Group for IT services with a value of £1 million in the year (2004: £1 million; 2003: £1 million).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Orbis Technology Limited supplied interactive and internet-based services of £4 million in the year (2004: £4 million; 2003: £2 million).

Rugby International Pty Limited, National Rugby League Investments Pty Limited, Fox Sports US Distribution LLC and Global Cricket Corporation Pte Limited sold sports rights to the Group during the year worth £4 million (2004: £5 million; 2003: £4 million).

The Group earned £8 million during the year (2004: £2 million; 2003: £1 million) from Star Television Group (Star), Fox International Channels (UK) Limited (Fox International), Fox News Channel, Phoenix Chinese News and Entertainment, and The News Corporation Limited, for the provision of transponder capacity, uplinking and EPG facilities and marketing services. The Group paid Star and Fox International £10 million (2004: £5 million; 2003: £2 million) in respect of carriage fees for the supply of programming.

The Group supplied consultancy services to Sky Italia during the year with a value of £1 million (2004: £1 million; 2003: nil).

In the prior year ESPN Star Sports paid the Group £1 million (2003: £1 million) of fees related to programming.

Balances payable to members of the News Corporation group, analysed by activity:

	2005	2004
	£m	£m
Programming	**25**	28
Telephony services	**2**	5
Supply of smart cards and encryption services	**6**	6
Advertising		1
	33	40

Balances receivable from members of the News Corporation group, analysed by activity:

	2005	2004
	£m	£m
Programming	**1**	1
Consultancy		1
	1	2

In March and April 2003, News Corporation Finance Trust II, in which News Corporation, directly or indirectly, owns all of the beneficial interests in the assets of the trust, issued and sold 0.75% Beneficial Unsecured Exchangeable Securities (BUCS), in a private placement to certain institutions. Each BUCS is exchangeable on or after 2 April 2004 for the value of reference shares, which initially consist of 77.09 ordinary shares of the Company for each US$1,000 original liquidation preference of BUCS. The BUCS may also be tendered for redemption on 15 March 2010, 15 March 2013 or 15 March 2018 for payment of the adjusted liquidation preference, which may be paid, at the election of the trust, in cash, ordinary shares of the Company, preferred American Depositary Shares of News Corporation representing the preferred limited voting ordinary shares of News Corporation, or a combination thereof. News Corporation and News America have agreed to indemnify the Group and the Group s directors, officers, agents and employees against certain liabilities arising out of or in connection with the BUCS.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

number of the Company s ordinary shares subject to such warrants is 7,052,127. Upon the exercise of a warrant, News America has the right to elect to pay the holder in cash, in ordinary shares or American Depositary Shares, or any combination thereof. The warrants are redeemable at the option of News America, on or after 12 November 2001, and expire on 12 November 2016. News Corporation and News America have agreed to indemnify the Group and the Group s directors, officers, agents and employees against certain liabilities arising out of or in connection with the Exchangeable TOPrS.

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

(b) Transactions with joint ventures and associates

All transactions with joint ventures and associates are conducted on an arm s length basis.

	2005	2004	**2003**
	£m	£m	£m
Revenue	**20**	19	19
Operating costs	**54**	64	64

Revenues are primarily generated from the provision of transponder capacity, marketing and support services. Operating costs represent fees payable for channel carriage.

	2005	2004
	£m	£m
Funding to joint ventures and associates (see note 13)	**211**	234
Amounts owed by joint ventures and associates (see note 17)	**6**	8
Amounts due to joint ventures and associates (see note 18)	**3**	8

Included within funding to joint ventures are loans which bear interest at rates of between nil and six month LIBOR plus 1.5%. The maximum amount of loan funding outstanding in total from joint ventures and associates during the year was £23 million (2004: £44 million).

The Group took out a number of forward exchange contracts with counterparty banks during the year on behalf of two of the Group s joint ventures: The History Channel (UK) and Nickelodeon UK. On the same dates as these forward contracts were entered into, the Group entered into equal and opposite contracts with the joint ventures in respect of these forward contracts. During the year, US$3 million (2004: US$2 million) was paid to the joint ventures upon contract maturity and £2 million (2004: £2 million) was received from the joint ventures, with no exposure to gains or losses being experienced by the Group on these transactions. The face value of forward exchange contracts that had not matured as at 30 June 2005 was £11 million (2004: £2 million).

(c) Other transactions with related parties

Elisabeth Murdoch is the daughter of Rupert Murdoch, and sister to James Murdoch, both Directors of the Company, and has a controlling interest in Shine Entertainment Limited, in which the Group also has a 3.0% equity shareholding. During the year, the Group incurred development and production costs for television of £4 million (2004: £5 million; 2003: £2 million) from Shine Entertainment Limited. At 30 June 2005, there was an outstanding amount of £1 million due to Shine Entertainment Limited (2004: nil); there were no outstanding amounts due from Shine Entertainment Limited (2004: nil).

Freud Entertainment Limited, which is run by Matthew Freud, Elisabeth Murdoch s husband, has provided external support to the press and publicity activities of the Group during the year amounting to £1 million (2004: nil; 2003:

nil). At 30 June 2005, there were no outstanding amounts due to or from Freud Entertainment Limited (2004: nil).

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David Evans, a Director of the Company, is also a director of Crown Media Holdings, Inc, the ultimate parent company of Crown Entertainment Limited (Crown). Until April 2005, Crown owned and operated the Hallmark Channel in the UK. During the year, the Group paid Crown £9 million (2004: 8 million; 2003: £7 million) in respect of carriage fees for the supply of programming. Crown paid the Group £1 million (2004: £1 million; 2003: £1 million) for the provision of transponder capacity, uplinking facilities and marketing services. During the year, the Group earned commissions from Crown of £2 million (2004: £1 million; 2003: £2 million), and made payments to Crown of £10 million (2004: £10 million; 2003: £11 million) for acting as advertising sales agent for the Hallmark channel. During the year, the Group earned £1 million (2004: £1 million; 2003: nil) from Crown for the provision of airtime.

In addition to the foregoing, we have engaged in a number of transactions, also on an arm s length basis, with companies of which some of our Directors are also directors.

27. Summary of differences between United Kingdom and United States Generally Accepted Accounting Principles

(i) Differences giving rise to accounting adjustments

The Group s accounts are prepared in accordance with UK GAAP, which differs in certain significant respects from US GAAP.

The following is a summary of the significant adjustments to operating income, net income, shareholders (deficit) funds and certain other balance sheet items required when reconciling such amounts recorded in the accounts to the corresponding amounts in accordance with US GAAP. A convenience translation of pounds sterling amounts to US dollar amounts for the year ended 30 June 2005, at a rate of £1:$1.7930 (the noon buying rate on 30 June 2005 provided by the Federal Reserve Bank of New York), is presented solely for the convenience of the reader. No representation is made that the pounds sterling amounts shown could have been, or could be, converted into US dollars at that or any other rate.

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	Convenience translation 2005	Year ended 30 June 2005	2004	2003
	$m	£m	£m	£m
		(except per share data)		
Operating income:				
Operating profit under UK GAAP	**1,259**	**702**	481	248
Adjustments:				
Goodwill subsidiary[1]	**208**	**116**	119	117
Employee stock-based compensation[2]	**2**	**1**	(1)	10
Derivative accounting[3]	**25**	**14**	2	17
Capitalised interest[4]	**(4)**	**(2)**	(3)	(2)
Fixed asset investments[6]	**(25)**	**(14)**	68	(18)
Development costs[7]	**20**	**11**		
Sky+ digiboxes profit on sale[8]				(2)
Operating income under US GAAP	**1,485**	**828**	666	370
Net income:				
Profit on ordinary activities after taxation under UK GAAP	**763**	**425**	322	184
Adjustments:				
Goodwill subsidiary[1]	**208**	**116**	119	117
Goodwill joint venture[1]			(2)	
Employee stock-based compensation[2]	**2**	**1**	(1)	10
Derivative accounting[3]	**25**	**14**	2	17
Capitalised interest[4]	**19**	**11**	2	(1)
Deferred taxation on US GAAP adjustments[5]	**(18)**	**(10)**	(2)	(15)
Other deferred taxation[1][5]				(21)
Fixed asset investments[6]	**16**	**9**	(7)	(3)
Development costs[7]	**20**	**11**		
Sky+ digiboxes profit on sale[8]				(2)
Net income before cumulative effect of a change in accounting principle	**1,035**	**577**	433	286
Cumulative effect on prior years (to 30 June 2003) of adoption of EITF 00-21[8]			1	
Net income under US GAAP	**1,035**	**577**	434	286
Basic earnings per share under US GAAP (before cumulative effect of accounting change)[9]	**54.1c**	**30.2p**	22.4p	14.9p
Basic earnings per share under US GAAP (after cumulative effect of accounting change)[9]	**54.1c**	**30.2p**	22.4p	14.9p

Diluted earnings per share under US GAAP (before cumulative effect of accounting change)(9)	**54.0c**	**30.1p**	22.3p	14.7p
Diluted earnings per share under US GAAP (after cumulative effect of accounting change)(9)	**54.0c**	**30.1p**	22.3p	14.7p

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Convenience translation 2005	As at 30 June 2005	2004
	$m	£m	£m
Shareholders (deficit) funds:			
Capital and reserves under UK GAAP	**(61)**	**(34)**	90
Adjustments:			
Goodwill subsidiary[1]	**1,311**	**731**	615
Goodwill joint venture[1]	**2**	**1**	24
Employee stock-based compensation[2]	**36**	**20**	31
Derivative accounting[3]	**(34)**	**(19)**	(21)
Capitalised interest[4]	**36**	**20**	9
Deferred taxation[5]	**(9)**	**(5)**	2
Fixed asset investments[6]			(1)
Development costs[7]	**20**	**11**	
Dividends[10]	**167**	**93**	63
Shareholders funds under US GAAP	**1,468**	**818**	812
Total assets:			
Under UK GAAP	**4,160**	**2,320**	2,364
Adjustments:			
Goodwill subsidiary[1]	**1,311**	**731**	615
Goodwill joint venture[1]	**2**	**1**	24
Derivative accounting[3]	**7**	**4**	(25)
Capitalised interest[4]	**36**	**20**	9
Deferred taxation[5]	**(9)**	**(5)**	2
Fixed asset investments[6]			(1)
Development costs[7]	**20**	**11**	
Under US GAAP	**5,527**	**3,082**	2,988
Total liabilities:			
Under UK GAAP	**(4,221)**	**(2,354)**	(2,274)
Adjustments:			
Employee stock-based compensation[2]	**36**	**20**	31
Derivative accounting[3]	**(41)**	**(23)**	4
Dividends[10]	**167**	**93**	63
Under US GAAP	**(4,059)**	**(2,264)**	(2,176)

