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,

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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.

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.

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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 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.

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.

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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).

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.

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.

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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.

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

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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.

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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 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

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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 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.

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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 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).

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.

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.

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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

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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

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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.

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.

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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).

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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).

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 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

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

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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

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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:

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
	Number of shares under award									
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:

	At	Granted	Exercised	Lapsed	At	Market
	Number of shares under award(i)					

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.

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 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		ADSs(i)	
	(Pence)		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				