

BRITISH SKY BROADCASTING GROUP PLC  
Form 20-F  
August 01, 2008

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  

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**FORM 20-F**

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

OR

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

For the fiscal year ended 30 June 2008

OR

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

OR

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

**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)*

**David Gormley**

**Company Secretary**

**British Sky Broadcasting Group plc**

**Grant Way, Isleworth, Middlesex, TW7 5QD, England**

**Telephone +44 20 7705 3000**

**Facsimile +44 20 7705 3008**

*(Name, telephone, e-mail and/or facsimile number and address of Company Contact Person)*

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

| <b>Title of each Class</b>  | <b>Name of each exchange on which registered</b> |
|---|--|
| Ordinary shares (nominal value 50p per share)                                       | New York Stock Exchange(1)                       |
| American Depositary Shares, each of which represents four                           | New York Stock Exchange                          |
| Ordinary shares of British Sky Broadcasting Group plc (nominal value 50p per share) |  |
| 6-7/8% Notes due February 23, 2009  | :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.

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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) \_\_\_\_\_ 1,752,842,599

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act

Yes No

If this report is an annual or transition report, indicate by check mark is the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Yes No

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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (check one)

Large accelerated filer Accelerated filer Non-accelerated filer

Indicated by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

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 No

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This constitutes the Annual Report on Form 20-F (the "20-F") of British Sky Broadcasting Group plc (the "Company") in accordance with the requirements of the United States ( "US") Securities and Exchange Commission (the "SEC") and is dated 1 August 2008. This document also contains the information set out within the Company's Annual Report in accordance with International Financial Reporting Standards ( "IFRS") and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS, dated 30 July 2008, as updated or supplemented at the time of filing of the 20-F with the SEC. References to IFRS refer to the application of International Financial Reporting Standards, including International Accounting Standards ( "IAS") and interpretations issued by the International Accounting Standards Board ( "IASB") and its committees, and as interpreted by any regulatory bodies applicable to the Group and adopted by the European Union ( "EU"). In addition, the Group also complied with IFRS as issued by the IASB.

## Forward looking statements

This document contains certain forward-looking statements within the meaning of the US 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, such as forecasts, expectations and projections with respect to the potential for growth of free-to-air and pay television, fixed line telephony and Direct-to-Home

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( DTH ) subscribers, broadband and bandwidth requirements, advertising growth, Multiroom, Sky+ and other services penetration, churn, DTH and other revenue, profitability and margins, cash flow generation, programming costs, subscriber management costs, administration costs and other costs, marketing expenditure, capital expenditure programmes and proposals for returning capital to shareholders.

These statements (and all other forward-looking statements contained in this document) 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, failure of key suppliers, 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 the significant risks and uncertainties associated with our business is described in Directors report – review of the business – Risk factors in this document. All forward looking statements in this document 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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## Chairman's statement

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Over the last year, we have continued to position our business to take advantage of fundamental changes in the way in which customers consume media and communications. These changes are creating significant opportunities for companies that have the capability and the appetite to adapt their businesses.

The steps that we have taken are delivering results. We have gained exposure to an enlarged growth opportunity in the broad marketplace for entertainment and communications. The expansion of our product set has provided more tools than ever to meet the needs of our existing and future customers, and our focus on quality, choice and value is being met by increased demand. As a consequence, more customers are choosing Sky for a broader range of products and services than ever before.

Sky is a business that makes a positive contribution to life in the UK and Ireland: through the products chosen by millions of customers; through our investment in much-loved content; and through our commitment to innovation. A further dimension of that contribution is the sense of responsibility that we bring to the way we do business. We continue to make progress in our work to contribute to a healthy environment and to develop our activities in sport and the arts.

After serving for 18 years on the Board of the Company, Rupert Murdoch decided to step down as Chairman and as a Director in December 2007. On behalf of the Board and shareholders, I would like to express our gratitude for his unparalleled contribution and tireless dedication to Sky. His spirit and vision have been instrumental in growing the business from a standing start to reach more than one in three households across the UK and Ireland.

Having stepped down as Chief Executive in December 2007, I am pleased to have the opportunity to continue to serve the Company in a new role as Non-Executive Chairman. I am delighted to have been succeeded as Chief Executive by Jeremy Darroch, who is the first person from within Sky to have been appointed to that role.

Jeremy has been a key part of the Company's leadership team since joining Sky as Chief Financial Officer in August 2004 and has been instrumental in our progress over that period. The Board considered Jeremy to be the outstanding candidate for the role of Chief Executive and I am certain that under his leadership the Company will continue to grow and prosper.

Andrew Griffith joined the Board in April 2008 on his appointment to succeed Jeremy as Chief Financial Officer. Andrew was previously Sky's Director of Group Finance, M&A and Investor Relations and his appointment is further evidence of the strength in depth of our management team. I would also like to welcome Daniel Rimer to the Board following his appointment as a Non-Executive Director, also in April 2008.

Finally, I would like to thank all my colleagues at Sky, including those at Amstrad who have recently joined the Group, for their hard work and commitment over the past 12 months. The opportunity for Sky has never been greater and we are well positioned to achieve continued growth on behalf of shareholders. That confidence is reflected in the proposed 8% increase in the full year dividend to 16.75 pence per share.

James Murdoch  
Chairman

30 July 2008



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## Directors report review of the business

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### Chief Executive Officer's statement

Our goal is to be consumers' first choice for entertainment and communications. We believe that customers deserve better: better content; better products; better service and better value. This fundamental belief underpins both our strategy and our operational performance.

It is the basis for our confidence that we have both the opportunity and the capability for long-term, sustainable success.

The opportunity is substantial. The coming together of previously adjacent market sectors provides significant headroom for growth. A growing consumer appetite for choice, control over viewing and connectivity is driving increasing demand across our core product categories. And consumers are rewarding trusted providers who meet their needs for quality, value and service.

Our capability as an organisation is the basis for competitive advantage. The strength of our franchise and our position today as the choice of more than one in three families in the UK and Ireland provides a strong foundation. The combination of our brand, product set, content offering and service infrastructure sets us apart in a competitive marketplace.

Continued execution against this opportunity and capability will deliver an expanded customer base, top-line revenue growth and accelerated financial returns, creating significant value for shareholders.

Looking back, 2008 has been a year of significant achievement, particularly against the backdrop of a more challenging consumer environment. We have grown our customer base in line with our targets, reaching 8.98 million in June; we have established ourselves as the fastest growing broadband and home phone provider in the UK; we have seen record new product take-up, in particular with Sky+; and the actions we have taken to improve the quality of our customer base have delivered a step-change in churn. More customers are choosing Sky, they are taking more products from us and they are staying with us for longer.

There is no doubt that the consumer environment is more challenging today than it has been for some time. Against that backdrop, our business has continued to perform well. No consumer business can be entirely immune to an economic downturn and it is impossible to predict with certainty the effects the current environment will have. However, there are a number of factors specific to Sky that mean we are well placed relative to other consumer businesses. These include the strong, high-quality business that we have today, the value of our product set and the fact that there is good headroom for growth in all of the segments in which we operate. Our ability to save customers money through broadband and telephony, investment in products like Sky+ that improve loyalty and satisfaction, focus on quality in our acquisition and retention strategy, and leadership in customer service are all important in this context.

One of the greatest opportunities for our business is the chance to offer more products to the homes that choose Sky. We are already seeing positive trends, with over five million product sales during the year, a threefold increase over the last four years. This demand is driving new customer acquisition and helping to cement customer loyalty. Over half of our customers now take more than one product from us, and for new customers this percentage is even greater. There remains a substantial opportunity for growth with only around one in ten of our customers taking all three of TV, broadband and telephony from Sky.

Sky+ puts our customers in charge of what they watch and when they watch it. It has established itself as the gold standard for digital video recorders and has been a key driver of demand. This year, an additional 1.3 million homes chose Sky+ and it is now in more than 3.7 million households or 41% of our customer base. It is helping us attract new customers with strong product advocacy, and high customer satisfaction means that Sky+ customers tend to stay with us for longer. The growth of Sky+ is having a transformative effect on the way our customers watch TV, with an estimated 4.4 billion instances of time-shifting over the last year. Our Sky+ HD service takes this technology to a new level, with all of the well-loved features of Sky+ combined with a new high definition quality of TV experience providing us with a good platform for growth.

Our broadband and telephony businesses are quickly achieving scale. In less than two years more than 1.6 million households have joined Sky Broadband and we are making similar strong progress in Sky Talk, where we have grown to well over a million customers. As more customers respond to the great value and high quality that we offer, Sky Talk came first in seven of the 11 categories in uSwitch's 2008 Home Phone Customer Satisfaction Awards, including best overall satisfaction.

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Alongside growing demand for our products, we have made some important changes that support the quality and durability of our customer base. With a wider range of products and a stronger value proposition than ever before, we have been able to reduce the use of viewing package discounts to attract and retain customers. As a result, we are seeing a positive and measurable effect on the quality of new customers joining Sky and improved loyalty from existing customers, with churn at its lowest level for three years.

Content is our life-blood at Sky. We are continuing to strengthen our offering through investment in distinctive programming that makes us stand out and encourages people to join Sky. Alongside our successful partnerships with third-party broadcasters, we continue to develop our wholly-owned channels in sports, news, movies, entertainment and the arts. For example, we've recently renewed our agreement for coverage of the UEFA Champions League and will offer more live games than ever before. Sky One, our flagship entertainment channel, goes from strength to strength with outstanding original commissions such as Ross Kemp in Afghanistan, The Colour of Magic, Don't Forget The Lyrics and Gladiators, alongside compelling US drama like Lost, 24 and Prison Break. Sky News continues to set standards for coverage of breaking news, winning the Royal Television Society's News Channel of the Year Award for the sixth time in the last seven years, and we are further broadening Sky's appeal through our content offering with Sky Arts, the UK's only channel dedicated to all areas of the arts.

Customer service is as integral a part of the Sky experience as putting good content on screen. Our contact centres already handle over one million calls from customers a week, and our field engineers make over four million home visits a year. Our aspiration is not just to set the benchmark for the best customer experience in our own industry, but the best in any industry.

Financially, we are in good health and our strategy is delivering strong revenue growth to almost £5 billion. Operating profit of £724 million in the 2008 financial year was impacted by a number of expected cost headwinds, but we remain on track for our goals. After passing the peak of investment in the roll-out of broadband and telephony, we are focused on delivering enhanced profitability in line with our 2010 margin targets. We have a greater opportunity for growth than ever before and we are well positioned to create significant value for shareholders.

We believe that a successful and sustainable business is a responsible business; one that sees the bigger picture. We are committed to making a positive contribution to society, embracing the opportunity to work with our staff and customers to tackle the issues they care about. We have focused on three areas in particular where we believe Sky can make a real difference: encouraging participation in sport; making the arts more accessible and helping to tackle climate change.

We have already reduced our direct carbon footprint by 27%, and have worked with our customers to reduce their energy consumption. One year after launch, our auto standby feature – a world first – has been downloaded to more than four million Sky+ and Sky+ HD boxes, saving our customers £12 million on their electricity bills as well as 52,000 tonnes of CO<sub>2</sub>. To help make the arts accessible and appreciated by all, we have partnered with a number of leading arts organisations and events across the UK, including English National Opera (ENO), English National Ballet and the Hay Festival. Our work with ENO has allowed thousands of Sky customers to attend performances for just £5, and hundreds of local schoolchildren have been offered educational workshops. Through our recently announced partnership with British Cycling, we want to help one of Britain's most successful Olympic teams achieve even more success, develop the next generation of talent and inspire millions of people to get on their bikes. Our Sky Sports Living for Sport programme – now in its fifth year – has helped more than 17,000 students at risk of opting out of school life to reach their full potential. We are proud of the contribution we've made in each of these areas and are committed to building on these foundations in the years ahead.



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## Directors' report review of the business continued

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We challenge ourselves constantly to be a business that is adaptable and embraces change; an organisation that is prepared to take decisions and control its own destiny. That culture has been part of Sky since the very start. It is from that culture that we have derived our success: in backing our belief that people wanted more choice in television viewing; in raising the bar for the way in which sports and news are covered on TV; in developing innovative products like Sky+ and Sky+ HD which transform the television experience; and in building a broadband and telephony business to scale from scratch.

That capability within the organisation is growing every day. Our people are the key to our success and I would like to pay tribute to them for their hard work, creativity, dynamism and dedication. All of us at Sky will continue to focus our efforts on the things that we know really matter to our customers: great content, great value and great service. We see huge potential for continued growth and value creation and we believe we are better placed than ever to deliver.

### **Jeremy Darroch**

Chief Executive Officer

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## The business, its objectives and its strategy

### Introduction

British Sky Broadcasting Group plc and its subsidiaries (the Group) operate the leading pay television broadcast service in the UK and Ireland as well as broadband and telephony services. We acquire and commission programming to broadcast on our own channels and supply certain of those channels to cable operators for retransmission by the cable operators to their subscribers in the UK and Ireland. We retail channels (both our own and third parties) to DTH subscribers and certain of our own channels to a limited number of DSL subscribers (reference in this Annual Report to the number of DTH subscribers includes the number of DSL subscribers to whom Sky retails its content directly). We also make three of our channels available free-to-air via the UK DTT platform as part of the branded Freeview offering and we have announced that we are developing plans to replace these channels with new pay TV channels on the DTT platform (see Government Regulation Broadcasting Act Licences below).

At 30 June 2008, there were 8,980,000 DTH subscribers to our television service, and 1,248,000 subscribers of the cable operators to whom we supply certain of our channels, in the UK and Ireland. Up to 28 February 2007, the Group supplied certain of the Sky Basic Channels to Virgin Media (see Cable distribution – UK below). This supply arrangement has now ceased although the Group continues to provide Virgin Media with versions of the Sky Premium Channels. According to estimates of Broadcasters Audience Research Board (BARB), as at 30 June 2008, there were 12.5 million homes in the UK receiving certain of our channels via DTT (see DTT distribution below). Our total revenue in fiscal 2008 was £4,952 million (2007: £4,551 million), as set out in the table below.

|                                    | 2008         | 2007         |
|------------------------------------|--------------|--------------|
| For the year to 30 June            | £m           | £m           |
| Retail subscription                | 3,769        | 3,406        |
| Wholesale subscription             | 181          | 208          |
| Advertising                        | 328          | 352          |
| Sky Bet                            | 44           | 47           |
| Installation, hardware and service | 276          | 212          |
| Other                              | 354          | 326          |
| <b>Revenue</b>                     | <b>4,952</b> | <b>4,551</b> |

We operate principally within the UK and Ireland, with activities conducted primarily from the UK. Our revenue principally arises from services provided to retail and wholesale customers within the UK with the exception of £365 million (2007: £289 million) which arises from services provided to other countries.

Our fiscal years end on the Sunday nearest to 30 June in each year. References in this document to a fiscal year ended 30 June is to the fiscal year ending on the Sunday nearest to 30 June. We publish our financial statements in British pounds sterling. References 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 participating European Union countries, and references to pounds sterling, £, pence and p are to the currency of the UK. For information with respect to exchange rates, see Shareholder Information – Exchange Rates.

Our consolidated financial statements are prepared in accordance with IFRS as adopted by the EU, the Companies Act 1985 and Article 4 of the IAS Regulations. In addition our consolidated financial statements also comply with IFRS as issued by the IASB.

Certain terms used herein are defined in the Glossary of terms which appears at the end of this Annual Report.

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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)20 7705 3000. A list of our significant investments is set out in note 31 to the consolidated financial statements.

### Programming

We provide subscribers with a broad range of programming options. Programming is an important factor in generating and maintaining subscriptions to the Sky 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 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, distribute and retail 25 Sky Channels via our DTH service (or 28 including multiplex versions of the Sky Channels, but excluding simulcast channels and the business channels SkyVenue and the Pub Channel). A multiplex of a channel is a time-shifted version of that channel, a version that is manifestly linked by theme to the principal channel or a version where the content is transmitted at different times. We also simulcast some of the Sky Channels or programming from some of the Sky Channels in high definition. A simulcast channel is a simultaneous transmission of programmes on other channels. We currently retail to our DTH subscribers 149 Sky Distributed Channels (including multiplex versions of certain channels) (the Sky Distributed Channels ). 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, as well as the Sky Box Office service (a pay-per-view service offering movies, sporting events and concerts).

The Sky Distributed Channels packages as at 30 June 2008, were as follows:

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| Package             | 3rd Party Channels |
|---------------------|--------------------|
| Variety Mix         | 32                 |
| Style & Culture Mix | 24                 |
| Kids Mix            | 20                 |
| Knowledge Mix**     | 21                 |
| Music Mix           | 17                 |
| News & Events Mix   | 11                 |
| ROI Bonus Mix       | 10                 |
| Adult Nightly       | 9                  |
| Disney Cinemagic*   | 2                  |
| MUTV                | 1                  |
| Chelsea TV          | 1                  |

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\* Disney Cinemagic also available as a bonus to subscribers of both Movies Mix packages.

\*\* On 28 July 2008, the Military History channel launched as part of the Knowledge Mix.

In addition the HD service includes six third party Channels.

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## Directors report review of the business

### continued

## The business, its objectives and its strategy

### continued

The Sky Channels, and their multiplex versions, as at 30 June 2008, were as follows:

| Sky Channel                    | Multiplex/<br>Multiplexes | Simulcasts       | EPG Channel<br>Genre | Basic/<br>Premium   |
|--------------------------------|---------------------------|------------------|----------------------|---------------------|
| Sky Movies Premiere            | Sky Prem+1                | Sky Premiere HD  | Movies               | Premium             |
| Sky Movies Comedy              |                           |                  | Movies               | Premium             |
| Sky Movies Action              |                           |                  | Movies               | Premium             |
| Sky Movies Family              |                           |                  | Movies               | Premium             |
| Sky Movies Drama               |                           |                  | Movies               | Premium             |
| Sky Movies SciFi and<br>Horror |                           |                  | Movies               | Premium             |
| Sky Movies Classics            |                           |                  | Movies               | Premium             |
| Sky Movies Modern Greats       |                           |                  | Movies               | Premium             |
| Sky Movies Indie               |                           |                  | Movies               | Premium             |
| Sky Movies Screen1             |                           |                  | Sky Screen 1HD       | Sky Screen 2HD      |
| Sky Movies Screen 2            | Movies                    | Premium          |                      |                     |
| Sky Sports 1                   |                           | Sky Sports HD1   | Sports               | Premium             |
| Sky Sports 2                   |                           | Sky Sports HD2   | Sports               | Premium             |
| Sky Sports 3                   |                           | Sky Sports HD3   | Sports               | Premium             |
| Sky Sports Xtra                |                           | Sports           | Premium              |                     |
| Sky Sports News                |                           | Sports           | Basic                |                     |
| Sky One                        |                           | Sky One HD       | Entertainment        | Basic               |
| Sky Two                        |                           |                  | Entertainment        | Basic               |
| Sky Three                      |                           |                  | Entertainment        | Basic               |
| Sky News                       |                           |                  | News                 | Basic               |
| Sky Real Lives                 |                           | Sky Real Lives+1 |                      | Lifestyle & Culture |
|                                | Sky Real Lives 2          |                  |                      |                     |
| Sky Arts                       |                           | Sky Arts HD      | Lifestyle & Culture  | Basic               |
| Sky Travel                     |                           |                  | Shopping             | Basic               |
| Sky Vegas                      |                           |                  | Gaming               | Basic               |
| SkyPoker.com                   |                           |                  | Gaming               | Basic               |

We retail packages of channels to our DTH subscribers. The way they are packaged offers subscribers a choice of up to six mixes of both Sky Basic Channels and Sky Distributed Channels. Each mix contains channels broadly within a specific genre of interest, to which subscribers have the option to add a combination of Sky Premium Channels and Premium Sky Distributed Channels.

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

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Virgin Media (see Cable distribution UK below) carries versions of the Sky Premium Channels (including multiplex channels) on its digital networks (see Sky Premium Channels below).

We also broadcast versions of three of the Sky Channels, Sky News, Sky Sports News and Sky Three, unencrypted free-to-air via DTT in the UK as part of the Freeview offering (see Distribution DTT Distribution below). We have announced that we are developing plans to replace these channels with new pay TV channels on the DTT platform (see Government Regulation Broadcasting Act Licences below).

We also operate a High Definition TV ( HD ) service. The Sky HD service channel line up consists of: Sky One HD, Sky Arts HD, FX HD, Eurosport HD, National Geographic HD, Discovery HD, The History Channel HD, Rush HD, Sky Box Office HD (two screens), Sky Sports HD (three channels) and Sky Movies HD (three screens). BBC HD, Channel 4 HD and Luxe TV HD are also available on our platform.

According to surveys produced by BARB, as of 30 June 2008, an estimated 34% of the estimated 25.7 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 48% had digital terrestrial television. The percentage figures given for each means of delivery 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 2008, the Sky Channels (including Sky Box Office and Sky Box Office Events but excluding SkyPoker.com and Sky Vegas) accounted for an estimated 16.3% 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 7% viewing share of all channels (including the traditionally analogue terrestrial channels) available within Multi-Channel Homes during the same period).

For the 52 weeks ended 30 June 2008, BARB estimates that 52% of all viewing in UK homes with digital satellite reception equipment ( digital satellite homes ) was of channels available via digital satellite other than the traditionally analogue terrestrial channels. BARB estimates that, in the same period, Sky Channels accounted for 24% of multi-channel viewing (i.e. viewing of all channels excluding the traditionally analogue terrestrial channels) in UK digital satellite homes, with an overall 12.3% viewing share across all channels available (including the traditionally analogue terrestrial channels) within UK digital satellite homes.

We hold equity interests in ventures that own 17 (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 (for the purposes of this filing, any reference to the UK in relation to the distribution of the Sky Channels and Sky Distributed Channels includes the Isle of Man and the Channel Islands) namely Attheraces, Nickelodeon, Nick Jr., Nick Jr. 2, Nicktoons, National Geographic Channel, National Geographic HD, Nat Geo Wild, Chelsea TV, MUTV, Paramount Comedy, Paramount Comedy 2, The History Channel, Military History, The History Channel HD, The Biography Channel and Crime and Investigation Network. We also have a 33.33% equity interest in the venture operating the Sky News Australia Channel, which is based in Australia.

### Premium channels

#### Sky Premium Channels

#### *Sky Movies channels*

Sky Movies features 10 channels of different genres divided into two packs:

#### Pack 1

- Sky Movies Comedy
- Sky Movies Family
- Sky Movies Classics
- Sky Movies Modern Greats
- Sky Movies Screen 1

#### Pack 2

- Sky Movies Action/Thriller
- Sky Movies Sci-Fi/Horror
- Sky Movies Indie
- Sky Movies Drama
- Sky Movies Screen 2

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Sky Movies Comedy, Family, Classics, Modern Greats, Action/Thriller and Drama broadcast 24-hours per day, seven days a week. Sky Movies Sci-Fi/Horror broadcasts from 8am – 5am, seven days a week and Sky Movies Indie broadcasts from 9am – 5am seven days a week. The channels principally broadcast 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.

Customers can elect to subscribe to Pack 1, Pack 2 or both packs. Sky DTH and digital cable subscribers subscribing to both packs receive Sky Movies Premiere and Sky Movies Premiere +1 free. Sky Movies Premiere broadcasts 10am – 2am, seven days a week and exclusively shows titles in their first run TV windows (after the pay per view and VoD windows). The movies are recent theatrical releases, made for video and

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made for TV movies, including foreign film content. Sky Movies Premiere typically broadcasts five new films per week, and two films from the previous week every day for seven days. Sky Movies Premiere +1 is a one hour delayed multiplex of the Premiere channel, broadcast from 11am – 3am.

There are three Sky Movies HD channels dedicated to movies broadcast in high definition: Sky Movies Screen 1 HD, Sky Movies Screen 2 HD and Sky Movies Premiere HD. Sky Movies Screen 1 HD is available to subscribers to our HD service who also subscribe to Pack 1 and Sky Movies Screen 2 HD is available to subscribers to our HD service who also subscribe to Pack 2. Sky Movies Premiere HD is available to subscribers of our HD service who subscribe to both Pack 1 and Pack 2. Sky Movies Screen 1 HD, Sky Movies Screen 2 HD and Sky Movies Premiere HD are a simulcast of Sky Movies Screen 1, Sky Movies Screen 2 and Sky Movies Premiere respectively. Screen 1 (and HD simulcast) broadcasts midday – 4am and Screen 2 (and HD simulcast) broadcasts 11am – 3am, both seven days a week.

#### *Sky Sports channels*

Sky Sports 1 and Sky Sports 2 each provides on average 22 hours of sports programming per day, including live coverage of sports events.

Sky Sports 3 currently offers, on average, 18 hours of sports programming per day. It is available without extra charge to DTH and cable subscribers who subscribe to both Sky Sports 1 and Sky Sports 2.

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

Sky Sports HD1, Sky Sports HD2 and Sky Sports HD3 are available to subscribers to our HD service who are entitled to the corresponding standard definition channel. This year the Sky Sports HD channels have included live HD coverage of England's domestic Test matches, one day internationals and county matches in cricket, Engage Super League rugby, Heineken Cup and Guinness Premiership rugby, the US Open, US PGA and selected European Tour events in golf, the NFL Super Bowl and a range of live football including matches from the Football Association Premier League ( FAPL ), Coca-Cola Football leagues, Carling Cup, UEFA Champions League, FA Cup, Scottish Cup and some international games.

In March 2006 the European Commission rendered legally binding the FAPL's commitment to sell live TV rights in six balanced packages, with no one bidder being allowed to buy all six packages. In May 2007, the Group successfully bid for four of those six available packages (each of 23 games) of exclusive live UK audio visual rights to FAPL football, and four of the seven packages of live audio visual rights for broadcast in Ireland. In addition, the Group has near live long form rights to 242 games per season of FAPL football in both the UK and Ireland (in the case of the UK, in a joint bid with British Telecommunications plc ( BT )) and mobile clips rights to FAPL football in both the UK and Ireland. The bid for mobile clips rights in the UK was made by the Group in partnership with News Group Newspapers. In all cases these rights run from the beginning of the 2007/08 season to the end of the 2009/10 season.

In addition to those FAPL rights, our programming rights for the Sky Sports channels include exclusive live rights to broadcast, in the UK and Ireland, a range of sport including a number of football, rugby union, rugby league, cricket, motor sport, golf, boxing and tennis events. Those events include: (i) broadcast rights to Football League matches and the Carling Cup for the 2008/09 to 2011/12 domestic football seasons; (ii) broadcast rights to the UEFA Champions League for the 2008/09 to 2011/12 seasons; (iii) 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; (iv) exclusive live rights in English for the International Cricket Tours of India from 2006 to 2010; (v) a number of rugby union matches including autumn international matches, Guinness Premiership matches, England A Team matches from the 2005/06 to 2009/10 seasons; (vi) exclusive live rights to the Heineken Cup and the Challenge Cup for the 2006/07 to 2009/10 seasons; (vii) exclusive rights to all tri-nations rugby union matches between Australia, New Zealand and South Africa, plus all summer tours to these three countries made by England,

Scotland, Wales, Ireland and British and Irish Lions and exclusive rights to domestic competitions in those territories, including the Super 14 Tournament and Currie Cup until December 2010; (viii) exclusive live rights to the Ryder Cup and the PGA European Tour until 2012; and (ix) exclusive live rights to the Hickstead Royal International Horse Show until 2010. We also purchase rights

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to broadcast a wide range of additional sports programming on both an ad hoc and longer term basis.

### Premium subscription channels retailed by Sky

#### Disney Cinemagic

Under an agreement with The Walt Disney Company Limited, we have the exclusive rights to distribute, via DTH in the UK and Ireland, Disney Cinemagic and its multiplex channel as bonus channels to those of our DTH subscribers receiving both Sky Movies packs (see Sky Movies channels above), and to other DTH subscribers as a stand alone premium channel.

#### Chelsea TV

Chelsea Digital Media Limited (a company in which we own a 35% 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 as a stand alone premium channel.

#### MUTV

We are party to a joint venture, MUTV Limited, with Manchester United PLC. We own 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 as a stand alone premium channel.

#### Music Choice Extra

In addition to Music Choice, which is included in certain of our Basic Packages (see Basic Channels Basic Sky Distributed Channels below), we offer Music Choice Extra, which consists of an additional 38 digital audio channels, to our DTH subscribers as a stand alone premium channel.

### Basic Channels

#### Sky Basic Channels

Sky One is the general entertainment flagship channel of the Sky Channels and is available to our DTH and certain DSL and cable subscribers. It is targeted primarily at a 16-44 age group audience and includes UK-commissioned drama, factual and family entertainment series and major event programming in addition to first-run acquired US series. According to BARB surveys, during the 52 weeks ended 30 June 2008, Sky One was viewed by approximately 37% of individuals in all UK television homes and Sky One/Two/Three combined by approximately 69% of individuals in all UK television homes. Sky One is simulcast in HD, available to subscribers to our HD service and includes a range of Sky One programmes in high definition including all major new commissions and acquisitions.

Sky Two broadcasts primarily a catch-up schedule of programming from Sky One and is complemented by Sky One's programming library and some exclusive content and is available to our DTH and certain DSL and cable subscribers. Sky Three broadcasts a schedule of programming from Sky One's library, content from Sky Travel, Sky Real Lives and Sky Arts, as well as some exclusive content. Sky Three is also currently shown on some cable networks in the UK and Ireland and on DTT as part of the Freeview offering in the UK.

Sky News provides national and international news to viewers in the UK, Ireland and across the globe. The channel is broadcast unencrypted on Astra satellites (see Satellites below), and distributed to viewers via cable and satellite networks in Europe, Africa, the Middle East and Asia. It is also currently shown on some cable networks in the UK and Ireland and on DTT as part of the Freeview offering in the UK.

Sky Sports News provides 24-hour national and international sports news coverage. It is currently available to our DTH subscribers, some cable and DSL customers in the UK and Ireland and in the UK on DTT as part of the Freeview offering in the UK.

Sky Arts broadcasts arts-oriented programming, including classical music, opera, literature, theatre, cinema and dance. It is currently available to our DTH subscribers.





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## Directors report review of the business continued

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### The business, its objectives and its strategy continued

Some programmes on Sky Arts are simulcast in HD, available to all subscribers to our HD service.

Sky Real Lives and its multiplexes Sky Real Lives +1 and Sky Real Lives 2 focus on real life human interest stories appealing to a female audience. The Sky Real Lives channels are available to our DTH subscribers.

Sky Travel is an entertainment and travel retail business incorporating a channel and a website. Sky Travel, broadcasts entertainment and teleshopping programming and is currently available to our DTH subscribers and some cable subscribers in the UK and Ireland. Sky Travel programming also features on Sky Three, which currently broadcasts on DTH and on DTT as part of the Freeview offering in the UK. Viewers of the teleshopping programming on Sky Travel on DTH and users of the skytravel.co.uk website are able to purchase a wide range of flights, hotels and holiday packages by the telephone or internet.

Sky Vegas and SkyPoker.com are interactive television channels which currently broadcast on a 24-hour a day basis and are currently available to our DTH subscribers.

#### 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.

The owners of the Sky Distributed Channels generally sell their own advertising time on their channels, although we act as an advertising sales representative for certain of these channels (see Advertising below).

#### 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. Sky Box Office HD offers at least 10 movies each week in high definition on a pay-per-view basis. We also offer seven screens of adult movies, between 10.00pm and 5.30am, to our DTH subscribers via our 18 Plus Movies service.

#### Sky Anytime on TV

In March 2007 the Group launched Sky Anytime on TV, an on-demand service that provides access to selected programmes that are added to the service overnight with approximately 30 hours of content available at any one time. Viewers have seven days to watch programmes or store them on their Sky+ planner (see description of Sky+ in DTH Distribution below) as newer programmes are added and older programmes are deleted. Sky Anytime on TV uses additional storage capacity on relevant set-top boxes to automatically store selected programmes for viewing on-demand and the customer's personal recording capacity remains unaffected. Sky Anytime on TV is available to all Sky HD customers and customers with the latest generation of Sky+ set-top boxes at no extra charge in accordance with their subscriptions (for example, customers who subscribe for the Sky Movies channels will have access to certain Sky Movies programming on Sky Anytime on TV at no extra charge).

#### Distribution

We distribute our programming services directly to DTH subscribers through the packages described above. Cable subscribers, by contrast, contract with 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. Since 28 February 2007, Virgin Media has not carried certain of the Sky Channels over its cable networks (see Cable distribution UK below). DTT viewers must have either an integrated digital television set or an appropriate set-top box (see Competition Digital Terrestrial Television Top Up TV below).

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As at 30 June

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| (In thousands) <sup>(1)</sup> | 2008                 | 2007  |
|-------------------------------|----------------------|-------|
| Distribution of Sky Channels  |                      |       |
| DTH homes                     | 8,980                | 8,582 |
| Cable homes <sup>(2)</sup>    | 1,248                | 1,259 |
| Total Sky pay homes           | 10,228               | 9,841 |
| DTT homes <sup>(3)</sup>      | 9,200 <sup>(4)</sup> | 9,139 |

(1) Each of the above figures includes homes that receive Sky Channels via more than one means of distribution.

(2) The number of cable homes is reported to us by the cable operators.

(3) The DTT homes number consists of the Office of Communications ( Ofcom ) estimate of the number of homes where DTT is the only platform. The number of DTT homes for all periods disclosed above is based on Ofcom's Digital Television Update published quarterly in arrears.

(4) Latest data available is at 31 March 2008 with an estimated number of DTT homes of over 9.2 million.

#### DTH distribution

As at June 2008, the total number of DTH subscribers in the UK and Ireland was 8,980,000, representing a net increase of 398,000 subscribers in the fiscal year. DTH churn in total was 10.4% in fiscal 2008 (2007: 12.4%) . 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 2008, we derived £3,769 million (76%) of our revenue from DTH subscription revenue (2007: £3,406 million (75%)).

As at 30 June 2008, we had a total of 8,980,000 DTH subscribers, with 65% of subscribers taking a combination of Sky Basic Channels and at least one Sky Premium Channel as well as Sky Distributed Channels.

Of more than 8,980,000 DTH subscribers; 3,714,000 were Sky+ subscribers, 1,604,000 were Multiroom subscribers and 498,000 were Sky HD subscribers.

The standard price (inclusive of VAT, where applicable) to a residential DTH subscriber of our basic package containing the largest number of basic channels (known as the Variety Mix ) is currently £16 per month in the UK and €20 per month in Ireland. The range of prices (inclusive of VAT, where applicable) to a DTH subscriber taking one or more basic channel Mixes with Sky Premium Channels (which varies depending upon the number of basic channel Mixes and Sky Premium Channels taken) is currently £26 to £45 in the UK, and €39 to €68 in Ireland.

We also offer a number of our services, including Sky HD, 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 depend primarily upon the type of business premises within which such subscribers wish to show our services. Our commercial DTH subscribers include offices, retail outlets, hotels, pubs and clubs. Each such operator with a SMATV system is considered to be a single commercial DTH subscriber regardless of the number of points (e.g. rooms in a hotel) within the premises the television signal is distributed to. As at 30 June 2008, there were approximately 44,695 subscribers to our commercial DTH services in the UK and Ireland (including approximately 5,078 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 £89 to £3,001 per month (exclusive of VAT). In Ireland, prices to pubs and clubs subscribers range from €278 to €686 per month (exclusive of VAT).

#### 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 digital satellite receiver ( set-top box ), a smart card (see Technology and Infrastructure below) and a remote control. We have worked with a number of manufacturers and



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continue to work closely with selected manufacturers to manufacture digital satellite receivers based upon our specifications.

Standard installation for all new DTH subscribers taking the free standard set-top box offer during fiscal 2008 was £30 with an additional £30 charge for weekend installations. From 1 July 2008 all new DTH subscribers will pay £60 for a standard installation whether the installation is booked on a weekday or on the weekend (or £30 for new DTH subscribers joining with a Sky+ or Sky+ HD box or Sky Broadband and Sky Talk). Non-DTH subscribers taking up the free standard set-top box offer (which is different from purchasing our freesat proposition, see [Distribution Free-to-view Satellite Proposition](#) below) during fiscal 2008 were, and currently are, charged £120 for standard installation regardless of whether the installation is booked for a weekend or a weekday.

The services received by a non-subscriber taking up the free Digibox offer depend upon the number of unencrypted services and free encrypted services available on the Astra and Eutelsat satellite systems, and also upon whether the non-subscriber receives encrypted channels from third party broadcasters on a subscription or pay-per-view basis.

During fiscal 2008, we have continued to offer the Sky+ box, a set-top box that we have developed which contains two satellite tuners and an integrated PVR allowing programming to be recorded directly on to a hard-disk contained within the box. This enables DTH subscribers to watch one live satellite programme (or a previously recorded programme) while simultaneously recording another or to simultaneously record two programmes, to pause or rewind live television and to record automatically some series of programmes.

During fiscal 2008 the standard cost to DTH subscribers of a Sky+ box was between £99 and £149. From 1 July 2008, the standard cost to DTH subscribers of a Sky+ box is a one-off fee of either £75 or £150 depending on the services to which they subscribe. A DTH subscriber can only receive one discounted Sky+ box.

Sky+ customers need a Sky+ subscription to use the Sky+ recording features. DTH subscribers receive the Sky+ subscription for free. Customers who do not subscribe to a Sky package ( non-DTH subscribers ) pay a monthly charge of £10 for the Sky+ subscription. DTH subscribers with a Sky+ subscription and a compatible Sky+ box can also receive Sky Anytime TV at no extra cost. This is an on-demand service which provides a selection of programming on the Sky+ box hard-disk which a customer can watch whenever they like.

During fiscal 2008 the standard cost to DTH subscribers of a Sky+ HD box was between £199 and £299. From 1 July 2008, the standard cost to DTH subscribers of a Sky+ HD box is a one-off fee of either £75 or £150 depending on the services to which they subscribe. A DTH subscriber can only receive one discounted Sky+ HD box. DTH subscribers currently pay a monthly subscription fee of £10 for the HD service (in addition to the subscription fee for the package of channels taken). Sky HD customers require a Sky+ subscription to use the Sky+ recording features of the Sky+ HD box. The subscription is free for DTH subscribers or £10 a month for non-DTH subscribers.

We also offer our DTH subscribers and non-DTH subscribers the opportunity to purchase up to seven extra Digibox receivers or three Sky+ or Sky+ HD boxes for use at the same residence as their original set-top box, which enables them to watch different satellite programmes in different rooms at the same time using just one satellite dish. DTH subscribers can purchase a Multiroom subscription for each extra box at a cost of an extra £10 a month which provides all the channels included in his or her main DTH subscription package for one extra set-top box.

During fiscal 2008, the standard cost of an extra standard box for a DTH subscriber was, and currently is, £49; the standard cost of the Sky+ box varied from £99 to £149; and the standard cost of the Sky+ HD box varied from £199 to £299, in each case providing the customer took up a Multiroom subscription. From 1 July 2008, the standard cost of an extra Sky+ or Sky+ HD box is £150. DTH subscribers who do not take up a Multiroom subscription, pay £399 for an extra Sky+ HD box, £199 for an extra Sky+ box and £99 for an extra standard Sky box.

Both digital satellite reception equipment and subscriptions to our DTH services are offered by us directly and through a variety of retailers. We also provide installation and equipment repair services. In fiscal 2008, 1.3 million digital satellite reception systems were newly installed in the UK by or on behalf of one of our subsidiaries (2007: 1.3 million).

### *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. Some of the channels offered in Ireland differ from those offered in the UK.

### **Sky Active**

We offer our 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 SkyPoker.com and Sky Vegas. We offer interactive services which can be accessed whilst the programming on the channel to which the interactive service relates stays in view.

We provide an interactive television platform for the development and delivery of interactive television services by means of either stand-alone portals (including the Sky Active portal) or in conjunction with certain broadcast channels. Such interactive services include betting, customer services, interactive advertising, games, competitions, voting, and quizzes.

Sky Active is currently offered at no additional charge to all of our DTH subscribers and each viewer's telephone line is the return path for these interactive services via a modem in the set-top box.

Third party channels (and third party stand-alone interactive portals such as QVC, PlayJam, Teletext Holidays, Ladbrokes, Directgov, and NHS Direct Interactive) make use of the interactive potential of the digital DTH platform. Third party broadcasters such as the BBC, ITV, Channel 4, five, Nickelodeon, and the Disney Channel have launched interactive services on our DTH platform. Third party channels may offer such interactivity in conjunction with Sky Active or provide their interactive services independently, including making use of competing interactive infrastructures connected to our DTH platform.

### **Sky Bet**

The Group offers a range of betting and gaming services under the Sky Bet, Sky Poker, Sky Vegas and Sky Bingo brands in relation to which the Group acts as bookmaker and operator. The Sky Bet fixed odds sports betting service has since 1 September 2007 been licensed by the UK Gambling Commission and is available across multiple platforms, including by means of set-top boxes (including Sky+ and Sky+ HD), by telephone, WAP and on the internet and customers can bet on virtual dog and horse racing on the Sky Vegas channel. Sky's gaming operations, which include poker, bingo and an online casino are licensed in Alderney in the Channel Islands. SkyPoker.com launched in February 2007 on DTH. Customers can participate through their set-top boxes or through the internet (at [www.skypoker.com](http://www.skypoker.com)) and can have the option of watching the show on the SkyPoker.com channel. Sky Bet also continues to develop a range of popular games products on the internet (at [www.skyvegas.com](http://www.skyvegas.com)) and on the DTH platform, through both the Sky Vegas 24/7 games service and Sky Vegas interactive. Sky Bingo was launched on the internet in December 2007 and on interactive television in May 2008. In fiscal 2008, we derived £44 million of Sky Bet revenue (encompassing betting and gaming) (2007: £47 million). The gambling business is certified by the Gambling charity Gamcare and has in place stringent social responsibility measures for the protection of minors and other vulnerable people. We take active measures to prevent persons resident in the US participating in our internet gaming and betting services. Such measures include geo-location checking software and credit card checks.

On 23 January 2007, the Group completed its acquisition of 365 Media Group plc (365 Media). The total consideration for the acquisition was £105 million. 365 Media is an operator of sports and gaming websites including the odds comparison service Oddschecker ([www.oddschecker.com](http://www.oddschecker.com)) which compares betting, gaming, poker and bingo odds of third party operators. The customers of the 365 Media websites [totalbet.com](http://totalbet.com) and [ukbetting.com](http://ukbetting.com) were migrated to Sky Bet in June 2007.

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## Directors report review of the business continued

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### The business, its objectives and its strategy continued

#### Digital subscriber line ( DSL ) and other fixed line distribution

##### **Sky Player**

Sky Player is a PC-application that provides access to a range of on-demand programmes and live channels including Sky Sports, Sky One and Sky Movies programming.

Customers can access a range of entertainment, sports and movies content with Sky Player via [www.sky.com/skyplayer](http://www.sky.com/skyplayer) provided they have a compatible computer and operating system. This offers downloads and streamed content to a customer's home PC. The cost and availability of content depends on whether the customer is a DTH subscriber and what DTH subscription package they have. Certain content is available on a pay-per-view and subscription basis.

##### **Sky By Wire**

Sky By Wire refers to television services retailed directly by us over the fixed line networks of other operators. The first such Sky By Wire offering was made available in August 2004 when we began offering subscriptions to certain of the Sky Channels to households connected to the HomeChoice platform. We now have Sky By Wire offerings available via a number of other platforms in Ireland (Magnet Networks Limited, Smart Telecom, Broadworks Communications and SCTV Digital).

Following its acquisition of Video Networks Ltd the operator of the HomeChoice platform, Tiscali UK Limited ( Tiscali ) re-branded the platform as Tiscali TV on 1 March 2007. Tiscali now distributes pay television and broadband access services across its whole unbundled local loop network.

Under arrangements with Tiscali, we have access to the Tiscali TV platform to enable us to retail certain of the Sky Premium Channels to customers who already subscribe to Tiscali's services. In addition, Tiscali provides us with certain customer management, billing and sales agency services in respect of our subscribers receiving Sky Premium Channels via its platform. In return for these services, we pay Tiscali a fixed monthly fee per subscriber who subscribes to a Sky Premium Channel on the Tiscali platform. In June 2007 the Group concluded an agreement with Tiscali to supply the Sky Basic Channels for retransmission to Tiscali's DSL subscribers as part of Tiscali's own retail pay-TV offering.

##### **Easynet**

The Group completed its acquisition of Easynet Group plc (now Easynet Group Limited ( Easynet )) in January 2006. Founded in 1994, Easynet is a global networking company, providing customers with IP based wide area network solutions. Easynet has operations in ten countries (UK, Spain, France, Germany, the Netherlands, Belgium, Italy, Switzerland, USA and China) enabling companies to connect their sites to a high quality, secure and reliable Multi-protocol Label Switching ( MPLS ) network. Easynet offers a portfolio of IP services including national and cross border IP virtual private networks ( VPN ), managed video conferencing services, internet connectivity, carrier services, hosting and co-location in purpose built data centre facilities, and security solutions.

In the UK, Easynet engages in local loop unbundling ( LLU ), which involves placing equipment in BT exchanges enabling the Group to offer differentiated services to businesses and consumers. As at 30 June 2008, the Group (through its acquisition of Easynet and LLU that has been carried out by the Group since that acquisition) had unbundled 1,189 exchanges.

##### **Sky Broadband**

We launched Sky Broadband, our broadband internet access service in July 2006. The service is available to all of our DTH subscribers in the UK.

For DTH subscribers covered by our broadband network, three different broadband products are available: Sky Broadband Base; Sky Broadband Mid; and Sky Broadband Max. Sky Broadband Base is free with download speeds of up to 2Mb/s and 2GB monthly usage. Sky Broadband Mid costs £5 per month and offers download speeds of up to 8Mb/s and 40GB monthly usage. Sky Broadband Max costs £10 per month and offers download speeds of up to 16Mb/s and unlimited monthly usage.

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Set up costs for Sky Broadband vary between £0 and £75 according to the Sky Broadband product taken, the other services to which the relevant customer subscribes and whether the Sky Broadband customer is adding the service or taking up the service at the point of first subscription to Sky or as an existing DTH customer.

As at 30 June 2008, our broadband network covered approximately 72% of UK households.

We also offer Sky Broadband Connect to our DTH subscribers in the UK who are not within the coverage area of our broadband network. Sky Broadband Connect offers an equivalent service to Sky Broadband Mid and costs £17 per month. Sky Broadband Connect customers will be offered Sky Broadband Base, Sky Broadband Mid or Sky Broadband Max if and when our broadband network extends to their area.

### Sky Talk

Sky Talk is a telephony service available to all Sky's DTH subscribers in the UK. Sky Talk Freetime offers DTH subscribers free (for up to one hour per call) UK evening and weekend calls and Sky Talk Unlimited offers DTH subscribers unlimited UK calls (for up to one hour per call) and unlimited calls to certain international destinations for £5 a month.

In October 2007 the Group launched Sky Talk Line Rental, an opportunity for DTH subscribers to take their telephony line rental directly from Sky. This is available for £10 a month to DTH subscribers who also take a Sky Talk product.