Notes

(1) Goodwill

Under UK GAAP, prior to 1 July 1998, goodwill arising on acquisitions was eliminated against reserves. From 1 July 1998, FRS 10 required future goodwill to be capitalised, although, as permitted by FRS 10, goodwill previously written off has not been restated on the balance sheet. On disposal or closure of a previously acquired business, any goodwill previously written off to reserves would be included when calculating the profit or loss on disposal. Where capitalised goodwill is regarded as having a limited useful economic life, FRS 10 provides that the cost is amortised on a straight-line basis over that life, of up to 20 years. Impairment reviews, as required by FRS 11, are carried out if events or circumstances indicate that the carrying value may not be recoverable, to ensure that goodwill is not carried at above the recoverable amount, being the higher of net realisable value and value in use. Goodwill is also reviewed for impairment at the end of the first full financial year after acquisition. The impairment review comprises a comparison of the carrying amount of the goodwill with the recoverable amount. To the extent that the carrying amount exceeds the recoverable amount,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

the goodwill is impaired and is written down. The impairment loss is recognised in the profit and loss account.

Under US GAAP, prior to 1 July 2002, goodwill arising on acquisitions was amortised by charges against income over its useful life, which was not to exceed 40 years. From 1 July 2002, SFAS No. 142 Goodwill and Other Intangible Assets (SFAS No. 142) bases the accounting for goodwill on reporting units, which are operating segments, as defined in SFAS No. 131 Disclosures about Segments of an Enterprise and Related Information , or one level lower. SFAS No. 142 does not presume that goodwill is a wasting asset that should be amortised on a straight-line basis over its estimated useful life; instead, it must be tested for impairment on an annual basis and whenever indicators of impairment arise. Upon adoption of SFAS No. 142, the Group ceased the amortisation of goodwill with a net carrying value of £1,084 million.

The annual impairment test was completed during fiscal 2005, fiscal 2004 and fiscal 2003. Since there were no quoted market prices in active markets for the Group s reporting units, the measurement of fair value for each reporting unit was based on the best information available for that reporting unit, which was determined to be future discounted cash flows. The fair value measurements were compared to the carrying amounts of each reporting unit and it was determined that goodwill was not impaired.

Under SFAS No. 142, equity method goodwill is no longer amortised. Equity method investments, however, continue to be reviewed for impairment in accordance with APB Opinion No. 18 The Equity Method of Accounting for Investments in Common Stock , which requires that a loss in value of an investment which is other than a temporary decline, be recognised.

Subsidiaries

Sky Television Limited

Goodwill of £492 million arising on the acquisition of Sky Television Limited on 3 November 1990 was being amortised under US GAAP on a straight-line basis over 40 years. From 1 July 2002, no further amortisation has been recorded under US GAAP following the adoption of SFAS No. 142. The goodwill balance under US GAAP at that date was £309 million. Under UK GAAP, the goodwill arising on the acquisition of Sky Television Limited was eliminated against reserves.

BiB

Goodwill arising on the acquisition of the Group s 67.5% interest in BiB was £543 million under UK GAAP, based on the fair value of the Group s shares on 9 May 2001 for the acquisition of the 47.6% interest, and 28 June 2001 for the acquisition of the remaining 19.9% interest. Under US GAAP, the goodwill arising was £664 million, based on the fair value of the Group s shares on 17 July 2000 for the acquisition of the 47.6% interest, and 14 May 2001 for the acquisition of the remaining 19.9% interest. Under UK GAAP, the fair value of consideration is determined as at the date the acquisition becomes unconditional. Under US GAAP, the fair value is based on the share price on the date of agreement and announcement of the acquisition. Under UK GAAP, the goodwill is being amortised on a straight-line basis over seven years from the dates of acquisition. Under US GAAP, no amortisation has been charged from 1 July 2002 following the adoption of SFAS No. 142. The goodwill balance under US GAAP at that date was £560 million.

During fiscal 2003, the Group recognised, under both UK and US GAAP, a deferred tax asset of £24 million in respect of BiB tax losses carried forward. Under UK GAAP, this resulted in a reduction of £24 million in the tax charge for fiscal 2003. Under US GAAP, the tax benefits of BiB s tax losses carried forward that were not recognised at the acquisition date of £21 million were applied to reduce

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

goodwill relating to the acquisition. The remaining £3 million reduced the fiscal 2003 current tax charge.

SIG

The goodwill of £272 million arising on the acquisition of SIG on 12 July 2000 was being amortised under UK and US GAAP on a straight-line basis over seven years. From 1 July 2002, no further amortisation has been recorded under US GAAP following the adoption of SFAS No. 142. The goodwill balance under US GAAP at that date was £189 million.

During fiscal 2003, under both UK and US GAAP, the Group made a provision of £5 million against goodwill which arose on the acquisition of BSkyB Sports Holdings Limited (formerly Opta Index Limited), a subsidiary of SIG.

Planetfootball.com Limited

At 30 June 2004, a provision of £3 million was made under UK GAAP, included within amortisation, against goodwill which arose on the acquisition of Planetfootball.com Limited (Planetfootball.com) (a company which provides website services to the sports industry), reducing the carrying value to nil. The provision was made as a result of an impairment review which showed that the expected future cash flows of the business would not support a carrying value for the goodwill. Under US GAAP, the goodwill recorded upon acquisition of Planetfootball.com was allocated to a larger reporting unit, whose fair value exceeded book value during the year ended 30 June 2004. Accordingly, this impairment charge was not recorded under US GAAP.

Joint ventures

GSB

Goodwill of £32 million arising on the acquisition of an additional 9.5% interest in GSB in March 1998 was being amortised under US GAAP on a straight-line basis over 20 years, from 1 July 1998. From 1 July 2002, no further amortisation was recorded under US GAAP following the adoption of SFAS No. 142. The goodwill balance under US GAAP on that date was £26 million. In fiscal 2004, an other than temporary impairment of £3 million was recorded under US GAAP as the fair value of GSB, based on discounted cash flow forecasts, no longer exceeded the carrying value of the asset. The remaining goodwill balance of £23 million was reduced to nil on 1 November 2004, following the disposal of the Group s investment in GSB.

Under UK GAAP, the goodwill arising on the acquisition of GSB was immediately eliminated against reserves. As required by FRS 10, this goodwill was included in the calculation of the loss on disposal of the Group s investment.

In addition, under both UK and US GAAP, £1 million of goodwill has arisen on the purchase of certain other joint ventures and associates. Under UK GAAP, this goodwill is being amortised over its useful economic life; under US GAAP no amortisation charge is recognised.

(2) Employee stock-based compensation

Under UK GAAP, the Group recognises a charge in the profit and loss account for its LTIP, EBP and KCP based on the difference between the exercise price of the award and the market price of a BSkyB share on the date of grant. The charge is allocated on a straight-line basis over the vesting period of the options. On exercise of options which are settled using shares which have been purchased through the ESOP trust, the difference between the amount accrued for the options and the cost of the ESOP shares is recognised as a movement within reserves. Under UK GAAP, where the vesting of options is contingent upon the satisfaction of performance conditions, the profit and loss charge in any

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

period may be reduced or increased, based on the latest estimate of the actual number of awards which will eventually vest.

Under US GAAP, for performance-related options deemed to be variable plans under APB Opinion No. 25 Accounting for Stock Issued to Employees (APB No. 25), compensation expense is measured as the difference between the quoted market price and the exercise price at the date when the number of shares that will vest and the exercise price is known (the measurement date); the cost is recognised over the period the employee performs the related services. Since the ultimate compensation is unknown until the performance conditions are satisfied, estimates of compensation expense are recorded before the measurement date based on the quoted market price of the common shares at the intervening dates, in situations where it is probable that the performance conditions will be attained. Options that will vest conditional only on continued employment over the life of the option are deemed to be fixed plans under APB No. 25, with the excess of the market price over the exercise price on the date of the grant being charged against income over the vesting period of the options.

In accordance with US GAAP, the cost of compensatory stock options is included within operating expenses in the income statement and recognised within shareholders funds in the balance sheet. Under UK GAAP, the cost of stock options is included within operating expenses. As the stock compensation expense under US GAAP was the same as that recorded under UK GAAP, there was no difference in the charge for the year (2004: reduction of £1 million; 2003: reduction of £8 million) under US GAAP as compared to the charge recorded under UK GAAP.

Contingent payments made to the selling shareholders of WAPTV Limited in June 2002 and September 2003, in the form of the Company s shares, were linked to their continuing employment within the Group. Under UK GAAP, these amounts were included as purchase consideration in calculating goodwill. Under US GAAP, these payments were classified as stock-based compensation and, as such, were recorded within shareholders funds and were being amortised over the period of contingency, between 13 and 28 months from the date of acquisition, which was 29 May 2001. The US GAAP stock compensation charge for the year was nil (2004: nil; 2003: £1 million).

Under UK GAAP, employer s National Insurance is accrued over the vesting period of the share options. Under US GAAP, EITF 00-16 Recognition and Measurement of Employer Payroll Taxes on Employee Stock-Based Compensation requires the accrual for National Insurance to be recognised on the date of the event triggering the measurement and payment of tax to the tax authority (i.e. the exercise date of the share options). The additional US GAAP credit arising for the year amounts to £1 million (2004: charge of £2 million; 2003: credit of £3 million), as the National Insurance paid was less than that accrued during the period under UK GAAP.

The cumulative balance sheet effect in respect of all employee stock-based compensation at 30 June 2005, amounts to a decrease in UK GAAP accruals of £20 million (2004: £31 million). The cumulative balance sheet effect comprises the movement out of liabilities and into shareholders funds of the accrual under UK GAAP for share options of £15 million (2004: £27 million), and a reduction in the accrual under UK GAAP for employer s National Insurance of £5 million (2004: £4 million).