### Online

We own and operate a number of established websites including sky.com, skysports.com and sky.com/news.

Sky launched a full-service online portal in October 2007 encompassing e-mail, search and other new channels such as money, motoring, property and travel to sit alongside the existing verticals of skysports.com and sky.com/news.

Sky also extended its commitment to protection of its customers by introducing the Sky Security Centre where users can obtain information and products relating to online security and protection.

### Mobile networks

#### Sky Anytime on Mobile and Sky Mobile TV

Sky Anytime on Mobile is a mobile phone application that provides access to Sky Sports, Sky News, Sky One and Sky Movies mobile content. This offers news and entertainment information on compatible mobile handsets. It also allows customers to access the 7-day TV guide. It is available at no extra cost to our DTH subscribers. The application is available across all mobile networks to customers with a compatible handset with mobile internet access via GPRS or third generation cellular telephone systems (3G).

In addition, customers on Vodafone, Orange or T-mobile mobile networks in the UK or the Vodafone network in Ireland and with a compatible mobile handset can subscribe to Sky Mobile TV. Sky Mobile TV offers over 25 channels streamed direct to the subscriber's mobile phone. Depending on the customer's mobile network they can subscribe to up to four packages which cost from £3 to £5 per month (or on a daily or weekly basis in Ireland).

We also offer 24-7 Football. This allows customers to watch football clips on a compatible mobile handset. It is available on all mobile networks in the UK and certain Irish networks and you do not need to be a DTH subscriber to register. UK customers can either subscribe for £5 a month or buy each clip for £0.50.

We also syndicate various content (alerts, text based and video clips) under our brands to mobile operator portals.

### Cable distribution

#### UK

The combined cable operator businesses previously operated by Telewest Global, Inc (Telewest) and NTL Incorporated (ntl) were relaunched under a common brand, Virgin Media, on 8 February 2007. The merged entity was renamed as Virgin Media





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Inc. ( Virgin Media ). Virgin Media also operates the Virgin Mobile business in the UK and has entered into an exclusive licence agreement with Virgin Enterprises Limited for the use of the Virgin brand for its consumer business.

The Virgin Media re-brand coincided with the harmonisation of the television offering across the legacy cable systems of ntl and Telewest. Virgin Media continues to provide both analogue and digital cable services across its cable systems and accounts for a substantial proportion of our wholesale revenue, which is revenue derived from the supply of Sky Channels to UK and Irish cable platforms. On 28 February 2007, our agreements with Virgin Media for the distribution of our basic channels on the legacy cable systems of ntl and Telewest expired and we have been unable to conclude any replacement agreement for the carriage of any of our basic channels on Virgin Media's platform and, therefore, the Sky Basic Channels are currently not distributed to Virgin Media's cable customers. On 12 April 2007, Virgin Media commenced legal proceedings in the High Court against Sky in relation, amongst other things, to the supply of the Sky Basic Channels to Virgin Media (see Government Regulation UK competition rules below). In fiscal 2008, we derived £181 million in subscription fees from cable operators (2007: £208 million). We estimate, based on public disclosures by Virgin Media and the number of cable homes reported to us by other cable operators, that, as of 30 June 2008, Virgin Media subscribers represented greater than 99% of all cable television subscribers in the UK. Virgin Media continues to carry versions of Sky Premium Channels on its digital networks (and Sky Sports 1 and Sky Sports 2 on its analogue network).

Cable operators pay us a monthly per subscriber fee per channel in respect of their subscribers to the Sky Basic Channels (other than Virgin Media who no longer carry the Sky Basic Channels) and a monthly per subscriber fee per channel package for the Sky Premium Channels. Cable operators are able to offer their subscribers any choice or combination of the Sky Premium Channels pursuant to the rate card terms on which we supply such channels. Where applicable, 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.

We have contracts with Smallworld, Newtel and Wightcable for their distribution of all of our basic standard definition channels. These three regional cable operators operate the only other major pay TV cable services outside the Virgin Media network, covering the Borders region, Jersey and the Isle of Wight respectively.

In addition, various of the Sky Channels are distributed on a number of narrowband cable networks. These are generally smaller cable operators that have limited channel capacity (when compared with digital satellite or digital cable) and accordingly do not generally carry all of the Sky Channels.

### **Ireland**

We currently have arrangements in place with UPC Communications Ireland Limited ( UPC ) for the re-transmission of certain of the Sky Channels, including Sky Basic and Sky Premium Channels, to their subscribers over the legacy networks of ntl Ireland and Chorus (previously the two leading Irish cable operators but which were brought under the common ownership of UPC's parent company, Liberty Global Inc., in December 2005). UPC operates both analogue and digital cable services in Ireland.

In addition, various of the Sky Channels are distributed on a number of local cable networks in Ireland. These are generally smaller cable operators that have limited channel capacity (when compared with digital satellite or digital cable) and accordingly do not generally carry all of the Sky Channels.

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.

### **DTT distribution**

We broadcast versions of three of our channels, Sky News, Sky Sports News and Sky Three, unencrypted free-to-air via DTT in the UK. These channels are broadcast on a DTT multiplex for which the licence is held by National Grid Wireless (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 . We have announced that we are developing plans

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to replace these three channels with new pay TV channels on the DTT platform. An application to Ofcom to amend our Digital Television programme services licence (DPS) to enable us to launch these new pay TV channels on the DTT platform was submitted in April 2007. Ofcom has announced that it will publish a consultation document on the Group's pay DTT proposal by the end of summer 2008 (see Government regulation Broadcasting Act licences below).

### Free-to-view satellite proposition

We offer purchasers a freesat proposition with access to over 270 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 smart card and standard installation, for £150. The free-to-view channels on DTH include Sky News, and a range of television and radio channels provided by, among others, the BBC and ITV. Access to the encrypted signals of Sky Three, 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. The purchasers of this proposition are not obliged to subscribe to our pay television service; however, the proposition offers an easy upgrade path to our DTH pay television service.

### Emerging forms of distribution

We are also evaluating various other possible new means of distributing our services other than by DTH, cable, DSL and DTT, such as wireless broadband using Wimax or other similar technologies, mobile TV using technologies such as Digital Video Broadcasting for Handhelds (DVB-H), MediaFLO by Qualcomm, the internet, IP Wireless/ TDtv, General Packet Radio Service (GPRS) and UMTS (3G mobile telephony).

We also participate actively in the Digital Video Broadcasting (DVB) standardisation group both in the various working groups and at the level of the DVB's Steering Board, which gives us early exposure to other emerging technologies.

### Seasonality

Historically DTH subscriber subscriptions to our channels have tended to be higher in the first half of our fiscal year, which, as a result of us expensing the cost of acquiring customers as incurred, has tended to provide a modest weighting of profit towards the second half of the year. There can be no assurance that these trends will continue in the future.

### Marketing

The principal types of marketing 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, point of sale advertising in retail outlets which sell our products and services and Sky retail stores.

### Advertising

In fiscal 2008, we derived £328 million of our revenue from advertising sales revenue (2007: £352 million).

We sell advertising for all of the 25 Sky Channels (as well as for their multiplexes) around all programmes that are broadcast on these channels. We also act as the advertising sales representative for certain third party channels. We sell advertising time across all of the Sky Channels and third party channels represented by us, and tailor distribution according to the target audience an advertiser is trying to reach.

According to BARB estimates, across all UK Multi-Channel Homes, our average share (for all of the Sky Channels) of commercial audiences (excluding those of the BBC) for fiscal 2008 was 11%, a decrease from 12.05% at the end of the previous fiscal year. Our subscribers' households tend to be younger and more affluent than the average

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### The business, its objectives and its strategy continued

UK household and tend to over-represent the 16-34 year old, ABC1 (i.e. upmarket) and male demographic profiles sought by many advertisers.

#### Sponsorship

In fiscal 2008, we derived £30 million of revenue from sponsorship (2007: £34 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, Discovery Channel, The History Channel and Hallmark) to help secure broadcast sponsors for their channels.

Programme sponsorship is generally either title sponsorship (e.g. Nintendo Wii/ Gladiators ) or themed sponsorship (e.g. Sci Fi programming on Sky One sponsored by EA Games).

We outperform the television sponsorship sector delivering approximately 6.5% of total revenue from sponsorship against an industry average of approximately 4%.

#### Competition

##### Introduction

Sky is a channel provider, a distributor of television services and a DTH (satellite) platform service provider. Sky also offers broadband and telephony services to its DTH customers, as well as a range of other services including variants of VOD, games via both interactive TV and the internet, and gambling services via TV, telephone and the internet.

Sky competes with a number of communications and entertainment companies to secure a supply of content, for audiences for that content, for advertising sales and for customers to its content distribution, broadband and telephony services. This competitive set is summarised below under the following headings:

- competition from other video distributors and video distribution channels;
- competition from broadband and telephony (fixed and mobile) providers;
- competition from other broadcasters; and
- competition from sellers of advertising air time.

In recent years, large parts of telecoms network infrastructure have been upgraded from circuit-switched networks to packet-switched ( IP ) networks. These IP networks are able to carry video content in addition to voice and other data and, together with the digitalization of content, have facilitated a convergence between media and telecoms companies.

This technical convergence has also increased the propensity for companies to offer a bundle of services to customers (typically, a triple play of broadband access, telephony and video content) as they seek to make efficient use of their networks.

##### Competition from other video distributors and video distribution channels

###### Pay services

###### Cable Services

Cable operators compete with Sky as an alternative service to DTH distribution.

In the UK, the principal cable operator is now Virgin Media, which was formed as a result of the merger of ntl and Telewest. Virgin Media provides both analogue and digital cable television services in the UK. In Ireland cable television services are provided principally by UPC Broadband (a division of Liberty Global Inc.) via its UPC Ireland, Chorus and ntl Ireland subsidiaries. These offer both analogue and digital cable and multipoint microwave distribution system ( MMDS ) television services in Ireland.

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There are areas in the UK and Ireland where it may not be economically feasible to offer cable television services, including some rural areas. 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. According to Ofcom, cable networks currently cover approximately 45% of UK homes, whilst, according to the Commission for Communications Regulation ( ComReg ) (the national communications regulatory authority in Ireland), cable and MMDS services cover nearly 80% of Irish homes. Approximately 13% of UK homes currently subscribe to a cable television service, whilst approximately 51% of Irish homes currently subscribe to cable or MMDS television services.

In January 2005, ntl and Telewest launched a VOD service in the UK. This VOD service has now been rolled out to all of Virgin Media's digital TV subscribers. The Virgin Media VOD services include movie and 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 though some VOD services are only available for an additional fee depending on the basic package subscribed to. As an additional service, Virgin Media also offers V+, a HD PVR set-top box which enables its customers to record programming and watch HD content on the Virgin Media platform.

### *IPTV services*

Two operators have developed the capability to deliver linear television channels via their DSL networks to homes: Kingston Communications in Kingston-upon-Hull (which closed its TV service in April 2006) and Tiscali (through the acquisition of Video Networks Ltd ( VNL ) in August 2006).

Tiscali's service was re-branded in March 2007 (previously branded as HomeChoice) and offers access to a range of broadcast channels and video-on-demand content, including movies, packaged together with broadband internet access and telephony. According to Ofcom, as at November 2007, 36,000 television homes in the UK were viewing linear television via a DSL platform.

Several other operators have or are developing the capability to combine linear television channels delivered over the DTT platform and on-demand video services (including paid for on-demand video services) delivered via a DSL connection. The principal operator with services currently available is BT, which launched its service (BT Vision) in December 2006 and had 214,000 customers at the end of March 2008. BT's service also incorporates PVR functionality and VOD services.

### *Programming available over the internet*

Broadband-enabled telephone lines, principally using DSL technology, are being used to deliver video content to consumers. This includes content delivered on an on-demand basis (for example, via the internet) and broadcast content. It also includes delivery of content to consumers' PCs, and to their television sets, via compatible set-top boxes.

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 plc ( BT ), as at 31 March 2008, there were 12.7 million DSL and LLU connections in the UK (including 4.3 million LLU lines). However, only a very limited number of these subscribers currently use these services for digital television (as opposed to downloading content or viewing streamed content over the internet which is much more widespread). Whilst consumer broadband DSL access remains principally focused on the provision of internet access, several operators have developed the capacity to deliver digital television via DSL lines.

There are also a number of established and emerging operators offering video content to consumers via the internet whose websites/services are accessible from the UK.

The increase in the average speed of internet connections and the emergence of new codecs such as MPEG-4 and WM9 means that consumers can also increasingly download video or watch streamed video over the internet. Additionally, the use of peer-to-peer technology for both legitimate and illegitimate video downloading is growing in popularity.

Terrestrial broadcasters are making a selection of their programming available for download or streaming it via their websites, using a mixture of pay and free-to-air business models. Channel 4's PC-based download service 4oD offers a free 30 day catch up service for programmes currently broadcast on its linear channels and

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access to its archive of original programming, it charges a fee per download for episodes of its acquired series (outside the 30 day catch up period) and for rental of movie titles. Downloaded episodes are available to watch on the user's PC for 48 hours. It also distributes content supplied by the National Geographic channel and the FX channel via this service.

The BBC launched its iPlayer service in December 2007 offering a large selection of TV and radio content for free through a PC-based application. The iPlayer is also available on the Apple iPhone, iPod Touch and Nintendo Wii. The BBC also streams BBC3 as a simulcast online.

ITV offers a streaming catch up service for its content via its website, but has plans to expand this significantly.

Five has recently added more content to its Demand Five PC VOD service and offers free, pay to rent and pay to own content.

In November 2007, BBC Worldwide, ITV and Channel 4 announced plans to launch a joint venture VOD offering with the working title of Project Kangaroo. The service will initially be developed for PC and later for set-top boxes. It will aggregate content from each of the parties to the joint venture and offer third party content using a mix of ad-funded, download to own and download to rent models. The launch date for the PC service is currently set for 2009. The joint venture has been referred to the Competition Commission "CC" for consideration.

In addition the BBC, ITV and Channel 4 have also made some of their series available to Apple's iTunes service in the UK on a download to own basis enabling users to watch programmes on their PC or portable Apple device.

There are also a number of new operators offering a TV-like experience online. Joost is available as an expanded beta test to users in the UK and offers content for free. Babelgum has also launched offering video content for free online. Currently, there is only a limited amount of content available on these services in the UK, but that Joost in particular has been successful in securing content rights for distribution in other territories.

Several operators offer video content over the internet, such as YouTube, which compete for consumers' leisure time.

#### *DTT*

Top Up TV (which launched in March 2004) offers a pay television service via DTT. Top Up TV changed its business model from the provision of pay linear television channels delivered via DTT into a VOD service with content downloaded using DTT capacity to the set-top box where it is stored on a hard disk and made available for viewing. Following the change, customers must now purchase a new Top Up TV set-top box, available since October 2006, to receive the service. The customer can use the box as a PVR. The set-top box also features conditional access technology allowing customers to subscribe to pay linear television channels available on DTT, for example, a Setanta Sports channel, which is also available through BT Vision set-top boxes.

As at June 2008, there were 50 encrypted digital satellite pay television channels for DTH reception retailed independently of us available on a subscription or a pay-per-view basis. These include channels offered as part of the Setanta Sports subscription package (Setanta Sports 1, Setanta Sports 2, Arsenal TV, Setanta Golf, Celtic TV, Rangers TV, Racing UK, LFC TV, NASN). The remainder comprises specialist standalone à la carte channels (such as Zee TV and Sony TV Asia) and adult channels.

#### *Other DTH pay TV providers*

Partly as a result of Sky's regulatory obligations to offer conditional access services, the digital satellite platform is an open platform and there are alternative subscription retail packages on that platform available from retailers other than Sky. Sky competes with these subscription retail packages (which include the Setanta Sports package and the Zee TV and Playboy packages) for subscription revenue.

#### *DVDs*

DVD sales and rentals, which have largely replaced sales of video cassettes, have performed well in the UK. In addition to offering consumers an alternative source of

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programming to television services, the DVD window for new movies generally starts before both the pay television window and the pay-per-view or VOD television window. This window, which has been brought forward by some studios in recent years, can start as soon as three months following a movie's UK cinema release. Currently, the pay-per-view television/VOD window generally commences two to three months later. Sky has, to date, been able to develop a significant customer base for its pay-per-view services and movie channels, notwithstanding competition from the DVD industry. However, such services will come under increasing pressure as EST (electronic sell through) and VOD offerings continue to become more widely available from services such as Lovefilm, a subscription DVD rental service.

### **Free-to-air services**

As a result of the availability of free-to-air television channels some consumers choose to rely entirely on free-to-air services for television viewing rather than choosing also to subscribe to a pay television service. Currently in the UK the principal means of delivering free-to-air television services are: analogue television services, DTT and freesat propositions (consisting of a service from Sky; and a separate, recently launched proposition from the BBC and ITV).

#### *Analogue television services*

Five analogue terrestrial channels and regional variants are broadcast throughout the UK, although channel five is unavailable in some areas and bilingual channel S4C is broadcast instead of Channel 4 in Wales. Additional local analogue terrestrial channels are broadcast in Northern Ireland.

The number of homes using analogue terrestrial as a primary TV reception means has fallen as adoption of digital multi-channel TV services has grown. On 11 July 2008 Ofcom announced that, at 31 March 2008, analogue terrestrial was the main TV reception means in 3.3 million UK homes, down 7% since 31 March 2007. The discontinuation of analogue television broadcasting is proceeding on a region by region basis with completion planned in 2012.

Four analogue terrestrial channels are broadcast throughout the Republic of Ireland. On 17 June 2008, the Commission for Communications Regulation announced that, at 31 March 2008, analogue terrestrial was the main TV service in 352,000 Irish homes.

#### *Freeview*

In the UK, free-to-air channels on the DTT platform are marketed under the Freeview brand. There are over 40 TV channels available in total as part of this offering, although availability varies regionally, and over 25 radio channels. There are also several television channels available on a regional basis within the UK.

Freeview services are currently able to be received by around 75% of UK homes. It is anticipated that this will increase significantly by 2012 as the process of discontinuing analogue television broadcasting progressively in different regions of the UK is completed (digital switchover). Digital switchover will release radio spectrum currently used to broadcast analogue television services, which could be used for a number of purposes; for example, to expand the number of channels broadcast via DTT, to allow the broadcast of HD services via DTT, to increase the spectrum available for mobile telephony, or for a mobile television service (or a mix of these things). In April 2008, Ofcom announced that spectrum will be made available for four HD channels, one of which will be a BBC channel.

In November 2007, Whitehaven and Copeland became the first area within the UK to have the signal for analogue terrestrial television switched off. The target for full digital switchover is 2012, with a phased switchover taking place in the run up to this date.

In order to receive Freeview services consumers purchase either a set-top box, which is relatively inexpensive, or a television set with a built in DTT tuner (an "Integrated Digital TV", or IDTV). Customers also have to ensure that they have a suitable aerial to receive the signals (it is estimated that an aerial upgrade, where necessary, costs £150 on average).

In addition, in May 2007, the joint venture behind the Freeview brand launched a separate brand called Freeview Playback which has since been rebranded Freeview+ and which certain suppliers are able to use to market DTT PVRs. Players





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which meet specific quality and functionality criteria are able to use the Freeview Playback logo for marketing purposes.

Take-up of Freeview services has grown quickly since its launch in October 2002. On 11 July 2008 Ofcom reported that, at 31 March 2008, 16.1 million homes were viewing DTT on at least one device and Freeview was the sole means of receiving digital multichannel TV services in 9.2 million UK homes.

There is currently no DTT service in Ireland but DTT pilot projects have been ongoing since August 2006. The current phase is due for completion in August 2008 and involves 1,000 homes across the east coast of Ireland. Each trial participant has been provided with receiver equipment which has been specially adapted for the trial, and content provided from a number of sources e.g. the BBC News Channel and Sky News. It is expected that a full service will roll out across Ireland in late 2008.

In July 2008, the Broadcasting Commission of Ireland announced its decision to award licences to operate three DTT multiplexes to Boxer DTT Limited. Separately, RTÉ has been assigned a single DTT multiplex to make the four existing analogue terrestrial free-to-air channels in Ireland available.

#### *Free-to-view satellite propositions*

All households with Sky DTH set-top boxes (including Sky subscribers, former Sky subscribers, and households who have never been Sky subscribers) receive television and radio services broadcast free-to-air via satellite to the UK and ROI. There are now over 250 such services. In October 2004 Sky launched a hardware and installation proposition which enables households who wish to receive free-to-air television and radio services via satellite to do so without taking a Sky subscription.

From May 2008 the BBC and ITV began promoting the availability of new set-top boxes and IDTV with built in DTH satellite tuners, which also receive a number of television and radio services that are broadcast to the UK and ROI free-to-air via satellite, under the brand freesat. These set-top boxes do not contain conditional access technology and therefore cannot be used to receive pay TV channels broadcast via satellite.

There are currently five manufacturers of BBC/ITV freesat receivers, which are sold by independent retailers and four major high street multiples. Prices range from around £50 for a SD receiver to around £120 for an HD receiver. IDTVs manufactured by Panasonic are currently priced in excess of £1,000. Installation of the appropriate satellite reception equipment is arranged separately if required; install prices start from around £80.

HD receiving equipment enables consumers to view the BBC HD channel and a red-button ITV HD service, the latter of which is currently exclusive to the service. Although no PVR equipment designed for the freesat proposition is currently available, BBC/ITV freesat have stated that this will be available soon.

In order to be received by the new BBC/ITV freesat set-top boxes, existing channels broadcast via satellite need to be configured to appear on both platforms. Currently, the new set-top boxes and IDTVs can receive more than 80 TV and radio channels. This number is expected to expand significantly in the coming months as more services are configured to appear on both platforms.

#### Competition from broadband and telephony providers

##### **Broadband and telephony services**

Sky competes with other providers of broadband internet access and fixed telephony in the UK. These include BT, Virgin Media, Carphone Warehouse ( CPW ), Tiscali, Orange and O2. Sky does not currently offer these services in the Republic of Ireland.

#### *Broadband*

According to the Office of National Statistics, broadband internet connections accounted for 92% of all internet connections in the UK and dial-up connections accounted for 8% of all connections at March 2008.

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Fixed broadband in the UK is primarily offered via DSL or cable. Cable coverage in the UK is 45% with Virgin Media the main cable operator. BT provides DSL services with the BT network covering 99.6% of the population. Other DSL providers are able to make use of the BT network to provide their services either taking a regulated wholesale product from BT or installing their own equipment in BT local exchanges and rent the last mile from BT at regulated prices (a process known as Local Loop Unbundling ( LLU )).

Sky uses partial LLU (unbundling only the section of the copper used to deliver broadband services as opposed to Full LLU which unbundles the copper in respect of both telephony and broadband elements) and had unbundled 1,189 exchanges at 30 June 2008. Other significant unbundlers are CPW (1,645 exchanges unbundled at 31 March 2008), Tiscali UK (850 as at 31 March 2008) and Cable & Wireless ( C&W ) (802 exchanges on completion of roll out). C&W offers a wholesale LLU service to other operators and in May 2007 agreed a 4-year deal to provide this service to Virgin Media for areas outside of their cable network.

According to Ofcom, there were 15.6 million residential and small and medium-sized enterprises ( SME ) broadband connections as at 31 December 2007, of which 27% were BT Retail DSL; 27% were other BT Wholesale provided DSL (excl. LLU); 22% were via Virgin Media cable and 24% were classified as other (mainly LLU).

Average broadband download speeds continue to increase. At the end of June 2007 the estimated average headline connection speed was 4.6Mbit/s, up from 3.6Mbit/s in 2006, according to Ofcom. Currently Sky Broadband's highest download speed is up to 16Mbit/s. Speeds available from providers are expected to increase further, particularly from LLU and cable operators as cable continues to upgrade its network and BT rolls out its 21<sup>st</sup> Century Network and trials a fibre network roll out in Ebbsfleet in Kent, the first of its kind in the UK. Virgin Media has announced that a broadband service offering speeds of 50Mbit/s will be available to 70% of its customers by the end of 2008.

### *Fixed telephony*

The majority of fixed telephony services in the UK are provided by BT. Other providers can offer telephony services via Carrier Pre Select ( CPS ) or using BT Wholesale's Wholesale Calls product, whereby the customer pays them for calls but continues to pay BT for line rental; via Wholesale Line Rental ( WLR ), whereby the customer pays them for line rental (this can be combined with CPS or Wholesale Calls to cover calls and line rental); and via Full LLU, whereby the customer pays them for calls and line rental. Sky has historically used CPS to deliver telephony services to its customers but is in the process of migrating to use of the Wholesale Calls product from BT Wholesale to provide those services. We also use WLR to provide line rental services to our customers.

The total number of BT Retail and Wholesale lines was 27.9 million at end June 2007, according to BT. Of which, 23.6 million were BT Retail lines and 4.3 million were WLR lines. The number of CPS lines for the same period was 6.1 million (i.e. 22% of lines). Virgin Media reported 4.1 million telephony customers as at end March 2008.

### *Mobile telephony*

There are five mobile network operators ( MNOs ) active in the UK: Vodafone; Orange; T-Mobile; O2; and 3 Hutchison (3G only). As at 31 March 2008 Vodafone had the most subscribers in the UK (18.5 million) followed by O2 (18.4 million), T-Mobile (17.1 million), Orange (15.8 million) and 3 Hutchison (4.4 million at end of December 2007).

There are several mobile virtual network operators ( MVNOs ) who take capacity from MNOs but do not own their own network. Virgin Mobile is the largest of these with 4.4 million subscribers as at 31 March 2008. Virgin Mobile uses T-Mobile's network and its customers are included in the T-Mobile total.

Mobile TV services are available from several UK operators via third generation cellular telephone networks ( 3G ) networks. Sky Mobile TV packs, which include a mix of content from Sky Sports, Sky News and other third party pay television channels, are available on Vodafone, Orange and 3 UK and compete with other mobile TV and video offerings on those networks.

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#### *Competition from Triple Play / Quad Play providers*

As a result of media and telecoms convergence described in the introduction, Sky now offers TV, fixed telephony and broadband internet access to our customers as part of a package which is sometimes referred to as a triple play. Tiscali and BT also offer a triple play service, whilst Virgin Media offers a quad play which, in addition to TV, fixed telephony and broadband internet access, also includes mobile telephony.

Virgin Media's predecessor (ntl: Telewest) launched its quad play service of TV, broadband, fixed telephony and mobile telephony in September 2006.

In December 2006, BT launched BT Vision, a hybrid DTT/broadband television service. BT Vision provides users with access to Freeview services and Setanta on DTT through a set-top box in addition to access to VOD content over BT's DSL network. BT has set a medium term goal of 2-3 million customers for BT Vision and had 214,000 customers at the end of March 2008.

Tiscali acquired HomeChoice in August 2006 as a result of a merger with HomeChoice's parent company, VNL. Tiscali offers a triple play package containing telephony, internet access packages (including both a dial-up and broadband package providing up to 8Mb/s broadband) and a selection of TV channels via IPTV.

#### *Competition from Dual Play providers*

In addition to triple/quad play providers, some operators provide customers with two services (typically these are communications providers offering broadband and telephony services).

CPW, an independent retailer of telephony services, acquired internet service provider AOL UK in October 2006 making it the third largest broadband provider, with over 2 million customers. AOL UK is currently being run separately from CPW's own TalkTalk brand.

O2 UK (acquired by Telefónica of Spain in 2006) moved into the broadband sector by purchasing Be, a telecoms network provider, and subsequently launched O2 Broadband in October 2007. The service reported 131,000 subscribers at the end of March 2008.

In January 2007, Vodafone UK launched the broadband service, Vodafone At Home, for Vodafone mobile contract customers. Vodafone at Home is delivered using a wholesale DSL service from BT rather than LLU. The service is available to 99% of UK households via BT Wholesale's broadband network. The number of subscribers to the service has not been published.

Orange UK offers Broadband Unlimited, a service providing wireless broadband access at up to 8Mb through the Livebox wireless router which also serves as a VoIP telephony port. France Telecom, parent company of Orange UK, also offers IPTV services in France, and Orange has stated in April 2008 that it plans to launch an IPTV service in the UK by the end of 2008.

#### **Competition from other broadcasters**

Sky competes, among other competitors, with other broadcasters for the acquisition of programming and programming rights: for viewers, for distribution and for advertising and sponsorship revenue.

In both the UK and Ireland, the television channels and other audio-visual service providers with the largest audience shares are 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.

Within UK Multi-Channel Homes, the Sky Channels (for the purposes of this paragraph, including Sky Box Office and Sky Box Office Events, but excluding SkyPoker.com and Sky Vegas) in aggregate attract viewing levels which are comparable to some of the traditionally analogue terrestrial channels. The Sky Channels jointly have an overall viewing share (within Multi-Channel Homes) significantly greater than each of Channel

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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 2008, the viewing shares in UK Multi-Channel Homes of the traditionally analogue terrestrial channels and the combined Sky Channels were, respectively, BBC1 20.1%, BBC2 7%, ITV1 17.8%, Channel 4 6.9%, five 4.6%, and the Sky Channels 7% (of which Sky One accounted for 14% of the Sky Channels' viewing share (and had an individual viewing share of 1%)). The remaining 36% of viewing in UK Multi-Channel Homes was of other (non-Sky) satellite, cable and DTT channels.

The UK analogue terrestrial broadcasters also own and operate a range of digital-only channels that are available via DTH, cable, DTT and DSL, and, in the case of DTH and DTT, on a free-to-air basis. These channels are cross-promoted by their analogue associated channels.

As Sky and other broadcasters all seek a range of compelling programming to attract viewers, in both the UK and Ireland, there have been, and may in the future be, bidding competitions and/or regulatory intervention which could increase our programming acquisition costs, or which could mean that certain programming in which Sky is interested may not be available to us. For example, in 2006, Setanta Sports secured the live audio visual rights to two of the six available UK packages of live FAPL football rights for the 2007/08 to 2009/10 seasons, for which Sky also bid. In addition, the US PGA Tour announced a six year deal starting on 1 January 2007 granting Setanta Sports exclusive live rights to all US PGA Tour events (excluding the US Open, the USA PGA Championship and the US Masters). In 2007, the FA announced a deal granting Setanta Sports and ITV exclusive live rights for a range of FA events (including The FA Cup and England home matches) from August 2008 to July 2012.

### Competition from other sellers of advertising air time

Our primary competitors for television advertising sales are ITV, which sells advertising on ITV1, ITV2, ITV3, ITV4, and CITV, Channel 4 (which also sells advertising for E4, More 4 and Film Four and their multiplexes), five, Interactive Digital Sales (IDS) (which sells advertising on behalf of the UKTV group of channels and the Virgin Media TV channels (Living, Bravo, Trouble and Challenge)), and Viacom Brand Solutions (VBS) (which sells advertising on behalf of the Paramount, MTV and Nickelodeon channels).

Based upon the latest BARB survey estimates, ITV1 and Channel 4 were available to approximately 25.49 and 25.24 million television homes, respectively, in the UK (both digital and analogue), with approximately 95% of the estimated 25.49 million television homes in the UK receiving an acceptable terrestrial analogue signal for five. In addition, according to BARB survey estimates, as at June 2008, approximately 21.7 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. Partly 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 revenue than we do. We also compete with the Sky Distributed Channels and all other commercial channels for television advertising sales.

### Technology and infrastructure

We control access to some DTH channels through the use of a conditional access system, VideoGuard (see Encryption of digital services below). The satellite reception equipment provided to DTH customers is owned by such customers (whether or not they are subscribers), except for certain aspects such as the smart card (a credit card size plastic card containing a chip that provides conditional access functionality), some of the software in all set-top boxes and a proportion of the hard drive capacity in some of the Sky+ PVRs and Sky+ HD PVRs.

The Group completed its acquisition of Amstrad plc (Amstrad) in fiscal 2008. The total consideration for the acquisition was £127 million. Amstrad designs, develops and sells standard definition and high definition set-top boxes and PVR set-top boxes and has been a major supplier to the Group for a number of years.

The EPG in the set-top box has been and continues to be developed for us by NDS Limited (NDS) uses 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 set-top boxes once the application is downloaded to the set-top



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## Directors report review of the business continued

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### The business, its objectives and its strategy continued

boxes. This simplifies the development of applications for the set-top box and ensures universal availability of services to all DTH set-top boxes. The operating system in each set-top box is licensed upon payment of a per set-top box royalty by the set-top box manufacturer to OpenTV.

#### 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 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 the implementation of over-the-air countermeasures altering authorised smart cards in a manner which then renders counterfeit smart cards obsolete and seeking 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 rendered useless all 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 operators 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 television services). We are unable to quantify this loss, including whether or not such loss is material. We have not (to date) invoiced any cable operator in respect of such lost cable revenue and therefore, such lost revenue has not been recognised within our consolidated financial statements.

We distribute our channels 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 (often re-encrypted) 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 must either 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, 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 with SES Astra for the majority of capacity on the satellite transponders that we use for digital transmissions for reception by both DTH viewers and cable operators. SES Astra is 100% owned by SES, a Luxembourg company listed on the Luxembourg stock exchange and Euronext Paris. We have also contracted, via an

agreement with BT, for capacity on four transponders on the Eurobird satellite, which is owned and operated by Eutelsat.

For the transmission of our DTH service, we have contracted for capacity on 31 transponders from SES Astra on SES satellites Astra 2A, 2B and 2D. Those transponder agreements have varying end dates between 2009 and 2020. The term of the agreement on the Eurobird satellite expires in 2013.

In addition to using some of the transponder capacity that we have contracted to broadcast Sky Channels, some of our 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 Astra or Eutelsat in favour of another broadcaster with pre-emption rights in preference to us. In addition, in the event of satellite or transponder malfunction, we have arrangements in place with SES Astra pursuant to which back-up capacity may be available for some of our transponder capacity 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 the duration of the disruption.

On 1 September 2007 SES Astra brought into service an additional satellite, Astra 2C, at the same orbital position as Astra 2A, 2B and 2D (and Eutelsat's Eurobird). This will provide additional transponder capacity for back-up purposes as well as up to twelve additional transponders for new services, which may be further expanded in the future up to a maximum of 16.

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

#### Capital expenditure programme

We continue to invest consistently in capital expenditure required to support our growth strategies. Total capital expenditure for the Group was £333 million in 2008. This included £211 million invested in information systems infrastructure; broadcast infrastructure; new product development; and investments relating to customer service improvements. In addition, £46 million was invested in new property and property improvements. The remaining £76 million relates to the roll-out of our broadband network services; being the second year of the two year, £250 million investment in broadband capital expenditure announced in July 2006.

In November 2007, the Group began construction work on a building to house studios, production and technical facilities as well as office space in Osterley, Middlesex. This will consolidate and replace a number of existing properties which are reaching the end of their operational lives. Given the current conditions in the credit markets and the relative strength of our cash flow, the project will be financed internally for the time being although the Group's intention is to sell and leaseback the property and its freehold when market conditions improve. During the period to 30 June 2008, total expenditure on this project was £34 million which is included within the total estimated construction cost of around £156 million. The Group currently expects separate expenditure of around £77 million in respect of the technical fit out which will allow the Group to benefit from efficiencies by moving to a wholly digital production environment. The facility is due to enter service in 2011.

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.



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### **The customer management centres and Sky In-Home Service Limited**

Our customer management 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 and the Sky Distributed Channels. We also deliver customer services for both our own, and certain third party, interactive television services, our telephony services and our video-streaming services.

The customer management 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 8 fiscal years, we have invested more than £280 million in our customer management centres and systems. 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 customer management and billing systems are now functioning in line with expectations.

### **Playout and uplink facilities**

Our uplinking facilities, located at Chilworth in southern England, provide uplinking capacity for our digital services to the Astra 2A, 2B and 2D satellites as well as Eutelsat's Eurobird 1 satellite.

Our television channels are distributed from our Osterley and Chilworth sites with each of the sites providing backup service for the other. The Osterley-sourced channels are fed to the uplink sites using a fibre link, which is backed up by a diversely routed secondary link in the case of any malfunction in the primary fibre route. This route passes through the other facility so that, in the case of Chilworth being unavailable, the services can be uplinked directly from the other facility.

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

### **Minority equity investments**

#### **ITV**

On 17 November 2006, the Group acquired 696 million shares in ITV plc (ITV) representing 17.9% of the issued share capital of ITV, at a price of 135 pence per share. The total consideration paid amounted to £946 million, and was funded at the time from the Group's existing cash balances and its previously undrawn revolving credit facility. This investment has been subject to an in-depth review by the CC (see Government Regulation Mergers below).

The Group's investment in ITV is carried at fair value. The fair value of ITV is determined with reference to its equity share price at the balance sheet date. An impairment was first recorded following a review of the carrying value of the investment in ITV at 31 December 2007, due to the significant and prolonged decline in the equity share price. In accordance with International Financial Reporting Standards, the Group has continued to review that carrying value throughout fiscal 2008 and has recognised a cumulative impairment loss of £616 million in the current year. The impairment loss for the year was determined with reference to ITV's closing equity share price of 47.5 pence at 27 June 2008, the last trading day of the Group's financial year.

#### **NGC Network International LLC and NGC Network Latin America LLC**

On 12 December 2007, the Group sold its 100% stake in BSKyB Nature Limited, the investment holding company for the Group's 50% interest in the NGC-UK Partnership. As consideration for the disposal, the Group received 21% interests in both NGC Network International LLC and NGC Network Latin America LLC (in effect, 21% of National Geographics Channel's television operations outside the US).

### **Significant agreements**

The Companies Act 2006 requires us to disclose the following significant agreements that take effect, alter or terminate on a change of control of the Company:

#### FAPL

In August 2006, British Sky Broadcasting Limited entered into an agreement (the FAPL Licence ) with The Football Association Premier League Limited (the FAPL ), pursuant to which the Group was awarded four of six available packages of live audio-visual rights for F.A. Premier League football (the six packages are together the Live Packages ).

The FAPL will not award all of the Live Packages to a single licensee (either on its own or as part of a consortium or through one or more of its related parties) (the Single Buyer Rule ).

Pursuant to the FAPL Licence, the FAPL can suspend and/or terminate all of the rights which are included in, or exercisable as part of, one of the six available Live Packages in the event that a change of control of the Company occurs at any time prior to the expiry of the FAPL Licence which, if it had occurred prior to the award of the Live Packages to the Group, would have resulted in a breach of the Single Buyer Rule.

#### RCF

On 3 November 2004, the Company, British Sky Broadcasting Limited and Sky Subscribers Services Limited entered into a revolving credit facility agreement with Barclays Capital, Citigroup Global Markets Limited, Deutsche Bank AG London, JP Morgan plc and the Royal Bank of Scotland plc (as mandated lead arrangers) and certain other financial institutions (as Lenders ) pursuant to which the Lenders agreed to make available to the Company £1 billion to refinance existing facilities and for general corporate purposes (the RCF ).

Pursuant to the RCF, the Lenders can require all amounts outstanding under the RCF to be repaid in the event of a change of control of the Company (other than where News Corporation or any subsidiary or holding company thereof acquires such control).

#### News Corporation voting agreement

On 21 September 2005, the Company, BSKyB Holdco Inc., News UK Nominees Limited and News Corporation entered into a voting agreement which became unconditional on 4 November 2005, pursuant to which News UK Nominees Limited's voting rights at any general meeting are capped at 37.19% (the Voting Agreement ). The provisions of the Voting Agreement cease to apply inter alia, on a change of control of the Company.

#### EMTN bond issue

On 3 April 2007, the Group established a Euro medium term note programme (the EMTN Programme ) which provides the Group with a standardised documentation platform to allow for senior debt issuance in the Eurobond markets. The maximum potential issuance under the EMTN Programme is £1 billion.

On 14 May 2007, the Company issued Eurobonds consisting of £300 million guaranteed notes paying 6.000% interest and maturing on 14 May 2027 (the Notes ). The Notes were issued under the Group's EMTN Programme.

Pursuant to the final terms attaching to the Notes, a holder of the Notes has the option to require the Company to redeem or (at the Company's option) purchase its Notes at its principal amount plus interest for the relevant period if there is a change of control of the Company (i) which, if the Notes carry an investment grade credit rating, results in a downgrade to a non-investment grade rating or a withdrawal of that rating; or (ii) where, if the Notes carry a non-investment grade rating, results in a downgrade by one or more notches or a withdrawal of that non-investment grade rating; or (iii) where, if the Notes do not carry a credit rating, the Company does not seek such a rating or is unable to achieve such a rating.

#### UK broadcasting licences

The Group is party to a number of Ofcom broadcasting licences for the broadcast of the Sky Channels.

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## Directors report review of the business continued

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### The business, its objectives and its strategy continued

The Broadcasting Act 1990 (as amended by the Broadcasting Act 1996 and the Communications Act) lays down a number of restrictions on the parties who are permitted to hold Ofcom broadcasting licences. Among those restricted from holding Ofcom broadcasting licences or from controlling a licensed company are (a) local authorities, (b) political bodies, (c) religious bodies, (d) any company controlled by any of the previous categories or by their officers or associates, (e) advertising agencies or any company controlled by such an agency or in which it holds more than a 5% interest.

Licensees are obliged to comply with these ownership restrictions. Failure by a licensee to do so (either by the licensee becoming a disqualified person or any change affecting the nature, characteristics or control of the licensee which would have precluded the original grant of the licence) may constitute a breach of the licence and, if not rectified, could result in revocation of the licence.

#### 2008 bond issue

In February 2008 the Group entered into an indenture in respect of US\$750 million 6.10% senior unsecured notes due 2018.

Pursuant to the final terms attaching to the securities, a holder of the securities has the option to require the Company to redeem or purchase its securities at a price equal to 101% of their principal amount plus accrued and unpaid interest up to the date of repurchase, if there is a change of control of the Company (i) which, if the securities carry an investment grade credit rating, results in a downgrade to a non-investment grade rating or a withdrawal of that rating; or (ii) which, if the securities carry a non-investment grade rating, results in a downgrade by one or more notches or a withdrawal of that non-investment grade rating; or (iii) where if the securities do not carry a credit rating, the Company does not seek such a rating or is unable to achieve such a rating.

#### Material agreements

The following agreement has been entered into outside the ordinary course of business during the two years immediately preceding the date of this filing:

#### Bond issue

In February 2008 the Group entered into an indenture in respect of US\$750 million 6.10% senior unsecured notes due 2018 (see Significant agreements above).

### Corporate responsibility

At a board and executive level, the Corporate Responsibility Steering Group (CRSG) provides leadership and drives corporate responsibility practices. The CRSG comprises Senior Executives and two non-executive Board Directors and meets twice a year and updates the Board.

The management of environmental issues is overseen by a number of working groups responsible for energy and waste management, which report to the CRSG. Other groups are in place to oversee health and safety and human resources policy, and Sky's employees can communicate their views on corporate responsibility via the Sky Forum of elected Sky employees.

The Group runs an annual risk workshop on corporate responsibility issues and maintains a corporate responsibility risk register. The Group also undertakes consultation with stakeholders that assists in corporate responsibility risk identification. The Group is a member of the FTSE4Good Index and the Dow Jones Sustainability Index and is the only broadcaster included in the Global 100 Most Sustainable Companies index.

The Group publishes an annual Corporate Responsibility Review which provides full details of corporate responsibility activities. This information can also be found on the web at [www.sky.com/responsibilities](http://www.sky.com/responsibilities).

#### Customers

Offering the best choice in entertainment and communication to our customers entertainment and communication that is great

quality, great value, flexible and simple to use is central to the Group's customer offering. The Group provides customers with parental control features and other mechanisms by which they can control access to content. The Group has also implemented its Code of Practice for Interactive Gambling, developed with GamCare, an organisation that promotes responsible gambling. Accessibility to programming is provided through on-screen subtitling, signing and audio description and a dedicated accessibility services team provides dedicated customer care.

### Environment

The group has maintained its status (achieved in 2006) as a Carbon Neutral media company – the first in the world, and one of the first FTSE 100 companies to achieve this goal. The Group continues to set targets for reducing its energy consumption, carbon dioxide (CO<sub>2</sub>) emissions and waste. Progress against these targets is documented in the Group's annual Corporate Responsibility Review (now called The Bigger Picture Review).

In March 2007, the company launched a new feature for Sky+ and Sky+ HD set-top boxes which switches them into a power saving standby mode when not in use. By June 2008 over 4 million set-top boxes had received this download, saving an estimated 52,000 tonnes of carbon dioxide each year. In line with legislation in place since 1 July 2007, Sky has the collection processes and other requirements in place to facilitate the recycling and/or reuse of all Sky electronic equipment including set-top boxes.

### Arts and Sports

Our position as the provider of the UK's leading Arts and Sports channels provides us with an opportunity to make a positive impact on the life of families across the UK. The Group aligns its contributions to these areas by focusing on making the arts accessible and maximising participation in sports.

## People

### Organisation

At Sky we aim to be an employer of choice and our environment supports people to do their best work and rewards people in line with their talents and contribution to the business and its values. We continue to develop a workforce and organisational structure that is ready to deliver today's business plan and is ready to innovate and change with the organisation as it develops.

We are dedicated to ensuring that no one is subjected to less favourable treatment. We value the same diversity within our business as we do in our content and services, and provide a culture of enterprise and opportunity for all. All applicants are asked if they require adjustments to their working environment during the selection processes. Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned.

The average number of full-time equivalent persons employed by the Group during the year was 14,145 an increase of 1,058 from the previous year.

### Talent management

To ensure we keep delivering for our customers we need to attract and retain the very best talent, and help them to deliver to their full potential in an environment which is challenging, innovative and fun. We aim to recruit the highest calibre individuals, to address business targets and shape our future. We aim to provide great career opportunities for our people within the Group and development which is aligned to business performance. We constantly review our skills and capability requirements and align this with our talent and succession planning.

We are now in our second cycle of the Sky Leadership Development Programme for senior managers. In early 2009 we will launch a third cycle and will expand the number of places, increasing leadership skills and capability. We also offer an International Development programme, which provides opportunities for development through visits to other organisations, and to share ideas and best practice.

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Our mentoring scheme, which is open to all, continues to grow and provides internal development for all levels of Sky people.

### **Effectiveness**

Through the year, a number of restructuring projects, process and effectiveness reviews have ensured that our organisation remains appropriately shaped and skilled to drive growth in the future.

### **Health, Safety and Wellbeing**

Our long-term Health, Safety and Wellbeing plan is integrated into all areas of our business. Our occupational health system allows a robust approach to health surveillance planning, and provides accurate and comprehensive health data, meaning our resources are best directed.

Our employee wellbeing strategy also provides opportunities for active involvement by our employees. The Sky health and wellbeing initiative *Keeping Karma* is now embedded as a recognised programme that gives our people the tools, information and understanding to lead a healthy lifestyle and utilise our health services appropriately and efficiently.

Additionally, we offer employees a comprehensive support system to ensure they are equipped to best fulfil their potential.

### **Reward and benefits**

The Group offers an attractive and competitive reward and benefits package. This includes the BSkyB Pension Plan, life cover and disability benefits, the Sharesave scheme, a healthcare plan and complimentary Sky+ for all employees. Awards under the Management Long Term Incentive Plan share scheme are made to selected employees, and the Sharesave scheme is open to all permanent employees.

Our *Sky Choices* programme allows employees to make tax and National Insurance savings in areas such as childcare payments and mobile phones. It also supports the environment, by providing savings for a bicycle for travel to work, travel season ticket loans and the costs of personal carbon offsetting. The *Sky Benefits Extra* programme offers negotiated discounts on a variety of products and services for our employees.

### **Involvement and Communication**

We encourage the involvement of our people in discussions on both current business initiatives and future plans. Our *Sky Forum* (an elected group of 71 employees) continues to play a key role in communication, representing the views and ideas of our employees, as well as consulting on health and safety. Forum members allow us to hear the views of our people through involvement in various interest groups. Senior management play an active role in responding to the topics raised through the Forum, and the Chief Executive Officer ( *CEO* ), other Senior Executives and relevant managers regularly attend Forum meetings to talk about Sky's strategic priorities.

Each year the *Sky People Survey* collects the views and opinions of all our people. This year 10,894 people took part. Senior Executives and management teams look at the results and feedback from this, and develop action plans. We have developed new performance appraisals, recognition programmes, training, communications, and improved the working space in many areas. Individual departments have also taken action to address specific issues to make the business more productive.

### **Recognition**

Recognising and applauding the achievements of our people is an important part of how we work. Our annual *Team Sky* awards allow employees to nominate colleagues who have demonstrated Sky's values, with the winners receiving significant prizes. Additionally each business area looks at how they can best engage and recognise their people in a way that supports their business plans and we operate a number of divisional recognition plans to support this.

### **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 *Financial Review Introduction Overview and Recent Developments*. These risks could have a material adverse effect on 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.

***The Group's 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 the Group's ability to operate or compete effectively.***

The Group is subject to regulation primarily under UK and European Union legislation and it is currently and may be in the future subject to proceedings, and/or investigation and enquiries from regulatory authorities, from time to time. The regimes which affect the Group's business include broadcasting, telecommunications, competition (antitrust), gambling and taxation laws and regulations. Relevant authorities may introduce additional or new regulations applicable to the Group's business. The Group's 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 the Group's business, or that of any of the Group's competitors, could have a material adverse effect on the Group's business and/or the results of its operations.

The Group cannot be certain that it will succeed in obtaining all requisite approvals and licences in the future for its operations without the imposition of restrictions which may have an adverse consequence to the Group, or that compliance issues will not be raised in respect of the Group's operations, including those conducted prior to the date of this filing.

On 18 December 2007, Ofcom published a consultation document in relation to its ongoing investigation into the UK pay TV industry. The consultation document outlined Ofcom's preliminary understanding of the operation of the pay TV industry in the UK. Interested parties, including the Group, were invited to respond to the consultation document by providing views on Ofcom's initial assessment of the operation of the pay TV industry, with a view to enabling it to examine whether there are competition issues that merit further action (which could include a market reference to the CC). This consultation is now closed and on 13 May 2008 Ofcom published copies of all of the non-confidential responses it had received on the consultation document including that of the Group. Ofcom has announced that it will publish a further consultation document by the end of summer 2008.

On 17 November 2006, the Group acquired 696 million shares in ITV amounting to 17.9% of its issued share capital. The Group paid 135 pence per share, totalling £946 million. The investment in ITV has been subject to an in-depth review by the CC.

In December 2007 the CC completed its review and delivered the final report of its findings to the Secretary of State for Business, Enterprise and Regulatory Reform ( SoS ), for him to decide what action to take. The CC concluded that a relevant merger situation had been created, granting it jurisdiction, and that the creation of that situation may be expected to result in substantial lessening of competition arising from the loss of rivalry in an all-TV market between ITV and the Group which may be expected to operate against the public interest. The CC recommended, by way of remedy, that the Group be required to divest part of its stake such that it holds less than 7.5% of ITV's issued share capital. The SoS announced on 29 January 2008 his decision to make an adverse public interest finding taking account of the CC's decision that the transaction results in a substantial lessening of competition in the UK market for all-TV. The SoS also decided to impose on the Group the remedies recommended by the CC to address the substantial lessening of competition identified in the CC's report: divestment of the Group's shares in ITV down to a level below 7.5% within a specified period (which has not been publicly disclosed), and behavioural undertakings from the Group requiring the Group not to dispose of the shares to an associated person, not to seek or accept representation to the Board of ITV and not to reacquire shares in ITV.

The Group has sought judicial review of the decisions of the SoS and CC before the Competition Appeal Tribunal ( CAT ). Virgin Media ( VM ) has also sought judicial review of the findings of the CC and SoS in relation to media plurality and the remedies imposed. The Group was granted permission to intervene in the review

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## Directors report review of the business continued

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### Risk factors

continued

proceedings of VM and VM was granted permission to intervene in the review proceedings brought by the Group. A tribunal hearing took place in early June 2008. The Group is awaiting the judgment of the CAT.

The Group is not yet able to assess whether, or the extent to which, these matters will have a material effect on the Group.

***The Group operates in a highly competitive environment that is subject to rapid change and it must continue to invest and adapt to remain competitive.***

The Group faces competition from a broad range of companies engaged in communications and entertainment services, including cable operators, DSL providers, other DTH providers, digital and analogue terrestrial television providers, telecommunications providers, internet service providers, home entertainment products companies, betting and gaming companies, companies developing new technologies, and other suppliers of news, information, sports and entertainment, as well as other providers of interactive services. The Group's competitors increasingly include communication and entertainment providers that are offering services beyond those with which they have traditionally been associated, either through engaging in new areas or by reason of the convergence of the means of delivery of communication and entertainment services. The Group's competitors include organisations which are publicly funded, in whole or in part, and which fulfil a public service broadcasting mandate. A change to such mandate could lead to an increase in the strength of competition from these organisations. Although the Group has continued to develop its services through technological innovation and by licensing, acquiring and producing a broad range of content, the Group cannot predict with certainty the changes that may occur in the future which may affect the competitiveness of its businesses. In particular, the means of delivering various of the Group's (and/or competing) services may be subject to rapid technological change. The Group's competitors' positions may be strengthened by an increase in the capacity of, or developments in, the means of delivery which they use to provide their services.

The Group's advertising revenue depends on certain external factors which include the overall value of advertising placed with broadcasters by third party advertisers as well as the amount of such advertising that is placed with the Group and the channels on whose behalf the Group sells advertising space. The Group's advertising revenue is also impacted by the audience viewing share of the Sky Channels and the other channels on whose behalf the Group sells advertising and, accordingly, such revenue is affected by the distribution of such channels. The Group cannot be certain that these factors will always be favourable to the Group and therefore that any related developments or changes will not have a negative impact on the Group's advertising revenue. Advertising revenue may also be dependent on the viewing behaviour of the television audience. For example, viewers of on-demand programming may choose not to view that programming on Sky Channels and other channels on whose behalf the Group sells advertising. The Group cannot be certain that its advertising revenue will not be impacted negatively by this behaviour or that advertising revenue for Sky Channels currently offered on other platforms will not be impacted negatively in the future by the offering of video-on-demand services by other operators.

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

The future demand and speed of take up of the Group's DTH service, and the Group's broadband and telephony services will depend upon the Group's ability to offer such services to its customers at competitive prices, pressures from competing services (which include both paid-for and free-to-air offerings), and its ability to create demand

for its products and to attract and retain customers through a wide range of marketing activities. The future demand and speed of take up of the Group's services will also depend upon the Group's ability to package its content attractively. In addition, the Group

operates 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 the Group's ability to continue to attract and retain subscribers is uncertain. Therefore, the Group cannot be certain that the current or future marketing and other activities it undertakes will succeed in generating sufficient demand to achieve its operating targets.

***The Group's business is reliant on technology which is subject to the risk of failure, change and development.***

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

The Group is dependent on complex technologies in other parts of its business, including its customer relationship management systems, broadcast and conditional access systems, advertising sales, supply chain management systems and its telecommunications network infrastructure, including WAN, LLU, CISCO core IP network, Marconi/Alcatel optical network and complex application servers.

In terms of the delivery of the Group's broadcast services, the Group is reliant on a third party telecommunications infrastructure to distribute the content between its head offices at Isleworth and its primary and secondary uplink sites at Chilworth and Fair Oak.

In addition, the Group's network and other operational systems are subject to several risks that are outside the Group's control, such as the risk of damage to software and hardware resulting from fire and flood, power loss, natural disasters, and general transmission failures caused by a number of additional factors.

Any failure of the Group's technologies, network or other operational systems or hardware or software that results in significant interruptions to the Group's operations could have a material adverse effect on its business.

There is a large existing population of digital satellite reception equipment used to receive the Group's services, including set-top boxes and ancillary equipment, in which the Group has made a significant investment and which is owned by its customers (other than the smart cards, the hard disk capacity in excess of personal storage capacity and the software in the set-top boxes, to which the Group retains 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 requirements or by the mandatory imposition of incompatible technology, or should the Group need to or wish to upgrade significantly the existing population of set-top boxes and/or ancillary equipment with replacement equipment, this could have a material adverse effect on the Group's business.

The deployed set-top boxes 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. The Group estimates that around two million deployed set-top boxes have significant memory constraints and as such it has been necessary to close the EPG launch queue. To date, the Group has been able to carry out software downloads from time to time to reconfigure the memory utilisation in set-top boxes and to accommodate additional and increasingly complex services. In the event that the Group wishes to carry out such software downloads in order to accommodate additional and increasingly complex services and this course of action is no longer available to the Group, it may be limited in its ability to upgrade the services available via the set-top boxes currently installed in subscribers premises.



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***Failure of key suppliers could affect the Group's ability to operate its business.***

The Group relies on a consistent and effective supply chain to meet its business plan commitments and to continue to maintain its network and protect its services. A failure to meet the Group's requirements or delays in the development, manufacture or delivery of products from suppliers, the discontinuance of products or services, or a deterioration in support quality, could adversely affect the Group's ability to deliver its products and services. No assurance can be given that a broad economic failure or decline in quality of equipment suppliers in the industry in which the Group operates will not occur. Any such occurrence could have a material adverse effect on the Group's business.

Sky Talk relies on telecommunications services from network operator BT and failure on the part of BT to meet the Group's requirements for whatever reason may affect the Group's ability to deliver its telephony services to Sky Talk subscribers.

The Group uses a series of products from Openreach (a BT group business) within its LLU operations. These are the colocation space and associated facilities to house the central office equipment (co-mingling), backhaul circuits to connect that equipment to the Group's network (backhaul extension services or BES) and finally individual copper lines that go between the central office equipment and the end user's house (primarily SMPF lines). Outside of the Group's LLU areas the Group uses BT Wholesale's IP stream bitstream product to provide broadband connectivity to end users. The Group purchases these products from Openreach under terms and conditions outlined in legally binding undertakings given by BT and accepted by Ofcom in lieu of a market investigation reference to the CC following Ofcom's Strategic Review of Telecommunications (the BT Undertakings). These stipulate that the Group buys these products on a fully equivalent basis when compared to other operators (including other parts of BT) who supply broadband, telephony and network products and services. Ofcom has set up an Equality of Access Board whose role is to monitor and ensure that all Equivalence of Input requirements agreed in the BT Undertakings are being enacted. Ofcom also monitors the implementation of the BT Undertakings. Failure by either Openreach or BT Wholesale in fact to provide its products to the Group on a fully equivalent basis could have a material adverse effect on the Group's business.

***The Group is reliant on encryption and other technologies to restrict unauthorised access to its services.***

Direct DTH access to the Group's services is restricted through a combination of physical and logical access controls, including smart cards which the Group provides to its individual DTH 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. Although the Group works with its technology suppliers to ensure that its encryption and other protection technology is as resilient to hacking as possible, there can be no assurance that it will not be compromised in the future. The Group also relies upon the encryption or equivalent technologies employed by the cable and other platform operators for the protection of access to the services which the Group makes available to them. Failure of encryption and other protection technology could impact the Group's revenue from those operators and from its own customers.

The Group's network and other operational systems rely on the operation and efficiency of its computer systems. Although the Group's systems are protected by firewalls, there is a risk that its business could be disrupted by hackers or viruses gaining access to its systems. Any such disruption, and any resulting liability to the Group's customers, could have a material adverse effect on the Group's business.

***The Group undertakes significant capital expenditure projects.***

The Group is currently involved in capital expenditure projects including infrastructure projects. As is common with such projects, there is a risk that the Group's capital expenditure projects may not be completed as envisaged, either within the proposed timescales or budgets, or that the anticipated business benefits of the projects may not be fully achieved.

***The Group's investment in ITV could be subject to future events outside of the Group's control which could result in a loss in value of the Group's investment.***

On 17 November 2006 the Group acquired 696 million shares in ITV representing 17.9% of the issued share capital of ITV, at a price of 135 pence per share. The Group's investment in ITV is carried at fair value. The fair value of ITV is determined with reference to its equity share price at the balance sheet date. An impairment was first recorded following a review of the carrying value of the investment in ITV at 31 December 2007, due to the significant and prolonged decline in the equity share price. In accordance with International Financial Reporting Standards, the Group has continued to review that carrying value throughout fiscal 2008 and has recognised a cumulative impairment loss of £616 million in the current year. The impairment loss for the year was determined with reference to ITV's closing equity share price of 47.5 pence at 27 June 2008, the last trading day of the Group's financial year. Following this impairment the Group is required to recognise the effect of further decline in the value of the equity share price of ITV in the income statement. If the Group were to dispose of all or part of its stake in ITV at a price lower than the equity market price on the date of disposal and lower than a price consistent with the impairment through the income statement on the date of disposal, the Group would be required to recognise a loss on disposal.

***The Group, in common with other service providers that include third party services which the Group retails, relies 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.***

The Group's services largely comprise content in which it owns, or has licensed, the intellectual property rights, delivered through a variety of media, including broadcast programming, interactive television services, and the internet. The Group relies on trademark, copyright and other intellectual property laws to establish and protect its rights over this content. However, the Group cannot be certain that its rights will not be challenged, invalidated or circumvented or that it will successfully renew its rights. Third parties may be able to copy, infringe or otherwise profit from the Group's rights or content which it owns or licenses, without the Group's, or the rights holder'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 the Group in protecting its rights relating to its online businesses and other digital technology rights.

***The Group generates wholesale revenue from a limited number of customers.***

The Group's wholesale customers, to whom it offers certain of the Sky Channels and from whom it derives its wholesale revenue, have comprised principally ntl and Telewest which merged in 2006 and have been rebranded as Virgin Media. Since 28 February 2007, Virgin Media has not carried the Sky Basic Channels but continues to carry versions of all of the Sky Premium Channels on its digital networks (and offers Sky Sports 1, Sky Sports 2 and Sky Sports 3 to its remaining analogue cable subscribers). Economic or market factors, regulatory intervention, or a change in strategy relating to the distribution of the Group's channels, may adversely influence the Group's wholesale revenue and other revenue which the Group receives from Virgin Media in connection with supply of the Sky Premium Channels which may negatively affect the Group's business.

***The Group is subject to a number of medium and long-term obligations.***

The Group is party to a number of medium and long-term agreements and other arrangements (including in respect of programming and transmission, for example, its transponder agreements) which impose financial and other obligations upon the Group. If the Group is unable to perform any of its obligations under these agreements and/or arrangements, it could have a material adverse effect on the Group's business.

## Government regulation

The sectors in which we operate are subject to both sector-specific regulation, in particular regulation relating to the electronic communications and broadcasting sectors, and general competition (anti-trust) law.

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## Directors report review of the business continued

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### Government regulation continued

The regulatory regime applicable to the electronic communications and broadcasting sectors is, to a large extent, based on European Community ( EC ) law comprised in various EC Directives. A Directive is an instrument of EC law which is addressed to Member States of the European Union, and requires them to adopt national legislation to give effect to its objectives, whilst leaving the precise manner and form of the national legislation to the discretion of the Member State.

#### Electronic Communications Regulation

##### EC law

##### The Electronic Communications Directives

The regulation of electronic communications networks and services and associated facilities is governed by a series of EC Directives, including the Framework Directive, the Access Directive, the Authorisation Directive and the Universal Services Directive (together, the Electronic Communications Directives ). The Electronic Communications Directives, which came into force in July 2003, are designed to create a harmonised system of regulation across the European Union ( EU ).

The Electronic Communications Directives regulate the provision of communications services including telephony and broadband services; they do not regulate the editorial control or content of television broadcasting services but do cover, inter alia, the networks and transmission services which are involved in the broadcasting of such television services as well as the provisions of various services and facilities associated with the operation of digital television platforms, including our digital satellite platform.

The Electronic Communications Directives replace an earlier set of instruments which provided for a regime for the licensing of persons engaged in the provision of relevant telecommunications activities. Under the Electronic Communications Directives, Member States are required to abandon such licensing regimes, and to adopt a system whereby any person is generally authorised to provide electronic communications networks and/or services without prior approval.

Such persons may provide electronic communications networks and services without being subject to detailed regulatory rules. Member States' national regulatory authorities ( NRAs ) may apply, as conditions of the general authorisation, only minimal general conditions necessary to achieve certain key objectives of the Electronic Communications Directives (e.g. the availability of adequate directory inquiries services; the ability for consumers to maintain an existing telephone number, even if they switch from one provider to another; and fair treatment of consumers).

Beyond such minimal general conditions, NRAs may impose additional obligations on persons providing specific kinds of electronic communications networks, services, or facilities only where such obligations are specifically envisaged by the Electronic Communications Directives, and are justified and appropriate to allow third party access to particular network infrastructure, services, or facilities or where the NRA has determined that one or more persons active in a particular market enjoy significant market power ( SMP ) and that the imposition of additional obligations on such persons is justified and appropriate to avoid adverse outcomes.

The Electronic Communications Directives envisage that such ex ante rules (i.e. rules imposed in anticipation of an adverse outcome, rather than by way of ex post remedy) should be limited to what is necessary, and used only where an NRA has determined them to be appropriate to restrain the conduct of persons enjoying SMP (which is equivalent to the competition law concept of dominance) or where the Directives otherwise specifically mandate the imposition of ex ante rules.

Accordingly, the Electronic Communications Directives require NRAs in each of the EU Member States to carry out periodic reviews of competition in relevant electronic communications markets and, where a communications provider is found to have significant market power in a relevant market, to impose appropriate regulatory obligations. The European Commission also plays a formal role in the market review process undertaken by NRAs.

In November 2005, the European Commission commenced a review of the functioning of the Electronic Communications Directives. The European Commission published draft

legislative proposals for modifying the existing framework in November 2007, with a view to the implementation of a revised framework within the Member States in 2011. The main areas where the European Commission has indicated that changes are needed to the existing regulatory framework are:

- putting in place an effective market-oriented strategy for spectrum management in Europe's internal market;
- regulating less, but more effectively, by phasing out ex-ante regulation in a number of markets currently regulated;
- streamlining the market review procedure to make it faster, less burdensome and better focused on real bottlenecks;
- consolidating the single market, by ensuring that EU rules and remedies are applied consistently across all EU Member States;
- preserving and enhancing consumer protection and user rights; and
- enhancing the security and reliability of European communications networks.

#### **UK law**

The Electronic Communications Directives have primarily been implemented in the UK by the Communications Act 2003 ( Communications Act ). The Communications Act is enforced by the UK's NRA, Ofcom.

#### **General Conditions of Entitlement**

As noted above, the EC Electronic Communications Directives provide that anyone wishing to provide an electronic communications network or service should be generally authorised to do so, without requiring any licence or other prior approval. This general authorisation is subject in the UK to the General Conditions of Entitlement ( General Conditions ). The General Conditions were adopted under Section 45 of the Communications Act and apply to anyone who is providing an electronic communications network or service.

The Group is subject to the General Conditions in relation to its broadband internet access and public telephony services, including:

- a requirement to ensure that any end-user can access the emergency services;
- a requirement to support number portability for customers wishing to switch to or from another network provider;
- a requirement that customers are offered contracts that satisfy certain minimum standards;
- a requirement to ensure that any end-user can access directory enquiry and operator assistance services;
- a requirement to facilitate the migration by customers between broadband service providers;
- a requirement to publish up-to-date price and tariff information;
- a requirement to provide accurate billing, including itemisation on request; and
- a requirement to publish codes of practice concerning, among other things, the services provided, the handling of customer complaints and sales and marketing.

As a network operator, Easynet is also subject to requirements to negotiate network interconnection, to comply with relevant compulsory standards and to take all reasonable steps to maintain (to the greatest possible extent) the proper and effective functioning of its public telephone network.

The Group has published a Code of Practice dealing with Sky Talk products, services and customer care procedures; a Code of Practice concerning the sales and marketing practices for the Sky Talk telephony service; a Code of Practice for Premium Rate and Number Translation Services; a Code of Practice on dealing with customer complaints; and a Code of Practice relating to the provision of Sky Broadband.

#### **Access-related conditions**

Ofcom also has the power under Section 45 of the Communications Act to impose so-called access-related conditions, including conditions relating to conditional access services.

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#### *Conditional Access Services Conditions*

Access-related conditions have been imposed on Sky Subscribers Services Limited ( SSSL ) in relation to the provision of conditional access services. These conditions include:

- a requirement to provide conditional access services upon request, on fair and reasonable terms;
- where a broadcaster in receipt of conditional access services from SSSL also provides programme services to providers of other electronic communications networks (e.g. cable operators), a requirement to cooperate with providers of such other electronic communications networks so that such providers are able to transcontrol (the process of changing a conditional access system) and re-transmit the programme services;
- an obligation to keep separate financial accounts regarding activities as provider of conditional access services;
- where conditional access products and systems are the subject of intellectual property rights, a requirement to make such products and systems available upon reasonable terms and at reasonable charges; and
- a requirement not to discriminate unduly against particular persons or against a particular description of persons.

Currently, only SSSL is subject to access-related conditions imposed by Ofcom relating to conditional access services. However, Ofcom has proposed applying identical conditions to Top Up TV Limited in respect of conditional access services provided via the DTT platform, on which it commenced a public consultation in early 2007.

#### *Continued licence conditions relating to EPGs and access control services*

Prior to the entry into force of the new regulatory regime instituted by the Electronic Communications Directives, and implemented in the UK by the Communications Act, the Group operated under a number of class licences issued under the Telecommunications Act 1984. These class licences have largely been revoked. However, certain provisions in these class licences have continued in force as Continuation Notices issued under Paragraph 18 of Schedule 9 of the Communications Act, including in particular conditions relating to the provision of electronic programme guides ( EPGs ) and access control services for digital transmissions.

We are required under a continuation notice to provide EPG services to other broadcasters on fair, reasonable and non-discriminatory terms and not to favour related companies. 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. It is not, however, envisaged that the manner of regulation of EPGs will change significantly.

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, will remain in place for as long as SSSL is considered to have SMP. In November 2003, Ofcom 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) SMP. 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.

#### *Ofcom's Guidelines and Explanatory Statement for the Provision of Technical Platform Services*

In September 2006, Ofcom published revised guidelines on how, in the event of a dispute or complaint, it would normally interpret the requirement on Sky to ensure that its terms, conditions and charges for the provision of technical platform services are fair, reasonable and non-discriminatory ( TPS Guidelines ). (The term technical platform services is used to refer collectively to conditional access, electronic programme guide listings services, and access control services). The TPS Guidelines took effect from 1 January 2007 and replace the previous guidelines dating from 2002.

The TPS Guidelines set out general principles that Ofcom indicates it would apply in assessing whether the Group has complied with the relevant regulatory conditions requiring it to provide technical platform services on fair, reasonable and non-discriminatory terms. These general principles can be summarised as follows:

- the costs that Sky should be entitled to recover from TPS Customers should be restricted to costs which it reasonably, necessarily and efficiently incurs in the provision of TPS to those customers or in order to develop and operate the digital

satellite platform;

- Sky should be entitled to recover its allowable costs and make a risk adjusted return on its investment;
- costs should only be recovered from those customers that directly cause the costs to be incurred, or that benefit from the costs being incurred; and
- where costs incurred are of benefit to more than one TPS Customer then they should be recovered from each TPS Customer in a way that takes due account of the benefits derived by TPS Customers from those costs being incurred.

The TPS Guidelines also contain guidance on how the incremental benefits that a TPS Customer receives from the provision of its chosen mix of technical platform services can be measured. Ofcom notes, however, that the Group may choose to adopt different methods for assessing such incremental benefits and characterisation of the costs of various technical platform services, which Ofcom acknowledges it may also consider to be consistent with the relevant regulatory conditions.

The TPS Guidelines also state that an existing or prospective TPS Customer should be provided with sufficient information to allow it to determine the TPS charges that it would expect to pay without having to enter into a commercial negotiation with Sky. Since December 2006, the Group has therefore published a rate card setting out the charges payable for technical platform services.

### **Ofcom Review of Wholesale Digital Television Broadcasting Platforms**

In October 2006, Ofcom published a document setting out the scope and timetable for a review of wholesale digital television broadcasting platforms. Ofcom indicated that it intends to undertake an analysis of relevant markets and to assess market power in such markets, to be used to inform regulation of conditional access, access control and EPG listing, and to review the competition conditions in the DTT multiplex licences. In its consultation document in relation to its pay TV market investigation (see below), Ofcom stated that the more strategic issues which might be considered in this platform review overlap with issues raised in the market investigation, and that the latter may be a better vehicle for consideration of such issues. Ofcom also stated that it has therefore given priority to the market investigation and expects to restart the platform review once there is greater clarity as to the likely range of outcomes of the market investigation. At this stage, the Group is unable to determine whether Ofcom's platform review will have a material effect on the Group.

### **SMP Conditions**

In common with all other operators of fixed public electronic communications networks in the UK, Easynet has been determined to have SMP in the market for fixed geographic call termination services on its own network (i.e. services allowing calls originating on another network to be terminated on Easynet's fixed network). A specific condition has been imposed on Easynet pursuant to Section 45 of the Communications Act requiring it to provide call termination to all public communications providers who reasonably request it on fair and reasonable terms, conditions and charges.

The Group benefits from SMP conditions imposed on British Telecommunications plc (BT) in other relevant markets. These include conditions requiring BT to provide wholesale local access (LLU) services and wholesale broadband access services, which the Group uses to provide broadband services to its customers, as well as wholesale line rental, which the Group uses to provide line rental services to its customers. The conditions imposed on BT in these markets include a requirement to provide Network Access on reasonable request, a requirement not to discriminate unduly and a requirement to publish information about its prices, terms and conditions.

In May 2008, Ofcom published the final statement in its review of the wholesale broadband access markets. In this statement Ofcom announced the removal of regulation of wholesale broadband access in certain areas of the UK, areas which

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## Directors report review of the business continued

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### Government regulation continued

Ofcom believes are now served by effective competition. Regulation will be lifted in those parts of the country in which four or more wholesale broadband providers operate and where no single company has SMP.

Ofcom is also planning to carry out a review of fixed narrowband services (including wholesale line rental) in 2008/2009.

The Group also benefits from SMP conditions imposed on National Grid Wireless (formerly Crown Castle) and Arqiva (formerly ntl:Broadcast) in relation to the provision of wholesale broadcasting transmission services, which the Group (via the provision by NGW of a managed transmission service) uses to broadcast its services on the DTT platform. The conditions imposed include a requirement to provide Network Access to masts and sites on reasonable request, a requirement not to unduly discriminate and a requirement to provide Network Access on cost oriented terms. NGW was recently acquired by Macquarie UK Broadcast Ventures Limited (which also owns Arqiva).

On 19 June 2007, Ofcom published the conclusions of its review of the pricing of spectrum for terrestrial broadcasting. To date, transmission service providers who use spectrum for the purposes of DTT have only had to pay administrative cost-based fees for their use of the spectrum. Ofcom has decided that, from 2014, a system of Administrative Incentive Pricing will be introduced, which will involve charging annual fees for the holding of a spectrum that reflects the opportunity cost of the holding of that spectrum. The effect of this new system may be that transmission service providers become liable to pay more than they currently do for their use of the spectrum, which could have an impact on the amount the Group pays for broadcasting transmission services.

#### **Enforcement of General Conditions, SMP Conditions, Access-related Conditions and Continued Licence Conditions**

Any breach of the General Conditions, SMP Conditions or Access-related conditions could result in Ofcom issuing a direction against us to rectify the breach and a failure to comply with such direction could result in the imposition of a fine or, ultimately, the suspension of the Group's right to provide the relevant network, services or facilities. Decisions by Ofcom to impose new obligations on the Group, or any remedial direction or fine would usually be amenable to appeal to the Competition Appeal Tribunal or, if no appeal is available, may be capable of challenge by way of judicial review before the courts.

The continued licence conditions relating to EPG services and access control services are enforceable by Ofcom using enforcement powers under the Telecommunications Act 1984.

#### *Dispute resolution*

In addition to providing for the imposition by Ofcom of specific regulatory obligations, the Communications Act also imposes a duty on Ofcom to resolve certain disputes relating to the provision of Network Access (as defined by Section 151(3) of the Communications Act). In resolving such disputes, Ofcom has the power to do one or more of the following:

- to make a declaration setting out the rights and obligations of the parties to the dispute;
- to give a direction fixing the terms and conditions of transactions between the parties to the dispute;
- to give a direction imposing an obligation, enforceable by the parties to the dispute, to enter into a transaction between themselves on the terms and conditions fixed by Ofcom; and
- to give a direction, enforceable by the party to whom the sums are to be paid, requiring the payment of sums by way of adjustment of an underpayment or overpayment.

#### **Transmission standards**

The use of standards for the transmission of television signals is governed by the Electronic Communications Directives (notably the Access and Universal Services Directives), which require EU 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.

### Recognised Spectrum Access

Ofcom has introduced a system for the management of spectrum under the Communications Act, which is intended to enhance the efficiency of spectrum use through liberalisation of use and trading in spectrum, whilst protecting the quality of spectrum. This 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 has announced that it intends to consult the public on the application of RSA to satellite downlinks, for which no date is currently set.

### Irish law

We are currently not regulated by the Irish national communications regulatory authority, ComReg. 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 Electronic Communications Directives.

### Broadcasting Regulation

#### EC law

#### The Television Without Frontiers Directive and the Audiovisual Media Services Directive

The EC Television Without Frontiers Directive 1989 ( TWF Directive ), as revised in 1997, sets out certain basic principles for the regulation of television broadcasting activity in the EU.

The TWF Directive includes, amongst other things:

- a country of origin principle to ensure that broadcasters are not required to comply with different rules in different EU Member States. Instead, each broadcaster is subject to the primary jurisdiction only of its home Member State, determined in accordance with criteria laid down in the TWF;
- rules governing the proportion of transmission time that must be reserved for European works and for European works created by producers who are independent of broadcasters;
- qualitative rules governing the substance of advertising and the standards that must be complied with and quantitative rules regulating the insertion of advertising between or during programmes and/or specifying the maximum duration of advertising;
- rules to ensure that broadcasters do not broadcast on an exclusive basis events which are seen as being of major importance for society, including sporting events, in such a way as to deprive a substantial proportion of the public of the possibility of following such events via live coverage or deferred coverage on free television; and
- rules to ensure the protection of minors and the prevention of incitement to hatred on grounds of race, sex, religion or nationality.

The UK has adopted a variety of measures to give effect to the requirements of the TWF Directive, including conditions in broadcasting licences. Further details on the broadcasting licensing regime in the UK are set out below.

On 24 May 2007, political agreement was reached on a new Audiovisual Media Services Directive ( AVMS Directive ), which will replace the existing TWF Directive. The AVMS Directive entered into force in December 2007. The EU Member States have been given 24 months in which to transpose the new provisions into national law.

The AVMS Directive covers all audiovisual media services, irrespective of the technology used to deliver the service, including both linear and on-demand services. However, the rules relating to on-demand content are limited to safeguarding essential public interests such as protecting minors, encouraging cultural diversity, preventing incitement to hatred and basic consumer protection rules. The AVMS Directive relaxes rules on the amount and timing of television advertising. It also allows individual member states to derogate from the prohibition on product placement, in certain genres (including films and television series, sports programmes and light entertainment programmes). This derogation does not apply to news, current affairs and children's programmes. The UK government will consult on whether the UK



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should allow product placement where permitted by the Directive, as well as on proposals for the regulation of on-demand services and on new jurisdiction rules.

### **Broadcasting Act licences**

In the UK, the provisions of the TWF Directive are implemented, to a large extent, via the Broadcasting Acts 1990 and 1996. The Broadcasting Acts also contain additional provisions of national law, beyond the matters required to be covered by the TWF Directive.

The Group is required to hold licences issued under the Broadcasting Act 1990 and the Broadcasting Act 1996 (together, the Broadcasting Acts ) in relation to its provision of broadcasting services. Compliance with the conditions attaching to these licences is enforced by Ofcom.

We and our broadcasting joint ventures each currently hold a Television Licensable Content Services ( 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, DSL and satellite, but does not confer on a TLCS licensee the right to use any specific 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 also hold a Digital Television Programme Services ( DPS ) licence, which is required for the distribution of our channels via DTT, and a Digital Television Additional Services ( DAS ) licence for the distribution of other services (including Sky Text) on DTT. In February 2007, the Group announced that it is developing plans for the launch of a subscription television service on DTT. This service is to be retailed under the Picnic brand. An application to amend the Group's Digital Television Programme Services licence was submitted to Ofcom in April 2007. In May 2008 Ofcom announced that it would publish a consultation document on the pay TV industry (see below) and its assessment of the Group's pay DTT proposal by the end of summer 2008.

In common with all television broadcasting licences issued by Ofcom, our licences require us to comply with any relevant codes and directions issued by Ofcom from time to time. Ofcom (or its predecessors) has published codes and guidance including the following codes:

- *Broadcasting Code*: this includes requirements relating to, among other things, the impartiality and accuracy of news programming, the protection from harm and offence and the portrayal of sex and violence;
- *Rules on the amount and distribution of advertising* (to be replaced on 1 September with the Code on the Scheduling of Television Advertising);
- *Cross Promotions Code*: this is designed to ensure that cross-promotions on television are distinct from advertising and are limited to informing viewers of services likely to be of interest to them as viewers. The Code allows broadcasters to promote broadcasting-related services in promotional airtime subject to the requirement that the promotion is provided for no consideration. No consideration will be presumed to have passed where the promoting channel has a shareholding of 30% or more in the promoted channel (or vice versa). The Code also contains additional rules, applicable only to ITV1, Channel 4 and five, requiring all references to digital retail television services or digital television broadcasting platforms to be on an equal and impartial basis;
- *Code on Sports and other Listed Events*: 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 basis or subscription basis, without the prior 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. The Code on Sports and other Listed Events was drafted by the Independent Television Commission ( ITC ), Ofcom's predecessor, and sets out how the ITC (and now Ofcom) will apply the rules on Listed Events. 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;
- *Code on Television Access Services*: the Communications Act prescribes certain annual targets for television access services (subtitling, audio description and signing) that broadcasters licensed channels must meet. The Code on Television Access Services sets out Ofcom's guidance on ensuring compliance with these requirements. The Code requires broadcasters to provide quarterly returns on their compliance. In 2007, all of Sky's channels, except Sky Sports 1 exceeded their relevant target. Sky is taking measures to address the shortfall on

Sky Sports 1 in 2008, in agreement with Ofcom. In December 2007, following a consultation reviewing the provision of signing services by low-audience channels, Ofcom published new arrangements for signing on low audience channels. With effect from 1 January 2009, all channels with an audience share of between 0.05% and 1% other than public service channels will be excluded from obligations to meet the signing targets set out in the Code on Television Access Services. Excluded channels will be required instead to transmit a minimum of 30 minutes of sign presented programming each month between 7am and 11pm. Ofcom has stated that it will keep the amount of sign presented content under review and will apply the exclusion flexibly. Ofcom has also stated that for excluded channels it will accept, as an alternative to the requirement to transmit a minimum of 30 minutes of sign presented programming each month, alternative arrangements which would be likely to provide better assistance for deaf people using sign language; and

- Code on Electronic Programme Guides: this requires all providers of EPGs licensed under the Broadcasting Acts 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. The Code also requires that undue prominence is not given on an EPG to channels connected to the EPG operator, that an objective policy for allocating listings on the EPG is maintained and published; and that there is no requirement for exclusivity on an EPG for any service.

As noted above, the TWF Directive includes rules governing, amongst other things, the proportion of transmission time that must be reserved for European works and for European works created by producers who are independent of broadcasters. Specifically, the TWF Directive requires each EU Member State to ensure where practicable and by appropriate means that broadcasters falling under its jurisdiction reserve (a) a majority of their transmission time for European works and (b) 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 the 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 is excluded.

A condition requiring licensees to comply with these requirements, where practicable, and having regard to any guidance issued by Ofcom, is contained in all Broadcasting Act licences. On 10 February 2005, Ofcom published guidance in relation to compliance with the requirements in 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.

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 relevant 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 those 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.

### **Enforcement of Broadcasting Act licences**

If a licensee is found to be in breach of a condition of its Broadcasting Act licence, Ofcom may issue a direction requiring compliance with the relevant licence condition and may impose a fine. 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). Any decision by Ofcom finding a licensee to be

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## Directors report review of the business continued

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### Government regulation continued

in breach of a condition of a Broadcasting Act licence, including a decision to impose a fine or revoke the licence, could be challenged by way of judicial review before the courts.

#### Media ownership rules

There are various rules in the Broadcasting Act 1990 (as amended) and the Communications Act governing media ownership. These rules 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).

In addition to the media ownership rules governing who can hold a Broadcasting Act licence, Ofcom is also required under the Communications Act to carry out a review whenever a change of control takes place in relation to the holder of certain Broadcasting Act licences, including the Channel 3 licences and the licence for five. Ofcom will review the likely effects of such a change of control on the licensed services, for example in relation to the time available for and scheduling of original productions and news and current affairs programmes. Ofcom has the power to vary the licence holder's licence to address any concerns that it may have following such a review. In November 2006, Ofcom announced that it would consider whether Sky's acquisition of a 17.9% stake in ITV represented a change in control of one or more of the licences in ITV. Ofcom has yet to reach a decision on this review.

In April 2006, Ofcom published guidance on the "definition of control of media companies". This guidance sets out the matters which Ofcom will take into consideration when assessing control in this context, and the procedure it will follow when investigating whether control exists.

#### Public Service Broadcasting

In April 2008 Ofcom published a consultation document, commencing the first phase of its second public service broadcasting review. The consultation document asserts that further intervention in the market will be required to prevent the amount of public service content declining in future. By 2012 Ofcom estimates that the value of implicit funding for ITV, Channel 4 and five will have fallen by around £335 million since 2003. While acknowledging the role of the BBC, the consultation document states that further intervention is required to ensure plurality of public service broadcasting. In particular, the consultation document identifies specific areas such as children's and regional news programming that require intervention. Ofcom has proposed four models which will be evaluated in more detail in the second phase of the review, which is planned for the latter part of 2008. Various mechanisms are proposed to fund each of these models, including direct government funding, distribution of the BBC licence fee (top slicing), other regulatory benefits such as subsidised spectrum or an increase in advertising minutage for commercial public service broadcasters, and industry funding through levies on broadcasters, equipment sales, internet service subscriptions or UK online content providers. Most of the forms of new funding under consideration will require additional legislation to be implemented by 2011.

The consultation in this first phase of Ofcom's second review into public service broadcasting closed in June 2008. The results of the consultation have not yet been published.

#### Co-regulation/self-regulation

Ofcom has contracted out responsibility for the regulation of the content of television advertising to the Advertising Standards Authority (ASA), a co-regulatory body. The Television Advertising Standards Code, which sets out the rules governing the content of television advertising, applies to all Broadcasting Act licensees and is enforced by the ASA. Ofcom retains a backstop power to enforce compliance with the standards in the Code. Similar arrangements exist in relation to training regulatory obligations where the Broadcast Training and Skills Regulator acts as the co-regulatory body.

The Sky Talk and Sky Broadband services are also registered with the telecommunications ombudsman service Otelo, with the consequence that Sky's customers may complain to Otelo about the services they are receiving and Otelo will

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investigate and decide what action should be taken. As a member of the Ombudsman scheme, Sky has agreed to honour Otelos decisions.

The Group is a member of the Internet Watch Foundation, which provides a UK hotline for users to report potentially illegal content, specifically child abuse images hosted anywhere in the world or content hosted in the UK which is either criminally obscene or could incite racial hatred.

### Irish law

Even though our channels are broadcast in the Republic of Ireland we do not hold any Irish broadcasting licences, as a result of the operation of the country of origin principle contained in the TWF (and AVMS) Directive.

A list of designated events in Ireland has 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.

### Betting and gaming

We carry out our betting and gaming activities through two Group companies, Hestview Limited ( Hestview ) and Bonne Terre Limited ( Bonne Terre ).

Hestview currently carries out its betting activities under a remote betting licence issued by the Gambling Commission in accordance with the Gambling Act 2005.

Bonne Terre, a company registered in Alderney, carries out its gambling activities (casino, bingo and poker) under a licence granted by the Alderney Gambling Control Commission under the terms of the Gambling Ordinance 2007 and is regulated by that body.

### Competition (anti-trust) law

We are subject to the EC competition law regime and to the national competition law regimes in the countries in which we operate.

#### EC competition rules

##### Anti-competitive agreements

Article 81(1) of the EC Treaty prohibits agreements and concerted practices between undertakings which may affect trade between EU Member States and which have as their object or effect the prevention, restriction or distortion of competition within the EU. An agreement may infringe Article 81(1) only if it is likely to have an appreciable effect on competition. Agreements which fall within the scope of Article 81(1) will not be prohibited where they meet the criteria set out in Article 81(3), that is, where they improve the production or distribution of goods or promote technical or economic progress, provided that consumers receive a fair share of the resulting benefit, competition is not substantially eliminated and the agreement does not contain unnecessary restrictions.

##### Abuse of a dominant position

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

##### Enforcement of Articles 81 and 82

Articles 81 and 82 may be enforced by the European Commission, designated national competition authorities in each of the EU Member States and/or by the national courts in each of the EU Member States.

Infringement of Articles 81 or 82 may result in significant consequences including fines, voidness or unenforceability of infringing agreements, prohibition of infringing conduct, potential liability to third parties (notably for damages) and/or the potential for involved directors to be disqualified.

#### *Investigation of Football Association Premier League agreements*

The European Commission's investigation into the FAPL's joint selling of exclusive broadcast rights to football matches concluded with the European Commission's adoption, in March 2006, of a decision making commitments offered by the FAPL legally enforceable. These commitments (a non-confidential version of which has been



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made available to third parties) are to remain in force until June 2013 and thus applied to the FAPL's auction of media rights for the 2007/08 to 2009/10 seasons and will apply to subsequent auctions of rights until June 2013. Amongst other things, the commitments provide for the FAPL to sell six balanced packages of live audio visual rights (including rights via the internet and via mobile), each of which showcase the League as a whole throughout each season. No single bidder is allowed to buy all six packages and packages are sold to the highest standalone bidder.

The Group has been awarded four of the six packages of rights to show live audiovisual coverage of FAPL football matches in the UK for the 2007/08 to 2009/10 seasons.

The decision is binding on the FAPL for the duration of the commitments, but does not bind national competition authorities or national courts. The Commission's decision does not address competition issues which may arise from contracts for rights in relation to FAPL matches from the 2007/08 season onwards; any such issues could be assessed separately under the competition rules at either European or national level.

### **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 undertaking and which meet certain turnover thresholds specified in the EC Merger Regulation. Such transactions may not be carried out without prior approval of the European Commission. Where the European Commission has jurisdiction to review a transaction under the EC Merger Regulation, national authorities in the EU Member States do not normally have jurisdiction to apply their own competition laws to the same transaction. However, Member States may continue to apply their national laws to mergers, where such laws are directed at securing other public interest objectives (for example, the plurality of the media) and are compatible with EC law.

### **Sector inquiries**

The European Commission also carries out sector inquiries into sectors of the economy where it considers that a market does not seem to be working as well as it should. Sector inquiries may lead the European Commission to open specific investigations under Article 81 or Article 82.

### **UK competition rules**

#### **Anti-competitive agreements**

Section 2(1) of the Competition Act 1998 (the Chapter I prohibition) prohibits agreements or concerted practices which may affect trade within the UK and which have the object or effect of preventing, restricting or distorting competition within 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 improve the production or distribution of goods or promote technical or economic progress, provided that consumers receive a fair share of the resulting benefit, competition is not substantially eliminated and the agreement does not contain unnecessary restrictions.

#### **Abuse of a dominant position**

Section 18(1) of the Competition Act 1998 (the Chapter II prohibition) prohibits the abuse by one or more undertakings of a dominant position in the UK or a substantial part of it, insofar as the abuse may affect trade within the UK.

#### **Enforcement of the Chapter I and II prohibitions**

The Chapter I and II prohibitions may be enforced by the OFT, one of the sector regulators (in the case of the communications sector, Ofcom) or the UK courts.

The Chapter I and II prohibitions must be interpreted in a manner that is consistent with Articles 81 and 82 of the EC Treaty.

Infringement of the Chapter I or II prohibitions may result in significant consequences including fines, voidness or unenforceability of infringing agreements, prohibition of infringing conduct, potential liability to third parties (notably for damages) and/or the potential for involved directors to be disqualified.

*Legal proceedings initiated by Virgin Media group*

In April 2007, Virgin Media Communications Limited, Virgin Media Television Limited and Virgin Media Limited issued proceedings in the High Court in England and Wales against British Sky Broadcasting Group plc and British Sky Broadcasting Limited, alleging that the Group has infringed Article 82 EC and the Chapter II prohibition by pursuing an anti-competitive strategy designed to weaken Virgin Media group, which allegedly entailed (i) a constructive refusal to supply the Group's basic pay television channels to Virgin Media group for supply via Virgin Media group's cable network in the UK; (ii) a refusal to pay fair prices for the right to carry Virgin Media group's television channels as part of the Group's retail channel offering; and (iii) the Group's purchase of a significant shareholding in ITV (which purchase, it is alleged, was designed principally to damage Virgin Media group's ability to compete in the supply of pay television services, by preventing Virgin Media group from obtaining access to attractive programming content).

Virgin Media group seeks from the Court a declaration that the Group occupies a dominant market position in specified pay TV retail and purchasing markets in the UK and that the Group has, by its conduct as alleged, abused its dominant position(s) contrary to Article 82 EC and the Chapter II prohibition on these relevant markets. Virgin Media group also seeks mandatory injunctions requiring the Group to transact with Virgin Media group on fair and/or non-discriminatory terms for the supply of the Group's basic pay television channels to Virgin Media and for the licensing of Virgin Media group's television channels, for on-supply to the Group's subscribers. Virgin Media group also seeks damages to compensate it for its alleged losses arising from the Group's alleged conduct.

The Group intends to defend the proceedings vigorously and submitted its defence to the High Court on 2 July 2007 denying Virgin Media group's allegations that it had infringed Article 82 EC or the Chapter II prohibition. A start date for trial has been provisionally set for February 2009. It is, at this stage, too early to estimate the likely outcome of the proceedings.