(3) Derivative accounting

Under UK GAAP, investments or derivative financial instruments accounted for as hedges are structured in order to reduce the market risk associated with the underlying transaction being hedged and are designated as hedges at the inception of the contract. Receipts and payments on interest rate instruments are recognised on an accruals basis, over the life of the instrument, within interest receivable and similar income and interest payable and similar charges. Gains and losses hedging forecast transactional cash flows are recognised in the hedged periods, within operating expenses, net. Under UK GAAP, all derivative contracts have been accounted for on the basis that they

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

hedging applicable monetary items. Under UK GAAP, commercial activities denominated in foreign currencies are recorded in sterling at actual exchange rates as at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract or other hedging instruments. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end or, if hedged, at the appropriate hedged rate.

Under US GAAP, the Group has marked all derivative instruments to fair value. The fair value of derivative instruments is determined based on discounted present value techniques or valuations prepared by banks. Monetary assets and liabilities denominated in foreign currencies at year end are reported at the rates of exchange prevailing at the balance sheet date and derivative financial instruments are presented separately at their fair values.

As of 1 July 2003, the Group had sufficiently designated a number of interest rate swaps and cross-currency swaps as cash flow hedges of 100% of the Group s exposure to US dollar interest rates on US dollar denominated bonds under US GAAP. As such, the effective portion of the gain or loss on the swaps designated and qualifying as cash flow hedging instruments is reported as a component of other comprehensive income (OCI), outside earnings, and is reclassified into earnings, within interest receivable and similar income and interest payable and similar charges, in the same periods during which the forecast transactions affect earnings (i.e. when the interest expense is incurred and/or gains or losses relating to the retranslation of US dollar denominated debt principal are recognised in the income statement). Any hedge ineffectiveness on the swaps is recognised directly in earnings, within interest receivable and similar income and interest payable and similar charges. The ongoing effectiveness testing is performed using the dollar-offset approach. If forecast transactions are no longer expected to occur, any amounts included in OCI related to that forecast transaction are recognised directly in earnings. Certain interest rate swap and swaption agreements which convert fixed interest rates to floating interest rates cannot be designated as hedges and movements in their fair values continue to be recorded directly in earnings. If any swap agreement should be terminated, the fair value recorded in OCI at the time of termination would be released to earnings immediately.

As at 30 June 2005, the Group had sufficiently designated a number of forward exchange contracts and currency options as cash flow hedges of approximately 80% of the Group s exposure to US dollar payments on its long-term programming contracts with US movie licensors for a period of five years, thereafter nil. As such, the effective portion of the gain or loss on the forward exchange contracts and currency options designated and qualifying as cash flow hedging instruments is reported as a component of OCI, outside earnings, and is reclassified into earnings, within operating expenses, net, in the same periods during which the forecast transactions affect earnings (i.e. when US dollar-denominated creditors are retranslated and related programming stock is amortised through the income statement). For currency options, hedge accounting is only applied to changes in intrinsic value. For forward exchange contracts, hedge accounting is applied to changes in the full fair value. Any hedge ineffectiveness on the forward exchange contracts and currency options is recognised directly in earnings, within interest receivable and similar income and interest payable and similar charges. The ongoing effectiveness testing is performed using the dollar-offset approach. If forecast transactions are no longer expected to occur, any amounts included in OCI related to that forecast transaction are recognised directly in earnings, within interest receivable and similar income and interest payable and similar charges. Certain forward exchange contracts and currency options have not been sufficiently designated as hedges and movements in their fair values continue to be recorded directly in earnings, within interest receivable and similar income and interest payable and similar charges. If any forward exchange contract or currency option should be terminated, the fair value recorded in OCI at the time of termination would be released to earnings immediately, where the underlying exposure was no longer expected to occur.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The estimated net amount of existing losses which are included in OCI at 30 June 2005 that are expected to be reclassified into earnings within the next twelve months is £20 million, net of tax (2004: £17 million).

During fiscal 2005, the Group recognised a loss in the income statement of £5 million due to hedge ineffectiveness (2004: loss of £8 million).

(4) Capitalised interest

Under UK GAAP, the capitalisation of interest is not required, and the Group expenses interest charges to the profit and loss account in the year in which they are incurred. Under US GAAP, interest charges on funds invested in the construction of major capital assets are required to be capitalised and depreciated over the estimated useful life of the assets concerned.

Cumulative capitalised interest on assets under construction at 30 June 2005 amounted to £20 million (2004: £9 million). During the year, interest of £13 million (2004: £5 million; 2003: £1 million) was capitalised in respect of assets under construction, and depreciation of £2 million (2004: £3 million; 2003: £2 million) was charged in respect of capitalised interest on assets in use.

(5) Deferred taxation

Under UK GAAP, deferred tax is recognised in respect of 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 is regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses or from which the future reversal of underlying timing differences can be deducted.

Under US GAAP, deferred income taxes reflect the net tax effects of temporary differences (differences between the carrying value of assets and liabilities and their corresponding tax bases). A valuation allowance is recorded when it is more likely than not that some or all of a deferred tax asset will not be realised.

FRS 19 Deferred tax (FRS 19) is the current UK accounting standard on deferred taxes. While differences between FRS 19 and SFAS No. 109 Accounting for Income Taxes exist, such differences have not had a material effect on the Group from a measurement perspective and hence the UK and US GAAP accounting treatments for deferred tax are closely aligned. As a result, the net deferred tax asset recognised under UK and US GAAP has primarily differed only in respect of deferred tax on UK to US GAAP adjustments.

Under UK GAAP, at 30 June 2005, there is a deferred tax asset of £100 million (2004: £151 million), which arose principally as a result of carried forward trading losses. Under both UK GAAP and US GAAP at 30 June 2004, there was also an Advance Corporation Tax balance of £53 million which was netted against the tax liability within creditors, as there was a legal right of offset under UK tax legislation. This was utilised during the year to reduce the Group s cash tax payments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The net deferred tax asset under US GAAP comprises the following:

	Deferred tax asset 30 June 2005			Deferred tax asset **30 June 2004**		
	Gross asset	**Valuation allowance[iv]**	**Net asset**	Gross asset	Valuation allowance[iv]	Net asset
	£m	**£m**	**£m**	£m	£m	£m
Accelerated capital allowances	**30**	**(16)**	**14**	34	(13)	21
Tax losses carried forward[i]	**146**	**(78)**	**68**	195	(77)	118
Fixed asset investments[ii]	**354**	**(354)**		472	(472)	
Short-term timing differences[iii]	**13**		**13**	20	(6)	14
	543	**(448)**	**95**	721	(568)	153

(i) At 30 June 2005, there is a valuation allowance of £64 million (2004: £64 million) against a deferred tax asset in respect of trading losses in the Group s German holding companies of KirchPayTV, on the basis that these timing differences are not more likely than not to be realised. There is also a valuation allowance of £14 million (2004: £13 million) against a deferred tax asset arising from UK losses in the Group. These losses can be offset only against taxable profits generated in the entities concerned. Although the Directors ultimately expect sufficient profits to arise, there is currently insufficient evidence to support recognition of a deferred tax asset relating to these losses. The losses are available to be carried forward indefinitely under current law. Under US GAAP, the subsequent recognition of tax benefits relating to the deferred tax asset of £14 million arising from UK losses in the Group will be allocated to reduce goodwill arising on previously acquired entities.

(ii) At 30 June 2005, there is a valuation allowance of £330 million (2004: £450 million) against a deferred tax asset in respect of potential capital losses related to the Group s holding of KirchPayTV on the basis that these timing differences are not more likely than not to be realised. There is also a valuation allowance of £24 million (2004: £22 million) against a deferred tax asset in respect of realised and unrealised capital losses in respect of football club and other investments which have not been recognised as a deferred tax asset, on the basis that they are not more likely than not to be utilised and thus realised.

(iii) During fiscal 2005, a deferred tax asset of £3 million (2004: £10 million) has been recognised through other comprehensive income, relating to derivative financial instruments. In addition, at 30 June 2004, there was a valuation allowance of £6 million against a deferred tax asset arising principally on other timing differences, on the basis that these timing differences were not more likely than not to be realised.

(iv) The current year credit to the income statement in respect of these valuation allowances was £3 million (2004: charge of £2 million; 2003: credit of £105 million).

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The US GAAP tax charge (benefit), which wholly relates to UK corporation tax on continuing operations, comprises:

	2005	2004	2003
	%	%	%
UK corporation tax rate	**30.0**	30.0	30.0
Permanent differences	**(0.2)**	(0.9)	0.6
Loss (profit) on disposals of investments, net	**0.5**	(3.5)	2.1
Joint venture (profits) losses	**(0.1)**	1.2	1.2
Valuation allowance	**0.2**	0.4	(46.7)
(Credit) charges relating to prior periods	**(3.1)**		1.9
Other	**(0.1)**	0.1	0.5
US GAAP income tax charge (benefit)	**27.2**	27.3	(10.4)

(6) Fixed asset investments

Under UK GAAP, a fixed asset investment in a publicly-traded entity, which is not equity accounted for or consolidated on a group basis, is recorded at cost, less any provision for permanent diminution in value. Amounts provided against these investments for permanent diminution in value are charged to the profit and loss account below operating profit, and any reversals in these provisions are written-back to the profit and loss account.

Under US GAAP, the Group has accounted for these investments as available for sale securities and has therefore marked such investments to market, with any movements in the carrying values, net of tax, being recorded in other comprehensive income until realised. Market value is determined by reference to quoted market prices irrespective of the size of the Group s interest. Provisions for other than temporary impairments are charged to operating income and the restoration of a previously recognised impairment loss is prohibited. Any premium to market value of investments acquired is charged to the income statement.

Under US GAAP, the Group has accounted for investments that do not have a readily determinable fair value under the cost method of accounting. When factors indicate that a decrease in value of the investment has occurred which is other than temporary, a charge to operating income is recorded.

The reconciling items between UK and US GAAP within operating income and net income, for fixed asset investments are summarised as follows:

	Convenience translation	**Year ended 30 June**		
	2005	**2005**	2004	2003
	$m	**£m**	£m	£m
Loss on disposal of investments in joint ventures[(i)]	**(25)**	**(14)**		
Write-down of football club investments[(ii)]			(9)	(21)
Profit on disposal of football club investments[(iii)]			38	
Write-down of other investments[(iv)]				(3)
Profit on disposal of other investments[(v)]			49	
Other			(10)	6

Adjustment to operating income	**(25)**	**(14)**	68	(18)
Reversal of differences relating only to reclassifications within operating income (i)(ii)(iii)(iv)(v)	**41**	**23**	(75)	15
Adjustment to net income	**16**	**9**	(7)	(3)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(i) On 1 November 2004, the Group sold its 49.5% investment in GSB, realising a loss on disposal under UK GAAP of £23 million. This included the write back of £32 million of goodwill which had previously been written off to reserves. This was recorded as an exceptional item below operating profit. Under US GAAP, the carrying value of the goodwill at the time of disposal was £23 million, which resulted in a realised loss on disposal of £14 million, which was reclassified within operating income.

(ii) In fiscal 2003 and fiscal 2004, a £21 million provision and a £9 million provision, respectively, were taken against football club investments under UK GAAP as exceptional items below operating profit. These provisions were made due to the continued decline over the previous months in the market value of these investments, leading the Group to believe that a permanent diminution in value had occurred. Under US GAAP, these were considered other than temporary diminutions in value and were reclassified within operating income.

(iii) In fiscal 2003, under UK GAAP, the provision against football club investments was reduced by £3 million, following the agreement to sell the Group s minority interest in Chelsea Village plc in July 2003. Under US GAAP, the reversal of a previously recognised impairment loss is not permitted. Therefore, under US GAAP, this amount was recognised as profit on disposal in fiscal 2004.
In fiscal 2004, under UK GAAP the provision against football club investments was reduced by £33 million, following the disposal of the Group s minority interest in Manchester United plc in October 2003. The reduction in the provision under UK GAAP was recorded as an exceptional item below operating profit. Under US GAAP, this amount was recognised as profit on disposal, and was reclassified within operating income.

On the Group s disposal of its investment in Manchester United plc, a profit on disposal of £2 million was also realised under UK GAAP. This was also recorded as an exceptional item below operating profit under UK GAAP; under US GAAP, this was reclassified within operating income.

(iv) In fiscal 2003, under UK GAAP, a £3 million provision was taken against the Group s investment in OpenTV shares, as an exceptional item below operating profit. Under US GAAP, the provision was reclassified within operating income.

(v) In fiscal 2004, the Group sold its 20% shareholding in QVC (UK), operator of QVC The Shopping Channel, for £49 million in cash, realising a profit on disposal of £49 million. This was recorded as an exceptional item below operating profit under UK GAAP; under US GAAP, this was reclassified within operating income.

At 30 June 2005, there was no US GAAP reconciling adjustments to fixed asset investments, within assets and shareholders funds (2004: £1 million decrease to fixed asset investments) due to the marking to market of listed investments.

(7) Development costs

Under UK GAAP, the Group has not capitalised any costs in relation to payments to a third party for development of encryption technology. Under US GAAP, the costs have been capitalised, as the technology is being developed exclusively for the Group s internal use, and will not be sold, licensed or otherwise marketed to the Group s customers. In accordance with AICPA Statement of Position 98-1 Accounting for the Costs of Computer Software Developed or obtained for Internal Use , therefore, these application development costs have been capitalised.

(8) Installation, digiboxes and related equipment revenues and costs

Under UK GAAP, installation, digiboxes (including Sky+ digiboxes) and related equipment revenues and costs are recognised once the installation is complete.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Under US GAAP, prior to 1 July 2003, these revenues were recognised over the period that a customer was expected to subscribe to the related service. Under US GAAP, where installation or digiboxes and related equipment costs for a particular product exceeded revenues, the excess costs were charged in the income statement immediately upon installation. All other costs directly attributable to the income deferred were recognised over the same period as the revenues under US GAAP.

In fiscal 2003, under UK GAAP, installation, digiboxes and related equipment revenues of £61 million were recognised. The costs associated with these revenues were also expensed immediately. Under US GAAP, installation, digiboxes and related equipment revenues of £27 million were recognised during fiscal 2003, and related costs of £27 million were also expensed. Cumulative deferred revenue recorded on the balance sheet under US GAAP in respect of installation, digiboxes and related equipment at 30 June 2003 amounted to £219 million. The deferred costs relating to these deferred revenues amounted to £217 million.

Under US GAAP, following the adoption of EITF 00-21 from 1 July 2003, the accounting for installation, digiboxes and related equipment revenues changed. The sale of an installed digibox and DTH subscription constitutes an arrangement with multiple deliverables, and the installed digibox and DTH subscription met the criteria specified in EITF 00-21 to be treated as separate units of accounting.

Revenue attributable to each unit is recognised once delivery has been completed or the service has been delivered, based on the fair value of that unit relative to the total consideration received under the arrangement. Following the guidance in EITF 00-21, it has been determined that the amount allocated to each unit is equal to the fees received from the customer for each unit. As a result, the Group no longer defers and amortises installation, digibox and related equipment revenues. The US GAAP accounting treatment is therefore now consistent with UK GAAP.

The Group adopted EITF 00-21 by means of a cumulative effect adjustment in fiscal 2004. As a result, at 1 July 2003, the date of adopting EITF 00-21, a net gain of £1 million (net of tax) was recorded as a cumulative change in accounting principal in the income statement.

(9) Per share data

The equivalent earnings per ADS outstanding is as follows:

	Convenience translation	**Year ended 30 June**		
	2005	**2005**	2004	**2003**
	$	**£**	£	£
Basic earnings per ADS under US GAAP (before cumulative effect of accounting change)*	**216.6c**	**120.8p**	89.4p	59.7p
Basic earnings per ADS under US GAAP (after cumulative effect of accounting change)*	**216.6c**	**120.8p**	89.7p	59.7p
Diluted earnings per ADS under US GAAP (before cumulative effect of accounting change)*	**215.9c**	**120.4p**	89.0p	58.9p
Diluted earnings per ADS under US GAAP (after cumulative effect of accounting change)*	**215.9c**	**120.4p**	89.3p	58.9p

* Accounting change referred to is the cumulative effect on prior years (to 30 June 2003) of the adoption of EITF 00-21.

Earnings per ADS is not exactly four times earnings per share due to rounding differences.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(10) Dividends

Under UK GAAP, dividends are recorded in the period in respect of which they are declared or proposed by the Directors. Under US GAAP, dividends are recorded in the period in which the dividend is declared. In August 2005, the Directors proposed a final dividend of £93 million (5.0 pence per share) relating to the year ended 30 June 2005 (2004: £63 million, representing 3.25 pence per share). This dividend has been recognised as a liability under UK GAAP at 30 June 2005, but not under US GAAP.

(11) Consolidated Statements of Financial Performance

Turnover

Under UK GAAP, amounts receivable from the disposal of programming rights not acquired for use by the Group and amounts received from the sale of advertising space in the Sky Magazine are classified within operating expenses, net . Under US GAAP, these amounts are classified within turnover .

Under UK GAAP, betting costs from on-line casino operations and casino-style interactive roulette games are offset against betting revenues within turnover . Costs from all other betting activities are shown within operating expenses, net . Under US GAAP, all betting costs are offset against betting revenues within turnover .

Exceptional items within operating profit

Under UK GAAP, exceptional items are material items which derive from events or transactions that fall within the ordinary activities of a reporting entity and which individually or, if of a similar type, in aggregate, need to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view. US GAAP does not allow the presentation of exceptional items and such items would not be presented as such under US GAAP.

Exceptional items within non-operating profit

Under UK GAAP, profits or losses on disposals of operations, and provisions and releases of provisions against fixed asset investments are recognised as exceptional items below operating profit under the requirements of FRS 3. Under US GAAP, such items would be presented as components of discontinued operations, if certain criteria were met, or within operating income.

Share of results of joint ventures and associates

Under UK GAAP, the share of joint ventures and associates operating results excludes the share of joint ventures and associates interest and the share of joint ventures and associates tax. These amounts are included within interest payable and similar charges or interest receivable and similar income , and tax charge respectively. Under US GAAP, all of these amounts are included within equity in earnings (losses) of affiliates .

Under UK GAAP, the share of joint ventures and associates operating results in fiscal 2004 includes £11 million of negative goodwill arising on the acquisition of an additional 16.7% stake in ATR, which was written off to the profit and loss account immediately on acquisition. Under US GAAP, this amount was recognised as a gain on extinguishment of debt by ATR, and is included within equity in earnings of affiliates .

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(12) Consolidated Balance Sheets

Under UK GAAP, long-term debtors (including prepaid programme rights and transponder rentals) are classified as debtors falling due after more than one year within current assets. Under US GAAP, long-term debtors are classified within other non-current assets.

Under UK GAAP, deferred tax assets are classified within debtors falling due within one year or debtors falling due after more than one year within current assets. Under US GAAP, deferred tax assets are classified within other current assets or other non-current assets .

Under UK GAAP, fixed asset investments (except investments in own shares) are classified under the heading investments within fixed assets. Under US GAAP, fixed asset investments are classified within other non-current assets , when the investments are not expected to be sold within one year, and within other current assets when the investments are expected to be sold within one year.

Under UK GAAP, investments in joint ventures and associates are classified under the heading investments within fixed assets. Under US GAAP, investments in joint ventures and associates are classified as investments in equity affiliates .

Under UK GAAP, a merger reserve is included as part of capital and reserves. The merger reserve was created in accordance with the merger relief provisions under section 131 of the United Kingdom Companies Act 1985 relating to accounting for acquisitions involving the issue of shares at a premium. Merger relief provides relief from the requirement to create a share premium account in a parent company s balance sheet. In preparing group consolidated financial statements, the amount by which the fair value of the shares issued exceeds their nominal value is recorded within a merger reserve on consolidation, rather than in a share premium account.

Merger relief is available when three conditions have been satisfied:

1. When a company secures at least 90 per cent of the nominal value of each class of the equity share capital of another company, as a result of an arrangement.

2. The arrangement provides for the allotment of equity shares by the acquirer.

3. Consideration for the shares is either the issue or transfer of shares to the acquirer of equity shares in the acquired company, or the cancellation of those equity shares in the acquired company which the acquirer does not already hold.