**Mergers**

The framework for the assessment of mergers under UK law is set out in Part 3 of the Enterprise Act. A relevant merger situation (i.e. a transaction which involves a change of control between previously distinct enterprises) qualifies for investigation by the OFT where it satisfies either a share of supply test or a turnover test. There is no requirement to notify mergers to the OFT nor to obtain prior regulatory clearance, although the OFT has the power to investigate mergers on its own initiative.

Where the OFT reasonably believes that a relevant merger situation has or may have been created, or may be created in future, and has resulted or may be expected to result in a substantial lessening of competition, it has a duty to refer the merger to the CC for further investigation. The OFT may accept remedies offered by the parties instead of making a reference to the CC.

If a reference is made, the CC will decide whether a relevant merger situation has arisen and, if so, whether the relevant merger situation would substantially lessen competition and, if so, will either prohibit the merger or impose appropriate remedies.

In relation to media mergers (i.e. mergers involving newspaper and/or broadcasting enterprises), the Secretary of State also has the power to intervene on the basis of specified public interest grounds including relating to media plurality. Where the Secretary of State issues an intervention notice, the OFT will investigate the competition/ jurisdictional issues and Ofcom will investigate the public interest issues relating to the merger. The Secretary of State will then decide whether to refer the transaction to the CC. The Secretary of State is required to follow the OFT's findings on competition/ jurisdiction. In cases where a reference is made, the CC will investigate both the competition and relevant public interest aspects of the merger and will report its findings to the Secretary of State. Ofcom may also give further advice to the Secretary of State. The Secretary of State will then decide whether the merger operates, or may be expected to operate, against the public interest and, if so, will decide on appropriate remedies. The Secretary of State must accept the CC's findings on competition/ jurisdiction, where relevant.

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## Directors' report - review of the business continued

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### Government regulation continued

#### *Merger investigation of the Group's acquisition of a shareholding in ITV*

On 17 November 2006, the Group acquired 696 million shares in ITV amounting to 17.9% of its issued share capital. The Group paid 135 pence per share, totalling £946 million. The investment in ITV has been subject to an in depth review by the CC.

In December 2007 the CC completed its review and delivered the final report of its findings to the Secretary of State for Business, Enterprise and Regulatory Reform ( SoS ), for him to decide what action to take. The CC concluded that a relevant merger situation had been created, granting it jurisdiction, and that the creation of that situation may be expected to result in substantial lessening of competition arising from the loss of rivalry in an all-TV market between ITV and the Group which may be expected to operate against the public interest. The CC recommended, by way of remedy, that the Group be required to divest part of its stake such that it holds less than 7.5% of ITV's issued share capital. The SoS announced on 29 January 2008 his decision to make an adverse public interest finding taking account of the CC's decision that the transaction results in a substantial lessening of competition in the UK market for all-TV. The SoS also decided to impose on the Group the remedies recommended by the CC to address the substantial lessening of competition identified in the CC's report: divestment of the Group's shares in ITV down to a level below 7.5% within a specified period (which has not been publicly disclosed), and behavioural undertakings from the Group requiring the Group not to dispose of the shares to an associated person, not to seek or accept representation to the Board of ITV and not to reacquire shares in ITV.

The Group has sought judicial review of the decisions of the SoS and CC before the Competition Appeal Tribunal ( CAT ). Virgin Media ( VM ) has also sought judicial review of the findings of the CC and SoS in relation to media plurality and the remedies imposed. The Group was granted permission to intervene in the review proceedings of VM and VM was granted permission to intervene in the review proceedings brought by the Group. A hearing took place in early June 2008. The Group is awaiting the judgment of the CAT.

#### **Market investigations**

Part 4 of the Enterprise Act makes provision for a system of market investigations by the CC. The OFT (or in relation to the communications sector, Ofcom) may make a market investigation reference to the 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 part of the UK. 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 investigation. 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 requiring divestments, requiring the licensing of know-how or intellectual property, requiring firms to discontinue/adopt

certain practices or restraining the way firms would otherwise behave (e.g. imposing price caps).

#### *Ofcom market investigation of pay TV industry*

On 18 December 2007, Ofcom published a consultation document in relation to its ongoing investigation into the UK pay TV industry. The consultation document outlined Ofcom's preliminary understanding of the operation of the pay TV industry in the UK. Interested parties, including the Group, were invited to respond to the consultation document by providing views on Ofcom's initial assessment of the operation of the pay TV industry, with a view to enabling it to examine whether there are competition issues that merit further action (which could include a market reference to the CC). This consultation is now closed and on 13 May 2008 Ofcom published copies of all of the non-confidential responses it had received on the consultation document including that of the Group. Ofcom has announced that it will publish a further consultation document by the end of summer 2008.

#### **Irish competition rules**

Our operations in Ireland are subject to the Irish competition law regime which regulates anti-competitive agreements, abuses of a



dominant position and mergers.

### **Environmental regulation**

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.

Regulations based on EU Directives, notably the Waste Electrical and Electronic Equipment Directive ( WEEE Directive ), the Restriction on the use of certain Hazardous Substances in electrical and electronic equipment Directive ( RoHS Directive ) and the Producer Responsibility (Packaging Waste) Regulations (The Packaging Waste Regulations) have placed various obligations upon us. The WEEE Directive and the implementing regulations require producers and distributors of electrical and electronic equipment to finance and enable the recycling and/or disposal of these items in an environmentally sound manner. The RoHS Directive and the implementing regulations 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. The Packaging Waste Regulations require companies that handle packaging to finance the recovery and recycling of packaging equivalent to the type and volume of packaging that they have handled each year. These three sets of Regulations apply to our purchase and supply of set-top boxes, routers and other 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. Of note are the forthcoming regulations concerning the safe handling and disposal of batteries as well as the Carbon Reduction Commitment (formerly the Energy Performance Commitment), which was proposed in the Climate Change Bill.

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## Directors report financial review

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### 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 this Annual Report. The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board and as adopted by the European Union.

### Overview and recent developments

The year ended 30 June 2008 (the current year) has been a year of significant achievement, particularly against the backdrop of a more challenging consumer environment. We have grown our subscriber base in line with our targets, customers are taking more products from us and they are staying with us for longer.

Consequently, we enter the 2009 financial year in a good position and while there is short-term uncertainty around the consumer environment, there remains significant headroom for profitable growth in our core sectors.

During the current year, total revenue increased by 9% to £4,952 million, compared to the year ended 30 June 2007 (the prior year). Operating profit for the current year was £724 million, resulting in an operating profit margin of 15%, compared to 18% in the prior year. Loss for the year was £127 million, generating a basic loss per share of 7.3 pence, compared to a profit of £499 million and earnings per share of 28.4 pence in the prior year.

At 30 June 2008, the total number of DTH subscribers in the UK and Ireland was 8,980,000, representing a net increase of 398,000 subscribers in the current year. At 30 June 2008, the total number of Sky+ subscribers was 3,714,000, representing 41% of total DTH subscribers. This represents growth in Sky+ subscribers of 1,340,000 in the current year. The number of Multiroom subscribers also continued to grow strongly, increasing by 261,000 in the current year to 1,604,000; 18% penetration of total DTH subscribers. The Group launched HD on 22 May 2006, and in the current year the total number of Sky HD subscribers grew by 206,000 to 498,000, representing 6% of total DTH subscribers.

DTH churn for the current year was 10.4% (2007: 12.4%). 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 decrease on the prior year reflected the benefit of additional product penetration and the decision made during the prior year not to renew viewing package discounts and to improve price transparency.

Cable subscribers to the Group's channels decreased to 1,248,000 compared to 1,259,000 in the prior year. This reflects both a further reduction in the number of cable television subscribers to Sky's Premium Channels and the continued effect of Virgin Media, the cable retailer, not carrying Sky's basic channels on its platform, following the expiry of an agreement at the end of February 2007.

On 17 July 2006, the Group launched a broadband service for its DTH subscribers. Sky Broadband continues to grow strongly, increasing by 912,000 customers in the current year to 1,628,000. By the end of the current year, we had unbundled 1,189 telephone exchanges (representing 72% network coverage). The number of Sky Talk subscribers reached 1,241,000, representing an increase of 715,000 in the current year.

On 17 November 2006, the Group acquired 696 million shares in ITV, representing 17.9% of the issued capital of ITV at a price of 135 pence per share. The total consideration paid amounted to £946 million including fees and taxes and was funded from the Group's existing cash balances and previously undrawn revolving credit facility. The investment in ITV is carried at fair value. The fair value is determined with reference to its equity share price at the balance sheet date. An impairment was first recorded following a review of the carrying value of the investment in ITV at 31 December 2007, due to the significant and prolonged decline in the equity share price. In accordance with International Financial Reporting Standards, the Group has continued to review that carrying value throughout fiscal 2008 and has recognised a cumulative impairment loss of £616 million in the current year. The impairment loss for the year was determined with reference to ITV's closing equity share price of 47.5 pence at 27 June 2008, the last trading day of the Group's financial year. This investment has been the subject of an inquiry by the CC and the SoS which is

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currently the subject of a judicial review (see Directors report review of the business Government regulation UK competition rules for further details).

On 5 September 2007, we announced that all the conditions of our offer for the entire issued share capital of Amstrad had been satisfied or waived, and accordingly the offer was declared unconditional in all respects. The total consideration paid amounted to approximately £127 million resulting in provisional goodwill of £104 million, and was principally funded from our existing cash balances and a loan note alternative. The acquisition of Amstrad is intended to provide the Group with an in-house product design and development capability, an ability to accelerate the development of new and more innovative products for customers, greater control over product design and technical specification and a reduction in supply chain procurement costs.

### Major non-cash transactions

On 12 December 2007, the Group sold its 100% stake in BSkyB Nature Limited, the investment holding company for the Group's 50% interest in the NGC-UK Partnership. As consideration for the disposal, the Group received 21% interests in both NGC Network International LLC and NGC Network Latin America LLC (in effect, 21% of National Geographic Channel's television operations outside the US). This realised a profit on disposal of £67 million.

### Corporate

The Board of Directors is proposing a final dividend of 9.625 pence per ordinary share, resulting in a total dividend for the year of 16.75 pence, representing growth of 8% over the prior year full year dividend. The ex-dividend date will be 22 October 2008 and, subject to shareholder approval at the Company's Annual General Meeting (AGM), the dividend will be paid on 14 November 2008 to shareholders of record on 24 October 2008.

On 6 December 2007, Rupert Murdoch resigned as Non-Executive Chairman of the Company and James Murdoch was appointed in his place with effect from 7 December 2007. On 6 December 2007, James Murdoch relinquished his position of CEO and Jeremy Darroch, previously Chief Financial Officer (CFO), was appointed in his place with effect from 7 December 2007.

On 15 February 2008, the Group issued US\$750 million Guaranteed Notes paying 6.100% interest and maturing on 15 February 2018. The net proceeds of the offering were used to refinance maturing bond debt and for general corporate purposes.

On 7 April 2008, Andrew Griffith was appointed to the role of CFO of the Company and appointed to the Board. On the same day, Daniel Rimer was appointed to the Board as an Independent Non-Executive Director.

### Operating results

#### Revenue

Our revenue is principally derived from retail subscription, wholesale subscription, advertising on our wholly-owned channels, the provision of interactive betting and gaming, and installation, hardware and servicing.

Our retail subscription revenue is a function of the number of DTH subscribers, the mix of services provided and the rates charged. Revenue from the provision of pay-per-view services, which include Sky Box Office, is included within retail subscription or wholesale subscription revenue, as appropriate. Retail subscription revenue also includes retail broadband subscription and Sky Talk revenue.

Our wholesale subscription revenue, which is revenue derived from the supply of Sky Channels to cable and IPTV platforms, is 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 revenue is mainly a function of the number of commercial impacts, defined as individuals watching one thirty-second commercial on our wholly owned channels, together with the quality of impacts delivered and overall advertising market conditions. Advertising revenue also includes net commissions earned by us from the



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## Directors report financial review

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### Introduction

continued

sale of advertising on those third-party channels for which we act as sales representative.

Sky Bet revenue represents our income in the period for betting and gaming activities, defined as amounts staked by customers less winnings paid out.

Installation, hardware and service revenue includes income from set-top box sales and installation (including the sale of Sky+ HD, Sky+ and Multiroom set-top boxes, and broadband), service calls and warranties.

Other revenue principally includes income from online advertising, telephony income from the use of interactive services (e.g. voting and games), text services, conditional access and access control income from customers on the Sky digital platform, electronic programme guide fees, the provision of business broadband, network services and customer management service fees.

### Operating expense

Our operating expense arises from programming, transmission and related functions, marketing, subscriber management and administration costs.

Programming costs include payment for: (i) licences of television rights from certain US and European film licensors including the results of foreign exchange programme hedges; (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 to DTH subscribers. The methods used to amortise programming inventories 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 the year, 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 note 23 to the consolidated financial statements).

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 are dependent upon the number and annual cost of the satellite transponders that we use. Our transponder capacity is primarily acquired from the SES Astra and Eutelsat Eurobird satellites. Transmission and related functions costs also include the costs associated with transmission, uplink and telemetry facilities and the costs of operating the Group's broadband network and Sky Talk product.

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 the growth and maintenance of the subscriber base, including commissions payable to retailers and other agents for the sale of subscriptions and the costs of our own direct marketing to our existing and potential subscribers); and (iii) the cost of providing and installing digital satellite reception equipment to customers in excess of the relevant amount actually received from customers for such equipment and installation.

Subscriber management costs include customer management costs, supply chain costs and associated depreciation. Customer management costs are those associated with managing new and existing subscribers, including subscriber handling and subscriber bad debt costs. Supply chain costs relate to systems and infrastructure and the

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installation costs of satellite reception equipment and installation costs of new products purchased by subscribers such as Sky+ HD, Sky+ and Multiroom set-top boxes, including smartcard costs. Customer management costs and supply chain costs are largely dependent on DTH subscriber levels and additions to subscribers in the year.

Administration costs include depreciation, channel management, facilities, other central operational overheads and the expense recognised for awards granted under our employee share option schemes.

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

## Financial and operating review

### 2008 fiscal year compared to 2007 fiscal year

#### Revenue

The Group's revenue can be analysed as follows:

| For the year to 30 June            | 2008<br>£m | %   | 2007<br>£m | %   |
|------------------------------------|------------|-----|------------|-----|
| Retail subscription                | 3,769      | 76  | 3,406      | 75  |
| Wholesale subscription             | 181        | 4   | 208        | 4   |
| Advertising                        | 328        | 7   | 352        | 8   |
| Sky Bet                            | 44         | 1   | 47         | 1   |
| Installation, hardware and service | 276        | 5   | 212        | 5   |
| Other                              | 354        | 7   | 326        | 7   |
|                                    | 4,952      | 100 | 4,551      | 100 |

The increase of £363 million in retail subscription revenue in the current year was driven by a 5% increase in the average number of DTH subscribers and a 6% increase in average retail revenue per subscriber, reflecting the Group's decision made during the prior year not to renew viewing package discounts, the September 2007 price increase, and increasing additional product penetration in both broadband and telephony.

The total number of UK and Ireland DTH subscribers increased by 398,000 in the current year, to 8,980,000. This was as a result of gross subscriber additions of 1,311,000 in the current year and a decrease in DTH churn from 12.4% to 10.4% ..

Wholesale subscription revenue decreased by £27 million in the current year. This reflects both a further reduction in the number of cable television subscribers to Sky's premium channels and the continued effect of Virgin Media not carrying Sky's basic channels on its platform, following the expiry (and non-renewal) of an agreement at the end of February 2007. At 30 June 2008, there were 1,248,000 (30 June 2007: 1,259,000) UK and Ireland cable subscribers to Sky channels.

Advertising revenue decreased by £24 million in the current year, reflecting the non-renewal of the contract to supply Sky's basic channels to Virgin Media at the end of February 2007.

Sky Bet revenue decreased by £3 million in the current year. An underlying fall in revenue offset the benefit of the first full year of consolidation of 365 Media and reflected the continued shift from interactive TV betting towards the internet.

Installation, hardware and service revenue increased by £64 million in the current year due to higher volumes of new and upgrading customers choosing premium-priced hardware, including Sky+ and Sky+ HD set-top boxes, and the reintroduction of an installation fee across all products.

Other revenue of £354 million increased by £28 million in the current year. This increase mainly reflects additional revenue generated from Easynet, growth in website revenues and set-top box sales from Amstrad (acquired in September 2007).

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[Back to Contents](#)**Operating expense**

The Group's operating expense can be analysed as follows:

| For the year to 30 June            | 2008<br>£m   | %          | 2007<br>£m   | %          |
|------------------------------------|--------------|------------|--------------|------------|
| Programming                        | 1,713        | 40         | 1,539        | 41         |
| Transmission and related functions | 542          | 13         | 402          | 11         |
| Marketing                          | 743          | 18         | 734          | 20         |
| Subscriber management              | 700          | 17         | 618          | 16         |
| Administration                     | 530          | 12         | 443          | 12         |
|                                    | <b>4,228</b> | <b>100</b> | <b>3,736</b> | <b>100</b> |

Within programming expense, Sky Sports channels' programming costs increased by 10% to £929 million in the current year. This was principally a result of the new FAPL agreement for the 2007/08 to 2009/10 seasons. The annual cost of the FAPL rights is fixed over the three year period of the contract. Sky Movies channels' programming costs of £281 million decreased by £4 million on the prior year due mainly to foreign exchange benefits on US dollar purchases. News and entertainment programming costs increased by 11% to £205 million in the current year, primarily due to continued investment in programming for Sky One.

Included within programming expense for the current year are third party channel costs, which include our costs in relation to the distribution agreements for the Sky Distributed Channels. Third party channel costs increased by £70 million to £298 million in the current year. This increase was a result of a non-recurring £65 million receipt in the prior year, arising from certain contractual rights under one of the Group's channel distribution agreements, additional current year costs including an increase in payments made to Setanta Sports Sarl to include their Premier League games and other content in commercial subscriptions and a 5% increase in the average number of DTH subscribers. The increase in costs during the current year was partially offset by savings generated from the renewal of some of our channel distribution contracts on improved terms.

Transmission and related function costs increased by £140 million in the current year, of which £124 million related to incremental retail broadband and telephony network costs and £13 million of additional Easynet costs.

Marketing costs increased by £9 million in the current year. This increase was driven by an increased number of customers taking discounted premium products, and the costs of the Sky magazine relaunch, partly offset by supply chain savings following the acquisition of Amstrad, the reintroduction of a standard installation fee across all products and reduced broadband marketing costs reflecting higher launch costs in the prior year. Above the line costs remained flat on the prior year.

Subscriber management costs increased by £82 million in the current year primarily due to increased retail broadband and Sky Talk costs reflecting the growth in our broadband and telephony customer base and higher volumes of new and upgrading customers choosing premium priced hardware, including Sky+ and Sky+ HD set-top boxes. The increased costs associated with the higher weighting of premium priced hardware were partially offset by the reintroduction of a standard installation charge and supply chain savings delivered through the first time consolidation of Amstrad (acquired in September 2007).

Administration costs increased by £87 million in the current year, mainly due to increased depreciation following further investment in infrastructure and systems across the business and the impact of new business streams in 365 Media and Amstrad, increased legal costs as a result of ongoing regulatory reviews and litigation.

Included within administration expense for the year ended 30 June 2008 is £21 million (2007: £16 million) of expense relating to the legal costs incurred to date on the Group's claim against EDS (an information and technology solutions provider), which provided services to the Group as part of the Group's investment in customer management systems software and infrastructure. Administration costs for the current year also include £7 million relating to a restructuring exercise undertaken following a review of operating costs.



### Operating profit and operating margin

Operating profit decreased by 11% to £724 million in the current year. This decrease was driven by the increase in operating expense described above, partly offset by the increase in retail subscriptions. As a result, operating margin (calculated as total revenue less all operating expense as a percentage of total revenue) for the current year was 15%, compared to 18% in the prior year.

### Joint ventures and associates

Joint ventures are entities in which we hold a long-term interest and share control under a contractual arrangement with other parties. Our equity share of the net operating results from joint ventures and associates increased by £3 million to £15 million in the current period.

### Investment income and finance costs

Investment income increased by £1 million to £47 million in the current year. The net increase was primarily due to increased cash balances as a result of the issuance of US\$750 million Guaranteed Notes in February 2008 and an increase of £9 million in the dividend receivable from our investment in ITV, partly offset by lower levels of cash on deposit in the first half of the year, subsequent to the investment in ITV and Amstrad.

Finance costs increased by £28 million to £177 million in the current year. This increase was primarily as a result of an increase in the Group's total borrowings, following the issue of Guaranteed Notes in May 2007 and February 2008, and a £3 million decrease in the gain on remeasurement of the value of derivative financial instruments not qualifying for hedge accounting.

### Profit on disposal of joint venture

In December 2007, the Group sold its 100% stake in BSKyB Nature Limited, the investment holding company for the Group's 50% interest in the NGC-UK Partnership. As consideration for the disposal, the Group received 21% interests in both NGC Network International LLC and NGC Network Latin America LLC (in effect, 21% of National Geographic Channel's television operations outside of the US). The fair value of consideration received was £82 million, realising a profit on disposal of £67 million.

### Impairment of available-for-sale investment

At 30 June 2008, the Group recorded an impairment loss of £616 million in the carrying value of its available-for-sale investment in ITV. The fair value of ITV at the balance sheet date was determined with reference to its closing equity share price on 27 June 2008, the last trading day of the Group's fiscal year.

### Taxation

The total tax charge for the current year of £187 million (2007: £225 million) comprises a current tax charge of £179 million (2007: £189 million) and a deferred tax charge of £8 million (2007: £36 million). The decrease in the tax charge was due to lower profits in the year, partially offset by an increase in non deductible expense as a result of the impairment loss in the carrying value of the available-for-sale investment in ITV.

### Loss for the year and loss per share

Loss for the year was £127 million compared with a profit of £499 million in the prior year, mainly as a result of a decrease in operating profit of £91 million and the impairment of the available-for-sale asset of £616 million, partially offset by a profit on disposal of a joint venture of £67 million and a decrease in taxation of £38 million.

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## Financial and operating review

### continued

The Group's (loss) earnings per share are as follows:

|  | 2008<br>pence | 2007<br>pence |
|--|---------------|---------------|
| <b>(Loss) earnings per share from (loss) profit for the year</b>     |               |               |
| Basic  | (7.3)         | 28.4          |
| Diluted  | (7.3)         | 28.2          |
| <b>Adjusted earnings per share from adjusted profit for the year</b> |               |               |
| Basic  | 25.1          | 26.3          |
| Diluted  | 25.0          | 26.1          |

In order to provide a measure of underlying performance, management have chosen to present an adjusted profit for the year which excludes items that may distort comparability. See note 10 of the consolidated financial statements for a detailed reconciliation from loss to adjusted profit for the year.

Earnings per share decreased from 28.4 pence in the prior year to a loss per share of 7.3 pence in the current year. This movement was primarily a result of the impairment loss in the available-for-sale investment in ITV recorded in the current year. Adjusted earnings per share decreased as a result of a lower adjusted profit for the year, partly offset by the effect of our share buy-back programmes. During the prior year, a total of 38 million shares were repurchased for cancellation.

### Balance sheet

Goodwill increased by £111 million to £852 million at 30 June 2008, primarily due to the completion of the Amstrad acquisition during the year.

Property, plant and equipment and intangible assets increased by £94 million to £1,025 million at 30 June 2008, due to £333 million of additions in the year, partly offset by depreciation and amortisation of £246 million.

Available-for-sale investments decreased by £459 million to £338 million at 30 June 2008, primarily due to the effect of the decrease in the equity share price of ITV. The cumulative unrealised losses recorded in the current and prior year by the Group in the available-for-sale reserve were transferred to the Group's income statement in the current year.

Investments in joint ventures and associates increased by £80 million to £114 million at 30 June 2008, primarily due to the sale of the Group's 100% stake in B SkyB Nature Limited. As consideration for the disposal, the Group received 21% interests in both NGC Network International LLC and NGC Network Latin America LLC.

Current assets increased by £335 million to £1,698 million at 30 June 2008, primarily as a result of increased cash and short-term deposits arising from the issuance of US\$750 million Guaranteed Notes in February 2008.

Current liabilities increased by £394 million to £1,893 million at 30 June 2008, predominantly due to a £322 million increase in current borrowings. Current borrowings increased following the reclassification of £301 million from non-current borrowings in respect of US\$600 million Guaranteed Notes (repayable February 2009) and the issuance of £37 million of Loan Notes in relation to the purchase of Amstrad. This increase was partially offset by the repayment of £16 million of Loan Notes issued in relation to the purchase of 365 Media.

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Non-current liabilities decreased by £17 million to £2,357 million at 30 June 2008, primarily due to the reclassification of US\$600 million Guaranteed Notes to current payables and mark to market movement on the derivative instruments used for hedging certain programming payments and borrowings, partially offset by the issuance of US\$750 million Guaranteed Notes in February 2008.

### Foreign exchange

For details of the impact of foreign currency fluctuations on our financial position and performance, see note 23 to the consolidated financial statements.

### Contingent assets and liabilities

The Group has served a claim for a material amount against EDS (an information and technology solutions provider) which provided services to the Group as part of the Group's investment in customer management systems software and infrastructure. The amount which may be recovered by the Group will not be finally determined until resolution of the claim.

In April 2007, Virgin Media Communications Limited, Virgin Media Television Limited and Virgin Media Limited issued proceedings in the High Court in England and Wales against British Sky Broadcasting Group plc and British Sky Broadcasting Limited, alleging that the Group has infringed Article 82 EC and the Chapter II prohibition by pursuing an anticompetitive strategy designed to weaken Virgin Media group, which allegedly entailed (i) a constructive refusal to supply the Group's basic pay television channels to Virgin Media group for supply via Virgin Media group's cable network in the UK; (ii) a refusal to pay fair prices for the right to carry Virgin Media group's television channels as part of the Group's retail channel offering; and (iii) the Group's purchase of a significant shareholding in ITV (which purchase was, it is alleged, designed principally to damage Virgin Media group's ability to compete in the supply of pay television services, by preventing Virgin Media group from obtaining access to attractive programming content). Virgin Media group seeks from the Court a declaration that the Group occupies a dominant market position in specified pay TV retail and purchasing markets in the UK and that the Group has, by its conduct as alleged, abused its dominant position(s) contrary to Article 82 EC and the Chapter II prohibition on these relevant markets. Virgin Media group also seeks mandatory injunctions requiring the Group to transact with Virgin Media group on fair and/or non-discriminatory terms for the supply of the Group's basic pay television channels to Virgin Media and for the licensing of Virgin Media group's television channels, for on-supply to the Group's subscribers. Virgin Media group also seeks damages to compensate it for its alleged losses arising from the Group's alleged conduct.

The Group intends to defend the proceedings vigorously and submitted its defence to the High Court on 2 July 2007 denying Virgin Media group's allegations that it had infringed Article 82 EC or Chapter II prohibition. It is, at this stage, too early to estimate the likely outcome of the proceedings.

On 7 May 2008 the Nomenclature Committee of the European Commission issued an Explanatory Note EN (0590/2007) to the Combined Nomenclature setting out their view that set-top boxes with a hard drive should be classified under Customs Tariff heading 8521 90 00 and so subject to a 13.9% ad valorem duty on importation to the European Union. As a consequence the Group is exposed to potential retrospective Customs Duty liability in respect of such set-top boxes imported by Amstrad Plc (acquired in September 2007) and for the reimbursement of certain suppliers in line with the terms of contractual supply agreements.

Management's opinion is that the retrospective application of the Explanatory Note would be wrong as a matter of law. In addition management considers that the adoption of the EN puts the EU in breach of the Information Technology Agreement of 1996, a view which is shared by the US and Japan who have instigated WTO proceedings against the EU on this matter. The Group therefore intends, in common with other affected importers, to appeal any retrospective assessment made and to defend its position on this matter.

As a result of the potential remedies available under the Community Customs Code, the Group considers that in the event that an assessment is made for import duty relating to imports prior to 7 May 2008, it is probable that no outflow of economic benefit would be required to discharge this obligation, and that as such at 30 June 2008 any liability should be considered contingent.



[Back to Contents](#)**Liquidity and capital resources**

An analysis of the movement in our net debt (including related fees) is as follows:

|  | As at 1 July<br>2007<br>£m | Cash<br>movements<br>£m | Non-cash<br>movements<br>£m | As at 30 June<br>2008<br>£m |
|--|----------------------------|-------------------------|-----------------------------|-----------------------------|
| Current borrowings                                     | 16                         | (16)                    | 338                         | 338                         |
| Non-current borrowings                                 | 2,014                      | 383                     | (289)                       | 2,108                       |
| <b>Debt</b>  | <b>2,030</b>               | <b>367</b>              | <b>49</b>                   | <b>2,446</b>                |
| Borrowings-related derivative<br>financial instruments | 258                        |                         | (44)                        | 214                         |
| Cash and cash equivalents                              | (435)                      | (197)                   |                             | (632)                       |
| Short-term deposits                                    | (15)                       | (170)                   |                             | (185)                       |
| <b>Net debt</b>  | <b>1,838</b>               |                         | <b>5</b>                    | <b>1,843</b>                |

The Group refers to net debt in discussing its indebtedness and liquidity position. Net debt is a non-GAAP measure that management uses to provide an assessment of the overall indebtedness of the Group. The most similar IFRS GAAP measures are current and non-current borrowings.

Management uses net debt to calculate and track adherence to the Group's borrowing covenants as disclosed in note 22

Borrowings and non-current other payables. Management monitors the Group's net debt position because net debt is a commonly used measure in the investment analyst community and net debt is a key metric used by Moody's and Standard & Poor's in their assessment of the Group's credit rating. As such, management makes decisions about the appropriate investing and borrowing activities of the Group by reference to, amongst other things, net debt.

Our long-term funding comes primarily from our issued equity and US dollar and sterling-denominated public debt raised in 1999, 2005, 2007 and 2008. As at 30 June 2008, the Group's net debt was £1,843 million. The public bond debt issued in 1999 is repayable in fiscal years 2009 and 2010, and we currently believe that our existing cash resources, combined with RCF availability, will enable us to meet the repayment requirements. The bond debt issued in 2005 (which is repayable in 2015, 2017 and 2035), the public bond debt issued in 2007 (which is repayable in 2027) and the bond debt issued in 2008 (which is repayable in 2018) has been, and will continue to be, used for general corporate purposes, including the refinancing of maturing debt and extending the maturity profile of our debt. In addition, we may use proceeds of the offerings for acquisitions of businesses and assets in support of our Group strategy.

For details of the Group's facilities and long-term funding see note 22 of the consolidated financial statements. For details of the Group's treasury activities see note 23 of the consolidated financial statements.

Our principal source of liquidity is cash generated from operations combined with access to the £1 billion RCF, which we entered into in November 2004. At 30 June 2008, this facility was undrawn (30 June 2007: undrawn). Furthermore, on 3 April 2007, the Group established an Euro Medium Term Note Programme (the Programme). The Programme provides the Group with a standardised documentation platform to allow for senior debt issuance in the Eurobond markets. The maximum potential issuance under the EMTN Programme is £1 billion, of which £300 million was utilised for the May 2007 Bond issue.

**Cash flows**

During the current year, cash generated from operations was £997 million, compared with an inflow of £1,007 million in the prior year. The decrease in operating profit of £91 million was partly offset by working capital savings and higher depreciation and

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amortisation expense. Net cash generated from operating activities was further impacted by a decrease in interest received and an increase in taxation paid.

During the current year, payments for property, plant and equipment and intangible assets were £339 million, compared with £356 million in the prior year, following further progress on a number of capital expenditure and infrastructure projects. A total of £78 million has been invested in the broadband network, and £46 million was invested to progress the Group's property and infrastructure projects. We also made payments totalling £16 million in the year to a third party for development of

encryption technology, which have been capitalised as an intangible asset. A further £41 million has been invested in data centres and other technology infrastructure and £22 million in set top box development. The remaining £136 million was spent on a number of projects including the development of new products and services.

Payments for the purchase of subsidiaries, amounting to £72 million in the current year, were primarily due to the acquisition of Amstrad (for further details of the acquisition in the current year see note 29 of the Consolidated financial statements). In the prior year, purchases of subsidiaries of £104 million primarily comprised the purchase of 365 Media. Purchases of available-for-sale investments of £947 million in the prior year principally comprised the acquisition of shares in ITV on 17 November 2006 for a total consideration of £946 million.

On 15 February 2008, the Group issued Guaranteed Notes consisting of US\$750 million aggregate principal amount of notes paying 6.100% interest, resulting in a net cash inflow of £383 million. In the prior year, the Group issued Guaranteed Notes consisting of £300 million aggregate principal amount of notes paying 6.000% interest, resulting in a net cash inflow of £295 million and repaid US\$300 million of 7.300% Guaranteed Notes, resulting in a cash outflow of £189 million, net of related derivative financial instruments.

During the current year, interest payments were £165 million, compared to £154 million in the prior year. This increase in payments reflects the increased level of indebtedness following the issue of new Guaranteed Notes in May 2007 and February 2008.

During the current year, equity dividend payments were £280 million, compared to £233 million in the prior year. We expect that future payments will increase in line with the Board's expected dividend policy described in the Trends and other information section below.

The above cash flows, in addition to other net movements of £20 million, and non-cash movements of £5 million resulted in an increase in net debt of £5 million to £1,843 million.

### 2007 fiscal year compared to 2006 fiscal year

#### Revenue

The Group's revenue can be analysed as follows:

| For the year to 30 June            | 2007  |     | 2006  |     |
|------------------------------------|-------|-----|-------|-----|
|                                    | £m    | %   | £m    | %   |
| Retail subscription                | 3,406 | 75  | 3,157 | 76  |
| Wholesale subscription             | 208   | 4   | 224   | 6   |
| Advertising                        | 352   | 8   | 342   | 8   |
| Sky Bet                            | 47    | 1   | 37    | 1   |
| Installation, hardware and service | 212   | 5   | 131   | 3   |
| Other                              | 326   | 7   | 257   | 6   |
|                                    | 4,551 | 100 | 4,148 | 100 |

The increase of £249 million in retail subscription revenue in the 2007 fiscal year was driven by a 5% increase in the average number of DTH subscribers and a 3% increase in average retail revenue per subscriber, reflecting the decision made during the 2007 fiscal year not to renew viewing package discounts and increasing additional product penetration. Included within retail subscription revenue is £66 million of incremental retail broadband revenue and £4 million of Easynet revenue.

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The total number of UK and Ireland DTH subscribers increased by 406,000 in the 2007 fiscal year, to 8,582,000. This was as a result of increasing gross subscriber additions from 1,275,000 to 1,446,000 in the 2007 fiscal year, partly offset by DTH churn in the 2007 fiscal year of 12.4% (2006: 11.1%) .

Wholesale subscription revenue decreased by £16 million in the 2007 fiscal year. This reflects a further reduction in the number of cable television subscribers to Sky's premium channels and Virgin Media ceasing to carry Sky's basic channels on its platform, following the expiry (and non-renewal) of an agreement at the end of

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## Financial and operating review

### continued

February 2007. At 30 June 2007, there were 1,259,000 (30 June 2006: 3,898,000) UK and Ireland cable subscribers to Sky channels.

Advertising revenue increased by £10 million in the 2007 fiscal year, despite continued contraction of the television advertising sector and the expiry of the contract to supply Sky's basic channels to Virgin Media at the end of February 2007. Our performance was driven by a higher share of commercial viewing for those channels on which we sell advertising, up from 13% for the year ended 30 June 2006 to 14% for the year ended 30 June 2007.

Sky Bet revenue increased by £10 million in the 2007 fiscal year as a result of strong growth in internet sports betting and television games. This increase reflected the inclusion of an additional £4 million of revenue generated by 365 Media (which was acquired in January 2007).

Installation, hardware and service revenue increased by £81 million in the 2007 fiscal year due to increased gross customer additions and customer upgrades, and a higher volume of premium-priced hardware sales, including Sky+ HD set-top boxes. Included within installation, hardware and service revenue is £7 million of incremental retail broadband revenue.

Other revenue of £326 million increased by £69 million in the 2007 fiscal year. This increase reflected the inclusion of an additional £76 million of revenue generated by the Easynet business (which was acquired in January 2006), growth in website revenues (including a contribution from 365 Media), partly offset by lower Sky Active revenue. Included within other revenue is £1 million of incremental retail broadband revenue.

### Operating expense

The Group's operating expense can be analysed as follows:

| For the year to 30 June            | 2007<br>£m   | %          | 2006<br>£m   | %          |
|------------------------------------|--------------|------------|--------------|------------|
| Programming                        | 1,539        | 41         | 1,599        | 49         |
| Transmission and related functions | 402          | 11         | 234          | 7          |
| Marketing                          | 734          | 20         | 622          | 19         |
| Subscriber management              | 618          | 16         | 468          | 14         |
| Administration                     | 443          | 12         | 348          | 11         |
|                                    | <b>3,736</b> | <b>100</b> | <b>3,271</b> | <b>100</b> |

Within programming expense, Sky Sports channels' programming costs increased by 10% to £842 million in the 2007 fiscal year. This was a result of an increased level of live coverage, the occurrence of the biennial Ryder Cup and the Cricket World Cup in the 2007 fiscal year and a wider coverage of county and international cricket following the addition of the new England Cricket Board contract. Sky Movies channels' programming costs decreased by 8% to £285 million in the 2007 fiscal year reflecting savings generated from contract renewals and a £10 million foreign exchange benefit resulting from a more favourable average exchange rate at which US dollars were purchased. News and entertainment programming costs decreased by 8% to £184 million in the 2007 fiscal year, primarily due to a play out of older stock in the 2006 fiscal year.

Included within programming expense for the 2007 fiscal year are third party channel costs, which include our costs in relation to the distribution agreements for the Sky Distributed Channels. Third party channel costs decreased by 29% to £228 million in the 2007 fiscal year. The cost increase resulting from the 5% increase in the average number of DTH subscribers was more than offset



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by savings generated from the renewal of some of our channel distribution contracts on improved terms during the 2007 fiscal period.

Included within third party channel costs for the 2007 fiscal year is a £65 million credit received by the Group, arising from certain contractual rights under one of the Group's channel distribution agreements. This item was previously disclosed as a contingent asset in the 2006 financial statements.

Transmission and related function costs increased by £168 million in the 2007 fiscal year, of which £101 million related to incremental retail broadband network costs and £60 million related to the consolidation of a full year of Easynet costs (Easynet was acquired in January 2006).

Marketing costs increased by £112 million in the 2007 fiscal year. This increase was driven by additional above the line spend following the launch of Sky+ HD and the See, Speak, Surf campaign; an increased number of gross subscriber additions during the period and an increased number of existing customers taking product upgrades, partly offset by some supply chain savings and sales of premium priced Sky+ HD set-top boxes. We also increased our expenditure on retention and other marketing, predominantly due to further investment in our customer segmentation database and an increase in online marketing costs. Included within the increase for the 2007 fiscal year are incremental retail broadband costs of £49 million and £2 million of Easynet costs.

Subscriber management costs increased by £150 million in the 2007 fiscal year. This increase reflects higher hardware, installation and service costs, a direct result of increased gross additions, expenditure on customer services operations, and depreciation relating to the implementation of new CRM systems. Also included within the increase in subscriber management expenses for the 2007 fiscal year are incremental retail broadband costs of £60 million and £8 million of Easynet costs.

Administration costs increased by £95 million in the 2007 fiscal year, of which £16 million related to incremental retail broadband expenses, £22 million related to Easynet costs, and £15 million related to higher depreciation charges from information systems investment.

Included within administration expense for the 2007 fiscal year is £16 million of expense relating to the legal costs incurred to date on the Group's claim against EDS (an information and technology solutions provider), which provided services to the Group as part of the Group's investment in customer management systems software and infrastructure.

### **Operating profit and operating margin**

Operating profit decreased by 7% to £815 million in the 2007 fiscal year. This decrease was driven by the increase in operating expense described above, partly offset by the increase in retail subscription and other revenue. As a result, operating margin (calculated as total revenue less all operating expense as a percentage of total revenue) for the 2007 fiscal year was 18%, compared to 21% in the 2006 fiscal year.

### **Joint ventures and associates**

Joint ventures are entities in which we hold a long-term interest and share control under a contractual arrangement with other parties. Our equity share of the net operating results from joint ventures and associates of £12 million was in line with the 2006 fiscal year.

### **Investment income and finance costs**

Investment income decreased by 12% to £46 million in the 2007 fiscal year. The decrease was primarily due to lower levels of cash on deposit, subsequent to the investment in ITV, offset by a £13 million dividend receivable from our investment in ITV.

Finance costs increased by 4% to £149 million in the 2007 fiscal year. This increase was primarily as a result of an increase in the Group's total borrowings, following the issue of Guaranteed Notes in May 2007, and interest payments on the Group's revolving credit facility which was drawn down in November 2006. These increases were partly offset by a £6 million favourable movement on the remeasurement of the value of derivative financial instruments not qualifying for hedge accounting.



[Back to Contents](#)**Taxation**

The total tax charge for the 2007 fiscal year of £225 million (2006: £247 million) comprises a current tax charge of £189 million (2006: £141 million) and a deferred tax charge of £36 million (2006: £106 million). The deferred tax charge decreased by £70 million principally as a result of a net reduction in the unwind of the deferred tax asset in relation to accelerated capital allowances. This resulted in an effective tax rate for the 2007 fiscal year of 31%, in line with the 2006 fiscal year.

**Profit for the year and earnings per share**

Profit for the year was £499 million compared with £551 million in the 2006 fiscal year, mainly as a result of a decrease in operating profit of £62 million and an increase in finance costs of £6 million, partially offset by a decrease in taxation of £22 million.

The Group's earnings per share are as follows:

|   | 2007<br>pence | 2006<br>pence |
|---|---------------|---------------|
| <b>Earnings per share from profit for the year</b>          |               |               |
| Basic   | 28.4          | 30.2          |
| Diluted   | 28.2          | 30.1          |
| <b>Adjusted earnings per share from profit for the year</b> |               |               |
| Basic   | 26.3          | 30.7          |
| Diluted   | 26.1          | 30.6          |

In order to provide a measure of underlying performance, management have chosen to present an adjusted profit for the year which excludes items that may distort comparability. See note 10 of the consolidated financial statements for a detailed reconciliation between profit for the year and adjusted profit for the year.

Earnings per share of 28.4 pence were 1.8 pence lower than in the 2006 fiscal year. Earnings per share decreased as a result of a lower profit for the year, partly offset by the effect of our share buy-back programmes. During the 2007 fiscal year, a total of 38 million shares were repurchased for cancellation, and during the 2006 fiscal year 76 million shares were repurchased.

**Tabular disclosure of contractual obligations**

A summary of our contractual obligations and commercial commitments due by period at 30 June 2008 is shown below:

|  | Total<br>£m | Less than<br>1 year<br>£m | Between<br>1-3 years<br>£m | Between<br>3-5 years<br>£m | More than<br>5 years<br>£m |
|--|-------------|---------------------------|----------------------------|----------------------------|----------------------------|
| <b>Obligation or commitment</b>              |             |                           |                            |                            |                            |
| Purchase obligations                         |             |                           |                            |                            |                            |
| Programme rights <sup>(1)</sup>              | 2,356       | 870                       | 1,166                      | 280                        | 40                         |
| Set-top boxes                                | 201         | 194                       | 7                          |                            |                            |
| Third party payments <sup>(2)</sup>          | 115         | 50                        | 59                         | 6                          |                            |
| Transponder capacity <sup>(3)</sup>          | 294         | 67                        | 78                         | 68                         | 81                         |
| Property, plant and equipment <sup>(4)</sup> | 145         | 122                       | 23                         |                            |                            |
| Intangible asset                             | 13          | 10                        | 3                          |                            |                            |
| Other  | 70          | 43                        | 23                         | 4                          |                            |
| Borrowings <sup>(5)</sup>                    | 2,630       | 367                       | 512                        |                            | 1,751                      |

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|                                 |       |       |       |     |       |
|---------------------------------|-------|-------|-------|-----|-------|
| Interest costs                  | 1,462 | 177   | 239   | 215 | 831   |
| Operating leases <sup>(6)</sup> | 233   | 45    | 77    | 52  | 59    |
| Finance leases <sup>(7)</sup>   | 67    | 1     | 2     | 2   | 62    |
|                                 | 7,586 | 1,946 | 2,189 | 627 | 2,824 |

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

- (1) At 30 June 2008, the Group had minimum television programming rights commitments of £2,356 million (2007: £2,638 million), of which £367 million (2007: £527 million) related to commitments payable in US dollars for periods of up to eight years (2007: six years). Assuming that movie subscriber numbers remain unchanged from current levels, an additional £296 million (US\$590 million) of commitments (2007: £284 million (US\$569 million)) would also be payable in US dollars, relating to price escalator clauses. The pound sterling television programme rights commitments include similar price escalation clauses that would result in additional commitments of £3 million (2007: £10 million) if subscriber numbers were to remain at current levels.
- (2) The third party payment commitments are in respect of distribution agreements for the television channels owned and broadcast by third parties, retailed by the Group to retail and commercial subscribers ( Sky Distributed Channels ) and are for periods of up to six years (2007: seven years). The extent of the commitment is largely dependent upon the number of retail subscribers to the relevant Sky Distributed Channels, and in certain cases, upon inflationary increases. If both the retail subscriber levels to these channels and the rate payable for each Sky Distributed Channel were to remain at current levels subject to inflationary increases, the additional commitment would be £636 million (2007: £968 million).
- (3) Transponder capacity commitments are in respect of the Astra and Eurobird satellites that the Group uses for digital transmissions to both retail subscribers and cable operators. The commitments are for periods of up to twelve years (2007: thirteen years).
- (4) On 21 December 2007, the Group entered into a property development agreement to construct a new production and broadcast centre.
- (5) Further information concerning borrowings is given in note 22 of the consolidated financial statements.
- (6) At 30 June 2008, our operating lease obligations totalled £233 million (2007: £206 million), the majority of which related to property leases.
- (7) At 30 June 2008, our obligations under finance leases were £67 million (2007: £66 million). This primarily represents financing arrangements in connection with the customer management centre in Dunfermline, Scotland (which expires in September 2020) and the broadband network infrastructure (which expires in March 2040). For further details see note 22 of the consolidated financial statements.

### 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 398,000 in the current year to 8,980,000, compared to growth of 406,000 in the prior year. We expect growth in subscriber numbers to continue as a result of the implementation of our current marketing strategy, with the aim of achieving our target of 10 million DTH subscribers in 2010. Sky+ and Multiroom subscribers both increased substantially in the current year by 56% and 19% respectively representing a penetration of total DTH subscribers of 41% and 18% respectively. We reached our target of 25% Sky+ penetration in the third quarter of fiscal 2007, three years earlier than we targeted. On 22 May 2006, we launched our HD service, and at 30 June 2008 there were 498,000 subscribers, representing a 6% penetration of total DTH subscribers, an increase of 206,000 in the current year. Going forward, Sky HD will be a key area of focus and alongside the launch of our new electronic programming guide for Sky+ HD boxes, we aim to increase the strength of our high definition content and channel line up by the end of calendar 2008. In July 2008, we also reduced the price of the Sky+ HD box. DTH churn for the current year was 10.4%, compared to 12.4% in the prior year, reflecting increased product penetration and the decision made during the prior year to reduce viewing package discounts and improve price transparency. Over the medium term we expect our DTH churn to remain broadly in line with the current year. We launched our retail broadband service on 18 July 2006, and at 30 June 2008 there were 1,628,000 broadband subscribers. We expect continued growth in the number of retail broadband connections activated in future years. The number of Sky Talk subscribers increased by 715,000 in the current year to 1,241,000. We expect growth in Sky Talk subscribers to continue. Price increases, the increased number of subscribers to our Multiroom, Sky+ and Sky HD products and the launch of new services are expected to generate increased retail revenue on a per subscriber basis.

The operating margin for the current year was 15%, down from 18% in the prior year. This represents continued development and investment in our broadband services and sports rights. In the short term, we expect our operating margin to continue to be

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## Directors report financial review continued

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### Financial and operating review continued

impacted by the ongoing investment in broadband services and the non-carriage of our basic channels on cable.

During the current year, the number of cable homes receiving Sky Channels in the UK and Ireland decreased by 11,000 to 1,248,000. Following the expiry of an agreement at the end of February 2007, Sky's basic channels ceased to be carried on Virgin Media's platform. We currently expect cable subscriber numbers to remain stable in the foreseeable future, although this is dependent on the strategies of the relevant cable companies, as they relate to the distribution of our channels (for further details see Directors' report review of the business Risk factors ).

Advertising revenue decreased by 7% in the current year. If Sky's basic channels remain off Virgin Media's platform, we expect that in the short term our share of UK television advertising revenue will decline. The UK television advertising sector is expected to remain challenging in future periods reflecting the continued wider economic uncertainty.

Sky Bet revenue decreased by 6% in the current year as we managed the migration of interactive TV revenues to online revenues. The business is anticipated to return to growth as this online business matures along with the addition of new revenue streams from poker and bingo. As a result of the Gambling Act of 2005, regulation in the UK passed to the Gambling Commission from 1 September 2007. From this date, Sky Bet operated an on-shore sportsbook, regulated by the Gambling Commission, and operated gaming products off-shore, regulated by the Alderney Gambling Control Commission. Sky Bet continues to operate measures to prevent US residents using our services.

The Group's programming costs have increased in the current year as a result of a non-recurring £65 million receipt arising in fiscal 2007 from certain contractual rights under one of the Group's channel distribution agreements and increased investment in sports rights. In the short term we expect that programming costs will increase due to the anticipated intensifying competition for programming, and as a result of contracts secured during the year which include the extension of our exclusive live coverage of the USGA US Open from 2009 to 2014 and our successful bids for live coverage of the UEFA Champions League for three seasons from the 2009/10 season and for three years of live Rugby League and Football League rights from 2009.

However, over the long term the Group expects programming costs to increase at a slower rate than the increase in revenues. We do expect fluctuations in programming expense on an absolute basis as the relative timing of licence period commencement dates for our programming portfolio may differ year on year.

Transmission and related functions costs increased during the current year and are expected to continue to increase in future years at a higher rate than the growth in subscribers, resulting in an increased cost per subscriber, reflecting the costs of operating our Sky Talk service, the launch of retail broadband services and increased depreciation charges.

Marketing costs increased in the current and prior years. We expect marketing costs to increase in the short term, principally due to costs associated with the promotion of our retail subscription services.

Subscriber management costs increased during the current year. We expect that subscriber management costs will increase in future periods due to a greater proportion of Sky+ and Sky HD customers, whose installations carry higher hardware costs than the standard installations, and increased costs associated with our retail broadband services, partly offset by a reduction in the cost of set-top boxes following the acquisition of Amstrad.

Administration costs increased in the current and prior years, and are expected to continue increasing in the foreseeable future due to the growth in our overall business and higher depreciation charges relating to investment in our properties, including expenditure on broadcasting infrastructure.

The 2009 financial year sees the start of full roll-out of Digital Switchover, supported by committed marketing spend from Digital UK and the Switchover Help Scheme. By final analogue switch-off in 2012, all 26 million households in the UK must select a digital TV

solution for their home. Sky believes it is well positioned ahead of this opportunity and during the year the Switchover Help Scheme confirmed that it will put forward Sky as its standard offer to the estimated 80,000 eligible households in the ITV Border region, which is the first major region in the UK to start to switch to digital TV, from 6 November 2008.

The Board of Directors is proposing a final dividend of 9.625 pence per share, which, combined with the interim dividend of 7.125 pence per share, will result in total dividend growth of 8% on the prior year total dividend. The Group continues to be cash generative despite the short term ongoing investment in broadband. It is, therefore, the Board's aim to maintain a progressive dividend policy through the broadband investment phase, resulting in continued real growth in dividend per share.

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 proposed.

#### **Off-balance sheet arrangements**

At 30 June 2008, 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**

During the current year, the Group made payments totalling £16 million to a third party for development of encryption technology (2007: £15 million; 2006: £15 million). The Group did not incur any other significant research and development expenditure in the current or prior years.

#### **Related party transactions**

The Group conducts any business transactions with companies which are part of the News Corporation group (News Corporation), a major shareholder, on an arm's length basis. During the year the Group made purchases of goods and services from News Corporation totalling £202 million (2007: £195 million; 2006: £175 million) and supplied services to News Corporation totalling £36 million (2007: £18 million; 2006: £21 million).

During the year the Group made purchases of goods and services from joint ventures and associates totalling £53 million (2007: £49 million; 2006: £46 million) and supplied services to joint ventures and associates totalling £16 million (2007: £15 million; 2005: £14 million).

On 12 December 2007 the Group completed the sale of 100% of the entire issued share capital of BSkyB Nature Limited, the investment holding company for the Group's 50% interest in the NGC-UK Partnership for consideration of 21% interests in both NGC Network International LLC and NGC Network Latin America LLC. On consolidation the Group recognised a gain of £67 million which has been disclosed separately within the Group's income statement.

For further details of transactions with related parties, see note 30 of the consolidated financial statements.

#### **Critical accounting policies**

The application of IFRS requires our judgement when we formulate our accounting policies and when presenting our financial performance and position in the consolidated financial statements. Judgement is often 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 recoverable lives of particular assets, or in the timing of transaction recognition. A description of our significant accounting policies is disclosed in note 1 of the consolidated financial statements. We consider that our accounting policies in respect of the following are critical:

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### **Goodwill**

- Judgement is required in determining the fair value of identifiable assets, liabilities and contingent assets assumed in a business combination. Calculating the fair values involves the use of significant estimates and assumptions, including expectations about future cash flows, discount rates and the lives of assets following purchase.
- Judgement is also required in evaluating whether any impairment loss has arisen against the carrying amount of goodwill. This may require calculation of the recoverable amount of cash generating units to which the goodwill is associated. Such a calculation may involve estimates of the net present value of future forecast cash flows and selecting an appropriate discount rate. Alternatively, it may involve a calculation of the fair value less costs to sell of the applicable cash generating unit.

### **Revenue**

- Selecting the appropriate timing for, and amount of, revenue to be recognised requires judgement. This may involve estimating the fair value of consideration before it is received. When the Group sells a set-top box, installation or service and a subscription in one bundled transaction, the total consideration from the arrangement is allocated to each element based on their relative fair values. The fair value of each individual element is determined using vendor specific or third party evidence on a periodic basis. The amount of revenue the Group recognises for delivered elements is limited to the cash received.
- Judgement is also required in evaluating the likelihood of collection of customer debt after revenue has been recognised. This evaluation requires estimates to be made, including the level of provision to be made for amounts with uncertain recovery profiles. Provisions are based on historical trends in the percentage of debts which are not recovered, or on more detailed reviews of individually significant balances.

### **Intangible assets and property, plant and equipment**

- The assessment of the useful economic lives of these assets requires judgement. Depreciation and amortisation is charged to the income statement based on the useful economic life selected. This assessment requires estimation of the period over which the Group will benefit from the assets.
- Determining whether the carrying amount of these assets has any indication of impairment also requires judgement. If an indication of impairment is identified, further judgement is required to assess whether the carrying amount can be supported by the net present value of future cash flows forecast to be derived from the asset. This forecast involves cash flow projections and selecting the appropriate discount rate.
- Assessing whether assets meet the required criteria for initial capitalisation requires judgement. This requires a determination of whether the assets will result in future benefits to the Group. In particular, internally generated intangible assets must be assessed during the development phase to identify whether the Group has the ability and intention to complete the development successfully.

### **Programming inventory**

- The key area of accounting for programming inventory requiring judgement is the assessment of the appropriate profile over which to recognise amortisation in the income statement. This assessment requires the Group to form an expectation of the number of times a programme will be broadcast and the value associated with each broadcast.
- For general entertainment programming, in order to perform this assessment of amortisation profile, we consider the expected number of viewers a programme is likely to achieve on repeat broadcast, the alternative programming available to the programming scheduler, the potential marketing benefits relating to the scheduling of certain programmes and the Group's assessment of its competitors' scheduling intentions when determining the amount of programme expense to recognise for each broadcast. Acquired movie rights are amortised on a straightline basis over the period of the transmission rights. Where contracts for sports rights provide for multiple seasons or competitions, they are amortised on a straight-line basis across the season or competition as our estimate of the benefits received from these rights is determined to be most appropriately aligned with a straight-line amortisation profile.

### **Deferred tax**

- The key area of judgement in respect of deferred tax accounting is the assessment of the expected timing and manner of realisation or settlement of the carrying amounts of assets and liabilities held at the balance sheet date. In particular, assessment is required of whether it is probable that there will be suitable future taxable profits against which any deferred tax assets can be utilised.

### **Available-for-sale investments**

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The key areas of judgement in respect of available-for-sale investments are the assessment of whether there is objective evidence that a loss event has occurred after initial recognition of an available-for-sale investment, and whether such a loss event has a reliably measurable impact on the estimated future cash flows of the investment. At each balance sheet date, management consider whether there is objective evidence that a loss event has occurred and whether it has had an impact on the estimated future cash flows of the available-for-sale investment. If a loss event has occurred, management would then consider whether an impairment loss has occurred and the quantum of that loss. As at 30 June 2008, the Group's available-for-sale investments included a material investment in ITV which has been impaired in the year. The factors management considered in determining whether an impairment loss in ITV had occurred included observable data about the estimated future cash flows of ITV based on ITV's publicly available financial reporting and announcements, publicly available information from financial commentators about ITV and the market in which it operates, the historical performance of ITV's share price, and the regulatory environment affecting ITV and the Group. The impairment losses accounted for have been determined with reference to closing market share prices at the balance sheet date.

#### Taxation

- Tax laws that apply to the Group's businesses may be amended by the relevant authorities, for example as a result of changes in fiscal circumstances or priorities. Such potential amendments and their application to the Group are regularly monitored and the requirement for recognition of any liabilities assessed where necessary.
- The Group is subject to income taxes and judgement is required in determining the appropriate provision for transactions where the ultimate tax determination is uncertain. In such circumstances, the Group recognises liabilities for anticipated taxes due based on best information available and where the anticipated liability is probable and estimable. Where the final outcome of such matters differs from the amounts initially recorded, any differences will impact the income tax and deferred tax provisions in the period to which such determination is made. Where the potential liabilities are not considered probable, the amount at risk is disclosed unless an adverse outcome is considered remote.



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continued

**Property**

Our headquarters are located at leasehold and freehold premises in Isleworth, England. We own or lease approximately 170 properties, the majority of which are located in the UK. The principal properties of the Group we own and lease are as follows:

| Location  | Tenure                       | Use                                      | Approximate square foot net internal area |
|---|------------------------------|--|---|
| 1 to 8 Grant Way, Isleworth, England                            | Freehold                     | Offices, studios, technology and storage | 313,085                                   |
| New Horizons Court, Brentford, England                          | Leasehold                    | Offices                                  | 159,632                                   |
| 1, 2, 4 and 5 Macintosh Road, Livingston, Scotland              | Freehold                     | Contact centres                          | 146,713                                   |
| Carnegie Campus, Dunfermline, Scotland                          | Freehold                     | Contact centre                           | 95,852                                    |
| Marcopolo House and Arches, Queenstown Road, London, England    | Leasehold                    | Sub-let offices                          | 85,509                                    |
| 1 Brick Lane, London England                                    | Leasehold                    | Office & technical                       | 77,000                                    |
| West Cross House, Brentford, England                            | Leasehold                    | Offices                                  | 72,194                                    |
| The Chilworth Research Centre, Southampton, England             | Leasehold                    | Satellite uplink                         | 61,937                                    |
| Athena Court, Isleworth, England                                | Leasehold                    | Offices                                  | 53,583                                    |
| Chancellor House, 19 Thomas More Square, London, England        | Leasehold                    | Offices                                  | 53,293                                    |
| Great West House (floors 4-9, 13), Brentford, England           | Leasehold                    | Offices                                  | 36,749                                    |
| 123 Buckingham Place Road, London, England                      | Leasehold                    | Offices                                  | 36,686                                    |
| 26 Boulevard Royal, 2449 Luxembourg, Grande duche du Luxembourg | Leased serviced office space | Offices                                  | 2,500                                     |



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## Directors report governance

### Board of Directors and senior management

Our Directors are as follows:

| Name                  | Age | Position with the Company   |
|-----------------------|-----|---|
| Chase Carey           | 54  | * Director  |
| Jeremy Darroch        | 46  | Director (Chief Executive Officer)  |
| David F. DeVoe        | 61  | * Director  |
| David Evans           | 68  | ** Director   |
| Nicholas Ferguson     | 59  | ** Director (Senior Independent Non-Executive Director & Remuneration Committee Chairman) |
| Andrew Griffith       | 37  | Director (Chief Financial Officer)  |
| Andrew Higginson      | 51  | ** Director   |
| Allan Leighton        | 55  | ** Director (Audit Committee Chairman)  |
| James Murdoch         | 35  | * Director (Chairman)   |
| Jacques Nasser        | 60  | ** Director   |
| Daniel Rimer          | 37  | ** Director   |
| Gail Rebuck           | 56  | ** Director   |
| Lord Rothschild       | 72  | ** Director (Deputy Chairman)   |
| Arthur Siskind        | 69  | * Director  |
| Lord Wilson of Dinton | 65  | ** Director (Corporate Governance and Nominations Committee Chairman)                     |

\* Non-Executive

\*\* Independent Non-Executive

A number of Board changes occurred during the year. On 6 December 2007, Rupert Murdoch resigned as Non-Executive Chairman of the Company and James Murdoch was appointed in his place with effect from 7 December 2007. On 6 December 2007, James Murdoch relinquished his position of CEO and Jeremy Darroch, previously CFO, was appointed in his place with effect from 7 December 2007.

On 7 April 2008, Andrew Griffith was appointed as a Director of the Company and CFO. Daniel Rimer was appointed as a Non-Executive Director also on that date.

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

| Name           | Age | Position with the Company     |
|----------------|-----|-------------------------------|
| Deborah Baker  | 49  | Director for People           |
| James Conyers  | 43  | General Counsel               |
| Robin Crossley | 49  | Strategic Adviser, Technology |
| Mike Darcey    | 43  | Chief Operating Officer       |
| Dave Gormley   | 45  | Group Company Secretary       |
| Jeff Hughes    | 38  | Executive Vice President      |
| Didier Lebrat  | 48  | Chief Technology Officer      |

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|                     |    |   |
|---------------------|----|---|
| Graham McWilliam    | 36 | Group Director of Corporate Affairs   |
| David Rowe          | 49 | Managing Director, Enterprise   |
| Brian Sullivan      | 46 | Managing Director, Customer Group   |
| Sophie Turner Laing | 47 | Managing Director, Entertainment  |
| Vic Wakeling        | 65 | Managing Director, Sky Sports and Sky News  |
| Alun Webber         | 42 | Group Director of Strategic Project Delivery and Managing Director of Amstrad plc |

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None of the Senior Executives listed above holds directly 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 is President and CEO of The DIRECTV Group, Inc. ( DIRECTV ). Mr Carey was a Non-Executive Director of News Corporation from 2002 until December 2007 and was an Executive Director from 1996 until 2002. Mr Carey previously served as Co-Chief Operating Officer ( COO ) of News Corporation and as a Director and COO 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.

*Jeremy Darroch* was appointed as CFO and a Director of the Company on 16 August 2004. On 7 December 2007, Mr Darroch was appointed CEO of the Company and relinquished the role of CFO. Mr Darroch joined DSG International plc ( DSG ), formerly Dixons Group plc, in January 2000 as Retail Finance Director, rising to the position of Group Finance Director in February 2002. Prior to DSG, 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 Non-Executive Director and the Chairman of the Audit Committee of Marks & Spencer Group plc.

*David F. DeVoe* was appointed as a Director of the Company on 15 December 1994. Mr DeVoe has been a Director of News Corporation and its CFO since October 1990. Mr DeVoe has served as Senior Executive Vice President of News Corporation since January 1996. Mr DeVoe has been a Director of NDS since October 1996.

*David Evans* was appointed as a Director of the Company on 21 September 2001. Since October 2007, Mr Evans has been Chairman of Tucker Box Entertainment Pty Limited, a television and feature film production company. Mr Evans was previously President and CEO of Crown Media Holdings, Inc. and its predecessor company, 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 COO, 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, President and CEO of Sky Entertainment Services Latin America, LLC, and President and COO of The Fox Television Network.

*Nicholas Ferguson* was appointed as a Director of the Company on 15 June 2004 and Senior Independent Non-Executive Director on 12 June 2007. Mr Ferguson is Chairman of SVG Capital plc, 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 Griffith* was appointed as CFO and a Director of the Company on 7 April 2008. Mr Griffith joined Sky in October 1999 and has held a number of finance roles, most recently Director of Group Finance, M & A and Investor Relations. Mr Griffith previously worked at the investment bank Rothschild, where he advised a range of clients in the technology, media and telecommunications sectors. He qualified as a Chartered Accountant with Coopers & Lybrand Deloitte and holds a degree in Law from Nottingham University. Mr Griffith is a member of the 100 Group of Finance Directors.

*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.

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*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 and was appointed CEO in September 1996. In November 1999 he was appointed President and CEO of Wal-Mart Europe. Mr Leighton resigned from all of these positions in September 2000. Mr Leighton is currently Chairman of The Royal Mail Group and Deputy Chairman of Selfridges & Co, George Weston Ltd and Loblaws Ltd. Until January 2008, Mr Leighton was Chairman of Bhs Ltd.

*James Murdoch* was appointed as a Director of the Company on 13 February 2003 and as CEO with effect from 4 November 2003. On 7 December 2007, he was appointed Non-Executive Chairman of the Company having relinquished the role of CEO. Mr Murdoch is Executive Chairman and CEO, Europe and Asia, at News Corporation and is a member of News Corporation's Board of Directors and Executive Committee. Between May 2000 and November 2003, he was Chairman and CEO of Star. Mr Murdoch serves on the Board of YankeeNets and the Board of Trustees of the Harvard Lampoon. Mr Murdoch attended Harvard University.

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## Directors report governance continued

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### Board of Directors and senior management continued

*Jacques Nasser* was appointed as a Director of the Company on 8 November 2002. 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 is currently a Partner of One Equity Partners and serves on the Board of BHP Billiton and the International Advisory Board of Allianz A.G.. Until January 2008, Mr Nasser served on the Board of Brambles Limited and Quintiles Transnational Corporation. Mr Nasser has received an honorary Doctorate of Technology and graduated in Business from the RMIT University of Melbourne, Australia. 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 Rebeck* was appointed as a Director of the Company on 8 November 2002. Ms Rebeck is Chairman and CEO of The Random House Group Limited (Random House), one of the UK's leading trade publishing companies. In 1982, Ms Rebeck 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 Rebeck was appointed Chairman and CEO of Random House. Ms Rebeck was a Trustee of the Institute for Public Policy Research from 1993 to 2003, a Trustee of the Work Foundation from 2001 to 2008, and was for three years a member of the Government's Creative Industries Task Force. Ms Rebeck is a member of the Court of the University of Sussex, a Trustee of the National Literacy Trust, and sits on the Council of the Royal College of Art. Ms Rebeck was awarded a CBE in the 2000 New Year's Honours List.

*Daniel Rimer* was appointed as a Director of the Company on 7 April 2008. Mr Rimer is a General Partner of the venture capital firm Index Ventures Management Limited (Index Ventures) and established the firm's London office. He currently serves on a number of boards including Joost N.V., Oanda Corporation, Spot Runner Inc., FON Wireless Limited, Stardoll Inc. and Viagogo Limited. Prior to joining Index Ventures, Mr Rimer was a General Partner of The Barksdale Group and, previously, Managing Director of Hambrecht & Quist's (now JP Morgan) Equity Research Group.

*Lord Rothschild* was appointed as a Director, Deputy Chairman and Senior Independent Non-Executive Director of the Company on 17 November 2003. Lord Rothschild relinquished the position of Senior Independent Non-Executive Director on 12 June 2007. Lord Rothschild is Chairman of RIT Capital Partners plc and Five Arrows Limited. He co-founded Global Asset Management and J Rothschild Assurance, the life assurance company now part of the St James's Place Group. 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 was an Adjunct Professor of Law at the Georgetown Law Center from 2005 to 2007. Mr Siskind has been an Adjunct Professor of Law at the Cornell Law School since 2007. Mr Siskind has been a member of the Bar of the State of New York since 1962.

*Lord Wilson of Dinton* was appointed as a Director of the Company on 13 February 2003. Lord Wilson retired from the Civil Service in 2002 after serving 36 years in a number of UK Government departments including the Department of the Environment (appointed Permanent Secretary in 1992), the Home Office (appointed Permanent Under Secretary 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. In October 2006, he became Non-

Executive Chairman of C. Hoare and Co, Bankers. From April 2003 until October 2007, Lord Wilson was a Non-Executive Director of Xansa plc. 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.

James Murdoch, David DeVoe and Arthur Siskind have appointed each of the others to act as their Alternate Director. David Evans has appointed Allan Leighton as his Alternate Director.

### **Directors interests**

The Directors' interests in the ordinary shares and options of the Company are disclosed within the report on Directors remuneration on pages 46 to 53.

### **Directors powers**

Details of the powers of the Company's Directors are disclosed in Memorandum and Articles of Association Directors on pages 106 to 107.

### **Senior executives**

Our Senior Executives are as follows:

*Deborah Baker* joined us in December 2007 as our Director for People. She leads our Human Resources team including organisation and people development, talent resourcing and management, and Human Resources services such as health and safety, reward & recognition and wellbeing and delivery.

*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.

*Robin Crossley* joined us 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, Mr Crossley was appointed Strategic Adviser, Technology.

*Mike Darcey* joined us in February 1998 as our Head of Strategic Planning and in July 2002 he was appointed as our Group Director of Strategy. In February 2006, he was appointed Group Commercial and Strategy Director with extended responsibility for a new group that combined our Strategy, Future Technology, Research and Development and Business Development teams. Mr Darcey was appointed Chief Operating Officer in December 2006.

*Dave 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. In November 2007, he was appointed Executive Vice-President. His role includes overall responsibility for our proposed pay TV offering on DTT.

*Didier Lebrat* joined us in December 2006 as Chief Technology Officer. This role includes overall responsibility for the Information Technology, Network Infrastructure and Broadcast Technology, and Customer and Interactive Technology teams.

*Graham McWilliam* joined us in April 2000 as Strategic Planning Manager. In 2003, he was appointed Deputy Head of Strategy and in 2006, Director of Corporate





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Communications and Policy. In March 2008, Mr McWilliam was appointed as our Group Director of Corporate Affairs. This role includes responsibility for our Corporate Communications, Policy and Public Affairs, Internal Communications, and Reputation and Responsibility functions.

*David Rowe* joined us in July 2007 as Managing Director, Enterprise Business and is responsible for our business-to-business services across both television and telecoms. Mr Rowe was CEO of Easynet Group plc until it became part of Sky in January 2007. In November 2007, Mr Rowe's role was expanded to include overall responsibility for Sky Bet.

*Brian Sullivan* joined us in February 1996 as Subscriber Marketing Manager and has held a variety of roles within sales and marketing over the last 10 years. In November 2007, Mr Sullivan was appointed as Managing Director, Customer Group with responsibility for marketing strategy, product development and management, sales, retention, service and field operations, as well as overall customer growth.

*Sophie Turner Laing* joined us in March 2003 as Director of Film Channels & Acquisitions. In 2004 she was appointed Deputy Managing Director, Sky Channels and Services. In March 2008 she was appointed Managing Director, Entertainment with overall responsibility for the multi-platform content strategy for Sky's wholly-owned entertainment channels.

*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, Sky Sports and in December 2007 his role was expanded to include overall responsibility for Sky News.

*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. In July 2006, Mr Webber was appointed Group Director of Strategic Project Delivery. Mr Webber was appointed Managing Director of Amstrad Plc in January 2008.

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:

|                                       | 2008<br>number | 2007<br>number | 2006<br>number |
|---------------------------------------|----------------|----------------|----------------|
| Channels and services                 | 2,624          | 2,472          | 2,403          |
| Customer service, sales and marketing | 7,918          | 7,591          | 6,486          |
| Transmission and technology           | 1,943          | 1,560          | 1,267          |
| Management and administration         | 1,660          | 1,464          | 1,060          |
|                                       | 14,145         | 13,087         | 11,216         |

## Employment policies

Details of the Group's employees, together with statements of policy on equality of opportunity, disabled persons, employee involvement and communication, training and development, health and safety and financial participation are provided in the people section of the review of the business on pages 18 to 19.

## Corporate governance report

The Company is committed to maintaining high standards of corporate governance in its management of the Group and when accounting to shareholders. The management of the Company values an effective long-term outlook and sees itself as responsible to the wider range of stakeholders, whilst being accountable for the pursuit of its objectives primarily for the benefit of the Company's owners.

This section of the Annual Report has been prepared in accordance with the Code of Best Practice set out in Section 1 of the Combined Code of corporate governance of 2006 (the Combined Code). Throughout the year ended 30 June 2008, the Company has

been in full compliance with the provisions of Section 1 of the Combined Code except for the requirements that a CEO should not go on to be the chairman of the same company and that, on appointment, the chairman should meet the independence requirements set out in provision A.3.1. of the Combined Code. The Combined Code states that if exceptionally a board decides that a CEO should become chairman, the board should consult major shareholders in advance and explain its reasons to shareholders. On 6 December 2007, James Murdoch relinquished the position of CEO and was appointed Chairman of the Company, with effect from 7 December 2007, in place of Rupert Murdoch following consultation with major shareholders in accordance with the requirements of the Combined Code. The Board is aware of the Combined Code's requirements with respect to independence and considers that it is strongly represented by Independent Directors. Furthermore, the Board was unanimous in its decision that the appointment is in the best interests of the Company and its shareholders given Mr Murdoch's deep knowledge and understanding of the strategic issues facing the Company and the industries in which it operates, his commitment to the Company, and the continuity it provides. Mr Murdoch is also Executive Chairman and Chief Executive of News Corporation in Europe and Asia.

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 NYSE listing standards which relate to the composition, responsibilities and operation of audit committees. These provisions also incorporate certain 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 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 and Nominations Committee is made up of a majority of Independent Non-Executive Directors.

### Corporate policies

The policies of the Group aim to enhance and maintain risk management, and through this, safeguard the efficiency and effectiveness of the Group. Other policies are committed to improving equality in the workplace, share dealing, work practices (on and off-site), and social arrangements. Copies are readily available to all staff on the intranet.

Since 2003, the Company has adopted a Code of Ethics which applies to the Company's CEO and CFO, who also serves as the principal accounting officer. The full text of the Code of Ethics is incorporated by reference to the Annual Report on Form 20-F of the Company for the fiscal year ended 30 June 2003 filed with the SEC on 5 December 2003.

The Group continues to contribute more broadly to society and to ensuring it is addressing social and environmental risks associated with its operations. Policies on Social, Environmental and Ethical Performance can be found in the corporate responsibility section of the review of the business on page 18.

### The Board

The Board currently comprises fifteen Directors, made up of two Executive Directors and thirteen Non-Executive Directors. A majority of nine Non-Executive Directors are determined to be independent in compliance with the Combined Code. They bring a wide range of experience and expertise to the Group's affairs, and carry significant weight in the Board's decisions. The Independent Non-Executive Directors provide a strong independent element and a foundation for good corporate governance. Short biographies of each of the Directors are set out on pages 39 to 40. The table on page 39 identifies those Directors who are, in the view of the Board, independent within the meaning of the Combined Code. Prior to appointment, and on an annual basis, each board member receives and completes a questionnaire to determine factors that may affect independence according to the Combined Code, NYSE Corporate Governance Rules and Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the Exchange Act). The responses to the questionnaire assist the Board in ascertaining whether a director is independent in character and judgement, and

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## Directors report governance continued

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### Corporate governance report continued

whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement.

The Company recognises that all Directors are equally and collectively accountable under the law for the proper stewardship of the Company's affairs. The Company maintains a directors' and officers' liability insurance policy which meets defence costs when the Director is not proved to have acted fraudulently.

Executive Directors are not allowed to take on the chairmanship of a FTSE 100 company, but are allowed to take up one external non-executive FTSE 100 appointment and retain any payments in respect of this appointment.

The roles of the Chairman and CEO, are separate and the roles have been since the Company's shares were admitted to listing in 1994.

The full schedule of matters reserved for decision making by the Board, can be found on the Company's corporate website at [www.sky.com/corporate](http://www.sky.com/corporate).

#### **The Chairman**

The Chairman is responsible for leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda. This includes ensuring, via the Company Secretary, that the Directors receive accurate, timely and clear information. The duties of the Chairman include the following:

- to encourage and ensure effective communication with shareholders, and ensure shareholder views are communicated to the Board as a whole;
- to facilitate a structure to allow the effective contribution of all Directors, and of non-executive Directors in particular;
- to create an environment which engenders constructive relations between executive and non-executive Directors;
- to organise the business of the Board so that it can be carried out effectively and efficiently;
- to lead the Board in discussions regarding the Company's strategy and in the achievement of its objectives;
- to ensure Board Committees are properly established, composed and operated; and
- to enhance the Company's public standing and image overall.

#### **The Chief Executive Officer**

The CEO is responsible for the daily operation of the Company, advancing long-term shareholder value, supported by the management team. He is accountable and responsible to the Board for the management and operation of the Company. He is also involved in the management of the social and environmental responsibilities of the Company. The duties of the CEO include the following:

- to be responsible and accountable to the Board for the management and operation of the Group;
- to prepare and implement plans and programmes for the attainment of approved objectives and to recommend such plans and programmes to the Board as appropriate;
- to provide leadership in the Group's commitment to attaining high business standards generally;
- to create the conditions within the Group for the efficient operation of all business units;
- to establish and maintain relationships with shareholders and potential shareholders, and major external bodies;
- to keep the Board informed on all matters of material importance; and
- to chair meetings of the Executive Committee.

#### **Non-Executive Directors**

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

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Commencement date

Expiry date of current service  
agreement or letter of appointment

|  |                   |                   |
|--|-------------------|-------------------|
| Chase Carey <sup>(v)</sup>             | 13 February 2003  | 30 October 2009*  |
| David DeVoe <sup>(iv)</sup>            | 15 December 1994  | 26 September 2008 |
| David Evans <sup>(iii)</sup>           | 21 September 2001 | 26 September 2008 |
| Nicholas Ferguson <sup>(v)</sup>       | 15 June 2004      | 30 October 2009*  |
| Andrew Higginson                       | 1 September 2004  | November 2010*    |
| Allan Leighton <sup>(ii)</sup>         | 15 October 1999   | 26 September 2008 |
| Jacques Nasser <sup>(v)</sup>          | 8 November 2002   | 30 October 2009*  |
| James Murdoch <sup>(ii)</sup>          | 7 December 2007   | 26 September 2008 |
| Gail Rebuck                            | 8 November 2002   | November 2010*    |
| Daniel Rimer <sup>(i)</sup>            | 7 April 2008      | 26 September 2008 |
| Lord Rothschild <sup>(iii)</sup>       | 17 November 2003  | 26 September 2008 |
| Arthur Siskind <sup>(iv)</sup>         | 19 November 1991  | 26 September 2008 |
| Lord Wilson of Dinton <sup>(iii)</sup> | 13 February 2003  | 26 September 2008 |

\* These letters of appointment will expire on the day of the Company's AGM in either 2009 or 2010. The date of the AGM in 2010 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 Shareholder information).

Notes:

- (i) Daniel Rimer retires and offers himself for reappointment by shareholders in accordance with the Company's Articles of Association at the Company's next AGM to be held on 26 September 2008.
- (ii) Non-Executive Directors retiring by rotation and offering themselves for reappointment by shareholders at the Company's next AGM to be held on 26 September 2008.
- (iii) Lord Rothschild will retire by rotation at the Company's next AGM, to be held on 26 September 2008, but will not be seeking reappointment by the shareholders.
- (iv) David DeVoe and Arthur Siskind are subject to annual reappointment by shareholders in accordance with requirement A.7.2. of the Combined Code as they have served as Non-Executive Directors for longer than nine years. Allan Leighton will have served as a Non-Executive Director for nine year years in October 2008 and will therefore be subject to annual re-appointment with effect from the Company's AGM in October 2009.
- (v) Chase Carey, Nicholas Ferguson and Jacques Nasser will be subject to retirement by rotation and reappointment by shareholders at the Company's AGM in October 2009. In accordance with the Company's current Articles of Association, one-third of the Directors must retire by rotation. Following the retirement by rotation of Lord Rothschild at the Company's next AGM, to be held on 26 September 2008, the Board will comprise of fourteen Directors. Assuming that the Board continues to comprise of fourteen Directors, four Directors will be required to retire by rotation at the Company's AGM in 2009 (in addition to those then subject to annual reappointment). Accordingly, the remaining Director to retire by rotation in 2009 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 2010.

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

### The Company Secretary

The Company Secretary is available to advise all Directors and is responsible for ensuring the Board is supplied with all necessary information in a reliable, timely manner. The Company Secretary ensures good communication between the Board, Board committees and senior management. He facilitates Directors' induction and training.



[Back to Contents](#)**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.

Attendance of the current Directors at Board and Committee meetings during the year is set out in the table below:

|  | Board    | Audit    | Remuneration | Corporate Governance and Nominations |
|--|----------|----------|--------------|--------------------------------------|
| <b>Number of meetings held in year</b> | <b>8</b> | <b>6</b> | <b>3</b>     | <b>3</b>                             |
| Director                               |          |          |              |                                      |
| James Murdoch, Chairman                | 8        |          |              |                                      |
| Jeremy Darroch, CEO                    | 8        |          |              |                                      |
| Andrew Griffith, CFO                   | 2        |          |              |                                      |
| Chase Carey                            | 6        |          |              |                                      |
| David DeVoe                            | 7        |          |              |                                      |
| David Evans <sup>(i)</sup>             | 7        |          | 3            |                                      |
| Nick Ferguson <sup>(i)(ii)</sup>       | 7        |          | 3            | 1                                    |
| Andy Higginson <sup>(iii)</sup>        | 6        | 5        |              |                                      |
| Allan Leighton <sup>(iii)</sup>        | 8        | 6        |              |                                      |
| Jacques Nasser <sup>(i)</sup>          | 6        |          | 2            |                                      |
| Gail Rebuck <sup>(iii)</sup>           | 7        | 6        |              |                                      |
| Danny Rimer                            | 2        |          |              |                                      |
| Lord Rothschild <sup>(ii)</sup>        | 8        |          |              | 3                                    |
| Arthur Siskind <sup>(ii)</sup>         | 8        |          |              | 2                                    |
| Lord Wilson of Dinton <sup>(ii)</sup>  | 8        |          |              | 3                                    |
| Rupert Murdoch, Ex-Chairman            | 3        |          |              |                                      |

(i) Remuneration Committee member

(ii) Corporate Governance and Nominations Committee member

(iii) Audit Committee member

In accordance with good practice, the independent Non-Executive Directors of the Board held separate meetings during the year.

**Board role**

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 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 series of related 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;
- approval of resolutions to be put forward to shareholders at a general meeting;

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- communication involving the general state of the Company;
- changes to the structure, size and composition of the Board, following, if applicable, recommendations from any committee to which the Board delegates consideration of such issues;
- appointment and removal of the Chairman of the Board and the CEO; and
- determining the independence of Non-Executive Directors.

The Board has also delegated specific responsibilities to Board Committees, notably the Audit, Remuneration and Corporate Governance and Nominations Committees, as set out below. Directors receive Board and Committee papers several days in advance of Board and Committee meetings. 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 reappointment by shareholders following appointment, subsequent reappointment 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 reappointment at least once in every three years. Non-Executive Directors who have served for more than nine years on the Board are now subject to annual reappointment in accordance with the Combined Code.

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 updating the Directors on the performance of the Group.

Where appropriate, additional training and updates on particular issues are arranged. For example, during the year the Board received a briefing on Directors' Duties which were codified for the first time by the Companies Act 2006, which is being introduced on a phased basis.

During the year, the Directors carried out a full evaluation of the performance of the Board, its committees and individual Directors. The evaluation consists of each Director meeting individually with the Chairman of the Corporate Governance and Nominations Committee. The evaluation confirmed that the Board was satisfied with the Board's overall performance. The Non-Executive Directors also meet separately without the Chairman and Executive Directors present to evaluate the performance of the Chairman.

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

Andrew Griffith and Daniel Rimer retire and offer themselves for reappointment at the 2008 AGM in accordance with the Company's Articles of Association. David Evans, Allan Leighton, James Murdoch and Lord Wilson of Dinton retire from the Board by rotation, and being eligible, offer themselves for reappointment at this AGM. Lord Rothschild will also retire from the Board by rotation at this year's AGM but will not be seeking reappointment by the shareholders. David DeVoe and Arthur Siskind are subject to annual reappointment in accordance with requirement A.7.2 of the Combined Code, as they have served as Non-Executive Directors for longer than nine years.

### **Board Committees**

Terms of reference for the governance of the Board Committees can be found on the Company's corporate website.

### **Remuneration Committee**

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

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. Following publication of the annual report,



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## Directors report governance continued

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### Corporate governance report continued

meetings and round-table discussions are arranged between the Remuneration Committee and institutional shareholders to discuss remuneration policy and aspects of the Committee's Report on Directors' remuneration. The Remuneration Committee Chairman reports regularly to the Board on its activities.

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

The report on Directors' remuneration can be found on pages 46 to 53. In accordance with the Directors' Remuneration Report Regulations 2002, the Report on Directors' remuneration will be put forward for an advisory shareholder vote at the AGM.

#### Corporate Governance and Nominations Committee

The Corporate Governance and Nominations Committee is chaired by Lord Wilson of Dinton and its other members are Nicholas Ferguson, Lord Rothschild and Arthur Siskind. Nicholas Ferguson was appointed as a member of the Corporate Governance and Nominations Committee on 5 February 2008. The Corporate Governance and Nominations Committee met three times during the year and the Chairman reports regularly to the Board on its activities. 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; and
- the monitoring of the Company's compliance with applicable Corporate Governance Codes and other similar requirements.

On 7 December 2007 the Company announced that the then Chairman Rupert Murdoch would be stepping down from the Board and that he would be replaced by James Murdoch as Non-Executive Chairman and furthermore that Jeremy Darroch had been appointed as CEO.

These changes were overseen by the Corporate Governance and Nominations Committee and were unanimously approved by the Board of Directors.

The Corporate Governance and Nominations Committee was clear that the appointment of the Chairman had to be in the best interest of the Company and its shareholders. The Board was unanimous in its decision that the appointment of James Murdoch as Chairman met that key test given his deep knowledge and understanding of the strategic issues facing the Company and the industries in which it operates. As a result of these factors, the Committee did not use an external search consultancy nor open advertising to assist with the appointment.

In looking to recruit a CEO to replace James Murdoch, the Corporate Governance and Nominations Committee was assisted by JCA Group Limited ( 'JCA' ), Executive Search Consultants. The Committee drew up a list of potential candidates from both inside and outside the Company which provided the basis for the final list of candidates prepared by JCA.

It was the unanimous decision by the Board, following a recommendation by the Corporate Governance and Nominations Committee, that Jeremy Darroch be appointed as the CEO of the Company.

Following the appointment of Jeremy Darroch as CEO, the Company then embarked on a selection process for a new CFO. The Corporate Governance and Nominations Committee was again assisted in this search by JCA Group Limited who drew up a list

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of potential candidates drawn from inside and outside the Company. These candidates were then reduced down to a shortlist of two, both of whom met with the CEO, the Chairman of the Corporate Governance and Nominations Committee and the Chairman of the Audit Committee.

The Board were unanimous in their decision to appoint Andrew Griffith as CFO.

During the board evaluation held in the previous year, the Board had identified a need for the appointment of a Non-Executive Director with a deep knowledge and understanding of the rapidly developing internet sector. Daniel Rimer had come to the Board's attention as somebody with the relevant expertise and, after meeting with the Chairman of the Corporate Governance and Nominations Committee, was recommended as a Non-Executive Director of the Company.

The Corporate Governance and Nominations Committee led the evaluation of the Board that was completed during the year as discussed earlier in this report.

The Committee also reviewed the independence of the Non-Executive Directors and recommended to the Board that there be no changes to the independent status of the current Non-Executive Directors. The table on page 39 clearly sets out those Non-Executive Directors who are considered by the Board to be independent. The Board's criteria for determining whether a Non-Executive Director is independent are set out in the Memorandum on Corporate Governance which can be found on the Company's corporate website. The Committee's review took into consideration the fact that Allan Leighton will have served on the Board for nine years in October 2008. Provision A.3.1. of the Combined Code suggests that serving more than nine years could be relevant to the determination of a Non-Executive Director's independence. The Committee concluded that Mr Leighton continued to demonstrate the essential characteristics of independence expected by the Board and that there are no relationships or circumstances that are likely to affect, or could appear to affect, his judgement. In accordance with requirement A.7.2. of the Combined Code, Mr Leighton will be subject to annual reappointment by shareholders with effect from the Company's AGM in 2009.

### Audit Committee

The Audit Committee, which consists exclusively of Independent Non-Executive Directors, has clearly defined terms of reference as laid down by the Board. The composition of the Audit Committee is currently Allan Leighton (Chairman), Gail Rebuck and Andrew Higginson. The CFO and representatives from the external auditor and the internal audit department attend meetings at the request of the Audit Committee. It is also usual practice for the CEO to attend meetings of the Audit Committee. Other finance and business executives attend meetings from time to time. 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. All three members of the Audit Committee are independent for the purposes of the Combined Code and Rule 10A-3(b)(1) under the Exchange Act. The members have wide ranging experience to bring to the work of the Audit Committee. The Audit Committee met six 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;
- recommending the appointment of the Group's Director of Internal Audit;
- reviewing the audit plan and findings of the Group's internal audit function;
- monitoring and reviewing the effectiveness of the Group's internal audit function;
- monitoring the Group's whistle-blowing policy;
- 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



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schedule of all transactions between companies within the News Corporation Group and the Group, and any other related party transactions, showing all transactions which have been entered into during the year and which cumulatively 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 with News Corporation. 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.

The Audit Committee does not include an Audit Committee Financial Expert as such term is defined by the SEC rules. The Audit Committee members have considerable financial and business experience and the Board considers that the membership as a whole has sufficient recent and relevant financial experience to discharge its functions. In addition, the Board has determined that each member of the Audit Committee has sufficient accounting or related financial management expertise as required by the NYSE listing rules. Accordingly, it is the opinion of the Board not to formally designate a member as the Audit Committee financial expert.

### Internal control

The Directors have overall responsibility for establishing and maintaining the Group's systems of internal control and risk management and for reviewing their effectiveness. These systems are designed to manage, and where possible eliminate, the risk of failure to achieve business objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss. An ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been established, in accordance with the guidance of the Turnbull Committee on internal control issued in September 1999 and updated by the Financial Reporting Council in October 2005. This process has been in place for the year ended 30 June 2008 and up to the date on which the financial statements were approved.

The Audit Committee, on behalf of the Board, considers the effectiveness of the operation of the Group's systems of internal control and risk management during the year and this review has been carried out for the year ended 30 June 2008 and up to the date on which the financial statements were approved. This review relates to the Company and its subsidiaries and does not extend to joint ventures. The Audit Committee meets on at least a quarterly basis with the Group's internal audit team and the external auditors.

There is a comprehensive budgeting and forecasting process, and the annual budget, which is regularly reviewed and updated, is approved by the Board. Risk assessment and evaluation take place as an integral part of this process. Performance is monitored against budget through weekly and monthly reporting cycles. Monthly reports on performance are provided to the Board and the Group reports to shareholders each quarter. Each area of the Group carries out risk assessments of its operations and ensures that the key risks are addressed. A Risk Management Committee, chaired by the CFO and comprising Senior Executives, reviews the management of risks in all areas of the Group. The results of the Risk Management Committee's review are integrated into the budgeting and forecasting process and are integrated into the internal audit planning.

The internal audit team provides objective assurance as to the effectiveness of the Group's systems of internal control and risk management to the Group's operating management and to the Audit Committee.

### Management's report on internal control over financial reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act.

Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Further, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

Management, including the CEO and CFO, has conducted an evaluation to assess the effectiveness of the Group's internal control over financial reporting as of 30 June 2008 based upon criteria set forth in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on their assessment, management concluded

that, as at 30 June 2008, the Group's internal control over financial reporting was effective.

The audit reports set out on page 56 are issued in accordance with auditing standards of the Public Company Accounting Oversight Board (US). These reports express unqualified opinions on the consolidated financial statements of the Group as of and for the year ended 30 June 2008 as well as on the effectiveness of the Group's internal control over financial reporting as at 30 June 2008.

### **Disclosure controls and procedures**

The Company maintains disclosure controls, procedures and systems that are designed to ensure that information required to be disclosed in the reports filed under the Securities Exchange Act is recorded, processed, summarised and reported within the time periods specified in the SEC's rules and forms, and the Company's UK listing obligations and that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow such timely decisions regarding required disclosures. The Company has established a disclosure committee. The committee is chaired by the Company Secretary and its members consist of senior managers from group finance, legal and investor relations. It has responsibility for considering the materiality of information (including inside information) and on a timely basis, determination of the disclosure and treatment of such information. The committee also has responsibility for overseeing the process for the formal review of the contents of the Company's Annual Report and filing on Form 20-F.

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the CEO and CFO, of the effectiveness of the design and operation of these disclosure controls, procedures and systems at 30 June 2008. Based on that evaluation, the CEO and CFO of the Company have concluded that the Company's disclosure controls and procedures are effective.