The merger reserve was created as a result of the acquisition by the Group of interests in two entities:

1. *SIG*

The acquisition of 100% of SIG on 12 July 2000, where consideration was paid by the issue of equity shares in the Group.

2. *BiB*

Consideration was paid in BSkyB shares on 28 June 2001 and on 11 November 2002; this consideration related to the acquisition by the Group of the 19.9% of BiB it did not previously own from British Telecommunications plc (the Group previously holding 80.1% of BiB).

Under UK GAAP, the amount recorded in the merger reserve can be transferred to the profit and loss reserve in line with the amortisation of the associated goodwill. Accordingly, the £73 million that was transferred from the merger reserve to the profit and loss reserve in the current year (2004: £77 million) equals the aggregate amortisation charge in that period relating to SIG goodwill and the goodwill recognised on the acquisition of the

remaining 19.9% stake in BiB.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Under US GAAP, the amount by which the fair value of the BSkyB shares issued on acquisition of SIG and the remaining 19.9% of BiB exceeded their nominal value is recorded within additional-paid-in-capital.

Under UK GAAP, a special reserve is included as part of capital and reserves. The special reserve was created following the approval from the High Court on 10 December 2003 to reduce the Company s share premium account by £1,120 million. This amount was equal to the Company-only profit and loss account reserve deficit at 30 June 2003.

As part of the application, the Company s balance sheet at 30 September 2003 was required to be presented. At that date, the deficit on the Company-only profit and loss account reserve had reduced by £14 million, to £1,106 million.

As a condition of the reduction, the reduction in the share premium account of £1,120 million was permitted to be offset against the profit and loss account reserve by the amount of the deficit at 30 September 2003. The excess of £14 million was credited to a special reserve, and, under the terms of the reduction, will remain undistributable until all the creditors of the Company and its guarantors (as at 10 December 2003) are paid.

Under US GAAP, the balance held in the special reserve is recorded within additional-paid-in-capital.

Under UK GAAP, a capital redemption reserve is included as part of capital and reserves. On 12 November 2004, the Company s shareholders approved a resolution at the AGM for the Company to purchase up to 97 million BSkyB Ordinary Shares. These shares are cancelled upon repurchase by the Company.

Under UK company law, where the shares of a company are purchased wholly out of that company s retained profits, the amount by which the company s issued share capital is reduced on cancellation of the shares repurchased is credited to a capital redemption reserve.

Under US GAAP, the balance held in the capital redemption reserve is recorded within additional-paid-in-capital.

(13) Consolidated Cash Flow Statements

The Consolidated Cash Flow Statements prepared under UK GAAP in accordance with FRS 1 Cash flow statements (revised 1996) , present substantially the same information as is required under US GAAP. Under US GAAP, however, there are certain differences from UK GAAP with regard to classification of items within the cash flow statement and with regard to the definition of cash and cash equivalents. Cash flow under UK GAAP represents increases or decreases in cash , which comprises cash in hand and deposits repayable on demand and overdrafts. Under US GAAP, cash flow represents increases or decreases in cash and cash equivalents , which includes short-term, highly liquid investments with original maturities of less than three months, and excludes overdrafts. However, not all short-term, highly liquid investments which qualify as cash-equivalents are required to be treated as such, and the Group has elected to treat all short-term deposits and commercial paper investments as current asset investments.

Under UK GAAP, cash flows are presented separately for operating activities, dividends received from joint ventures, returns on investments and servicing of finance, taxation, capital expenditure and financial investment, acquisitions and disposals, equity dividends paid, management of liquid resources and financing. Under US GAAP, only three categories of cash flow activity are reported, being cash flows relating to operating activities, investing activities and financing activities. Cash flows from dividends received from joint ventures, taxation and returns on investments and servicing of finance are included as operating activities under US GAAP. Equity dividends paid are included as financing activities under US GAAP. Management of liquid resources,

which represents movements in short-term deposits and commercial paper, is included as operating activities under US GAAP.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

A reconciliation between the consolidated statements of cash flows presented in accordance with UK and US GAAP is presented below:

	Convenience translation 2005	Year ended 30 June		
		2005	2004	2003
	$m	**£m**	£m	£m
Operating Activities				
Net cash inflow from operating activities under UK GAAP	**1,754**	**978**	882	664
Cash outflow from development expenditure[(i)]	**20**	**11**		
Dividends received from joint ventures	**22**	**12**	4	4
Interest received and similar income	**50**	**28**	7	3
Interest paid and similar charges	**(163)**	**(91)**	(89)	(127)
Interest element of finance lease payments				(1)
UK corporation tax paid	**(181)**	**(101)**	(55)	(18)
Consortium relief paid	**(4)**	**(2)**	(3)	
Management of liquid resources	**294**	**164**	(511)	
Net cash provided by operating activities under US GAAP	**1,792**	**999**	235	525
Investing activities				
Net cash outflow from capital expenditure and financial investment under UK GAAP	**(411)**	**(229)**	(16)	(97)
Cash outflow from development expenditure[(i)]	**(20)**	**(11)**		
Funding to joint ventures and associates	**(7)**	**(4)**	(5)	(15)
Repayments of funding from joint ventures and associates	**14**	**8**	6	5
Receipts from sales of investments in joint ventures	**25**	**14**		
Net cash used in investing activities under US GAAP	**(399)**	**(222)**	(15)	(107)
Financing activities				
Net cash outflow from financing under UK GAAP	**(764)**	**(426)**	(78)	(422)
Equity dividends paid	**(247)**	**(138)**	(53)	
Net cash used in financing activities under US GAAP	**(1,011)**	**(564)**	(131)	(422)
Net increase (decrease) in cash and cash equivalents under US GAAP	**382**	**213**	89	(4)
Cash and cash equivalents under US GAAP at the beginning of the period	**244**	**136**	47	51
Cash and cash equivalents under US GAAP at the end of the period	**626**	**349**	136	47

(i) Under UK GAAP, the Group has not capitalised any costs in relation to payments to a third party for development of encryption technology. Under US GAAP, the costs have been capitalised as intangible assets.

(ii) Additional US GAAP Disclosures

(a) Stock-based compensation

The Group accounts for stock-based compensation under the expense recognition provisions of APB No. 25 Accounting for Stock Issued to Employees (APB No. 25) and provides disclosures of pro-forma stock compensation expense in accordance with SFAS No. 123 Accounting for Stock-Based Compensation (SFAS No. 123). Included in the income statement for all the share option schemes under APB No. 25 was a charge of £4 million, net of tax (2004: £6 million; 2003: £13 million). The net

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

difference between the UK GAAP charge and the APB No. 25 charge in the current year was an additional US GAAP credit of £2 million, net of tax (2004: charge of £3 million; 2003: credit of £10 million). Had compensation expense for share options granted under these schemes been determined based on fair value at the grant dates consistent with the method required in accordance with SFAS No. 123, the Group s net income and earnings per share for 2005, 2004 and 2003 would have been reduced to the pro-forma amounts shown below:

	Convenience translation	Year ended 30 June		
	2005	**2005**	2004	2003
	$m	**£m**	£m	£m
Net income under US GAAP:				
As reported	**1,035**	**577**	434	286
Add: APB No. 25 stock-based employee compensation expense included in reported net income, net of related tax effects	**7**	**4**	6	13
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	**(39)**	**(22)**	(38)	(68)
Pro-forma	**1,003**	**559**	402	231
Earnings per share under US GAAP:				
Basic as reported[(i)]	**54.1c**	**30.2p**	22.4p	14.9p
Basic pro-forma[(i)]	**52.5c**	**29.3p**	20.8p	12.1p
Diluted as reported[(i)]	**54.0c**	**30.1p**	22.3p	14.7p
Diluted pro-forma[(i)]	**52.4c**	**29.2p**	20.7p	11.9p

(i) Net earnings per share for fiscal 2004 is disclosed after cumulative effect on prior years (to 30 June 2003) of adoption of EITF 00-21.

The movement in stock-based awards outstanding during the three years ended 30 June 2005 is summarised in the following table:

	Number of shares under option	Weighted average exercise price
Outstanding at 30 June 2002	43,012,703	£7.95
Granted during fiscal 2003	15,401,535	£5.31
Forfeited during fiscal 2003	(2,575,366)	£7.23
Exercised during fiscal 2003	(2,235,488)	£7.08
Outstanding at 30 June 2003	53,603,384	£7.26
Granted during fiscal 2004	12,479,870	£4.66
Forfeited during fiscal 2004	(7,083,232)	£7.44
Expired during fiscal 2004	(104,319)	£4.34

Exercised during fiscal 2004	(7,930,027)	£7.42
Outstanding at 30 June 2004	50,965,676	£6.58
Granted during fiscal 2005	**19,636,399**	**£3.57**
Forfeited during fiscal 2005	**(9,772,815)**	**£6.29**
Expired during fiscal 2005	**(444,350)**	**£6.05**
Exercised during fiscal 2005	**(1,938,116)**	**£6.05**
Outstanding at 30 June 2005	**58,446,794**	**£5.64**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The awards outstanding can be summarised as follows:

Scheme	**Number of Ordinary Shares 30 June 2005**	Number of Ordinary Shares 30 June 2004
Executive Share Option Scheme options(i)	**45,309,551**	41,362,873
Sharesave Scheme options(ii)	**5,131,741**	3,711,041
LTIP awards(iii)	**4,827,243**	3,700,219
KCP awards(iv)	**2,830,259**	1,568,543
EBP awards(v)	**348,000**	623,000
	58,446,794	50,965,676

(i) Included within the total Executive Share Option Scheme options outstanding at 30 June 2005, are 42,892,644 options (2004: 38,632,053) which may be exercised in the final year before their lapsing date, regardless of meeting performance criteria, provided that the employee remains in employment with the Group, 13,318 options (2004: 85,107) that vest only if performance conditions are met and provided that the employee remains in employment with the Group, and 2,403,589 options (2004: 2,645,713) to which no performance criteria are attached, other than the requirement that the employee remains in employment with the Group.

(ii) All Sharesave Scheme options outstanding at 30 June 2005 and 2004 have no performance criteria attached, other than the requirement that the employee remains in employment with the Group.