### **Changes in internal controls**

No change in the Group's internal control over financial reporting has occurred during the year ended 30 June 2008 that has materially affected, or is reasonably likely to materially affect, the Group's internal control over financial reporting.

### **Use of external auditors**

The Group has a policy on the provision by the external auditors of audit and non-audit services, which categorises such services between:

- those services which the auditors are not permitted to provide;
- those services which are acceptable for the auditors to provide and the provision of which has been pre-approved by the Audit Committee; and
- those services for which the specific approval of the Audit Committee is required before the auditors are permitted to provide the service.

The policy defines the types of services falling under each category and sets out the criteria which need to be met and the internal approval mechanisms required to be completed prior to any engagement. An analysis of all services provided by the external auditors is reviewed by the Audit Committee on a quarterly basis.

For the year ended 30 June 2008, the Audit Committee has discussed the matter of audit independence with Deloitte & Touche LLP, the Group's external auditors, and has received and reviewed confirmation in writing that, in Deloitte & Touche LLP's professional judgement, Deloitte & Touche LLP is independent within the meaning of all UK and US regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff is not impaired.

The Audit Committee was satisfied throughout the year that the objectivity and independence of Deloitte & Touche LLP was not in any way impaired by either the nature of the non-audit related services undertaken during the year, the level of non-

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## Directors report governance continued

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### Corporate governance report continued

audit fees charged, or any other facts or circumstances. There were no services provided during the year that were not pre-approved by the Audit Committee in accordance with the Group's policy.

#### Communication with shareholders

Presentations and webcasts on the development of the business are available to all shareholders on the Company's corporate website. The Company also uses email alerts and actively promotes downloading of all reports enhancing speed and equality of shareholder communication. The Company has taken full advantage of the provisions within the Companies 2006 Act allowing the website to be used as the primary means of communication with shareholders where they have not requested hard copy documentation. The shareholder information section on pages 104 to 111 contains further details on electronic shareholder communications together with more general information of interest to shareholders which is also included on the Company's corporate website.

The Company is committed to maintaining and improving dialogue with shareholders in order to ensure that the objectives of both the Group and the shareholders are understood.

A programme of meetings with institutional shareholders, fund managers and analysts takes place each year. The Company also makes presentations to analysts and investors around the time of the half-year and full-year results announcement; conference calls are held with analysts and investors following the announcement of the first quarter and third quarter results, and on occasion, following the announcement of the fourth quarter results, and presentations are made during the year to many existing or potential shareholders. During the year, various members of the Board have met with institutional shareholders and representative bodies, reinforcing the continuation of open dialogue and discussion of strategy between the Board and its shareholders. Non-Executive Directors are offered the opportunity to attend meetings with major shareholders and are expected to attend if required.

The Board views the AGM as an opportunity to communicate with private investors and sets aside time at these meetings for shareholders to ask questions of the Board. All members of the Board attended the 2007 AGM. At the AGM, the Chairman provides a brief summary of the Company's activities for the previous year to the shareholders. All resolutions at the 2007 AGM were voted by way of an electronic poll. This follows best practice and allows the Company to count all votes rather than just those of shareholders attending the meeting. As recommended by the Combined Code, all resolutions were voted separately and the voting results, which included all votes cast for, against and those withheld, together with all proxies lodged prior to the meeting, were indicated at the meeting and the final results were released to the London Stock Exchange as soon as practicable after the meeting. The announcement was also made available via a link on the Company's corporate website. As in previous years, the proxy form and the announcement of the voting results made it clear that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes for or against the resolution.

#### Directors responsibilities

The responsibilities of the Directors are set out on page 55.

### Report on directors remuneration

#### 1. Remuneration Committee

##### 1.1 Role of the Remuneration Committee and terms of reference

The Remuneration Committee (the Committee) is responsible for recommendations to the Board regarding:

- the design and implementation of incentive compensation arrangements including share-based schemes;
- remuneration packages for Executive Directors of the Company, including basic salary, performance-based bonus and long-term incentives, pensions and other benefits; and

- the Company's policy on remuneration for Board Directors and other Senior Executives of the Group who report directly to the CEO. In the latter case, decisions shall be recommended to the Committee by the CEO.

The Committee sets the performance targets applicable to incentive compensation arrangements. As part of this process, it seeks to ensure that such packages provide employees with appropriate incentives to perform, reflect their positions and roles within the Group, and that the employees are, in a fair and reasonable manner, rewarded for their individual contributions to the success of the Group. Payments or benefits offered to employees in excess of £250,000 which do not form part of an employee's expected remuneration or benefits require the approval of the Committee.

The Committee met three times during the year.

The full terms of reference for the Committee are available on the Company's corporate website.

### 1.2 Membership of the Committee

The Committee comprised of the following Independent Non-Executive Directors throughout the year ended 30 June 2008:

- David Evans
- Nicholas Ferguson (Chairman)
- Jacques Nasser

During the year, the Committee sought the advice of James Murdoch as CEO until 6 December 2007, and then Jeremy Darroch on matters relating to the Executive Directors and Senior Executives who report to the CEO and advice from the Director for People. The Committee was supported by the Company Secretary, the finance and the human resources functions. No Director was present when matters affecting his remuneration were considered. The former Chairman Rupert Murdoch (until 6 December 2007), did not attend any Committee meetings during the year. James Murdoch has attended one meeting of the Committee.

### 2. Advisors

The Committee has engaged the services of both a lead adviser Patterson Associates LLP and a support adviser Hewitt New Bridge Street (formerly New Bridge Street Consultants LLP). The lead adviser advises the Committee and the Company on overall direction and acts as the primary lead for advice. The support adviser advises on share-based awards, performance monitoring, remuneration data and accounting including IFRS and US GAAP for any existing or new incentives and remuneration schemes and provides analytical support. The support adviser works in conjunction with the lead adviser and they provided no other services to the Company during the year.

### 3. Remuneration policy

The Committee's reward policy reflects its aim to align Executive Directors' remuneration with shareholders' interests and to engage and retain world-class executive talent for the benefit of the Group. The main principles of the policy are that:

- total rewards should be set at appropriate levels to reflect the competitive market in which the Group operates;
- the majority of the total reward should be linked to the achievement of demanding performance targets; and
- appropriate benchmarks are used when reviewing the salaries of the Executive Directors and Senior Executives. The Company uses a subset of the FTSE 100 as its benchmark.

In formulating its remuneration policy, the Committee is keen to understand shareholders' views on executive remuneration. From time to time, the Company holds consultation meetings with a range of institutional investors, concerning aspects of the Committee's policy, and has taken their advice into account in arriving at remuneration decisions.

The Committee believes that performance share awards continue to be the best long-term incentive vehicle for Executive Directors and Senior Executives. The Committee also believes that the Group's historically strong operational performance



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has led investors to expect continued excellence in operational delivery. Accordingly, 70% of the Long-Term Incentive Plan ( LTIP ) vests based on operational performance, while 30% vests based on Total Shareholder Return ( TSR ) relative to the constituents of the FTSE 100. The operational performance conditions chosen to date include earnings per share ( EPS ), free cash flow per share ( FCF ) and Direct to Home ( DTH ) subscriber growth. The Committee will decide on appropriate performance conditions for future awards. It is currently expected that these will be similar to those currently used.

All LTIP programmes are measured over three years using the performance measures described above for the LTIP.

The Committee also recognises that the interactions between different areas of the business in creating long-term shareholder value are complex. Rather than Senior Executives being incentivised primarily through measures relevant to their own business area, their remuneration emphasises a critical set of Group-wide goals in order to maximise the benefits of teamwork and collaboration across the Group.

The Executive Directors of the Company are employed on twelve-month rolling contracts.

#### 4. Elements of Executive Director remuneration

##### 4.1 Remuneration Mix

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

##### Overview of current remuneration elements for executives, including Executive Directors

| Element   | Objective  | Performance conditions   |
|---|--|--|
| <b>Basic salary</b><br>(see section 4.2)                    | Reflects the market value of the position, as well as the skills and experience of the incumbent | Reviewed annually on the basis of external market benchmarking and/or reference to internal positioning  |
| <b>Annual bonus</b><br>(see section 4.3)                    | Rewards achievement of short-term objectives set during the year                                 | Cash award is subject to achievement of team and individual objectives. For Executive Directors, award is wholly dependent on group-level objectives (earnings, cash and subscriber growth)                      |
| <b>LTIP</b><br>(see section 4.4)                            | Rewards the achievement of long-term objectives  | 30% of the award is subject to achievement of relative TSR performance vs. the FTSE 100 over three years. 70% of the award is subject to achievement of operating targets for EPS, FCF and DTH subscriber growth |
| <b>Pension and other benefits</b><br>(see sections 6 and 7) | Set below market norms, to reflect higher proportion of performance pay                          | Not applicable   |

Performance-related elements of pay represent a higher proportion of remuneration than market norms. This, combined with the fact that BSKyB's pension arrangements for Executive Directors are considerably less generous than those found at comparable companies, means that a large amount of pay is at risk. Pay is very competitive if BSKyB's stretching targets are delivered, but if these targets are not met, the guaranteed elements of pay are below market norms.

The proportions of fixed and variable pay vary with performance outcomes. However, for target performance, approximately three-quarters of Executive Directors' remuneration is performance-related in the year ended 30 June 2008, as shown by the chart below:

## Remuneration mix

Notes to chart:

- FTSE Comparator Group is ten companies above and ten companies below BSkyB in the FTSE 100, ranked by market capitalisation on 30 April 2008.
- Comparator pay data was taken from the most recently available annual reports at 30 April 2008.
- Annual bonus valuation assumes on-target performance.
- LTIP valuation assumes annualised expected value, where expected value is face value at the time of grant, discounted to reflect expected vesting for target performance.

### 4.2 Basic salary

The basic salary for each Executive Director and Senior Executive is determined by the Committee taking into account the recommendations 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 and companies of a similar size. Salaries for the CEO and CFO are periodically benchmarked against equivalent roles in comparable companies.

There was no change to James Murdoch's salary between the beginning of this financial year and 6 December 2007, when he ceased to be CEO. During the period that he was CFO in this financial year, there was no change to Jeremy Darroch's salary; however, it increased by 29% upon his appointment as CEO on 7 December 2007. Andrew Griffith was awarded a salary of £450,000 upon his appointment as CFO on 7 April 2008. These salaries reflect the Committee's view of the appropriate base salary on appointment for roles of this complexity in a rapidly evolving business environment, taking into account a range of market benchmarks as described above. Over time, it should be expected that these salaries would increase to industry market levels as each individual gains experience in their respective roles.

### 4.3 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. For the Executive Directors the level of bonus paid depends purely on Group-wide operational performance measures, specifically: operating profit, free cash flow and DTH subscriber growth. These measures were chosen to reflect the tensions inherent in balancing growth, investment and returns to shareholders: an improvement in one measure may come at the expense of improvement in another.

For the CEO, the maximum bonus that may be awarded is 200% of salary, while for the CFO the maximum bonus that may be awarded is 125% of salary, and for on target performance they would receive 130% and 100% of salary respectively.



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## Directors report governance

continued

## Report on Directors remuneration

continued

For performance in the year ended 30 June 2008, which exceeded target by a substantial margin, the CEO and CFO were awarded the following bonus payments:

|                 | Bonus amount<br>(£) | As a<br>% of salary |
|-----------------|---------------------|---------------------|
| Jeremy Darroch  | 1,216,250           | 162%                |
| Andrew Griffith | 450,000             | 100%                |
| James Murdoch   | 827,292             | 80%                 |

For the year 1 July 2008 to 30 June 2009, the operational measures that will govern bonus payouts will again be: operating profit, free cash flow, and DTH subscriber growth.

Although bonus awards are primarily driven by performance relative to the stated measures, the Committee retain the discretion to adjust payouts (up and down), as an exception, if they feel that an important aspect of performance has not been reflected.

### 4.4 LTIP

The Company operates an LTIP for Executive Directors and Senior Executives, under which awards may be made to any employee or full-time Executive Director 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. LTIP awards are satisfied using shares purchased in the market.

The current LTIP plan was approved by shareholders on 30 October 1998, and expires on 30 October 2008. The rules have been re-drafted and updated in 2008, and will be submitted for shareholder approval at the AGM on 26 September 2008. These updates primarily concern technical improvements and clarifications, a summary of which can be found in the Notice of Annual General Meeting.

### Design of LTIP plan

The LTIP has a structure tailored to the needs of the Company in which grants are made every year, but vesting occurs biennially, designed to reduce Executives' reliance on annual vesting of LTIP awards. In the first year, an Executive is granted an award of shares that vests at the end of the three year performance cycle, subject to performance conditions. In the second year, a further discretionary award of up to normally no more than 100% of the year one award can be made. This award vests at the same time as the first award. While second year grants are linked to the previous year and therefore capped, the size of first year grants are determined by the Committee on the basis of a range of factors including internal and external market benchmarks. The grant is made in terms of a number of shares (as opposed to a monetary value) and therefore values in relation to salary may vary with share price movements.

**Performance conditions for LTIP plan**

The awards vest, in full or in part, dependent on points gained for satisfying performance targets measured over three years. Performance targets are calibrated to ensure the achievement of Sky's stretching long-term goals, and the cumulative total points achieved governs vesting. The extent to which performance targets have been met is reviewed by the Committee regularly and at the date of vesting of each award.

*Awards which vested in August 2007*

The awards made in 2004 and 2005 vested on 11 August 2007. Vesting of 70% of the awards was subject to operational performance, as follows:

| Operational performance measure  | Target                                  | Extent to which target achieved |
|----------------------------------|---|---------------------------------|
| EPS growth                       | Retail Price Index ( RPI ) + 7%         | 142%                            |
| Free Cash Flow per Share         | Undisclosed<br>(commercially sensitive) | 106%                            |
| Growth in DTH Subscriber Numbers | Undisclosed<br>(commercially sensitive) | 109%                            |

As performance on all three of these measures exceeded targets, this portion of the awards vested in full. Vesting of the remaining 30% of the awards was subject to TSR performance relative to the constituents of the FTSE 100 at the time of grant. Despite the strong operational performance of the Company during the three year period ending 10 August 2007 the Company's TSR performance was below median and accordingly the TSR portion of these awards lapsed.

*Awards vesting in August 2009*

Awards were made in August 2006, 30 July 2007, 6 February 2008 and 30 April 2008 to Executive Directors as detailed in section 13 (LTIP) of this report. The first two of these awards were regular annual LTIP awards made to the CEO and CFO, reflecting market benchmarks and the Committee's desire to ensure that incentive compensation for Executive Directors was tied to an appropriate mix of long-term, stretching performance goals. The awards made in February and April 2008 were one-off awards made to Jeremy Darroch and Andrew Griffith upon their appointments as CEO and CFO respectively, to make their overall award level for the year commensurate with someone holding that position.

These awards are due to vest in August 2009, and are subject to performance in the preceding three years. As in previous years, vesting of 70% of the award is dependent on operational measures, while 30% is governed by TSR performance. The specifics of the measures and targets are as follows:

## i) Operational performance (governing 70% of award)

Points are awarded for performance on three operational measures as follows:

| EPS growth           |                | Free cash flow per share           |                | DTH subscriber growth              |                |
|----------------------|----------------|------------------------------------|----------------|------------------------------------|----------------|
| Performance achieved | Points awarded | Performance achieved (% of target) | Points awarded | Performance achieved (% of target) | Points awarded |
|                      |                | 105%                               |                | 105%                               |                |
| RPI + 8% pa          | 10             | or more                            | 10             | or more                            | 10             |
| RPI + 7% pa          | 8              | 100%                               | 8              | 100%                               | 8              |
| RPI + 6% pa          | 6              | 95%                                | 6              | 95%                                | 6              |
| RPI + 5% pa          | 4              | 90%                                | 4              | 90%                                | 4              |

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|                          |   |                  |   |                  |   |
|--------------------------|---|------------------|---|------------------|---|
| RPI + 4% pa              | 2 | 85%              | 2 | 85%              | 2 |
| RPI + 3% pa              | 1 | 75%              | 1 | 75%              | 1 |
| Less than<br>RPI + 3% pa | 0 | Less than<br>75% | 0 | Less than<br>75% | 0 |

The total number of points awarded governs the extent of vesting of the operational portion, according to a straight-line vesting schedule:

| Total points achieved | Resulting vesting                    |                                    |
|-----------------------|--------------------------------------|------------------------------------|
|                       | % of<br>operational portion          | % of<br>overall award              |
| Less than 1           | 0%                                   | 0%                                 |
| 1                     | 10%                                  | 7%                                 |
| 1-21                  | 10% 100% on a<br>straight-line basis | 7% 70% on a<br>straight-line basis |
| 21 or more            | 100%                                 | 70%                                |

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ii) TSR Performance (governing 30% of award)

The Company's TSR performance is measured relative to the constituents of the FTSE 100 at the time of grant. If the Company's TSR performance is below median, the TSR element of the award lapses with no vesting. For median performance, one third of the TSR portion of the award vests. For performance in the upper quartile, the whole TSR portion of the award vests. For performance between median and upper quartile, vesting is on a straight-line basis, as shown in the chart below:

## TSR vesting schedule

TSR calculations are conducted independently by Hewitt New Bridge Street, employing a methodology which averages share prices over three months prior to grants and the three months prior to the end of the three-year performance period.

## 5. Other share plans

### 5.1 Management Long-Term Incentive Plan ( Management LTIP )

The Company also operates a Management LTIP, which has replaced options granted under the Executive Share Option Scheme. Selected employees will participate in the Management LTIP, but this will not include any Executive Directors or Senior Executives who participate in the LTIP. Awards under this scheme are made at the discretion of the CEO. To date, the Management LTIP has mirrored the LTIP for Senior Executives and Executive Directors, with the same performance conditions. Awards that are exercised under the Management LTIP can only be satisfied by the delivery of shares purchased in the market.

### 5.2 Executive Share Option Schemes ( Executive Schemes )

The Company has in place Approved and Unapproved Executive Share Option Schemes under Her Majesty's Revenue & Customs ( HMRC ) guidelines. Executive Directors and Senior Executives who participate in the LTIP do not participate in the Executive Schemes. No options have been granted since 2004 and the Company currently has no intention of making grants under the Executive Scheme in the foreseeable future.

### 5.3 Sharesave Scheme

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

## 6. Pensions

The Group provides pensions to eligible employees through the BSKyB Pension Plan ( Pension Plan ), which is a defined contribution plan. Employees contribute a minimum of 4% of pensionable salary (basic salary less the pension offset) into the Pension Plan each year and the Group matches this with a contribution of 8% of pensionable salary.

## 7. Other benefits

Executive Directors are entitled to use of 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 private medical insurance.

## 8. Service agreements

### Policy

The Committee's stated policy is that Executive Directors' service agreements will contain a maximum notice period of one year. The Committee will also consider, where appropriate to do so, reducing remuneration to a departing Director. However, the Committee will consider such issues on a case-by-case basis and will consider the terms of employment of a departing Director. 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**

On 6 December 2007, James Murdoch relinquished the role of CEO, to take up the role of Non-Executive Chairman. His remuneration consists of Chairman's fees of £25,000 per annum together with a Non-Executive Director's fee of £50,000. James Murdoch will be paid a bonus amount depending upon the performance criteria adopted by the Committee for his service as CEO during the 2007/08 financial year. Prior to his appointment as Chairman, James Murdoch had received a base salary of £1,045,000 per annum.

### **Jeremy Darroch**

Jeremy Darroch was appointed CEO of the Company on 7 December 2007. His initial service contract as CFO with the Company commenced on 16 August 2004 and was revised with effect from 7 December 2007. The new agreement shall continue unless, or until, terminated by either party giving to the other not less than twelve months' notice in writing. Jeremy Darroch's revised remuneration consists of a base salary of £750,000 per annum. Jeremy Darroch 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.

Jeremy Darroch is also entitled to other benefits, namely pension benefits, company car, life assurance equal to four times base salary, medical insurance and an entitlement to participate 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. In the instance of the termination of Jeremy Darroch's employment for cause, he would be paid salary and benefits up to the date of termination but this would not include any pro-rata bonus.

Jeremy Darroch is a Non-Executive Director of Marks & Spencer Group plc and retained fees for this appointment of £73,000 for the year ended 30 June 2008.

### **Andrew Griffith**

Andrew Griffith has a service agreement with the Company that commenced on 7 April 2008 and shall continue unless, or until, terminated by either party giving to the other not less than twelve months' notice in writing. Andrew Griffith's remuneration consists of a base salary of £450,000 per annum. Andrew Griffith 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.

Andrew Griffith is also entitled to other benefits, namely pension benefits, company car, life assurance equal to four times base salary, medical insurance and an entitlement to participate in the LTIP.

Andrew Griffith 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, Andrew Griffith 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. In the instance of the termination of Andrew Griffith's



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## Directors report governance

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## Report on Directors remuneration

continued

employment for cause, he would be paid salary and benefits up to the date of termination but this would not include any pro-rata bonus.

### 9. Non-Executive Directors

There has been no increase in the basic fees payable to the Non-Executive Directors and the Chairman set by the Board of Directors for the financial year ending 30 June 2009; basic fees are £50,000 (2008: £50,000). Furthermore, the Non-Executive Directors will be paid an additional £10,000 (2008: £10,000) per annum each for membership of the Audit Committee, the Remuneration Committee and the Corporate Governance and Nominations Committee. The Chairman and the Chairmen of the Audit Committee, the Remuneration Committee and the Corporate Governance and Nominations Committee each receive an additional £25,000 per annum (2008: £25,000). The Deputy Chairman will receive an additional fee of £10,000 per annum (2008: £10,000). Finally, the Senior Independent Director will receive an additional fee of £15,000 per annum (2008: £15,000). Each Non-Executive Director is engaged by the Company for an initial term of three years. Reappointment for a further term is not automatic, but may be mutually agreed.

### 10. Performance graph

The following graph shows the Company's performance measured by TSR in the five years to 30 June 2008. This graph shows the growth in the value of a hypothetical £100 holding in the Company's ordinary shares over five years, relative to three indices, which are considered to be the most relevant broad equity market indices for this purpose. The graph is included to meet a legislative requirement and is not directly relevant to the performance criteria approved by shareholders for the Company's long-term incentive plans.

### Breakdown of shareholder return from 1 July 2003 to 30 June 2008

### 11. Share interests

The interests of the Directors in the ordinary share capital of the Company during the year were:

| Name of Director      | At<br>30 June<br>2008 | At<br>30 June<br>2007 |
|-----------------------|-----------------------|-----------------------|
| Jeremy Darroch        | 60,000                |                       |
| David Evans           | 16,000 <sup>(i)</sup> | 16,000 <sup>(i)</sup> |
| Nicholas Ferguson     | 10,000                | 10,000                |
| Andrew Higginson      | 2,160                 | 2,104                 |
| Lord Rothschild       | 100,000               | 100,000               |
| Lord Wilson of Dinton | 486                   | 486                   |

(i) Held in the form of 4,000 ADSs, one ADS 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 18,750 ordinary shares as a result of being a trustee of two charitable foundations of which Lord Rothschild is not a beneficiary.

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Except as disclosed in this report, no other Director held any interest in the share capital, including options, of the Company, or of any subsidiary of the Company, during the year. All interests at the date shown are beneficial and there have been no changes between 1 July 2008 and 30 July 2008.

During the year ended 30 June 2008, the share price traded within the range of 465.0p to 713.5p per share. The middle-market closing price on the last working day of the financial year was 465.0p.

[Back to Contents](#)**12. Directors remuneration**

The emoluments of the Directors for the year are shown below:

|   | Salary<br>and fees<br>£ | Bonus<br>scheme<br>£ | Benefits<br>£ | Total<br>emoluments<br>before<br>pension<br>2008<br>£ | Pensions<br>£ | Total<br>emoluments<br>including<br>pension<br>2008<br>£ | Total<br>emoluments<br>including<br>pension<br>2007<br>£ | Total<br>emoluments<br>including<br>pension<br>2006<br>£ |
|---|-------------------------|----------------------|---------------|---|---------------|--|--|--|
| <b>Executive</b>                        |                         |                      |               |   |               |  |  |  |
| Jeremy Darroch <sup>(i)</sup>           | 675,029                 | 1,216,250            | 17,132        | 1,908,411   | 53,639        | 1,962,050  | 1,423,752  | 1,324,958  |
| Andrew Griffith <sup>(ii)</sup>         | 106,154                 | 450,000              | 2,948         | 559,102   | 8,402         | 567,504  |  |  |
| <b>Non-Executive</b>                    |                         |                      |               |   |               |  |  |  |
| James Murdoch <sup>(iii)</sup>          | 493,897                 | 827,292              | 349           | 1,321,538   | 35,937        | 1,357,475  | 2,993,124  | 2,749,285  |
| Chase Carey                             | 50,000                  |                      |               | 50,000  |               | 50,000   | 44,700   | 42,600   |
| David F. Devoe                          | 50,000                  |                      |               | 50,000  |               | 50,000   | 44,700   | 42,600   |
| David Evans                             | 60,000                  |                      |               | 60,000  |               | 60,000   | 49,700   | 47,600   |
| Nick Ferguson                           | 104,603                 |                      |               | 104,603   |               | 104,603  | 59,700   | 51,805   |
| Andrew Higginson                        | 60,000                  |                      |               | 60,000  |               | 60,000   | 49,700   | 47,600   |
| Allan Leighton                          | 85,000                  |                      |               | 85,000  |               | 85,000   | 59,700   | 57,600   |
| Jacques Nasser                          | 60,000                  |                      |               | 60,000  |               | 60,000   | 49,700   | 53,395   |
| Gail Rebuck                             | 60,000                  |                      |               | 60,000  |               | 60,000   | 49,700   | 47,600   |
| Daniel Rimer <sup>(iv)</sup>            | 11,795                  |                      |               | 11,795  |               | 11,795   |  |  |
| Lord Rothschild                         | 68,629                  |                      |               | 68,629  |               | 68,629   | 59,700   | 57,600   |
| Arthur Siskind                          | 60,000                  |                      |               | 60,000  |               | 60,000   | 49,700   | 47,600   |
| Lord Wilson of Dinton                   | 85,000                  |                      |               | 85,000  |               | 85,000   | 59,700   | 57,600   |
| <b>Former Directors</b>                 |                         |                      |               |   |               |  |  |  |
| Rupert Murdoch <sup>(v)</sup>           | 32,404                  |                      |               | 32,404  |               | 32,404   | 54,700   | 52,600   |
| Lord St John of Fawsley <sup>(vi)</sup> |                         |                      |               |   |               |  | 15,244   | 42,600   |
| <b>Total emoluments</b>                 | <b>2,062,511</b>        | <b>2,493,542</b>     | <b>20,429</b> | <b>4,576,482</b>                                      | <b>97,978</b> | <b>4,674,460</b>   | <b>5,063,520</b>   | <b>4,723,043</b>   |

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### Notes:

- (i) Jeremy Darroch received a salary of £577,500 per annum up to 6 December 2007 which was increased to £750,000 on 7 December 2007 following his appointment as CEO.
- (ii) Andrew Griffith was appointed as a Director to the Board on 7 April 2008.
- (iii) James Murdoch received a salary of £1,045,000 per annum up to 6 December 2007, which was reduced to £75,000 per annum on 7 December 2007 following his appointment as Non- Executive Chairman.
- (iv) Daniel Rimer was appointed as a Non-Executive Director on 7 April 2008.
- (v) Rupert Murdoch resigned as a Director of the Company on 6 December 2007.
- (vi) Lord St John of Fawsley resigned as a Director of the Company on 3 November 2006.

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## Directors report governance

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## Report on Directors remuneration

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### 13. LTIP

Details of all outstanding awards held under the LTIP are shown below:

| Name of Director             | Number of shares under award |                         |                           |                        | At 30 June 2008         | Exercise price | Market price at date of exercise | Date of award | Market price at date of award | Date from which exercisable | Expiry date |
|------------------------------|------------------------------|-------------------------|---------------------------|------------------------|-------------------------|----------------|----------------------------------|---------------|-------------------------------|-----------------------------|-------------|
|                              | At 30 June 2007              | Granted during the year | Exercised during the year | Lapsed during the year |                         |                |                                  |               |                               |                             |             |
| James Murdoch <sup>(i)</sup> | 450,000                      |                         |                           | 450,000 <sup>(i)</sup> |                         | n/a            | £6.715                           | 11.08.04      | £4.770                        | n/a                         | n/a         |
|                              | 382,500                      |                         |                           | 382,500 <sup>(i)</sup> |                         | n/a            | £6.715                           | 08.11.05      | £5.015                        | n/a                         | n/a         |
|                              | 550,000                      |                         |                           |                        | 550,000 <sup>(ii)</sup> | n/a            | n/a                              | 03.08.06      | £5.425                        | 03.08.09                    | 03.08.10    |
|                              |                              | 550,000                 |                           |                        | 550,000 <sup>(ii)</sup> | n/a            | n/a                              | 30.07.07      | £6.645                        | 03.08.09                    | 03.08.10    |
| Jeremy Darroch               | 250,000                      |                         | 175,000 <sup>(iii)</sup>  | 75,000 <sup>(iv)</sup> |                         | n/a            | £6.5342                          | 16.08.04      | £4.715                        | n/a                         | n/a         |
|                              | 212,500                      |                         | 148,750 <sup>(iii)</sup>  | 63,750 <sup>(iv)</sup> |                         | n/a            | £6.5342                          | 08.11.05      | £5.015                        | n/a                         | n/a         |
|                              | 290,000                      |                         |                           |                        | 290,000                 | n/a            | n/a                              | 03.08.06      | £5.425                        | 03.08.09                    | 03.08.10    |
|                              |                              | 290,000                 |                           |                        | 290,000                 | n/a            | n/a                              | 30.07.07      | £6.645                        | 03.08.09                    | 03.08.10    |
|                              |                              | 295,000                 |                           |                        | 295,000                 | n/a            | n/a                              | 06.02.08      | £5.770                        | 03.08.09                    | 03.08.10    |
| Andrew Griffith              | 100,000 <sup>(v)</sup>       |                         |                           |                        | 100,000                 | n/a            | n/a                              | 03.08.06      | £5.425                        | 03.08.09                    | 03.08.10    |
|                              | 50,000 <sup>(v)</sup>        |                         |                           |                        | 50,000                  | n/a            | n/a                              | 30.05.07      | £6.635                        | 03.08.09                    | 03.08.10    |
|                              |                              | 125,000 <sup>(v)</sup>  |                           |                        | 125,000                 | n/a            | n/a                              | 30.07.07      | £6.645                        | 03.08.09                    | 03.08.10    |
|                              |                              | 125,000                 |                           |                        | 125,000                 | n/a            | n/a                              | 30.04.08      | £5.450                        | 03.08.09                    | 03.08.10    |

Notes: The performance conditions attaching to these awards are set out in section 4.4 (LTIP). The aggregate amount received by the directors under the LTIP was £5,636,562 (2007: nil). James Murdoch's LTIP entitlement was settled in cash.

(i) Under the terms of James Murdoch's service agreement, the Company elected to pay him in cash an amount equal to the then market value of the 582,750 shares that vested. The market price of the shares at the time of the payment was 671.5p. Furthermore, upon the payment made to James Murdoch, the awards lapsed.

(ii) These options remain exercisable to the fullest extent subject to the achievement of the performance conditions. Again, the Company may elect to pay cash.

(iii) Jeremy Darroch exercised in total 323,750 shares of which 263,750 were sold and 60,000 shares were retained as a personal interest.

(iv) See performance conditions for LTIP plan on page 48.

(v) These awards were made under the Company's Management LTIP plan prior to Andrew Griffith's appointment as a Director of the Company on 7 April 2008.

### 14. Executive Share Options

Details of all outstanding options held under the Executive Schemes are shown below:

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| Name of Director               | Number of options      |                         |                           |                        | At 30 June 2008 | Exercise price | Market price at date of exercise | Date from which exercisable | Expiry date |
|--------------------------------|------------------------|-------------------------|---------------------------|------------------------|-----------------|----------------|----------------------------------|-----------------------------|-------------|
|                                | At 30 June 2007        | Granted during the year | Exercised during the year | Lapsed during the year |                 |                |                                  |                             |             |
| Andrew Griffith <sup>(i)</sup> | 3,030 <sup>(ii)</sup>  |                         |                           |                        | 3,030           | £9.90          | n/a                              | 23.11.03                    | 23.11.10    |
|                                | 25,222                 |                         |                           |                        | 25,222          | £9.90          | n/a                              | 23.11.03                    | 23.11.10    |
|                                | 40,025                 |                         |                           |                        | 40,025          | £7.94          | n/a                              | 06.11.04                    | 06.11.11    |
|                                | 44,184                 |                         |                           |                        | 44,184          | £6.62          | n/a                              | 01.09.07                    | 05.09.13    |
|                                | 19,819 <sup>(ii)</sup> |                         |                           |                        | 19,819          | £5.03          | n/a                              | 06.08.08                    | 06.08.14    |

(i) These are all awards that are outstanding following Andrew Griffith's appointment as a Director on 7 April 2008.

(ii) These options will vest upon the achievement of the performance target, being the growth in BSkyB's EPS being equal to or greater than the increase in RPI plus 3% per annum.

[Back to Contents](#)**15. Sharesave Scheme options**

Details of all outstanding options held under the Sharesave Scheme are shown below:

| Name of Director | Number of shares under options |                               |                                 | At<br>30 June<br>2008 | Exercise<br>price | Date<br>from which<br>exercisable | Expiry<br>date |
|------------------|--------------------------------|-------------------------------|---------------------------------|-----------------------|-------------------|-----------------------------------|----------------|
|                  | At<br>30 June<br>2007          | Granted<br>during the<br>year | Exercised<br>during the<br>year |                       |                   |                                   |                |
| Jeremy Darroch   | 4,281                          |                               |                                 | 4,281                 | £3.86             | 01.02.10                          | 01.08.10       |

Options under the Company's Sharesave Scheme are not subject to performance conditions.

Signed on behalf of the Board

Nicholas Ferguson

Remuneration Committee Chairman

30 July 2008

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## Directors report governance continued

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### Other statutory information

#### Payment policy

The policy of the Group is to agree terms of payment with suppliers prior to entering into a contractual relationship. In the absence of a specific agreement, it is the policy of the Group to pay suppliers on a monthly basis. The Group had below 30 days purchases outstanding at 30 June 2008 (2007: below 30 days), based on the total amount invoiced by non-programme trade suppliers during the year ended 30 June 2008. Programme creditors include significant balances which are not yet contractually due. In respect of amounts both contractually due and invoiced, the outstanding number of days purchases is below 30 days (2007: below 30 days).

#### Financial instruments

Details of the Group's use of financial instruments, together with information on our risk management objectives and policies, and our exposure to price risks, credit risks, liquidity risks and cash flow risks, can be found in note 23 to the accounts.

#### Share capital

Details of the structure of the Company's share capital and changes in the share capital during the year are disclosed in notes 24 and 25 to the consolidated financial statements.

The Shareholder information item on pages 104 to 111 contains details of the rights attaching to the Company's ordinary shares.

The information disclosed to the Company, as at 30 July 2008, under Rule 5 of the Disclosure and Transparency Rules of the Financial Services Authority in respect of holdings exceeding the 3% notification threshold is detailed in Shareholder information Major shareholders on page 105.

#### Charitable contributions and community and environmental activities

The Bigger Picture Review, the Group's sixth Corporate Responsibility Review, which does not form part of the Annual Report, will be published in October 2008, and will provide further information on the Group's commitment to corporate responsibility, including community and environmental activities (see [www.sky.com/responsibilities](http://www.sky.com/responsibilities)). An overview of the Group's community and environmental activities is also included in the review of the business on page 18.

During 2008, the Group donated £2,021,649 (2007: £1,881,125) to charities in the UK in the form of cash. The Group's total community investment (cash, time, in kind and management costs) will be published in the Corporate Responsibility Review.

#### Political contributions

Political contributions of the Group in the UK during 2008 amounted to nil (2007: nil).

#### Annual General Meeting

The notice convening the AGM, to be held at The Cumberland Hotel, Great Cumberland Place, London W1H 7DL on 26 September 2008 at 10.00am, is available for download from the Company's corporate website at [www.sky.com/corporate](http://www.sky.com/corporate).

#### Going concern

After making enquires, the Directors have formed the judgement, at the time of approving the consolidated financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements.

#### Auditors

In accordance with the provisions of Section 234ZA of the Companies Act 1985, each of the persons who are Directors of the Company at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware; and



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- the Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information. A resolution to reappoint Deloitte & Touche LLP as the Company's auditors will be proposed at the forthcoming AGM.

By order of the Board,  
Dave Gormley  
Company Secretary  
30 July 2008

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## Consolidated financial statements

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### Statement of Directors' responsibility

The Directors are responsible for preparing the Annual Report, Report on Directors' remuneration and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare consolidated financial statements for each financial year. The Directors are required by the IAS Regulation to prepare the group financial statements under IFRSs as adopted by the European Union and as issued by the International Accounting Standards Board. The Directors have also elected to prepare financial statements for the Company in accordance with IFRSs as adopted by the European Union and as issued by the International Accounting Standards Board. The financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 Presentation of Financial Statements (IAS 1) requires that financial statements present fairly, for each financial year, the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expense set out in the International Accounting Standards Board's Framework for the preparation and presentation of financial statements. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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## Consolidated financial statements continued

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### Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of  
British Sky Broadcasting Group plc  
Grant Way, Isleworth  
Middlesex TW7 5QD

We have audited the accompanying consolidated balance sheets of British Sky Broadcasting Group plc and subsidiaries (the Group) as of 30 June 2008 and 2007, and the related consolidated income statements, consolidated statements of recognised income and expense and consolidated cash flow statements for each of the three years in the period ended 30 June 2008 (all expressed in pounds sterling). These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of British Sky Broadcasting Group plc and subsidiaries as of 30 June 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended 30 June 2008, in conformity with International Financial Reporting Standards (IFRS) as adopted for use in the European Union and IFRS as issued by the International Accounting Standards Board (IASB).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group's internal control over financial reporting as of 30 June 2008, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated 30 July 2008 expressed an unqualified opinion on the Group's internal control over financial reporting.

Deloitte & Touche LLP  
London, England  
30 July 2008

### Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of  
British Sky Broadcasting Group plc  
Grant Way, Isleworth  
Middlesex TW7 5QD

We have audited the internal control over financial reporting of British Sky Broadcasting Group plc and subsidiaries (the Group) as of 30 June 2008, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's report on internal control over financial reporting. Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control

over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of 30 June 2008, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended 30 June 2008 of the Group and our report dated 30 July 2008 expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP  
London, England  
30 July 2008

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for the year ended 30 June 2008

|  | Notes | 2008<br>£m | 2007<br>£m | 2006<br>£m |
|--|-------|------------|------------|------------|
| Revenue  | 2     | 4,952      | 4,551      | 4,148      |
| Operating expense  | 3     | (4,228)    | (3,736)    | (3,271)    |
| Operating profit   |       | 724        | 815        | 877        |
| Share of results of joint ventures and associates                    | 15    | 15         | 12         | 12         |
| Investment income  | 4     | 47         | 46         | 52         |
| Finance costs  | 4     | (177)      | (149)      | (143)      |
| Profit on disposal of joint venture                                  | 5     | 67         |            |            |
| Impairment of available-for-sale investment                          | 6     | (616)      |            |            |
| Profit before tax  | 7     | 60         | 724        | 798        |
| Taxation   | 9     | (187)      | (225)      | (247)      |
| (Loss) profit for the year   |       | (127)      | 499        | 551        |
| (Loss) earnings per share from (loss) profit for the year (in pence) |       |            |            |            |
| Basic  | 10    | (7.3p)     | 28.4p      | 30.2p      |
| Diluted  | 10    | (7.3p)     | 28.2p      | 30.1p      |

The accompanying notes are an integral part of this consolidated income statement.

**Consolidated Statement of Recognised Income and Expense**

for the year ended 30 June 2008

|   | Notes | 2008<br>£m | 2007<br>£m | 2006<br>£m |
|---|-------|------------|------------|------------|
| (Loss) profit for the year                                |       | (127)      | 499        | 551        |
| Net loss recognised directly in equity                    |       |            |            |            |
| Loss on available-for-sale investments                    | 16    | (192)      | (151)      |            |
| Cash flow hedges  |       | 43         | (70)       | (160)      |
| Tax on cash flow hedges                                   |       | (13)       | 21         | 48         |
| Exchange differences on translation of foreign operations |       | 4          |            |            |
|   |       | (158)      | (200)      | (112)      |
| Amounts reclassified and reported in the income statement |       |            |            |            |
| Cash flow hedges  |       | 2          | 109        | 106        |

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|  |            |              |             |
|--|------------|--------------|-------------|
| Tax on cash flow hedges  |            | (33)         | (32)        |
| Transfer to (loss) profit on impairment of available-for-sale investment | 343        |              |             |
|  | 345        | 76           | 74          |
| <b>Net profit (loss) recognised directly in equity</b>                   | <b>187</b> | <b>(124)</b> | <b>(38)</b> |
| <b>Total recognised income and expense for the year</b>                  | <b>60</b>  | <b>375</b>   | <b>513</b>  |

The accompanying notes are an integral part of this consolidated statement of recognised income and expense.

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## Consolidated financial statements

continued

### Consolidated Balance Sheet

as at 30 June 2008

|  | Notes | 2008<br>£m   | 2007<br>£m   |
|--|-------|--------------|--------------|
| <b>Non-current assets</b>                    |       |              |              |
| Goodwill                                     | 12    | 852          | 741          |
| Intangible assets                            | 13    | 303          | 261          |
| Property, plant and equipment                | 14    | 722          | 670          |
| Investments in joint ventures and associates | 15    | 114          | 34           |
| Available-for-sale investments               | 16    | 338          | 797          |
| Deferred tax assets                          | 17    | 23           | 54           |
| Trade and other receivables                  | 19    | 19           |              |
| Derivative financial assets                  | 23    | 13           |              |
|  |       | 2,384        | 2,557        |
| <b>Current assets</b>                        |       |              |              |
| Inventories                                  | 18    | 310          | 384          |
| Trade and other receivables                  | 19    | 566          | 524          |
| Short-term deposits                          | 23    | 185          | 15           |
| Cash and cash equivalents                    | 23    | 632          | 435          |
| Derivative financial assets                  | 23    | 5            | 5            |
|  |       | 1,698        | 1,363        |
| <b>Total assets</b>                          |       | <b>4,082</b> | <b>3,920</b> |
| <b>Current liabilities</b>                   |       |              |              |
| Borrowings                                   | 22    | 338          | 16           |
| Trade and other payables                     | 20    | 1,294        | 1,295        |
| Current tax liabilities                      |       | 151          | 144          |
| Provisions                                   | 21    | 27           | 8            |
| Derivative financial liabilities             | 23    | 83           | 36           |
|  |       | 1,893        | 1,499        |
| <b>Non-current liabilities</b>               |       |              |              |
| Borrowings                                   | 22    | 2,108        | 2,014        |
| Trade and other payables                     | 22    | 67           | 84           |
| Provisions                                   | 21    | 22           | 18           |
| Derivative financial liabilities             | 23    | 160          | 258          |
|  |       | 2,357        | 2,374        |
| <b>Total liabilities</b>                     |       | <b>4,250</b> | <b>3,873</b> |

|   |    |       |       |
|---|----|-------|-------|
| Shareholders (deficit) equity                       | 25 | (168) | 47    |
| Total liabilities and shareholders (deficit) equity |    | 4,082 | 3,920 |

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



[Back to Contents](#)**Consolidated Cash Flow Statement**

for the year ended 30 June 2008

|  | Notes | 2008<br>£m   | 2007<br>£m   | 2006<br>£m   |
|--|-------|--------------|--------------|--------------|
| <b>Cash flows from operating activities</b>                                |       |              |              |              |
| Cash generated from operations   | 26    | 997          | 1,007        | 1,004        |
| Interest received  |       | 43           | 46           | 43           |
| Taxation paid  |       | (163)        | (128)        | (172)        |
| <b>Net cash from operating activities</b>                                  |       | <b>877</b>   | <b>925</b>   | <b>875</b>   |
| <b>Cash flows from investing activities</b>                                |       |              |              |              |
| Dividends received from joint ventures and associates                      |       | 11           | 9            | 7            |
| Net funding to joint ventures and associates                               |       | (6)          | (3)          | (2)          |
| Purchase of property, plant and equipment                                  |       | (215)        | (292)        | (169)        |
| Purchase of intangible assets  |       | (124)        | (64)         | (43)         |
| Purchase of available-for-sale investments                                 |       | (6)          | (947)        |              |
| Purchase of subsidiaries (net of cash and cash equivalents purchased)      |       | (72)         | (104)        | (209)        |
| Proceeds from the sale of subsidiaries                                     |       | 3            |              |              |
| (Increase) decrease in short-term deposits                                 |       | (170)        | 632          | (453)        |
| <b>Net cash used in investing activities</b>                               |       | <b>(579)</b> | <b>(769)</b> | <b>(869)</b> |
| <b>Cash flows from financing activities</b>                                |       |              |              |              |
| Proceeds from borrowings   |       | 383          | 295          | 1,014        |
| Repayment of borrowings  |       | (16)         | (192)        |              |
| Repayment of obligations under finance leases                              |       | (1)          |              |              |
| Proceeds from disposal of shares in Employee Share Ownership Plan ( ESOP ) |       | 22           | 37           | 13           |
| Purchase of own shares for ESOP  |       | (45)         | (76)         | (17)         |
| Purchase of own shares for cancellation                                    |       |              | (214)        | (408)        |
| Interest paid  |       | (165)        | (154)        | (105)        |
| Dividends paid to shareholders   |       | (280)        | (233)        | (191)        |
| <b>Net cash (used in) from financing activities</b>                        |       | <b>(102)</b> | <b>(537)</b> | <b>306</b>   |
| Effect of foreign exchange rate movements                                  |       | 1            |              | 1            |
| <b>Net increase (decrease) in cash and cash equivalents</b>                |       | <b>197</b>   | <b>(381)</b> | <b>313</b>   |
| <b>Cash and cash equivalents at the beginning of the year</b>              |       | <b>435</b>   | <b>816</b>   | <b>503</b>   |
| <b>Cash and cash equivalents at the end of the year</b>                    |       | <b>632</b>   | <b>435</b>   | <b>816</b>   |

The accompanying notes are an integral part of this consolidated cash flow statement.



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## Consolidated financial statements

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### Notes to the consolidated financial statements

#### 1. Accounting policies

British Sky Broadcasting Group plc (the Company) is a limited liability company incorporated in England and Wales, and domiciled in the United Kingdom (UK). The consolidated financial statements include the Company and its subsidiaries (together, the Group) and its interests in associates and jointly-controlled entities.

##### a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), the Companies Act 1985 and Article 4 of the International Accounting Standard (IAS) Regulations. In addition, the Group also complied with IFRS as issued by the International Accounting Standards Board (IASB).