(iii) Included within the total LTIP awards outstanding at 30 June 2005, are 1,037,243 options (2004: 2,380,219) which may be exercised in the final year before their lapsing date, regardless of meeting performance criteria, provided that the employee remains in employment with the Group, and 3,790,000 options (2004: 1,320,000) that vest only if performance conditions are met and provided that the employee remains in employment with the Group.

(iv) All KCP awards outstanding at 30 June 2005 (2004: 1,290,043) vest only if performance conditions are met and provided that the employee remains in employment with the Group. The remaining 278,500 options outstanding at 30 June 2004 were exercisable in the final year before their lapsing date, regardless of meeting performance criteria, provided that the employee remained in employment with the Group.

(v) All EBP awards outstanding at 30 June 2005 and 2004 vest only if performance conditions are met and provided that the employee remains in employment with the Group.

The weighted average fair value of options granted in the current year was estimated at £2.33 (2004: £4.48; 2003: £3.16) as of the date of grant using stock option pricing models, based on the following weighted average assumptions: annual dividend of 1.0% (2004: 0.0%; 2003: nil); annual standard deviation (volatility) of 40% (2004: 45%; 2003: 43%); risk free interest rate of 4.82% (2004: 4.39%; 2003: 4.39%); and expected term of 3.5 years (2004: 5.3 years; 2003: 8.9 years). Options with performance conditions based on a comparison of the Company s relative total shareholder return performance with that of other comparator companies were valued using a Monte-Carlo simulation model; all other options were valued using the Black-Scholes option pricing model.

Additionally, the weighted average exercise price and fair value for awards and options granted in the current year with an exercise price below the market price at grant date were estimated at £1.59 and £3.06 (2004: £1.28 and £6.08;

2003: £4.75 and £2.90) respectively. For options granted in the current year with an exercise price equal to market price at grant date, the weighted average exercise price and fair value at grant date were estimated at £5.03 and £1.78 (2004: £6.62 and £3.55; 2003: £5.40 and £3.20) respectively.

The exercise prices for options outstanding at 30 June 2005 ranged from nil to £13.97 (2004: nil to £13.97; 2003: £0.98 to £13.97).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table summarises information about stock options outstanding at 30 June 2005:

	Awards outstanding			Awards currently exercisable	
Range of exercise prices	**Number**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Number**	**Weighted average exercise price**
£0.00-£1.00	6,855,259	8.8 years	£0.00	123	£0.00
£3.00-£4.00	3,251,277	3.6 years	£3.86	9,765	£3.63
£4.00-£5.00	1,188,120	2.2 years	£4.76	5,100	£4.38
£5.00-£6.00	22,030,838	7.2 years	£5.15	4,974,800	£5.16
£6.00-£7.00	10,363,827	6.0 years	£6.53	3,279,115	£6.39
£7.00-£8.00	8,038,867	6.4 years	£7.86	6,220,308	£7.84
£8.00-£9.00	26,668	6.4 years	£8.36	20,001	£8.36
£9.00-£10.00	6,324,277	5.4 years	£9.87	6,271,387	£9.87
£10.00-£11.00	21,842	4.9 years	£10.53	21,842	£10.53
£11.00-£12.00	153,470	5.2 years	£11.40	153,470	£11.40
£12.00-£13.00	150,832	5.0 years	£12.80	150,832	£12.80
£13.00-£14.00	41,517	4.8 years	£13.97	41,517	£13.97
	58,446,794	**6.5 years**	**£5.64**	**21,148,260**	**£7.66**

The weighted average exercise price of the 19,804,566 options which were exercisable at 30 June 2004 (2003: 30,749,978) was £7.97 (2003: £7.82).

(b) Statement of comprehensive income

	Convenience translation	**Year ended 30 June**		
	2005	**2005**	2004	2003
	$m	**£m**	£m	£m
Net income in accordance with US GAAP	**1,035**	**577**	434	286
Other comprehensive income, net of tax:				
Unrealised gain (loss) on certain fixed asset investments:				
Unrealised holding gains arising during the period			24	7
Less: reclassification adjustment for losses (gains) included in net income[(i)]	**2**	**1**	(36)	13
Foreign exchange gains recorded in cumulative translation reserve:				
Less: reclassification adjustment for losses included in net income			10	
Unrealised loss on derivative financial instruments:				
Unrealised losses arising during the period	**(32)**	**(18)**	(36)	

Less: reclassification adjustment for losses included in net income	**16**	**9**	12	
Net comprehensive income in accordance with US GAAP	**1,021**	**569**	408	306

(i) The reclassification adjustment for losses on certain fixed asset investments included in net income in the year includes realised losses of £1 million (2004: realised losses of £2 million and realised gains of £38 million; 2003: realised losses of £13 million).

In fiscal 2005, the tax impact on net comprehensive income of the above reconciling items was a £3 million credit (2004: £10 million credit; 2003: nil), relating to the loss on derivative financial instruments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 30 June 2005, the cumulative effect of the above items on US GAAP shareholders funds was nil for fixed asset investments (2004: net loss of £1 million) and a net loss of £33 million for derivative financial instruments (2004: net loss of £24 million).

(c) Adoption of new standards

SFAS No. 151 Inventory Costs an amendment of FASB Statements No. 66 and 67

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 151 Inventory Costs an amendment of FASB Statements No. 66 and 67 (SFAS No. 151). Thi standard clarifies the treatment of abnormal amounts of inventory costs and the allocation of fixed production overheads. SFAS No. 151 is effective for financial statements with fiscal years beginning after 15 June 2005 and will therefore be adopted by the Group from 1 July 2005. The adoption of this standard will not have a material impact on the Group results of operations or its financial position.

SFAS No. 153 Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29

In December 2004, the FASB issued SFAS No. 153 Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29 (SFAS No. 153). This standard eliminates the exception not to measure transactions based on the fair value of the assets exchanged, for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. SFAS No. 153 is effective for financial statements with fiscal years beginning after 15 June 2005 and will therefore be adopted by the Group from 1 July 2005. The adoption of this standard will not have a material impact on the Group results of operations or its financial position.

SFAS No. 123 (revised 2004) Share-Based Payment

In December 2004, the FASB issued SFAS No. 123 (revised 2004) Share-Based Payment (SFAS No. 123R). This standard requires that the cost resulting from all share-based transactions with employees is recognised in the financial statements, based on the fair value of the awards, measured at the date of grant. This cost is recognised over the period during which the employee is required to provide service in exchange for the award. SFAS No. 123R is effective for financial statements with fiscal years beginning after 15 June 2005 and will therefore be adopted by the Group from 1 July 2005, using the modified prospective application transition method. Up until 30 June 2005, the Group accounted for share-based payments under the intrinsic value method of APB No. 25; section (a) above provides disclosure of the difference between stock compensation expense in accordance with APB No. 25 and the expense in accordance with SFAS No. 123.

Staff Accounting Bulletin No. 107

In March 2005, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 107 (SAB 107), which summarises the views of the SEC staff regarding the interaction between SFAS No. 123R and certain SEC rules and regulations and provides the staff s views regarding the valuation of share-based payment arrangements for public companies. The Group adopted SAB 107 concurrently with SFAS No. 123R.

SFAS No. 154 Accounting Changes and Error Corrections

In May 2005, the FASB issued SFAS No. 154 Accounting Changes and Error Corrections (SFAS No. 154). This standard replaces APB Opinion No. 20 Accounting Changes and SFAS No. 3 Reporting Accounting Changes in Interim Financial Statements . SFAS No. 154 requires retrospective application to prior periods financial statements of changes in accounting principle, unless it is impracticable to determined either the period-specific effects or the cumulative effect of the change. The standard is effective for financial statements with fiscal years beginning after 15 December 2005 and will

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

therefore be adopted by the Group from 1 July 2006. The adoption of SFAS No. 154 is not expected to have a material impact on the Group results of operations or its financial position.

28. Supplemental guarantor information

From time to time the Company may issue debt securities which are guaranteed, on a full and unconditional basis, by certain of the Company s subsidiaries. Currently, two of the Company s subsidiaries, BSkyB Limited and SSSL, are joint and several guarantors of the Company s debt securities. In October 1996, we issued US$300 million of 7.300% Guaranteed Notes repayable in October 2006, and in February 1999 US$600 million of 6.875% Guaranteed Notes repayable in February 2009. In July 1999, the Company issued US$650 million and £100 million of bonds repayable in July 2009 at rates of 8.200% and 7.750% respectively.

Supplemental condensed consolidating financial information for the guarantors is presented below prepared in accordance with the Group s accounting policies applied in the year ended 30 June 2005, except to the extent that investments in subsidiaries have been accounted for by the equity method and push down accounting has been applied for subsidiaries as required by the SEC. The Group s accounting policies are in accordance with UK GAAP. This supplemental financial information should be read in conjunction with the Consolidated Financial Statements.

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SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET
As at 30 June 2005[2]
(£ millions)

	(3) British Sky Broadcasting Group plc	(1)(3) Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidation Adjustments	BSkyB Group and Subsidiaries
Fixed assets					
Intangible assets			301		301
Tangible assets	24	471	22	9	526
Investments					
Joint ventures and associates			23		23
Other fixed asset investments	1	33		(32)	2
Investments in subsidiary undertakings under the equity method	1,162	378	45	(1,585)	
	1,187	882	391	(1,608)	852
Current assets					
Stocks		311	29		340
Debtors: Amounts due within one year					
Intragroup debtors	817	1,038	1,424	(3,279)	
Third party debtors	35	272	35		342
Debtors: Amounts due after one year					
Third party debtors	36	39	14		89
Cash and liquid investments	26	354	317		697
	914	2,014	1,819	(3,279)	1,468
Creditors					
Amounts falling due within one year					
Intragroup creditors	(939)	(1,130)	(1,345)	3,414	
Third party creditors	(127)	(1,054)	(59)		(1,240)
	(1,066)	(2,184)	(1,404)	3,414	(1,240)
Net current (liabilities) assets	(152)	(170)	415	135	228
Total assets less current liabilities	1,035	712	806	(1,473)	1,080

Creditors					
Amounts falling due after one year					
Intragroup borrowings		(65)	(33)	98	
Third party borrowings	(1,069)	(7)			(1,076)
Other		(25)			(25)
	(1,069)	(97)	(33)	98	(1,101)
Provisions		(11)	(2)		(13)
	(34)	604	771	(1,375)	(34)
Capital and reserves equity					
Called-up share capital	934	10	882	(892)	934
Share premium account	1,437	342	2,041	(2,383)	1,437
Profit and loss account	(2,573)	252	1,338	(1,590)	(2,573)
Application of push down accounting			(4,405)	4,405	
Capital redemption reserve	37				37
ESOP reserve	(32)				(32)
Other reserves	163		915	(915)	163
TOTAL CAPITAL AND RESERVES	(34)	604	771	(1,375)	(34)
Reconciliation to US GAAP:					
Capital and reserves under UK GAAP	(34)	604	771	(1,375)	(34)
Adjustments:					
Goodwill	732		732	(732)	732
Employee stock-based compensation	20	20		(20)	20
Derivative accounting	(19)	(12)		12	(19)
Capitalised interest	20	20		(20)	20
Development costs	11	11		(11)	11
Deferred taxation	(5)	(7)		7	(5)
Dividends	93				93
Capital and reserves under US GAAP	818	636	1,503	(2,139)	818

See notes to supplemental guarantor information.