The following IFRSs were adopted from 1 July 2004, the date of transition to IFRS (the Transition Date), which is earlier than required under the IFRS transitional provisions: IAS 32 Financial Instruments: Disclosure and Presentation, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 2 Share-based Payment and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

##### b) Basis of preparation

The consolidated financial statements have been prepared on a going concern basis and on an historical cost basis, except for the remeasurement to fair value of financial instruments as described in the accounting policies below.

The Group maintains a 52 or 53 week fiscal year ending on the Sunday nearest to 30 June in each year. In fiscal year 2008, this date was 29 June 2008, this being a 52 week year (fiscal year 2007: 1 July 2007, 52 week year; fiscal year 2006: 2 July 2006, 52 week year). For convenience purposes, the Group continues to date its consolidated financial statements as at 30 June. The Group has classified assets and liabilities as current when they are expected to be realised in, or intended for sale or consumption in, the normal operating cycle of the Group.

##### c) Basis of consolidation

###### i. Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are included in the consolidated financial statements of the Company from the date control of the subsidiary commences until the date that control ceases. Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

###### ii. Associates and joint ventures

Associates are entities where the Group has significant influence, but not control or joint control, over the financial and operating policies of the entity. Joint ventures are those entities which are jointly controlled by the Group under a contractual agreement with another party or parties.

These consolidated financial statements include the Group's share of the total recognised gains and losses of associates and joint ventures using the equity method, from the date that significant influence or joint control commences to the date that it ceases, based on present ownership interests and excluding the possible exercise of potential voting rights, less any impairment losses (see accounting policy j). When the Group's interest in an associate or joint venture has been reduced to nil because the Group's share of losses exceeds its interest in the associate or joint venture, the Group only provides for additional losses to the extent that it has incurred legal or constructive obligations to fund such losses, or where the Group has made payments on behalf of the associate or joint venture. Where the disposal of an investment in an associate or joint venture is considered to be highly probable, the investment ceases to be equity accounted and, instead, is classified as held for sale and stated at the lower of carrying amount and fair value less costs to sell.

**d) Goodwill**

Business combinations that have occurred since the Transition Date are accounted for by applying the purchase method of accounting. Following this method, goodwill is initially recognised on consolidation, representing the difference between the fair value cost of the business combination and the fair value of the identifiable assets, liabilities and contingent liabilities assumed. Where a business combination occurs in several stages, as a result of successive share purchases, the goodwill associated with each stage is calculated using fair value information at the date of each additional share purchase.

In respect of business combinations that occurred prior to the Transition Date, goodwill has been included at the amounts recognised under the Group's UK Generally Accepted Accounting Principles ( UK GAAP ) accounting policies on the Transition Date. On disposal of a subsidiary, associate or joint venture, the attributable amount of goodwill is included in the determination of profit or loss on disposal, except for goodwill written off to reserves under UK GAAP prior to the Transition Date, which is not reinstated and is not included in determining any subsequent gain or loss on disposal.

Goodwill is stated at cost less any impairment losses and is tested, at least annually, for impairment, based on the recoverable amounts of the cash generating unit to which the goodwill has been allocated. Any impairment identified is recognised immediately in the income statement and is not subsequently reversed. The carrying amount of goodwill in respect of associates and joint ventures is included in the carrying amount of the investment in the associate or joint venture.

**e) Intangible assets and property, plant and equipment ( PPE )**

**i. Intangible assets**

Research expenditure is recognised in operating expense in the income statement as the expenditure is incurred. Development expenditure (relating to the application of research knowledge to plan or design new or substantially improved products for sale or use within the business) is recognised as an intangible asset from the point at which it is probable that the Group has the intention and ability to generate future economic benefits from the development expenditure, that the development is technically feasible and that the subsequent expenditure can be measured reliably. Any other development expenditure is recognised in operating expense as incurred.

Other intangible assets, which are acquired by the Group separately or through a business combination, are initially stated at cost or fair value, respectively, less accumulated amortisation and impairment losses, other than those that are classified as held for sale, which are stated at the lower of carrying amount and fair value less costs to sell.

Amortisation of an intangible asset begins when the asset is available for use, and is charged to the income statement through operating expense on a straight-line basis over the intangible asset's estimated useful life, principally being a period between three and ten years, unless the asset life is judged to be indefinite. If the useful life is indefinite or the asset is not yet available for use, no amortisation is charged and an impairment test is carried out at least annually. Other intangible assets are tested for impairment in line with accounting policy j below.

**ii. Property, plant and equipment**

Owned PPE is stated at cost, net of accumulated depreciation and any impairment losses, (see accounting policy j), other than those items that are classified as held for sale, which are stated at the lower of carrying amount and fair value less costs to sell. When an item of PPE comprises major components having different useful economic lives, the components are accounted for as separate items of PPE.

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are treated as PPE (see accounting policy o).

The cost of PPE, less estimated residual value, is depreciated in operating expense on a straight-line basis over its estimated useful life. Land, and assets that are not yet available for use, are not depreciated. Principal useful economic lives used for this purpose are:



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|  |  |
|--|--|
| Freehold buildings                                     | 25 years   |
| Equipment, furniture and fixtures                      | 3 to 15 years  |
| Assets under finance leases and leasehold improvements | Lesser of lease term and the useful economic life of the asset |

Borrowing costs are recognised in finance costs in the period in which they are incurred regardless of how the borrowings have been applied.

#### f) Derivative financial instruments and hedging activities

The Group uses a number of derivative financial instruments to hedge its exposure to fluctuations in interest and foreign exchange rates.

In the current year, the Group has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 Presentation of Financial Statements .

Derivatives are held at fair value from the date that a derivative contract is entered into. Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of derivative financial instruments is estimated with reference to the contracted value and the appropriate market value prevailing at the balance sheet date. Certain derivatives held by the Group which relate to highly probable forecast transactions ( hedged items ), which meet qualifying criteria under IAS 39, are designated as cash flow hedges or fair value hedges, and are subject to cash flow hedge accounting or fair value hedge accounting respectively. In certain circumstances, only the intrinsic value of a derivative has been designated as a cash flow hedge, with the remaining fair value not designated as a cash flow hedge. Certain other derivatives held by the Group do not meet the qualifying criteria for recognition for accounting purposes as hedges, despite this being their economic function. Changes in the fair values of these derivatives are recognised immediately in the income statement. The Group does not hold or issue derivatives for speculative purposes.

#### Derivatives that qualify for cash flow hedge accounting

Changes in the fair values of derivatives that are designated as cash flow hedges ( cash flow hedging instruments ) are initially recognised in the hedging reserve. In circumstances where the derivative used is a currency option, only changes in the intrinsic value of the option are designated under the cash flow hedging relationship, with all other movements being recorded immediately in the income statement. Amounts accumulated in the hedging reserve are subsequently recognised in the income statement in the periods in which the related hedged items are recognised in the income statement.

At inception, the effectiveness of the Group's cash flow hedges is assessed through a comparison of the principal terms of the hedging instrument and the underlying hedged item. The ongoing effectiveness of the Group's cash flow hedges is assessed using the dollar-offset approach, with the expected cash flows of hedging instruments being compared to the expected cash flows of the hedged items. This assessment is used to demonstrate that each hedge relationship is expected to be highly effective on inception, has been highly effective in the period and is expected to continue to be highly effective in future periods. The measurement of hedge ineffectiveness for the Group's hedging instruments is calculated using the hypothetical derivative method, with the fair values of the hedging instruments being compared to those of the hypothetical derivative that would result in the designated cash flow hedge achieving perfect hedge effectiveness. The excess of the cumulative change in the fair value of the actual hedging instrument compared to that of the hypothetical derivative is deemed to be hedge ineffectiveness, which is recognised in the income statement.

When a cash flow hedging instrument expires, is terminated or is exercised, or if a hedge no longer meets the qualifying criteria for hedge accounting, any cumulative gain or loss existing in the hedging reserve at that time remains in the hedging reserve and is recognised when the forecast transaction is ultimately recognised in the income statement, provided that the underlying transaction is still expected to occur. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the hedging reserve is immediately recognised in the income statement and all future changes in the fair value of the cash flow hedging instruments are immediately recognised in the income statement.

#### Derivatives that qualify for fair value hedge accounting

The Group has designated certain derivatives as fair value hedges as defined under IAS 39. Any changes in the fair value of the

derivatives are recognised immediately in the income statement. The carrying value of the underlying hedged items are adjusted for the change in the fair value of the hedged risks, with the gains or losses recognised immediately in the income statement, offsetting the fair value movement on the derivative.

Prospective effectiveness is assessed quarterly, through a comparison of the principal terms of the hedging instrument and the underlying hedged item, including the likelihood of default by the derivative counterparty. The retrospective effectiveness of the Group's fair value hedges is calculated quarterly using the cumulative dollar-offset approach, with movements in the fair value of the hedged item being compared to movements in the fair value of the hedging instrument. The Group uses a range of 80% to 125% for hedge effectiveness and any relationship which has effectiveness outside this range is deemed to be ineffective and hedge accounting is suspended.

### **Embedded derivatives**

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with unrealised gains or losses reported in the income statement. Embedded derivatives are carried on the balance sheet at fair value from the inception of the host contract. Changes in fair value are recognised within the income statement during the period in which they arise.

### **g) Inventories**

#### **i. Acquired and commissioned television programme inventories**

Programme inventories are stated at the lower of cost and net realisable value ( NRV ), including, where applicable, estimated subscriber escalation payments, and net of the accumulated expense charged to the income statement to date.

Programming rights are included as inventories when the legally enforceable licence period commences and all of the following conditions have been met: (a) the cost of each programme is known or reasonably determinable; (b) the programme material has been accepted by the Group in accordance with the conditions of the rights, and (c) the programme is available for its first showing. Prior to being included in inventories, the programming rights are classified as television programme rights not yet available for transmission and not recorded on the Group's balance sheet and are instead disclosed as contractual commitments (see note 27). Payments made upon receipt of commissioned and acquired programming, but in advance of the legal right to broadcast the programmes, are treated as prepayments.

The cost of television programme inventories is recognised in the operating expense line of the income statement, primarily as described below:

**Sports** 100% of the cost is recognised in the income statement on the first broadcast or, where the rights are for multiple seasons or competitions, such rights are principally recognised on a straight-line basis across the seasons or competitions.

**News** 100% of the cost is recognised in the income statement on first broadcast.

**General entertainment** The cost is recognised in the income statement based on the expected value of each planned broadcast.

**Movies** The cost is recognised in the income statement on a straight-line basis over the period of broadcast rights.

Where programme rights are surplus to the Group's requirements, and no gain is anticipated through a disposal of the rights, or where the programming will not be broadcast for any other reason, a write-down to the income statement is made. Any reversals of inventory write-downs are recognised as reductions in operating expense.

#### **ii. Set-top boxes, routers and related equipment**

Set-top boxes (including Sky+ boxes and Sky+ HD boxes), routers and related equipment are valued at the lower of cost and NRV, the latter of which reflects the value that the business expects to realise from the set-top boxes and related





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## Consolidated financial statements

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### Notes to the consolidated financial statements

continued

#### 1. Accounting policies (continued)

equipment in the hands of the customer, and are recognised through the operating expense line of the income statement. Any subsidy is expensed on enablement, which is the process of activating the viewing card during installation, so as to enable a viewer to view encrypted broadcast services, and effectively represents the completion of the installation process for new subscribers. The amount recognised in the income statement is determined on a weighted average cost basis, in accordance with IAS 2

Inventory .

#### iii. Raw materials, consumables and goods held for resale

Raw materials, consumables and goods held for resale are valued at the lower of cost and NRV. The cost of raw materials, consumables and goods held for resale is recognised through the operating expense line of the income statement on a FIFO basis.

#### h) Financial assets and liabilities

Financial assets and liabilities are initially recognised at fair value plus any directly attributable transaction costs. At each balance sheet date, the Group assesses whether there is any objective evidence that any financial asset is impaired. Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the financial asset or liability. Financial assets are derecognised from the balance sheet when the Group's contractual rights to the cash flows expire or the Group transfers substantially all the risks and rewards of the financial asset. Financial liabilities are derecognised from the Group's balance sheet when the obligation specified in the contract is discharged, cancelled or expires.

#### i. Available-for-sale investments

Equity investments intended to be held for an indefinite period of time are classified as available-for-sale investments. They are carried at fair value, where this can be reliably measured, with movements in fair value recognised directly in the available-for-sale reserve. Where the fair value cannot be reliably measured, the investment is carried at cost.

Any impairment losses in equity investments classified as available-for-sale investments are recognised in the income statement and are not reversible through the income statement, and are determined with reference to the closing market share price at the balance sheet date. Any subsequent increase in the fair value of the available-for-sale investment above the impaired value will be recognised within the available-for-sale reserve.

Available-for-sale investments are included within non-current assets unless the carrying value is expected to be recovered principally through sale rather than continuing use, in which case they are included within current assets. On disposal, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had previously been recognised directly in reserves is recognised in the income statement.

#### ii. Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments and, where no stated interest rate is applicable, are measured at the original invoice amount, if the effect of discounting is immaterial. Where discounting is material, trade and other receivables are measured at amortised cost using the effective interest method. An allowance account is maintained to reduce the carrying value of trade and other receivables for impairment losses identified from objective evidence, with movements in the allowance account, either from increased impairment losses or reversals of impairment losses, being recognised in the income statement.

#### iii. Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank accounts, deposits receivable on demand and deposits with maturity dates of three months or less from the date of inception. Bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management are also included as a component of cash and cash equivalents where offset conditions are met.

**iv. Short-term deposits**

This includes short-term deposits and commercial paper which have maturity dates of more than three months from inception. These deposits are initially recognised at fair value, and then carried at amortised cost through the income statement less any allowance for impairment losses.

**v. Trade and other payables**

Trade and other payables are non-derivative financial liabilities and are measured at amortised cost using the effective interest method. Trade and other payables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial.

**vi. Borrowings**

Borrowings are recorded as the proceeds received, net of direct issue costs. Finance charges, including any premium payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying amount of the underlying instrument to which they relate, to the extent that they are not settled in the period in which they arise.

**i) Transponder rental prepayments**

Payments made in respect of future satellite broadcast capacity have been recorded as prepaid transponder costs. These payments are recognised in the income statement on a straight-line basis over the term of the agreement.

**j) Impairment**

At each balance sheet date, in accordance with IAS 36 *Impairment of Assets*, the Group reviews the carrying amounts of all its assets excluding inventories (see accounting policy g), non-current assets classified as held for sale, financial assets (see accounting policy h) and deferred taxation (see accounting policy p) to determine whether there is any indication that any of those assets have suffered an impairment loss.

An impairment, other than an impairment of an investment in a joint venture or associate, is recognised in the income statement whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. An impairment of an investment in a joint venture or associate is recognised within the share of profit from joint ventures and associates. The recoverable amount is the greater of net selling price, defined as the fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to those units, and then to reduce the carrying amount of other assets in the unit on a pro-rata basis.

An impairment loss for an individual asset or cash generating unit shall be reversed if there has been a change in estimates used to determine the recoverable amount since the last impairment loss was recognised and is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**k) Provisions**

Provisions are recognised when the Group has a probable, present legal or constructive obligation to make a transfer of economic benefits as a result of past events where a reliable estimate is available. The amounts recognised represent the Group's best estimate of the transfer of benefits that will be required to settle the obligation as of the balance sheet date. Provisions are discounted if the effect of the time value of money is material using a pre-tax market rate adjusted for risks specific to the liability.

**l) ESOP reserve**

Where the Company or its subsidiaries purchase the Company's own equity shares, the cost of those shares, including any attributable transaction costs, is presented within



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the ESOP reserve as a deduction in shareholders' equity in the consolidated financial statements.

#### m) Revenue recognition

Revenue, which excludes value added tax and transactions between Group companies, represents the gross inflow of economic benefit from Sky's operating activities. The Group's main sources of revenue are recognised as follows:

- Retail subscription revenue, including subscriptions for Sky TV, Sky Broadband and Sky Talk services, is recognised as the goods or services are provided, net of any discount given. Pay-per-view revenue is recognised when the event or movie is viewed.
- Wholesale revenue is recognised as the services are provided to the cable retailers and is based on the number of subscribers taking the Sky channels, as reported to the Group by the cable retailers, and the applicable rate card or contract.
- Advertising sales revenue is recognised when the advertising is broadcast. Revenue generated from airtime sales, where Sky acts as an agent on behalf of third parties, is recognised on a net commission basis.
- Sky Bet revenue is recognised in accordance with IAS 39. Sky Bet revenue represents income in the period for betting and gaming activities, defined as amounts staked by customers less winnings paid out.
- Installation, hardware and service revenue is recognised in the income statement when the goods and services are delivered.
- Other revenue principally includes income from Sky Active, Sky Card, Sky Mobile TV, technical platform services, Easynet Enterprise and Amstrad. Other revenue is recognised, net of any discount given, when the relevant goods or service are provided.

Revenue is measured at the fair value of the consideration received or receivable. When the Group sells a set-top box, installation or service and a subscription in one bundled transaction, the Group allocates the total arrangement consideration to the different individual elements based on their relative fair values. Management determines the fair value of individual elements based on vendor specific or third party evidence. The amount of revenue the Group recognises for delivered elements is limited to the cash received.

#### n) Employee benefits

Wages, salaries, social security contributions, bonuses payable and non-monetary benefits for current employees are recognised in the income statement as the employees' services are rendered.

The Group provides pensions to eligible employees through defined contribution schemes. The amount charged to the income statement in the year represents the cost of contributions payable by the Group to the schemes in exchange for employee services rendered in that year. The assets of the schemes are held independently of the Group.

Termination benefits are recognised as a liability when, and only when, the Group has a demonstrable commitment to terminate the employment of an employee or group of employees before the normal retirement date or as the result of an offer to encourage voluntary redundancy.

The Group issues equity-settled and cash-settled share-based payments to certain employees which must be measured at fair value and recognised as an expense in the income statement, with a corresponding increase in equity in the case of equity-settled payments, and liabilities in the case of cash-settled awards. The fair values of equity-settled payments are measured at the dates of grant using option-pricing models, taking into account the terms and conditions upon which the awards are granted. Cash-settled share-based payments are measured at their fair value as at the balance sheet date. The fair value is recognised over the period during which employees become unconditionally entitled to the awards, subject to the Group's estimate of the number of awards which will lapse, either due to employees leaving the Group prior to vesting or due to non-market based performance conditions not being met. Where an award has market-based performance conditions, the fair value of the award is adjusted for the probability of achieving these via the option pricing model. The total amount recognised in the income statement as an expense is adjusted to reflect the

actual number of awards that vest, except where forfeiture is due to the failure to meet market-based performance measures.

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In accordance with the transitional provisions in IFRS 1, the recognition and measurement principles in IFRS 2 have only been applied to options and awards granted after 7 November 2002 that had not vested by 1 January 2005.

### o) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the asset to the lessee. All other leases are classified as operating leases.

When the Group is lessor, sublease income from operating leases is recognised on a straight-line basis over the term of the lease.

When the Group is lessee, assets held under finance leases are recognised as assets of the Group at their fair value on the date of acquisition, or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reductions of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

The lease expense arising from operating leases is charged to the income statement on a straight line basis over the term of the lease. Benefits received and receivable as incentives to enter into operating leases are recorded on a straight line basis over the lease term.

### p) Taxation, including deferred taxation

The Group's liability for current tax is based on taxable profit for the year, and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profit. Temporary differences arising from goodwill and the initial recognition of assets or liabilities that affect neither accounting profit nor taxable profit are not provided for. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and adjusted to reflect an amount that is probable to be realised based on the weight of all available evidence. Deferred tax is calculated at the rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax assets and liabilities are not discounted. Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also included within equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### q) Distributions to equity shareholders

Dividends are recognised in the retained earnings reserve in the year in which they are declared.

The cost of repurchasing the Group's own equity shares for cancellation (share buy-backs) is recorded in retained earnings. In addition, the nominal cost of shares repurchased is deducted from share capital and a matching credit is recorded in the capital redemption reserve.

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## Notes to the consolidated financial statements

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### 1. Accounting policies (continued)

#### r) Earnings per share

Basic earnings or loss per share represents the profit or loss for the year, divided by the weighted average number of ordinary shares in issue during the year, excluding the weighted average number of ordinary shares purchased by the Group and held in the Group's ESOP during the year to satisfy employee share awards.

Diluted earnings or loss per share represents the profit or loss for the year, divided by the weighted average number of ordinary shares in issue during the year, excluding the weighted average number of ordinary shares purchased by the Group and held in the Group's ESOP during the year to satisfy employee share awards, plus the weighted average number of dilutive shares resulting from share options where the inclusion of these would not be antidilutive.

#### s) Foreign currency translation

The Group's functional currency and presentational currency is pounds sterling. Trading activities denominated in foreign currencies are recorded in pounds sterling at the applicable monthly exchange rates. Monetary assets, liabilities and commitments denominated in foreign currencies at the balance sheet date are reported at the rates of exchange at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated to pounds sterling at the exchange rate prevailing at the date of the initial transaction. Gains and losses from the retranslation of assets and liabilities are included net in profit for the year, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

The assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the applicable monthly average exchange rates. Any exchange differences arising are classified as equity and transferred to other reserves.

#### t) Reportable segments

A reportable segment, as defined by IAS 14 Segment Reporting, is a distinguishable business or geographical component of the Group, that provides products or services, that are subject to risks and rewards that are different from those of other segments. The Group considers its primary reporting format to be business segments. The Group considers that it has only one reportable segment, being the Broadcast segment. As the revenue, results, assets and cash flows of the Broadcast segment are substantially the same to those of the consolidated Group, no separate analysis has been provided.

#### u) Accounting standards, interpretations and amendments to existing standards that are not yet effective

The Group has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for accounting periods beginning on or after 1 July 2008, or later periods. These new standards are listed below:

IFRIC 12 Service Concession Arrangements (effective from 1 January 2008).

IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective from 1 January 2008).

IFRIC 13 Customer Loyalty Programmes (effective from 1 July 2008).

IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective from 1 October 2008).

IAS 1 (revised) Presentation of Financial Statements (effective from 1 January 2009).

IAS 32 Financial Instruments: Presentation (effective 1 January 2009).

Amendment to IAS 23 Borrowing Costs (effective from 1 January 2009).

IFRS 8 Operating Segments (effective from 1 January 2009).

IFRIC 15 Agreements for the Construction of Real Estate (effective from 1 January 2009).

Amendments to IFRS 2 Share-Based Payments (effective from 1 January 2009).

Amendments to IFRS 1 First Time Adoption of International Financial Reporting Standards (effective 1 January 2009).

IFRS 3 Business Combinations (effective from 1 July 2009).

– IAS 27 Consolidated & Separate Financial Statements (effective from 1 July 2009).

The Directors are currently evaluating the impact of the adoption of these standards, amendments and interpretations in future periods.

**v) Critical accounting policies and the use of judgement**

Certain accounting policies are considered to be critical to the Group. An accounting policy is considered to be critical if its selection or application materially affects the Group's financial position or results. The Directors are required to use their judgement in order to select and apply the Group's critical accounting policies. Below is a summary of the Group's critical accounting policies and details of the key areas of judgement that are exercised in their application.

**(i) Goodwill (see note 12)**

- Judgement is required in determining the fair value of identifiable assets, liabilities and contingent assets assumed in a business combination. Calculating the fair values involves the use of significant estimates and assumptions, including expectations about future cash flows, discount rates and the lives of assets following purchase.
- Judgement is also required in evaluating whether any impairment loss has arisen against the carrying amount of goodwill. This may require calculation of the recoverable amount of cash generating units to which the goodwill is associated. Such a calculation may involve estimates of the net present value of future forecast cash flows and selecting an appropriate discount rate. Alternatively, it may involve a calculation of the fair value less costs to sell of the applicable cash generating unit.

**(ii) Revenue (see note 2)**

- Selecting the appropriate timing for, and amount of, revenue to be recognised requires judgement. This may involve estimating the fair value of consideration before it is received. When the Group sells a set-top box, installation or service and a subscription in one bundled transaction, the total consideration from the arrangement is allocated to each element based on their relative fair values. The fair value of each individual element is determined using vendor specific or third party evidence on a periodic basis. The amount of revenue the Group recognises for delivered elements is limited to the cash received.
- Judgement is also required in evaluating the likelihood of collection of customer debt after revenue has been recognised. This evaluation requires estimates to be made, including the level of provision to be made for amounts with uncertain recovery profiles. Provisions are based on historical trends in the percentage of debts which are not recovered, or on more detailed reviews of individually significant balances.

**(iii) Intangible assets and property, plant and equipment (see notes 13 and 14)**

- The assessment of the useful economic lives of these assets requires judgement. Depreciation and amortisation is charged to the income statement based on the useful economic life selected. This assessment requires estimation of the period over which the Group will benefit from the assets.

Determining whether the carrying amount of these assets has any indication of impairment also requires judgement. If an indication of impairment is identified, further judgement is required to assess whether the carrying amount can be supported by the net present value of future cash flows forecast to be derived from the asset. This forecast involves cash flow projections and selecting the appropriate discount rate.

Assessing whether assets meet the required criteria for initial capitalisation requires judgement. This requires a determination of whether the assets will result in future benefits to the Group. In particular, internally generated intangible assets must be assessed during the development phase to identify whether the Group has the ability and intention to complete the development successfully.

**(iv) Programming inventory (see note 18)**

The key area of accounting for programming inventory requiring judgement is the assessment of the appropriate profile over which to recognise amortisation in the income statement. This assessment requires the Group to form an expectation of the number of times a programme will be broadcast and the value associated with each broadcast.





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For general entertainment programming, in order to perform this assessment of amortisation profile, we consider the expected number of viewers a programme is likely to achieve on repeat broadcast, the alternative programming available to the programming scheduler, the potential marketing benefits relating to the scheduling of certain programmes and the Group's assessment of its competitors' scheduling intentions when determining the amount of programme expense to recognise for each broadcast. Acquired movie rights are amortised on a straight-line basis over the period of the transmission rights. Where contracts for sports rights provide for multiple seasons or competitions, they are amortised on a straight-line basis across the season or competition as our estimate of the benefits received from these rights is determined to be most appropriately aligned with a straight-line amortisation profile.

**(v) Deferred tax (see note 17)**

The key area of judgement in respect of deferred tax accounting is the assessment of the expected timing and manner of realisation or settlement of the carrying amounts of assets and liabilities held at the balance sheet date. In particular, assessment is required of whether it is probable that there will be suitable future taxable profits against which any deferred tax assets can be utilised.

**(vi) Available-for-sale investments (see note 16)**

The key areas of judgement in respect of available-for-sale investments are the assessment of whether there is objective evidence that a loss event has occurred after initial recognition of an available-for-sale investment, and whether such a loss event has a reliably measurable impact on the estimated future cash flows of the investment. At each balance sheet date, management consider whether there is objective evidence that a loss event has occurred and whether it has had an impact on the estimated future cash flows of the available-for-sale investment. If a loss event has occurred, management would then consider whether an impairment loss has occurred and the quantum of that loss. As at 30 June 2008, the Group's available-for-sale investments included a material investment in ITV plc (ITV) which has been impaired in the year. The factors management considered in determining whether an impairment loss in ITV had occurred included observable data about the estimated future cash flows of ITV based on ITV's publicly available financial reporting and announcements, publicly available information from financial commentators about ITV and the market in which it operates, the historical performance of ITV's share price, and the regulatory environment affecting ITV and the Group. The impairment losses accounted for have been determined with reference to closing market share prices at the balance sheet date (see accounting policy j).

**(vii) Taxation (see note 9)**

Tax laws that apply to the Group's businesses may be amended by the relevant authorities, for example as a result of changes in fiscal circumstances or priorities. Such potential amendments and their application to the Group are regularly monitored and the requirement for recognition of any liabilities assessed where necessary.

The Group is subject to income taxes and judgement is required in determining the appropriate provision for transactions where the ultimate tax determination is uncertain. In such circumstances, the Group recognises liabilities for anticipated taxes due based on best information available and where the anticipated liability is probable and estimable. Where the final outcome of such matters differs from the amounts initially recorded, any differences will impact the income tax and deferred tax provisions in the period to which such determination is made. Where the potential liabilities are not considered probable, the amount at risk is disclosed unless an adverse outcome is considered remote.

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### Notes to the consolidated financial statements

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#### 2. Revenue

|                                    | 2008<br>£m   | 2007<br>£m   | 2006<br>£m   |
|------------------------------------|--------------|--------------|--------------|
| Retail subscription                | 3,769        | 3,406        | 3,157        |
| Wholesale subscription             | 181          | 208          | 224          |
| Advertising                        | 328          | 352          | 342          |
| Sky Bet                            | 44           | 47           | 37           |
| Installation, hardware and service | 276          | 212          | 131          |
| Other                              | 354          | 326          | 257          |
|                                    | <b>4,952</b> | <b>4,551</b> | <b>4,148</b> |

Revenue arises from goods and services provided to the UK, with the exception of £365 million (2007: £289 million; 2006: £222 million) which arises from services provided to other countries.

#### 3. Operating expense

|                                     | 2008<br>£m   | 2007<br>£m   | 2006<br>£m   |
|-------------------------------------|--------------|--------------|--------------|
| Programming <sup>(i)</sup>          | 1,713        | 1,539        | 1,599        |
| Transmission and related functions  | 542          | 402          | 234          |
| Marketing                           | 743          | 734          | 622          |
| Subscriber management               | 700          | 618          | 468          |
| Administration <sup>(ii)(iii)</sup> | 530          | 443          | 348          |
|                                     | <b>4,228</b> | <b>3,736</b> | <b>3,271</b> |

(i) Included within programming for the year ended 30 June 2007 is a £65 million credit due to the Group, arising from certain contractual rights under one of the Group's channel distribution agreements. This item was previously disclosed as a contingent asset in the Group's June 2006 consolidated financial statements.

(ii) Included within administration for the year ended 30 June 2008 is £21 million (2007: £16 million) of expense relating to legal costs incurred on the Group's ongoing claim against EDS (the information and technology solutions provider).

(iii) Included within administration for the year ended 30 June 2008 is £7 million of expense relating to a restructuring exercise undertaken following a review of operating costs.

#### 4. Investment income and finance costs

|                          | 2008<br>£m | 2007<br>£m | 2006<br>£m |
|--------------------------|------------|------------|------------|
| <b>Investment income</b> |            |            |            |

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|  |    |    |    |
|--|----|----|----|
| Cash, cash equivalents and short-term deposits           | 25 | 33 | 52 |
| Dividends receivable from available-for-sale investments | 22 | 13 |    |
|  | 47 | 46 | 52 |

|   | 2008<br>£m | 2007<br>£m | 2006<br>£m |
|---|------------|------------|------------|
| <b>Finance costs</b>  |            |            |            |
| <b>Interest payable and similar charges</b>   |            |            |            |
| £1 billion Revolving Credit Facility ( RCF )  | (6)        | (12)       | (2)        |
| Guaranteed Notes (see note 22)  | (167)      | (135)      | (123)      |
| Finance lease interest  | (7)        | (8)        | (4)        |
|   | (180)      | (155)      | (129)      |
| <b>Other finance income (expense)</b>   |            |            |            |
| Remeasurement of borrowings and borrowings-related derivative financial instruments (not qualifying for hedge accounting) | 4          |            | (10)       |
| Remeasurement of programming-related derivative financial instruments (not qualifying for hedge accounting)               | (1)        | 6          | (4)        |
| Gain (loss) arising on derivatives in a designated fair value hedge accounting relationship                               | 14         | (5)        |            |
| (Loss) gain arising on adjustment for hedged item in a designated fair value hedge accounting relationship                | (14)       | 5          |            |
|   | 3          | 6          | (14)       |
|   | (177)      | (149)      | (143)      |

[Back to Contents](#)**5. Profit on disposal of joint venture**

On 12 December 2007, the Group sold its 100% stake in B SkyB Nature Limited, the investment holding company for the Group's 50% interest in the NGC-UK Partnership. As consideration for the disposal, the Group received 21% interests in both NGC Network International LLC and NGC Network Latin America LLC (in effect, 21% of National Geographic Channel's television operations outside of the United States of America). This was a non-cash transaction and realised a profit on disposal of £67 million.

**6. Impairment of available-for-sale investment**

The Group's investment in ITV is carried at fair value. The fair value of ITV is determined with reference to its equity share price at the balance sheet date. An impairment was first recorded following a review of the carrying value of the investment in ITV at 31 December 2007, due to the significant and prolonged decline in the equity share price. In accordance with International Financial Reporting Standards, the Group has continued to review that carrying value throughout fiscal 2008 and has recognised a cumulative impairment loss of £616 million in the current year. The impairment loss for the year was determined with reference to ITV's closing equity share price of 47.5 pence at 27 June 2008, the last trading day of the Group's financial year.

In accordance with IAS 39, the effect of any further decline in the value of the equity share price of ITV will be recognised in the income statement at the relevant future balance sheet date. On 30 July 2008, the equity share price of ITV was 44.5 pence.

**7. Profit before taxation**

Profit before taxation is stated after charging (crediting):

|  | 2008<br>£m | 2007<br>£m | 2006<br>£m |
|--|------------|------------|------------|
| Cost of inventories recognised as an expense         | 1,436      | 1,387      | 1,281      |
| Depreciation of property, plant and equipment        | 155        | 120        | 89         |
| Amortisation of intangible assets                    | 91         | 72         | 51         |
| Rentals on operating leases and similar arrangements | 46         | 32         | 25         |
| Sub-lease rentals received on operating leases       | (2)        | (1)        | (1)        |

Consolidated non-current assets outside the UK were £27 million (2007: £20 million).

**Foreign exchange**

Foreign exchange gains recognised in the income statement during the year amounted to £3 million (2007: £2 million; 2006: £6 million).

**Audit fees**

An analysis of auditors remuneration is as follows:

|  | 2008<br>£m | 2007<br>£m | 2006<br>£m |
|--|------------|------------|------------|
| <b>Fees payable to the Company's auditors for the audit of the Company's annual accounts</b> | 1          | 1          | 1          |
| <b>Fees payable to the Company's auditors for other services:</b>                            |            |            |            |
| The audit of the Company's subsidiaries pursuant to legislation                              | 1          | 1          | 1          |

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|  |   |   |   |
|--|---|---|---|
| Other services pursuant to legislation | 1 | 1 |   |
| Total audit fees                       | 3 | 3 | 2 |
| Information technology services        | 1 | 1 | 4 |
| Total non-audit fees                   | 1 | 1 | 4 |
|  | 4 | 4 | 6 |

This information is presented in accordance with UK Companies Act requirements. For US reporting purposes (following guidance included in Item 16C of Form 20-F), amounts paid to auditors are analysed as follows: audit fees £2 million (2007: £2 million; 2006: £1 million), audit-related fees £1 million (2007: £1 million; 2006 £1 million), and all other fees £1 million (2007: £1 million; 2006: £4 million). All other fees relate to services provided in respect of information systems development.

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## Notes to the consolidated financial statements

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### 8. Employee benefits and key management compensation

#### a) Group employee benefits

|  | 2008<br>£m | 2007<br>£m | 2006<br>£m |
|--|------------|------------|------------|
| Wages and salaries   | 506        | 451        | 362        |
| Social security costs  | 52         | 48         | 38         |
| Costs of employee share option schemes <sup>(i)</sup>        | 40         | 35         | 23         |
| Contributions to the Group's pension schemes <sup>(ii)</sup> | 24         | 20         | 16         |
|  | <b>622</b> | <b>554</b> | <b>439</b> |

(i) £36 million relates to equity-settled share-based payments (2007: £33 million; 2006: £23 million) and £4 million relates to cash-settled share-based payments (2007: £2 million; 2006: nil). At 30 June 2008, the total expense relating to non-vested awards not yet recognised was £41 million which is expected to be recognised over a weighted average period of 1 year. At 30 June 2008, £6 million was recognised as liabilities arising from share-based payment transactions (2007: £2 million), none of which related to awards for which the counterparty's right to cash had vested by the end of the year.

(ii) The Group operates defined contribution pension schemes. The pension charge for the year represents the cost of contributions payable by the Group to the schemes during the year. The amount payable to the schemes by the Group at 30 June 2008 was £3 million (2007: £2 million).

The average monthly number of full-time equivalent persons (including temporary employees) employed by the Group during the year was as follows:

|                                       | 2008<br>Number | 2007<br>Number | 2006<br>Number |
|---------------------------------------|----------------|----------------|----------------|
| Channels and services                 | 2,624          | 2,472          | 2,403          |
| Customer service, sales and marketing | 7,918          | 7,591          | 6,486          |
| Transmission and technology           | 1,943          | 1,560          | 1,267          |
| Management and administration         | 1,660          | 1,464          | 1,060          |
|                                       | <b>14,145</b>  | <b>13,087</b>  | <b>11,216</b>  |

There are approximately 390 temporary staff included within the average number of full-time equivalent people employed by the Group.

#### b) Key management compensation (see note 30d)

|                              | 2008<br>£m | 2007<br>£m | 2006<br>£m |
|------------------------------|------------|------------|------------|
| Short-term employee benefits | 5          | 5          | 4          |

|                      |   |   |   |
|----------------------|---|---|---|
| Share-based payments | 4 | 3 | 2 |
|                      | 9 | 8 | 6 |

Post-employment benefits were less than £1 million (2007: less than £1 million; 2006: less than £1 million).

## 9. Taxation

### a) Taxation recognised in the income statement

|   | 2008<br>£m | 2007<br>£m | 2006<br>£m |
|---|------------|------------|------------|
| <b>Current tax expense</b>                        |            |            |            |
| Current year                                      | 172        | 204        | 147        |
| Adjustment in respect of prior years              | 7          | (15)       | (6)        |
| <b>Total current tax charge</b>                   | <b>179</b> | <b>189</b> | <b>141</b> |
| <b>Deferred tax expense</b>                       |            |            |            |
| Origination and reversal of temporary differences | 5          | 22         | 106        |
| Adjustment in respect of prior years              | 3          | 14         |            |
| <b>Total deferred tax charge</b>                  | <b>8</b>   | <b>36</b>  | <b>106</b> |
| <b>Taxation</b>                                   | <b>187</b> | <b>225</b> | <b>247</b> |

Taxation relates to a £179 million UK corporation tax charge (2007: £240 million; 2006: £247 million) and an £8 million tax charge (2007: £15 million credit; 2006: nil) in respect of the utilisation of Luxembourg trading losses.

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## b) Deferred tax recognised directly in equity

|   | 2008<br>£m | 2007<br>£m | 2006<br>£m |
|---|------------|------------|------------|
| Deferred tax charge (credit) relating to share-based payments | 7          | (5)        | (2)        |
| Deferred tax charge (credit) relating to cash flow hedges     | 13         | 12         | (16)       |
|   | 20         | 7          | (18)       |

## c) Reconciliation of effective tax rate

The tax expense for the year is higher (2007: higher; 2006: higher) than the expense that would have been charged using the standard rate of corporation tax in the UK (29.5%) applied to profit before tax. The applicable enacted or substantially enacted rate of UK corporation tax for the year was 29.5% (2007 and 2006: 30%). The differences are explained below:

|  | 2008<br>£m | 2007<br>£m | 2006<br>£m |
|--|------------|------------|------------|
| Profit before tax  | 60         | 724        | 798        |
| Profit before tax multiplied by standard rate of corporation tax in the UK of 29.5% (2007 and 2006: 30%) | 18         | 217        | 239        |
| Effects of:  |            |            |            |
| Non-deductible expense <sup>(i)</sup>  | 220        | 19         | 16         |
| Tax exempt revenue <sup>(ii)</sup>   | (61)       | (11)       | (2)        |
| Under (over)-provision in respect of prior years   | 10         |            | (6)        |
| <b>Taxation</b>  | <b>187</b> | <b>225</b> | <b>247</b> |

(i) Included within non-deductible expense is the tax effect of the impairment in available-for-sale investments relating to the Group's investment in ITV, see note 6.

(ii) Included within tax exempt revenue is the tax effect of the profit on disposal of a joint venture relating to the Group's disposal of its 50% interest in the NGC-UK Partnership, see note 5.

**10. Earnings per share**

The weighted average number of shares for the year was:

|   | 2008<br>Millions of<br>shares | 2007<br>Millions of<br>shares | 2006<br>Millions of<br>shares |
|---|-------------------------------|-------------------------------|-------------------------------|
| Ordinary shares                             | 1,753                         | 1,759                         | 1,830                         |
| ESOP trust ordinary shares                  | (5)                           | (4)                           | (3)                           |
| <b>Basic shares</b>                         | <b>1,748</b>                  | <b>1,755</b>                  | <b>1,827</b>                  |
| Dilutive ordinary shares from share options |                               | 12                            | 5                             |



|                |       |       |       |
|----------------|-------|-------|-------|
| Diluted shares | 1,748 | 1,767 | 1,832 |
|----------------|-------|-------|-------|

The calculation of diluted (loss) earnings per share excludes 32 million share options (2007: 17 million; 2006: 37 million), which could potentially dilute earnings per share in the future.

Basic and diluted (loss) earnings per share are calculated by dividing the loss or profit for the year into the weighted average number of shares for the year. In order to provide a measure of underlying performance, management have chosen to present an adjusted profit for the year which excludes items that may distort comparability. Such items arise from events or transactions that fall within the ordinary activities of the Group but which management believes should be separately identified to help explain underlying performance.

|   | 2008<br>£m | 2007<br>£m | 2006<br>£m |
|---|------------|------------|------------|
| <b>Reconciliation from (loss) profit for the year to adjusted profit for the year</b>       |            |            |            |
| (Loss) profit for the year  | (127)      | 499        | 551        |
| Remeasurement of all derivative financial instruments (not qualifying for hedge accounting) | (3)        | (6)        | 14         |
| Cost relating to restructuring exercise   | 7          |            |            |
| Amount receivable from channel distribution agreement (see note 3)                          |            | (65)       |            |
| Legal costs relating to claim against EDS (see note 3)                                      | 21         | 16         |            |
| Profit on disposal of joint venture (see note 5)  | (67)       |            |            |
| Impairment of available-for-sale investment (see note 6)                                    | 616        |            |            |
| Tax effect of above items   | (8)        | 17         | (4)        |
| <b>Adjusted profit for the year</b>   | <b>439</b> | <b>461</b> | <b>561</b> |

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### 10. Earnings per share (continued)

|  | 2008<br>pence | 2007<br>pence | 2006<br>pence |
|--|---------------|---------------|---------------|
| <b>(Loss) earnings per share from (loss) profit for the year</b>     |               |               |               |
| Basic  | (7.3)         | 28.4          | 30.2          |
| Diluted  | (7.3)         | 28.2          | 30.1          |
| <b>Adjusted earnings per share from adjusted profit for the year</b> |               |               |               |
| Basic  | 25.1          | 26.3          | 30.7          |
| Diluted  | 25.0          | 26.1          | 30.6          |

The calculation of diluted adjusted earnings per share includes 9 million dilutive ordinary shares from share options (2007: 12 million; 2006: 5 million) and excludes 15 million share options (2007: 17 million; 2006: 37 million), which could potentially dilute earnings per share in the future.

### 11. Dividends

|   | 2008<br>£m | 2007<br>£m | 2006<br>£m |
|---|------------|------------|------------|
| <b>Dividends declared and paid during the year</b>    |            |            |            |
| 2005 Final dividend paid: 5.00p per ordinary share    |            |            | 92         |
| 2006 Interim dividend paid: 5.50p per ordinary share  |            |            | 99         |
| 2006 Final dividend paid: 6.70p per ordinary share    |            | 117        |            |
| 2007 Interim dividend paid: 6.60p per ordinary share  |            | 116        |            |
| 2007 Final dividend paid: 8.90p per ordinary share    | 156        |            |            |
| 2008 Interim dividend paid: 7.125p per ordinary share | 124        |            |            |
|   | <b>280</b> | <b>233</b> | <b>191</b> |

The 2008 final dividend proposed is 9.625 pence per ordinary share being £168 million. The dividend was not declared at the balance sheet date and is therefore not recognised as a liability as at 30 June 2008.

Dividends are paid between Group companies out of profits available for distribution subject to, inter alia, the provisions of the companies' articles of association and the Companies Act 1985 (as amended). There are restrictions over the distribution of any profits which are not generated from external cash receipts as defined in Technical Release 1/08, issued by the Institute of Chartered Accountants in England and Wales. All dividends were paid out of profits available for distribution. The ESOP has waived its rights to dividends.

### 12. Goodwill

Total

|   | £m  |
|---|-----|
| <b>Carrying value</b>                             |     |
| At 1 July 2006                                    | 637 |
| Purchase of 365 Media Group Plc ( 365 Media )     | 77  |
| Other purchases                                   | 27  |
| At 30 June 2007                                   | 741 |
| Purchase of Amstrad Plc ( Amstrad ) (see note 29) | 104 |
| Other purchases                                   | 7   |
| At 30 June 2008                                   | 852 |

Goodwill has principally arisen from the Group's purchases of the Sports Internet Group ( SIG ), British Interactive Broadcasting ( BiB ), Easynet Group Limited ( Easynet ), 365 Media and Amstrad. Impairment reviews were performed on these goodwill balances at 30 June 2008, which did not indicate impairment.

The amount of goodwill deductible for tax purposes is nil (2007: nil). Goodwill, allocated by cash generating unit, is analysed as follows:

|   | 2008<br>£m | 2007<br>£m |
|---|------------|------------|
| Interactive <sup>(i)</sup>                  | 302        | 302        |
| Betting and gaming <sup>(ii)</sup>          | 149        | 149        |
| Broadcast <sup>(iii)</sup>                  | 364        | 253        |
| Easynet Enterprise <sup>(iv)</sup>          | 30         | 30         |
| Multiple units without significant goodwill | 7          | 7          |
|   | 852        | 741        |

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Recoverable amounts for the cash generating units were calculated on the basis of value in use, using cash flows calculated for the next five years as forecast by management. A long-term growth rate of 3% was applied in order to extrapolate cash flow projections beyond this five year period, based on future industry expectations. The cash flows were discounted using a pre-tax discount rate of 8.3% (2007: 8.6%) .

#### i) Interactive

The Interactive unit includes goodwill arising from the purchase of BiB. The key assumptions on which forecast five year cash flows were based included the number of interactive application providers on the interactive platform, the number of unique users of interactive services, the average spend per unique user, contractual rate cards, the number of customer connections to interactive services, and the level of conditional access and access control charges to broadcasters and interactive application providers on the Sky digital platform. The values assigned to each of these assumptions were determined based on historical data and trends within the unit, and on contractual rate cards, where these were available.

#### ii) Betting and gaming

The Betting and gaming unit includes goodwill arising from the purchase of SIG and 365 Media's betting business. The key assumptions on which forecast five year cash flows were based include the number of weekly unique users, the number of bets placed per user per week, the average stake per user per week and the average spend per active user per week. The values assigned to each of these assumptions were determined based on an extrapolation of historical trends within the unit, and external information on expected future trends in betting and gaming.