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SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET
As at 30 June 2004[2]
(£ millions)

	(3) British Sky Broadcasting Group plc	(1)(3) Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidation Adjustments	BSkyB Group and Subsidiaries
Fixed assets					
Intangible assets			417		417
Tangible assets	10	347	19		376
Investments					
Joint ventures and associates			33		33
Other fixed asset investments	1	31		(30)	2
Investments in subsidiary undertakings under the equity method	1,360	225		(1,585)	
	1,371	603	469	(1,615)	828
Current assets					
Stocks		323	52		375
Debtors: Amounts due within one year					
Intragroup debtors	887	973	1,472	(3,332)	
Third party debtors	32	294	44		370
Debtors: Amounts due after one year					
Third party debtors	73	44	27		144
Cash and liquid investments	46	588	13		647
	1,038	2,222	1,608	(3,332)	1,536
Creditors					
Amounts falling due within one year					
Intragroup creditors	(1,152)	(1,283)	(1,042)	3,477	
Third party creditors	(98)	(978)	(94)		(1,170)
	(1,250)	(2,261)	(1,136)	3,477	(1,170)
Net current (liabilities) assets	(212)	(39)	472	145	366
Total assets less current liabilities	1,159	564	941	(1,470)	1,194
Creditors					
Amounts falling due after one year					
Intragroup borrowings		(240)	(49)	289	
Third party borrowings	(1,069)	(7)			(1,076)

Other		(28)			(28)
	(1,069)	(275)	(49)	289	(1,104)
	90	289	892	(1,181)	90
Capital and reserves equity					
Called-up share capital	971	10	576	(586)	971
Share premium account	1,437	243	2,249	(2,492)	1,437
Profit and loss account	(2,524)	36	(3,259)	3,223	(2,524)
Application of push down accounting			416	(416)	
ESOP reserve	(30)				(30)
Other reserves	236		910	(910)	236
TOTAL CAPITAL AND RESERVES	90	289	892	(1,181)	90
Reconciliation to US GAAP:					
Capital and reserves under UK GAAP	90	289	892	(1,181)	90
Adjustments:					
Goodwill	639		639	(639)	639
Employee stock-based compensation	31	31		(31)	31
Derivative accounting	(21)	(40)		40	(21)
Capitalised interest	9	9		(9)	9
Deferred taxation	2	8		(8)	2
Fixed asset investments	(1)				(1)
Dividends	63				63
Capital and reserves under US GAAP	812	297	1,531	(1,828)	812

See notes to supplemental guarantor information.

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SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the year ended 30 June 2005[2]
(£ millions)

	(3) British Sky Broadcasting Group plc	(1)(3) Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidation Adjustments	BSkyB Group and Subsidiaries
Turnover	116	3,955	834	(857)	4,048
Operating expenses, net	(1)	(3,309)	(901)	865	(3,346)
Operating profit (loss)	115	646	(67)	8	702
Share of joint ventures and associates operating results			14		14
Share of (losses) profits of subsidiary undertakings	(150)	46	44	60	
Loss on disposal of investments in joint ventures			(23)		(23)
Amounts written back to fixed asset investments, net		130		(130)	
(Loss) profit on ordinary activities before interest and taxation	(35)	822	(32)	(62)	693
Interest receivable and similar income	584	33	133	(720)	30
Interest payable and similar charges					
on external financing	(91)	(1)			(92)
intragroup interest		(54)	(14)	68	
Profit on ordinary activities before taxation	458	800	87	(714)	631
Taxation	(33)	(156)	(17)		(206)
Profit on ordinary activities after taxation	425	644	70	(714)	425
Equity dividends	(170)	(426)	(221)	647	(170)
Retained profit (loss) for the financial year	255	218	(151)	(67)	255
Reconciliation to US GAAP:					
Net profit under UK GAAP	425	644	70	(714)	425

Adjustments:					
Goodwill	116		116	(116)	116
Employee stock-based compensation	1	1		(1)	1
Derivative accounting	14	13		(13)	14
Capitalised interest	11	11		(11)	11
Development costs	11	11		(11)	11
Deferred taxation	(10)	(10)		10	(10)
Fixed asset investments	9		9	(9)	9
Net income under US GAAP	577	670	195	(865)	577

See notes to supplemental guarantor information.

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SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the year ended 30 June 2004[2]
(£ millions)

	(3) British Sky Broadcasting Group plc	(1)(3) Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidation Adjustments	BSkyB Group and Subsidiaries
Turnover	71	3,604	683	(702)	3,656
Operating expenses, net		(3,108)	(793)	726	(3,175)
Operating profit (loss)	71	496	(110)	24	481
Share of joint ventures and associates operating results			(5)		(5)
Share of losses of subsidiary undertakings	(134)	(14)		148	
Joint ventures and associates goodwill amortisation, net			10		10
Profit on disposal of fixed asset investments	2		49		51
Amounts written back to fixed asset investments, net	24	128		(128)	24
(Loss) profit on ordinary activities before interest and taxation	(37)	610	(56)	44	561
Interest receivable and similar income	470	63	4	(527)	10
Interest payable and similar charges					
on external financing	(89)	(1)	(1)		(91)
intragroup interest		(45)	(13)	58	
Profit (loss) on ordinary activities before taxation	344	627	(66)	(425)	480
Taxation	(22)	(121)	(15)		(158)
Profit (loss) on ordinary activities after taxation	322	506	(81)	(425)	322
Equity dividends	(116)	(417)	(47)	464	(116)
Retained profit (loss) for the financial year	206	89	(128)	39	206

Reconciliation to US GAAP:					
Net profit (loss) under UK GAAP	322	506	(81)	(425)	322
Adjustments:					
Goodwill	117		117	(117)	117
Employee stock-based compensation	(1)	(1)		1	(1)
Derivative accounting	2	14		(14)	2
Capitalised interest	2	2		(2)	2
Deferred taxation	(2)	(7)		7	(2)
Fixed asset investments	(7)		(10)	10	(7)
Net income before cumulative effect of a change in accounting principle	433	514	26	(540)	433
Cumulative effect on prior years (to 30 June 2003) of adoption of EITF 00-21	1		1	(1)	1
Net income under US GAAP	434	514	27	(541)	434

See notes to supplemental guarantor information.

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the year ended 30 June 2003(2)
(£ millions)

	(3) British Sky Broadcasting Group plc	(1)(3) Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidation Adjustments	BSkyB Group and Subsidiaries
Turnover		3,179	580	(573)	3,186
Operating expenses, net	(5)	(2,804)	(698)	569	(2,938)
Operating (loss) profit	(5)	375	(118)	(4)	248
Share of joint ventures operating results			3		3
Share of profits (losses) of subsidiary undertakings	129	(21)		(108)	
Amounts written off fixed asset investments, net	(18)	(91)		94	(15)
Profit (loss) on ordinary activities before interest and taxation	106	263	(115)	(18)	236
Interest receivable and similar income	73	130	7	(206)	4
Interest payable and similar charges					
on external financing	(117)	(1)			(118)
intragroup interest		(75)	(11)	86	
Profit (loss) on ordinary activities before taxation	62	317	(119)	(138)	122
Taxation	122	(58)	(2)		62
Profit (loss) for the year	184	259	(121)	(138)	184
Dividends			(116)	116	
Transfer to (from) reserves	184	259	(237)	(22)	184
Reconciliation to US GAAP:					
Net profit (loss) under UK GAAP	184	259	(121)	(138)	184
Adjustments:					
Goodwill	117		117	(117)	117
Employee stock-based compensation	10	4		(4)	10
Derivative accounting	17	(4)		4	17

Capitalised interest	(1)	(1)		1	(1)
Deferred taxation	(36)	(3)	(20)	23	(36)
Fixed asset investments	(3)				(3)
Sky+ digiboxes profit on sale	(2)		(2)	2	(2)
Net income (loss) under US GAAP	286	255	(26)	(229)	286

See notes to supplemental guarantor information.

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SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOW
For the year ended 30 June 2005(2)
(£ millions)

	British Sky Broadcasting Group plc	(1) Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidation Adjustments	BSkyB Group and Subsidiaries
Operating activities					
Operating profit (loss)	115	646	(67)	8	702
Depreciation		84	8		92
Amortisation of goodwill and other intangible fixed assets			116		116
Loss on disposal of tangible fixed assets		2			2
Decrease in stock		12	23		35
Decrease in debtors	1	25	8		34
(Decrease) increase in creditors	(3)	6	(17)		(14)
Increase in provision		11	1		12
Foreign exchange movement		(1)			(1)
Net cash inflow from operating activities	113	785	72	8	978
Dividends received from joint ventures			12		12
Returns on investments and servicing of finance					
Interest received and similar income	4	18	6		28
Interest paid and similar charges	(91)				(91)
Net cash (outflow) inflow from returns on investments and servicing of finance	(87)	18	6		(63)
Taxation					
UK corporation tax paid		(101)			(101)
Consortium relief paid		(2)			(2)
Net cash outflow from taxation		(103)			(103)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets	(14)	(197)	(19)		(230)
			1		1

Receipts from sales of fixed asset investments					
Net cash outflow from capital expenditure and financial investment	(14)	(197)	(18)		(229)
Acquisitions and disposals					
Funding to joint ventures and associates			(4)		(4)
Repayments of funding from joint ventures and associates			8		8
Receipts from sales of investments in joint ventures			14		14
Net cash inflow from acquisitions and disposals			18		18
Equity dividends paid	(138)				(138)
Net cash (outflow) inflow before management of liquid resources and financing	(126)	503	90	8	475
Management of liquid resources	46	382	(264)		164
Financing					
Proceeds from issue of shares held in ESOP		4			4
Purchase of own shares for ESOP		(14)			(14)
Share buy-back	(416)				(416)
Loans from (to) group companies	522	(728)	214	(8)	
Net cash inflow (outflow) from financing	106	(738)	214	(8)	(426)
Increase in cash	26	147	40		213
Reconciliation to US GAAP					
Net cash provided by (used in) operating activities	72	1,093	(174)	8	999
Net cash used in investing activities	(14)	(208)			(222)
Net cash (used in) provided by financing activities	(32)	(738)	214	(8)	(564)
Net increase in cash and cash equivalents	26	147	40		213
Cash and cash equivalents under US GAAP at the beginning of the year		123	13		136
	26	270	53		349

Cash and cash equivalents under US GAAP at the end of the year

See notes to supplemental guarantor information.

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SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOW
For the year ended 30 June 2004(2)
(£ millions)

	British Sky Broadcasting Group plc	(1) Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidation Adjustments	BSkyB Group and Subsidiaries
Operating activities					
Operating profit (loss)	71	496	(110)	24	481
Depreciation		91	11		102
Amortisation of goodwill and other intangible fixed assets			119		119
Loss on disposal of tangible fixed assets		1			1
Decrease (increase) in stock		7	(12)		(5)
(Increase) decrease in debtors		(16)	33		17
Increase in creditors		153	17		170
Decrease in provision			(3)		(3)
Net cash inflow from operating activities	71	732	55	24	882
Dividends received from joint ventures			4		4
Returns on investments and servicing of finance					
Interest received and similar income	2	5			7
Interest paid and similar charges	(88)	(1)			(89)
Net cash (outflow) inflow from returns on investments and servicing of finance	(86)	4			(82)
Taxation					
UK corporation tax paid		(55)			(55)
Consortium relief paid			(3)		(3)
Net cash outflow from taxation		(55)	(3)		(58)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets	(9)	(114)	(9)		(132)
Receipts from sales of fixed asset investments	67		49		116

Net cash inflow (outflow) from capital expenditure and financial investment	58	(114)	40		(16)
Acquisitions and disposals					
Funding to joint ventures and associates			(5)		(5)
Repayments of funding from joint ventures and associates			6		6
Net cash inflow from acquisitions and disposals			1		1
Equity dividends paid	(53)				(53)
Net cash (outflow) inflow before management of liquid resources and financing	(10)	567	97	24	678
Management of liquid resources	(46)	(465)			(511)
Financing					
Proceeds from issue of Ordinary Shares	20				20
Purchase of own shares for ESOP		(22)			(22)
Capital element of finance lease payments		(1)			(1)
Net decrease in debt due after more than one year	(75)				(75)
Loans from (to) group companies	111	4	(91)	(24)	
Net cash inflow (outflow) from financing	56	(19)	(91)	(24)	(78)
Increase in cash		83	6		89
Reconciliation to US GAAP					
Net cash (used in) provided by operating activities	(61)	216	56	24	235
Net cash provided by (used in) investing activities	58	(114)	41		(15)
Net cash provided by (used in) financing activities	3	(19)	(91)	(24)	(131)
Net increase in cash and cash equivalents		83	6		89
Cash and cash equivalents under US GAAP at the beginning of the year		40	7		47
		123	13		136

Cash and cash equivalents under US GAAP at the end of the year

See notes to supplemental guarantor information.

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SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOW
For the year ended 30 June 2003(2)
(£ millions)

	British Sky Broadcasting Group plc	(1) Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidation Adjustments	BSkyB Group and Subsidiaries
Operating activities					
Operating (loss) profit	(5)	375	(118)	(4)	248
Depreciation		93	5		98
Amortisation of goodwill and other intangible fixed assets			121		121
Decrease in stock		36	8		44
Decrease in debtors		59	29		88
Increase (decrease) in creditors		75	(15)	6	66
Decrease in provision			(1)		(1)
Net cash (outflow) inflow from operating activities	(5)	638	29	2	664
Dividends received from joint ventures			4		4
Returns on investments and servicing of finance					
Interest received and similar income		3			3
Interest paid and similar charges	(127)	(1)			(128)
Net cash (outflow) inflow from returns on investments and servicing of finance	(127)	2			(125)
Taxation					
UK corporation tax paid		(18)			(18)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(89)	(9)		(98)
Receipts from sales of fixed asset investments			1		1
Net cash outflow from capital expenditure and financial investment		(89)	(8)		(97)

Acquisitions and disposals					
Funding to joint ventures			(15)		(15)
Repayment of funding from joint ventures			5		5
Net cash outflow from acquisitions and disposals			(10)		(10)
Net cash (outflow) inflow before management of liquid resources and financing	(132)	533	15	2	418
Management of liquid resources		1			1
Financing					
Proceeds from issue of Ordinary Shares	5				5
Decrease in total external debt	(425)	(2)			(427)
Loans from (to) group companies	552	(533)	(17)	(2)	
Net cash inflow (outflow) from financing	132	(535)	(17)	(2)	(422)
Decrease in cash		(1)	(2)		(3)
Reconciliation to US GAAP					
Net cash (used in) provided by operating activities	(132)	622	33	2	525
Net cash used in investing activities		(89)	(18)		(107)
Net cash provided by (used in) financing activities	132	(535)	(17)	(2)	(422)
Net decrease in cash and cash equivalents		(2)	(2)		(4)
Cash and cash equivalents under US GAAP at the beginning of the year		42	9		51
Cash and cash equivalents under US GAAP at the end of the year		40	7		47

See notes to supplemental guarantor information.

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Notes to Supplemental Guarantor Information

(1) The Guarantors are:

BSkyB Limited	Operates one of the leading pay television broadcasting services in the UK and Ireland. The Company s principal activities consist of the operation and distribution of 27 wholly-owned television channels in digital across various genres, including movies, sports, news, arts and general entertainment. In addition, the Company currently markets to DTH viewers channels owned and broadcast by third parties.
SSSL	Provides support services (including conditional access and subscriber management) and acts as an agent for the DTH pay television business of its fellow subsidiary undertaking (parent undertaking until 24 June 2005), BSkyB Limited. SSSL also provides similar services to a fellow subsidiary undertaking and to third party broadcasters.

(2) Certain reclassifications were made to conform all of the financial information to the financial presentation of the Group. The principal consolidation adjustments relate to investments in subsidiaries and intercompany balances.

(3) Investments in Group subsidiaries are accounted for by their parent company under the equity method of accounting for the purposes of the supplemental combining presentation only. Under the equity method, earnings of subsidiary undertakings are reflected in the parent company s investment account and earnings.

Separate financial statements of the subsidiary guarantors are not included herein because the Company has determined that such financial statements are not material to investors.

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GLOSSARY OF TERMS

ADS	American Depositary Share
ATC	Advanced Technology Centre
à la carte	A television channel which can be subscribed to on an individual basis by a DTH subscriber to one of our Basic Packages
Basic Packages	DTH subscription packages which exclude Premium Channels
bonus channel	A channel provided to a subscriber in addition to one or more subscription channels, but at no incremental cost to the subscriber
BSkyB or the Company	British Sky Broadcasting Group plc
CRM	Customer Relationship Management
DSL	Digital Subscriber Line
DTH	Direct-to-Home satellite television
DTT	Digital Terrestrial Television: DTT uses digital signals delivered to homes through a conventional aerial, converted through a set top box or integrated digital television set
EITF	Emerging Issues Task Force: a body which assists in providing financial reporting guidance under US GAAP
EPG	Electronic Programme Guide
fiscal year or fiscal	Refers to the twelve months ended on the Sunday nearest to 30 June of the given year
FRS	UK Financial Reporting Standard
GAAP	Generally Accepted Accounting Principles
the Group	BSkyB and its subsidiary undertakings
IFRS	International Financial Reporting Standards
Premium Channels	The Sky Premium Channels and the Premium Sky Distributed Channels
Premium Sky Distributed Channels	The Disney Channel (including three Disney multiplex channels, Toon Disney, Playhouse Disney and Disney Channel +1 hour), FilmFour (including the FilmFour multiplex channels, FilmFour+1 and FilmFour Weekly), MUTV, Chelsea TV and Music Choice Extra
Pub Channel	A wholly-owned business-to-business television channel available only to the licensed retail trade

Sky Basic Channels	Sky One (and its multiplex version, Sky Mix), Sky News, Sky Travel (and its multiplex versions, Sky Travel +1 and Sky Travel Extra), Sky Travel Shop, Sky Sports News, Artsworld (all references to Sky Channels relating to periods prior to 4 March 2005 exclude Artsworld), Sky Vegas Live, Flaunt, The Amp and Scuzz
Sky Channels	Television channels wholly owned by the Group, being the Sky Basic Channels and Sky Premium Channels (including bonus and enhanced channels to the Sky Premium Channels, including Sky Sports 3, Sky Cinema 1 (and its multiplex version, Sky Cinema 2))

Sky Distributed Channels	Television channels owned and broadcast by third parties, retailed by the Group to DTH viewers
Sky Premium Channel Package	DTH subscription package which includes one or more of the Sky Premium Channels
Sky Premium Channels	Sky Movies 1 (and its multiplex versions, Sky Movies 3, Sky Movies 5, Sky Movies 7 and Sky Movies 9), Sky Movies 2 (and its multiplex versions, Sky Movies 4, Sky Movies 6 and Sky Movies 8), Sky Sports 1, Sky Sports 2 and Sky Sports Xtra
SkyVenue	A wholly-owned business television channel available only to the licensed retail trade for viewing by their customers
Sky World	The top tier of packages that includes all Sky Premium Channels
UITF	Urgent Issues Task Force: a body which assists in providing financial reporting guidance under UK GAAP
VAT	Value Added Tax: a UK sales tax levied on most goods and services