#### iii) Broadcast

The Broadcast unit includes goodwill arising from the purchase of Easynet's UK broadband network assets, Easynet's UK residential business, 365 Media's content business and Amstrad. The key assumptions on which forecast five year cash flows of the Broadcast unit were based include the number of gross DTH subscriber additions, the rate of DTH churn, the average revenue per subscriber, acquisition costs per subscriber and anticipated changes in the product mix and marketing mix of the broadcast business. The values assigned to each of these assumptions were determined based on the extrapolation of historical trends within the Group, and external information on expected future trends in the UK and Ireland entertainment and communications industry.

#### iv) Easynet Enterprise

The Easynet Enterprise unit includes goodwill arising from the purchase of Easynet's enterprise broadband business in the UK and other European countries. The key assumptions on which forecast five year cash flows were based include the number of Easynet Enterprise customers, the average revenue per customer and the operating margin generated per customer. The values assigned to each of these assumptions were determined based on an extrapolation of historical trends within the unit, and external information on expected future trends in the enterprise broadband industry.

### 13. Intangible assets

|  | Internally<br>generated<br>intangible<br>assets<br>£m | Other<br>intangible<br>assets<br>£m | Internally<br>generated<br>intangible<br>assets not yet<br>available for<br>use<br>£m | Other<br>intangible<br>assets not<br>yet<br>available for<br>use<br>£m | Total<br>£m |
|--|---|-------------------------------------|---|--|-------------|
| <b>Cost</b>  |   |                                     |   |  |             |
| At 1 July 2006                                     | 34  | 327                                 |   | 30   | 391         |
| Additions from business combinations               |   | 24                                  |   |  | 24          |
| Other additions                                    | 28  | 41                                  |   | 22   | 91          |
| Disposals  |   | (51)                                |   |  | (51)        |
| At 30 June 2007                                    | 62  | 341                                 |   | 52   | 455         |
| Additions from business combinations (see note 29) |   | 5                                   |   | 3  | 8           |

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|                            |           |            |          |            |            |
|----------------------------|-----------|------------|----------|------------|------------|
| Foreign exchange movements |           | 1          |          |            | 1          |
| Other additions            | 33        | 34         | 4        | 58         | 129        |
| Disposals                  | (4)       | (25)       |          |            | (29)       |
| Transfers                  |           | 11         |          | (11)       |            |
| <b>At 30 June 2008</b>     | <b>91</b> | <b>367</b> | <b>4</b> | <b>102</b> | <b>564</b> |
| <b>Amortisation</b>        |           |            |          |            |            |
| At 1 July 2006             | 16        | 157        |          |            | 173        |
| Amortisation for the year  | 9         | 63         |          |            | 72         |
| Disposals                  |           | (51)       |          |            | (51)       |
| <b>At 30 June 2007</b>     | <b>25</b> | <b>169</b> |          |            | <b>194</b> |
| Foreign exchange movements |           | 1          |          |            | 1          |
| Amortisation for the year  | 14        | 77         |          |            | 91         |
| Disposals                  | (4)       | (21)       |          |            | (25)       |
| <b>At 30 June 2008</b>     | <b>35</b> | <b>226</b> |          |            | <b>261</b> |
| <b>Carrying amounts</b>    |           |            |          |            |            |
| At 1 July 2006             | 18        | 170        |          | 30         | 218        |
| At 30 June 2007            | 37        | 172        |          | 52         | 261        |
| <b>At 30 June 2008</b>     | <b>56</b> | <b>141</b> | <b>4</b> | <b>102</b> | <b>303</b> |

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### 13. Intangible assets (continued)

The Group's intangible assets include internal and external expenditure on software associated with our customer management systems, software licences, capitalised development costs, copyright licences, customer lists and relationships, patents and brands acquired in business combinations.

The estimated future amortisation charge on finite-lived intangible assets for each of the next five years is set out below. It is likely that future amortisation will vary from the figures below as the estimate does not include the impact of any future investments, disposals or capital expenditure.

|                               | 2008 | 2009 | 2010 | 2011 | 2012 |
|-------------------------------|------|------|------|------|------|
| Estimated amortisation charge | 112  | 90   | 59   | 24   | 8    |

For intangible assets acquired in business combinations in the year, the average amortisation period is 3 years.

### 14. Property, plant and equipment

|  | Land and<br>freehold<br>buildings <sup>(i)(ii)</sup><br>£m | Leasehold<br>improvements<br>£m | Equipment,<br>furniture and<br>fixtures<br>£m | Assets not yet<br>available for<br>use<br>£m | Total<br>£m |
|--|--|---------------------------------|---|--|-------------|
| <b>Cost</b>  |  |                                 |   |  |             |
| At 1 July 2006                                     | 115  | 53                              | 591   | 50   | 809         |
| Additions from business combinations               |  |                                 | 1   |  | 1           |
| Other additions                                    | 5  | 6                               | 232   | 27   | 270         |
| Disposals  | (1)  | (19)                            | (93)  |  | (113)       |
| Transfers  | (14)   | 24                              | 30  | (40)   |             |
| At 30 June 2007                                    | 105  | 64                              | 761   | 37   | 967         |
| Additions from business combinations (see note 29) |  |                                 | 1   |  | 1           |
| Foreign exchange movements                         |  | 1                               | 9   |  | 10          |
| Other additions                                    | 3  | 7                               | 148   | 46   | 204         |
| Disposals  |  |                                 | (30)  |  | (30)        |
| Transfers  |  |                                 | 25  | (25)   |             |
| At 30 June 2008                                    | 108  | 72                              | 914   | 58   | 1,152       |
| <b>Depreciation</b>                                |  |                                 |   |  |             |
| At 1 July 2006                                     | 13   | 34                              | 243   |  | 290         |
| Depreciation                                       | 5  | 4                               | 111   |  | 120         |
| Disposals  | (1)  | (19)                            | (93)  |  | (113)       |
| At 30 June 2007                                    | 17   | 19                              | 261   |  | 297         |
| Foreign exchange movements                         |  | 1                               | 7   |  | 8           |

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|                         |     |    |      |    |      |
|-------------------------|-----|----|------|----|------|
| Depreciation            | 3   | 2  | 150  |    | 155  |
| Disposals               |     |    | (30) |    | (30) |
| At 30 June 2008         | 20  | 22 | 388  |    | 430  |
| <hr/>                   |     |    |      |    |      |
| <b>Carrying amounts</b> |     |    |      |    |      |
| At 1 July 2006          | 102 | 19 | 348  | 50 | 519  |
| At 30 June 2007         | 88  | 45 | 500  | 37 | 670  |
| At 30 June 2008         | 88  | 50 | 526  | 58 | 722  |

- (i) The amounts shown include assets held under finance leases with a net book value of £5 million (2007: £5 million). The cost of these assets was £9 million (2007: £8 million) and the accumulated depreciation was £4 million (2007: £3 million). Depreciation charged during the year on such assets was £1 million (2007: nil; 2006: £1 million).
- (ii) Depreciation was not charged on £27 million of land (2007: £27 million).

[Back to Contents](#)**15. Investments in joint ventures and associates**

A list of the Group's significant investments in joint ventures and associates, including the name, country of incorporation and proportion of ownership interest is given in note 31 to the consolidated financial statements.

The movement in joint ventures and associates during the year was as follows:

|  | 2008<br>£m | 2007<br>£m |
|--|------------|------------|
| Share of net assets:   |            |            |
| At 1 July  | 34         | 28         |
| Acquisition of joint ventures and associates                                 |            |            |
| Disposal of joint venture  | (15)       |            |
| Acquisition of associates  | 82         |            |
| Movement in net assets   |            |            |
| Funding, net of repayments   | 6          | 3          |
| Dividends received   | (11)       | (9)        |
| Share of profits   | 15         | 12         |
| Exchange differences on translation of foreign joint ventures and associates | 3          |            |
| <b>At 30 June</b>  | <b>114</b> | <b>34</b>  |

The Group's share of any capital commitments and contingent liabilities of associates and joint ventures is shown in note 27.

**a) Investments in joint ventures**

Representing the Group's share of each joint venture:

|  | 2008<br>£m | 2007<br>£m |
|--|------------|------------|
| Non-current assets                         | 4          | 4          |
| Current assets                             | 49         | 59         |
| Current liabilities                        | (24)       | (28)       |
| Non-current liabilities                    | (1)        | (1)        |
| <b>Shareholders' equity</b>                | <b>28</b>  | <b>34</b>  |
| Revenue                                    | 72         | 74         |
| Expense                                    | (58)       | (60)       |
| Taxation                                   | (3)        | (2)        |
| <b>Share of profit from joint ventures</b> | <b>11</b>  | <b>12</b>  |

**b) Investments in associates**

Representing a 100% share of each associate:

|  | 2008 | 2007 |
|--|------|------|
|  |      |      |



|                        | £m   | £m |
|------------------------|------|----|
| Total assets           | 289  |    |
| Total liabilities      | (64) |    |
| Shareholders' equity   | 225  |    |
| Revenue <sup>(i)</sup> | 132  |    |
| Profit <sup>(i)</sup>  | 38   |    |

(i) Revenue and profit numbers are provided for the full year ending 30 June 2008.

#### 16. Available-for-sale investments

|                                   | 2008<br>£m | 2007<br>£m |
|-----------------------------------|------------|------------|
| Investment in ITV at cost         | 946        | 946        |
| Unrealised loss on ITV investment |            | (151)      |
| Impairment of ITV investment      | (616)      |            |
| Fair value of ITV investment      | 330        | 795        |
| Other investments at cost         | 8          | 2          |
|                                   | 338        | 797        |

On 17 November 2006, the Group acquired 696 million shares in ITV, at a price of 135 pence per share, representing 17.9% of the issued capital of ITV, for a total consideration of £946 million including fees and taxes. The Group's investment in ITV is carried at fair value. The fair value of ITV is determined with reference to its equity share price at the balance sheet date. An impairment was first recorded following a review of the carrying value of the investment in ITV at 31 December 2007, due to the

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### 16. Available-for-sale investments (continued)

significant and prolonged decline in the equity share price. In accordance with International Financial Reporting Standards, the Group has continued to review that carrying value throughout fiscal 2008 and has recognised a cumulative impairment loss of £616 million in the current year. The impairment loss for the year was determined with reference to ITV's closing equity share price of 47.5 pence at 27 June 2008, the last trading day of the Group's financial year.

Any disposal of the investment, assuming certain other factors remain consistent with those existing at the balance sheet date, would be exempt from tax under the provisions of the Substantial Shareholding Exemption (SSE). As such, the SSE provisions would prevent any capital loss arising for tax purposes.

The Group holds certain unquoted equity investments that are carried at cost less impairment. The fair value of these investments is not considered to differ significantly from the carrying value.

### 17. Deferred tax

#### i) Recognised deferred tax assets

|                                     | Fixed asset<br>temporary<br>differences<br>£m | Tax<br>losses<br>£m | Short-term<br>temporary<br>differences<br>£m | Share-based<br>payments<br>temporary<br>differences<br>£m | Financial<br>instrument<br>temporary<br>differences<br>£m | Total<br>£m |
|-------------------------------------|---|---------------------|--|---|---|-------------|
| At 1 July 2006                      | 26  | 33                  | 8  | 11  | 22  | 100         |
| (Charge) credit to income           | (32)  | (18)                | 1  | 12  | 1   | (36)        |
| Credit (charge) to equity           |   |                     |  | 5   | (12)  | (7)         |
| Business combinations               | (3)   |                     |  |   |   | (3)         |
| At 30 June 2007                     | (9)   | 15                  | 9  | 28  | 11  | 54          |
| Credit (charge) to income           | 3   | (8)                 | (1)  | (3)   | 1   | (8)         |
| Charge to equity                    |   |                     |  | (7)   | (13)  | (20)        |
| Business combinations (see note 29) | (3)   |                     |  |   |   | (3)         |
| At 30 June 2008                     | (9)   | 7                   | 8  | 18  | (1)   | 23          |

Deferred tax assets have been recognised at 30 June 2008 and 30 June 2007 on the basis that, from management's current forecast of the Group's entities, it is probable that there will be suitable taxable profits against which these assets can be utilised. Tax losses are treated as unrecognised deferred tax assets if it is not considered probable that suitable future taxable profits will arise. During the year, any tax losses suffered by UK entities have been relieved against taxable profits in other UK entities in the Group.

The deferred tax asset recognised in respect of tax losses arises principally in Luxembourg. Based on management's forecast, there will be suitable future taxable profits against which this deferred tax asset can be utilised.

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Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods in which they reverse. The rate enacted or substantially enacted for the relevant periods of reversal is 28% in the year ended 30 June 2008 (2007: 28% to 30%).

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

|                          | 2008<br>£m | 2007<br>£m |
|--------------------------|------------|------------|
| Deferred tax assets      | 36         | 66         |
| Deferred tax liabilities | (13)       | (12)       |
|                          | 23         | 54         |

### ii) Unrecognised deferred tax assets

|  | 2008<br>£m | 2007<br>£m |
|--|------------|------------|
| Tax losses arising from trading  | 128        | 152        |
| Tax losses arising from capital disposals and provisions against investments | 407        | 447        |
|  | 535        | 599        |

Deferred tax assets have not been recognised in respect of the items above because it is not probable that future taxable profits will be available against which the Group can utilise the losses.

At 30 June 2008, a deferred tax asset of £48 million (2007: £50 million) principally arising from UK losses in the Group, has not been recognised. These losses can only be offset against taxable profits generated in the entities concerned. There is currently insufficient evidence to support the recognition of a deferred tax asset relating to these losses. The UK trading losses can be carried forward indefinitely.

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At 30 June 2008, a deferred tax asset of £80 million (2007: £102 million) has not been recognised in respect of overseas trading losses on the basis that it is not probable that these temporary differences will be utilised. These losses include £40 million (2007: £75 million) with respect to the Group's German holding companies of KirchPayTV and £40 million (2007: £27 million) with respect to the Group's holdings in Easynet's European subsidiaries. In respect of the unrecognised deferred tax of £80 million on the overseas trading losses, £63 million relates to losses that can be carried forward indefinitely and £17 million relates to losses that have expiry dates between 2009 and 2023.

At 30 June 2008, a deferred tax asset of £391 million (2007: £420 million) has not been recognised in respect of potential capital losses related to the Group's holding of KirchPayTV, on the basis that utilisation of these temporary differences is not probable. At 30 June 2008, the Group also has capital losses with a tax value estimated to be in excess of £16 million (2007: £27 million) including provisions in a football club and other investments, which have not been recognised as a deferred tax asset, on the basis that it is not probable that they will be utilised. The capital losses can be carried forward indefinitely.

### 18. Inventories

|                                     | 2008<br>£m | 2007<br>£m |
|-------------------------------------|------------|------------|
| Television programme rights         | 219        | 290        |
| Set-top boxes and related equipment | 81         | 84         |
| Other inventories                   | 10         | 10         |
|                                     | 310        | 384        |

At 30 June 2008, at least 91% (2007: 89%) of the television programme rights and 100% (2007: 100%) of other inventories is expected to be recognised in the income statement within 12 months.

### 19. Trade and other receivables

|   | 2008<br>£m | 2007<br>£m |
|---|------------|------------|
| Gross trade receivables                               | 279        | 276        |
| Less: provision for impairment of receivables         | (84)       | (72)       |
| Net trade receivables                                 | 195        | 204        |
| Amounts receivable from joint ventures and associates | 10         | 8          |
| Amounts receivable from other related parties         | 6          | 1          |
| Prepayments   | 149        | 175        |
| Accrued income  | 105        | 91         |
| VAT   | 51         | 4          |
| Other   | 50         | 41         |
| Current trade and other receivables                   | 566        | 524        |
| Non current prepayments                               | 19         |            |

|                                   |     |     |
|-----------------------------------|-----|-----|
| Total trade and other receivables | 585 | 524 |
|-----------------------------------|-----|-----|

Included within current trade and other receivables is £36 million (2007: £27 million) which is due in more than one year.

The ageing of the Group's net trade receivables past due subject to impairment is as follows:

|                                  | 2008<br>£m | 2007<br>£m |
|----------------------------------|------------|------------|
| Up to 30 days past due date      | 42         | 30         |
| 30 to 60 days past due date      | 9          | 11         |
| 60 to 120 days past due date     | 8          | 8          |
| More than 120 days past due date | 13         | 29         |
|                                  | 72         | 78         |

The Directors consider that the carrying amount of trade and other receivables approximates to their fair values. The Group is exposed to credit risk on its trade and other receivables, however the Group does not have any significant concentrations of credit risk, with exposure spread over a large number of counterparties and customers. Trade receivables principally comprise amounts outstanding from subscribers, advertisers and other customers.

During fiscal year 2008 the Group identified an immaterial gain contingency of £28 million, which had in the 2007 Annual Report been included at 30 June 2007 in both Gross trade receivables and Less: provision for impairment of receivables. In order to provide an appropriate comparative presentation, Gross trade receivables and Less: provision for impairment of trade receivables as at 30 June 2007 have been amended to eliminate this item from both categories. The amended presentation did not impact Net trade receivables at 30 June 2007 nor the 2007 income or cash flow statements. In fiscal year 2008, this contingency now stands at £34 million.

#### Provisions for doubtful debts

|                              | 2008<br>£m | 2007<br>£m |
|------------------------------|------------|------------|
| Balance at beginning of year | 72         | 60         |
| Amounts utilised             | (14)       | (5)        |
| Income statement charge      | 26         | 17         |
| Balance at end of year       | 84         | 72         |

#### 20. Trade and other payables

|   | 2008<br>£m | 2007<br>£m |
|---|------------|------------|
| Trade payables                                | 270        | 380        |
| Amounts owed to joint ventures and associates | 3          | 3          |
| Amounts owed to other related parties         | 32         | 36         |
| VAT   | 105        | 97         |
| Accruals                                      | 534        | 468        |
| Deferred income                               | 289        | 245        |
| Other   | 61         | 66         |

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1,294

1,295

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Included within trade payables are £111 million (2007: £139 million) of US dollar-denominated programme payables. The Directors consider that the carrying amount of trade and other payables approximates to their fair values. Trade payables principally comprise amounts outstanding for programming purchases and ongoing costs.

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### 21. Provisions

|  | At<br>1 July<br>2006<br>£m | Provided<br>during<br>the year<br>£m | Utilised<br>during<br>the year<br>£m | At<br>1 July<br>2007<br>£m | Provided<br>during<br>the year<br>£m | On<br>acquisition<br>of<br>subsidiary<br>£m | Utilised<br>during<br>the year<br>£m | At<br>30 June<br>2008<br>£m |
|--|----------------------------|--------------------------------------|--------------------------------------|----------------------------|--------------------------------------|---|--------------------------------------|-----------------------------|
| <b>Current liabilities</b>                                   |                            |                                      |                                      |                            |                                      |   |                                      |                             |
| Provision for termination benefits <sup>(i)</sup>            |                            | 3                                    |                                      | 3                          |                                      |   | (3)                                  |                             |
| Restructuring provision <sup>(ii)</sup>                      |                            |                                      |                                      |                            | 6                                    |   |                                      | 6                           |
| Acquired and acquisition related provisions <sup>(iii)</sup> |                            |                                      |                                      |                            | 2                                    | 22  | (10)                                 | 14                          |
| Other provisions <sup>(iv)</sup>                             | 6                          | 1                                    | (2)                                  | 5                          | 4                                    |   | (2)                                  | 7                           |
|  | 6                          | 4                                    | (2)                                  | 8                          | 12                                   | 22  | (15)                                 | 27                          |
| <b>Non-current liabilities</b>                               |                            |                                      |                                      |                            |                                      |   |                                      |                             |
| Acquired and acquisition related provisions <sup>(iii)</sup> |                            |                                      |                                      |                            |                                      | 8   |                                      | 8                           |
| Other provisions <sup>(v)</sup>                              | 19                         | 2                                    | (3)                                  | 18                         |                                      |   | (4)                                  | 14                          |
|  | 19                         | 2                                    | (3)                                  | 18                         |                                      | 8   | (4)                                  | 22                          |

- (i) At 30 June 2007, the Group provided £3 million for expected costs of redundancy and related expenses. During the year ended 30 June 2008 this provision was fully utilised.
- (ii) During the year ended 30 June 2008 the Group provided £6 million for the expected costs of a restructuring exercise undertaken. It is expected for the provision to be utilised over the next twelve months.
- (iii) During the year ended 30 June 2008 the Group took control of Amstrad. Following the purchase method of accounting the Group has recognised at fair value both the provisions and contingent liabilities acquired in the business combination. The provisions recognised primarily relate to warranties and repair costs, the settlement of outstanding customer claims and the fair value of a contingent liability in respect of importation duty on set-top boxes, see note 27. It is expected for these provisions to be utilised within the next three years.
- (iv) Included in other provisions are amounts provided for onerous contracts for property leases, maintenance and legal disputes. The timing of the cash flows for onerous property leases and maintenance are dependent on the terms of the remaining leases. The timing of the cash flows for legal disputes cannot be reasonably determined.
- (v) Included within non-current other provisions are onerous property leases. The timing of the cash flows are dependant on the terms of the leases.

### 22. Borrowings and non-current other payables

|                    | 2008<br>£m | 2007<br>£m |
|--------------------|------------|------------|
| Current borrowings |            |            |

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|  |              |              |
|--|--------------|--------------|
| US\$600 million of 6.875% Guaranteed Notes repayable in February 2009 <sup>(i)</sup> | 301          |              |
| Loan Notes <sup>(ii)</sup>   | 37           | 16           |
|  | <b>338</b>   | <b>16</b>    |
| <hr/>  |              |              |
| <b>Non-current borrowings</b>  |              |              |
| US\$600 million of 6.875% Guaranteed Notes repayable in February 2009 <sup>(i)</sup> |              | 299          |
| £100 million of 7.750% Guaranteed Notes repayable in July 2009 <sup>(i)</sup>        | 100          | 100          |
| US\$650 million of 8.200% Guaranteed Notes repayable in July 2009 <sup>(i)</sup>     | 326          | 324          |
| US\$750 million of 5.625% Guaranteed Notes repayable in October 2015 <sup>(i)</sup>  | 379          | 364          |
| £400 million of 5.750% Guaranteed Notes repayable in October 2017 <sup>(i)</sup>     | 398          | 397          |
| US\$750 million of 6.100% Guaranteed Notes repayable in February 2018 <sup>(i)</sup> | 372          |              |
| £300 million of 6.000% Guaranteed Notes repayable in May 2027 <sup>(i)</sup>         | 295          | 295          |
| US\$350 million of 6.500% Guaranteed Notes repayable in October 2035 <sup>(i)</sup>  | 171          | 169          |
| Obligations under finance leases <sup>(iii)</sup>                                    | 67           | 66           |
|  | <b>2,108</b> | <b>2,014</b> |
| <hr/>  |              |              |
| <b>Non-current other payables</b>  |              |              |
| Accruals   | 19           | 10           |
| Deferred income  | 48           | 74           |
|  | <b>67</b>    | <b>84</b>    |
| <hr/>  |              |              |



[Back to Contents](#)**(i) Guaranteed Notes**

At 30 June 2008, the Group had in issue the following publicly-traded Guaranteed Notes:

US\$600 million of 6.875% Guaranteed Notes, repayable in February 2009. At the time of issuing these notes, the US dollar proceeds were swapped into pounds sterling (£367 million) at an average fixed rate of 8.200%, payable semi-annually. In July 2003, the Group entered into an interest rate hedging arrangement in respect of £61 million of this swapped debt. The effect of this new hedging arrangement was that, from July 2003 until February 2009, the Group pays floating six months London Inter-Bank Offer Rate ( LIBOR ) plus a margin of 3.490% on £61 million of its swapped debt. However, at each six monthly reset date, the counterparty to this transaction has the right to cancel the transaction with immediate effect. In October 2003, the Group entered into a further hedging arrangement in respect of an additional £61 million of this swapped debt, the effect of which was to reduce the rate payable to 7.950% for the period August 2003 to February 2004. Thereafter, until August 2006, the rate payable is 7.950% plus any margin by which the floating six monthly LIBOR reset rate exceeds the sum of the previous reset rate plus 0.500% . Thereafter, the rate reverts to a fixed 8.180% . In February 2005, the 7.950% interest rate on this swap was renegotiated to 8.020% with all other aspects of the swap remaining unchanged.

£100 million of 7.750% Guaranteed Notes, repayable in July 2009. The fixed coupon is payable annually.

US\$650 million of 8.200% Guaranteed Notes, repayable in July 2009. At the time of issuing these notes, the US dollar proceeds were swapped into pounds sterling (£413 million) at an average fixed rate of 7.653% payable semi-annually. In December 2002 the Group entered into further swap arrangements relating to £63.5 million of this debt. These arrangements were subsequently amended in March 2003 and July 2004, the effect of which was to fix the interest rate on £63.5 million at 5.990% until January 2004, after which time it reverted to a floating six months LIBOR plus a margin of 2.460%, except that should LIBOR be less than 2.750% for the period January to July 2004, 2.890% for the period July 2004 to January 2005, or 2.990% thereafter, the effective rate shall be deemed to be 7.653% . After July 2004, the margin over LIBOR increased from 2.460% to 2.840% . In order to increase its exposure to floating rates, in July 2003, the Group entered into another interest rate hedging arrangement in respect of a further £63.5 million of the above-mentioned debt. The effect of this arrangement was that, from July 2003 until July 2009, the Group will pay floating six months LIBOR plus a margin of 2.8175% on this £63.5 million, except that should LIBOR be less than 2.750% for the period January to July 2004, or less than 2.990% thereafter, the Group shall revert back to 7.653% . At 30 June 2008, none of the floor levels had been breached; therefore, the Group continues to pay the relevant floating rates.

US\$750 million of 5.625% Guaranteed Notes, repayable in October 2015, which were issued in October 2005. At the time of issuing these notes, the Group entered into swap transactions to convert the dollar proceeds to pounds sterling (£428 million), which carry interest at an average fixed rate of 5.401% until maturity, payable semi-annually. The Group entered into further interest rate hedging arrangements in respect of £257 million of this swapped debt. The effect of these arrangements was that, from October 2005 until October 2015, the Group will pay an average floating rate of six months LIBOR plus a margin of 0.698% on £257 million of its swapped debt.

£400 million of 5.750% Guaranteed Notes, repayable in October 2017, which were issued in October 2005. The fixed coupon is payable annually. On 14 June 2006, the Group entered into an interest rate hedging arrangement in respect of £20 million of this debt. The effect of this hedging arrangement is that, from October 2007 until October 2009, the Group will pay floating six months LIBOR plus a margin of 0.325% on £20 million of its debt. On the same date, the Group entered into a further interest rate hedging arrangement in respect of £10 million of this debt, to take effect from October 2009 and mature in October 2017. Under the terms of this swap the Group will pay floating six months LIBOR plus a margin of 0.325% . However, at each annual reset date from October 2009 to October 2017, the counterparty to this transaction has the right to cancel the transaction with immediate effect. On 21 June 2007, the Group entered into interest rate hedging arrangements in respect of a further £50 million of

debt whereby, from June 2007, the Group will pay floating six months LIBOR minus 0.229% .

£300 million of 6.000% Guaranteed Notes, repayable in May 2027, which were issued in May 2007. The fixed coupon is payable annually.

US\$350 million of 6.500% Guaranteed Notes, repayable in October 2035, which were issued in October 2005. At the time of issuing these notes, the Group entered into swap transactions to convert the dollar proceeds to pounds sterling (£200 million) at an

average fixed rate of 5.826%, payable semi-annually.

US\$750 million of 6.100% Guaranteed Notes, repayable in February 2018, which were issued in February 2008. At the time of issuing these notes, the US dollar proceeds were swapped into pounds sterling (£387 million). 25% of the resulting sterling liability was subject to floating interest rates at LIBOR plus 1.89%, with the remaining 75% incurring a fixed interest rate of 6.83% semi-annually.

#### (ii) Loan Notes

The Group issued Loan Notes of £37 million during the current year as part consideration for the purchase of Amstrad. The notes are repayable at the option of the note holders either on 31 March or on 30 September in any year between 31 March 2008 and 30 September 2017, at which time the notes are fully redeemable. Under the terms of the Loan Notes the Group pays floating six month LIBOR minus 1.000% until 29 September 2012. After this date the Group will pay floating six month LIBOR minus 0.500%. The coupon is payable semi-annually.

The Group issued Loan Notes of £16 million during the prior year as part consideration for the purchase of 365 Media. The notes are repayable at the option of the note holders either on 30 June or on 31 December in any year between the first date on which all of the relevant holdings of Loan Notes have been in issue for more than six months and 31 December 2009. Under the terms of the Loan Notes, the Group pays floating twelve months LIBOR minus 1.000%. The coupon is payable annually. £16 million of Loan Notes were repaid during the current period.

#### (iii) Finance leases

The minimum lease payments under finance leases fall due as follows:

|   | 2008<br>£m | 2007<br>£m |
|---|------------|------------|
| Within one year                                     | 9          | 8          |
| Between one and two years                           | 8          | 8          |
| Between two and three years                         | 8          | 8          |
| Between three and four years                        | 8          | 8          |
| Between four and five years                         | 8          | 8          |
| After five years                                    | 184        | 193        |
|   | <b>225</b> | <b>233</b> |
| Future finance charges on finance lease liabilities | (154)      | (162)      |
| <b>Present value of finance lease liabilities</b>   | <b>71</b>  | <b>71</b>  |

The main obligations under finance leases are in relation to:

- finance arrangements in connection with the broadband network infrastructure. During the year, repayments of £5 million (2007: £7 million) were made against the lease. A proportion of these payments have been allocated against the capital outstanding. The lease bears interest at a rate of 11.1% and expires in March 2040.
- finance arrangements in connection with the contact centre in Dunfermline. During the year, repayments of £1 million (2007: £1 million) were made against the lease. A proportion of these payments have been allocated against the capital amount outstanding. The lease bears interest at a rate of 8.5% and expires in September 2020.



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### 22. Borrowings and non-current other payables (continued)

#### (iv) Revolving Credit Facility

In November 2004, the Company entered into a £1 billion RCF. This facility was used to cancel an existing £600 million RCF and is available for general corporate purposes. The £1 billion facility has a maturity date of July 2010, and interest accrues at a margin of between 0.45% and 0.55% above LIBOR, dependent on the Group's leverage ratio of Net Debt to earnings before interest, taxes, depreciation and amortisation ( EBITDA ) (as defined in the loan agreement).

The Company is subject to two financial covenants under our revolving credit facility, a maximum leverage ratio and a minimum coverage ratio, which are tested at the end of each six monthly accounting period. The key financial covenants are the ratio of Net Debt to EBITDA (as defined in the loan agreement) and EBITDA to Net Interest Payable (as defined in the loan agreement). Net Debt to EBITDA must be no more than 3:1 and EBITDA to Net Interest Payable must be at least 3.5:1. We were in compliance with these covenants for all periods presented.

At 30 June 2008, the ratio of Net Debt to EBITDA (as defined in the loan agreement) was 1.9:1 (2007: 1.8:1) . In the year ended 30 June 2008, the ratio of EBITDA to Net Interest Payable (as defined in the loan agreement) was 7.5:1 (2007: 9.8:1) ..

Commitment fees of £2 million (2007: £2 million; 2006: £2 million) were payable for undrawn amounts available under the RCF, based on a rate equal to 40% of the applicable margin of 0.55% over LIBOR (30 June 2007: 40% of the applicable margin of 0.50% over LIBOR; 30 June 2006: 40% of the applicable margin of 0.45% over LIBOR).

#### (v) Guarantees

The following guarantees are in place relating to the Group's borrowings: (a) British Sky Broadcasting Limited, Sky Subscribers Services Limited, BSKyB Investments Limited, BSKyB Finance UK plc, BSKyB Publications Limited and Sky In-Home Service Limited ( SHS ) have given joint and several guarantees in relation to the Company's £1 billion RCF, (b) British Sky Broadcasting Limited, Sky Subscribers Services Limited, BSKyB Finance UK plc, BSKyB Publications Limited and BSKyB Investments Limited have given joint and several guarantees in relation to the US\$750 million, US\$650 million, US\$600 million, £300 million and £100 million Guaranteed Notes issued by the Company, (c) the Company, British Sky Broadcasting Limited, Sky Subscribers Services Limited, BSKyB Investments Limited and BSKyB Publications Limited have given joint and several guarantees in relation to the US\$750 million, US\$350 million and £400 million Guaranteed Notes issued by BSKyB Finance UK plc. On 13 March 2008, SHS became an acceding guarantor to the Company's RCF. If the RCF is drawn SHS is required to accede as a guarantor of the Company's bond debt. At present the RCF is not drawn.

#### (vi) Capital Risk Management

The Group's objectives when managing capital are to endeavour to ensure that the Group has the ability to access capital markets when necessary and to optimise liquidity and operating flexibility through the arrangement of new debt, while seeking to minimise the cost of capital.

The Group manages capital on the basis of the ratio of Net Debt:EBITDA, and manages its short and long-term capital structure by seeking to maintain leverage ratios consistent with a long-term investment grade credit rating (BBB- or better from Standard & Poor's and Baa3 or better from Moody's). The Group's current ratings are BBB (Standard & Poor's) and Baa2 (Moody's). The leverage ratios assessed by these rating agencies are those of Net Debt:EBITDA and Gross Debt:EBITDA. Net Debt is defined as total borrowings, including the cash flows arising under operating leases and transponder prepayments, less cash and cash equivalents, excluding derivatives. Gross Debt does not reduce total borrowings by the inclusion of cash and cash equivalents. EBITDA is defined as Operating Profit before Interest, Tax, Depreciation and Amortisation.

The Group is also required to maintain a Net Debt:EBITDA ratio below 3:1 under the terms of its Revolving Credit Facility. The Revolving Credit Facility definition of Net Debt does not require the inclusion of operating lease or transponder cash flows.

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At 30 June 2008, the Group's ratio of Net Debt:EBITDA, as defined by the Rating Agencies, was 2.3:1 (2007 2.1:1) . The Net Debt:EBITDA ratio as defined by the terms of the Revolving Credit Facility was 1.9:1 (2007 1.8:1) .

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[Back to Contents](#)**23. Derivatives and other financial instruments**

Set out below are the derivative financial instruments entered into by the Group to manage its interest rate and foreign exchange risks.

|   | 2008             |                |                  |                | 2007             |                |                  |                |
|---|------------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|
|   | Asset            |                | Liability        |                | Asset            |                | Liability        |                |
|   | Fair Value<br>£m | Notional<br>£m | Fair Value<br>£m | Notional<br>£m | Fair Value<br>£m | Notional<br>£m | Fair Value<br>£m | Notional<br>£m |
| <b>Fair value hedges</b>                              |                  |                |                  |                |                  |                |                  |                |
| Interest rate swaps and swaptions                     | 9                | (276)          |                  | (94)           |                  | (50)           | (11)             | (224)          |
| <b>Cash flow hedges</b>                               |                  |                |                  |                |                  |                |                  |                |
| Cross-currency swaps                                  |                  |                | (180)            | (1,441)        |                  |                | (208)            | (1,151)        |
| Forward exchange contracts                            | 5                | 24             | (11)             | 190            |                  | (10)           | (22)             | (308)          |
| Currency options (collars)                            | 2                | 121            | (10)             | 121            | 1                | 144            | (13)             | 144            |
| <b>Derivatives not in a formal hedge relationship</b> |                  |                |                  |                |                  |                |                  |                |
| Interest rate swaps and swaptions                     |                  | (20)           | (3)              | (135)          |                  | (20)           | (6)              | (135)          |
| Forward exchange contracts                            |                  | 4              |                  | 13             |                  |                | (1)              | (17)           |
| Basis swaps   |                  |                | (39)             | (353)          |                  |                | (33)             | (257)          |
| Embedded derivatives                                  | 2                | (19)           |                  |                | 4                | (22)           |                  |                |
| <b>Total</b>  | <b>18</b>        | <b>(166)</b>   | <b>(243)</b>     | <b>(1,699)</b> | <b>5</b>         | <b>42</b>      | <b>(294)</b>     | <b>(1,948)</b> |

The maturity of the derivative financial instruments is as follows:

|                            | 2008        |                 | 2007        |                 |
|----------------------------|-------------|-----------------|-------------|-----------------|
|                            | Asset<br>£m | Liability<br>£m | Asset<br>£m | Liability<br>£m |
| In one year or less        | 4           | (81)            | 1           | (16)            |
| Between one and two years  | 2           | (90)            | 1           | (89)            |
| Between two and five years | 3           | (3)             | 3           | (101)           |
| In more than five years    | 9           | (69)            |             | (88)            |
| <b>Total</b>               | <b>18</b>   | <b>(243)</b>    | <b>5</b>    | <b>(294)</b>    |

In the above table, the carrying value of derivative instruments equals their fair value. The notional value of the derivative is shown as the principal value of the underlying hedged item.

The Group's portfolio of rate derivatives is diversified by maturity, counterparty and type. Natural offsets between transactions within the portfolio and the designation of certain derivatives as hedges significantly reduce the risk of income statement volatility.

Diversification of counterparty exposure from derivatives is managed within credit limits that ensure that there is no significant risk to any one counterparty. In addition to this deals are only executed with counterparties that have a long-term rating of A- or better.

Included within the fair value of forward exchange contracts are a number of US dollar-denominated forward exchange contracts which the Group has taken out with counterparty banks on behalf of two of its joint ventures: The History Channel (UK) and Chelsea Digital Media Limited. On the same dates as these forward contracts were entered into, the Group entered into equal and opposite forward contracts with the respective joint ventures. As a result, the net fair value of these contracts to the Group was nil (2007: nil). The gross sterling equivalent face value of these forward contracts at 30 June 2008 was £5 million (2007: £5 million).

#### Group treasury activity

The Group's treasury function is responsible for raising finance for the Group's operations, together with associated liquidity management and the management of foreign exchange, interest rate and credit risks. Treasury operations are conducted within a framework of policies and guidelines authorised and reviewed by both the Audit Committee and the Board, which receive regular updates of treasury activity. Derivative instruments are transacted for risk management purposes only. It is the Group's policy that all hedging is to cover known risks and that no speculative trading in financial instruments is undertaken. Regular and frequent reporting to management is required for all transactions and exposures, and the internal control environment is subject to periodic review by the Group's internal audit team.

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### Notes to the consolidated financial statements

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#### 23. Derivatives and other financial instruments (continued)

The Group's principal market risks are exposures to changes in interest rates and foreign exchange rates, which arise both from the Group's sources of finance and from its operations. Following evaluation of those market risks, the Group selectively enters into derivative financial instruments to manage these exposures. The principal instruments currently used are interest rate swaps and options on interest rate swaps (swaptions) to hedge interest rate risks, and cross-currency swaps, forward exchange contracts, currency options (collars) and similar financial instruments to hedge transactional and translational currency exposures.

##### Interest rate risk

The Group has financial exposures to both UK and US interest rates, arising primarily from the Group's long-term bonds and other borrowings. The Group's hedging policy requires that between 50% and 75% of borrowings are held at fixed interest rates. This is achieved by issuing fixed rate bonds and then using interest rate swap and swaption agreements to adjust the balance between fixed and floating rate debt. The Group's bank debt is at floating rates, and, when drawn, means that the mix of fixed and floating rate debt fluctuates and is therefore managed to ensure compliance with the Group's hedging policy. At 30 June 2008, 74% of borrowings are held at fixed rates after hedging (2007: 74%). Certain of the swaption agreements can be cancelled prior to the maturity of the bonds to which they apply.

The Group's US dollar-denominated debt has all been swapped to pounds sterling using a combination of cross-currency and interest rate swap arrangements to convert both the principal amounts of debt, together with interest rate obligations, from US dollars to pounds sterling, at fixed exchange rates. The counterparties have a minimum long-term rating of A- or equivalent from Moody's and Standard & Poor's. At 30 June 2008, the split of the Group's aggregate borrowings into their core currencies was US dollar 62% and pounds sterling 38% (2007: US dollar 57% and pounds sterling 43%).

The Group has designated a number of cross-currency swap agreements as cash flow hedges of 79% (2007: 81%) of the Group's exposure to US dollar interest rates on elements of the Group's US dollar denominated Guaranteed Notes. As such, the effective portion of the gain or loss on the swaps designated and qualifying as cash flow hedging instruments is reported as a component of the hedging reserve, outside of the income statement, and is then reclassified into the income statement in the same period that the forecast transactions affect the income statement (i.e. when the interest expense is incurred and/or gains or losses relating to the retranslation of US dollar denominated debt principal are recognised in the income statement). Any hedge ineffectiveness on the swaps is recognised directly in profit or loss. The ongoing effectiveness testing is performed using the cumulative dollar-offset approach. During the year ended 30 June 2008, there were no instances in which the hedge relationship was not highly effective (2007: no instances).

The Group has designated a number of interest rate swap agreements as fair value hedges of 21% (2007: 14%) of the Group's debt portfolio. Movements in the fair value of the hedged items are taken to the income statement and are offset by movements in the fair value of the hedging instruments, which are also taken to the income statement. Any hedge ineffectiveness on the swaps is recognised directly in the income statement. Ongoing effectiveness testing is performed using the cumulative dollar-offset approach. During the year ended 30 June 2008, there were no instances in which the hedge relationship was not highly effective (2007: no instances).

Swaption agreements which convert fixed interest rates to floating interest rates and cross-currency swaps which convert floating rate US dollar interest to floating rate pounds sterling interest have not been designated as hedging instruments for hedge accounting purposes and, as such, movements in their value are recorded directly in the income statement.

The fair value of the Group's debt-related interest rate and currency derivative portfolio at 30 June 2008 was a £213 million net liability, with net notional principal amounts totalling £1,864 million. This compares to a £258 million net liability at 30 June 2007 and net notional principal amounts totalling £1,487 million. The fair value of the

Group's derivative instruments designated as cash flow hedges at 30 June 2008 was a £180 million net liability (2007: £208 million net liability). The fair value of the Group's derivative instruments designated as fair value hedges at 30 June 2008 was a £9 million



net asset (2007: £11 million net liability).

In November 2004, the Group entered into a £1,000 million RCF. At 30 June 2008, the facility was undrawn (2007: undrawn). The facility has a maturity date of July 2010, and interest accrues at a margin of between 0.45% and 0.55% per annum above LIBOR, dependent on the Group's leverage ratio of Net Debt to EBITDA (as defined in the loan agreement). The current applicable margin is 0.55% (2007: 0.50%), which is based on a net debt to EBITDA ratio of above 2.00:1, but below 3.00:1. Should the ratio decrease to below 2.00:1 but above 1.00:1, the margin falls to 0.50%, and below that to 0.45%. The ratio of net debt to EBITDA at 30 June 2008 was 1.9:1 (2007: 1.8:1), indicating a margin of 0.50% on future drawings.

At 30 June 2008, 30 June 2007 and 30 June 2006, the Group's annual finance costs would be unaffected by any change to the Group's credit rating in either direction.

#### Foreign exchange risk

The Group's revenues and operating expenses are substantially denominated in pounds sterling. A small proportion of operating expenses is denominated in US dollars, while a small proportion of revenues is denominated in euros. In the current year, approximately 7% of operating expenses (£305 million) was denominated in US dollars (2007: approximately 7% (£261 million)) and 8% of revenues was denominated in euros (2007: 6%). The US dollar expense relates mainly to the Group's programming contracts with US suppliers. The euro revenues are primarily due to subscribers located in Ireland. The Group's exposure to euro-denominated revenue is offset to a certain extent by euro-denominated costs, relating mainly to certain transponder rentals; the net position being a euro surplus (2007: surplus; 2006: surplus).

During the year, the Group managed its currency exposure on US dollar-denominated programming contracts by the purchase of forward exchange contracts and currency options (collars) for up to five years ahead. All US dollar-denominated forward exchange contracts and collars entered into by the Group are in respect of firm commitments only and those instruments maturing over the year following 30 June 2008 represent approximately 90% (2007: approximately 80%) of US dollar-denominated costs falling due in that year. At 30 June 2008, the Group had outstanding commitments to purchase, in aggregate, US\$629 million (2007: US\$634 million) at an average rate of US\$1.87 to £1.00 (2007: US\$1.85 to £1.00). In addition, collars were held relating to the purchase of a total of US\$241 million (2007: US\$288 million).

The Group has designated a number of forward exchange contracts and collars as cash flow hedges of up to approximately 80% (2007: approximately 80%) of the Group's exposure to US dollar payments on its programming contracts with US movie licensors for a period of five years, thereafter nil (2007: five years, thereafter nil). The Group has also designated a number of foreign exchange contracts as cash flow hedges of approximately 100% of certain US dollar-denominated sport programming contracts. As such, the effective portion of the gain or loss on these contracts is reported as a component of the hedging reserve, outside the income statement, and is transferred to the income statement as the forecast transactions affect the income statement (i.e. when US dollar-denominated trade payables are retranslated and related programming inventory is amortised through the income statement). For forward exchange contracts, hedge accounting is applied to changes in the full fair value. For currency options (collars), hedge accounting is only applied to changes in intrinsic value. Any hedge ineffectiveness on the forward exchange contracts and collars is recognised directly in the income statement. The ongoing effectiveness testing is performed using the dollar-offset approach. If forecast transactions are no longer expected to occur, any amounts included in the hedging reserve related to that forecast transaction would be recognised directly in the income statement. Certain forward exchange contracts and collars have not been designated as hedges and movements in their values continue to be recorded directly in the income statement.

During the year, the Group managed its exposure to euros for up to one year ahead using forward exchange contracts. This hedging was introduced part way through the year and represented approximately 26% of euro-denominated revenues for the year

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(2007: nil). At 30 June 2008, the Group had outstanding commitments to sell, in aggregate 194 million euros (2007: nil) at an average rate of €1.26 and further commitments to purchase, in aggregate 65 million euros (2007: nil) at an average rate of €1.30.

The Group has designated a number of forward contracts as cash flow hedges of up to approximately 75% (2007: nil) of the Group's exposure to euro-denominated subscription revenues and transponder costs.

As such, the effective portion of the gain or loss on these contracts is reported as a component of the hedging reserve, outside the income statement, and is then reclassified into the income statement in the same periods that the forecast transactions affect the income statement (i.e. when the programming stock is amortised and/or gains or losses relating to the retranslation of any US dollar-denominated creditor balances are recognised in the income statement).

During the year 31 million euros were exchanged for US dollars (2007: 78 million euros), £93 million was exchanged for US dollars (2007: £84 million) and 26 million euros were exchanged for pounds sterling (2007: 15 million euros) on currency spot markets. At 30 June 2008, 24 million euros (£19 million) were retained by the Group (2007: 61 million euros (£41 million)).

It is the Group's policy that anticipated foreign currency exposures are substantially hedged in advance of the fiscal year in which the exposure occurs.

#### Credit risk

The Group is exposed to default risk amounting to invested cash and cash equivalents and short-term deposits, and the positive fair value of derivatives held. However, as

financial transactions and instruments are only executed with counter parties that are all A- long-term rating or better and the Group's policy is to ensure that investments are spread across a number of counterparties, these risks are deemed to be low.

The Group's maximum exposure to credit risk on trade receivables is the carrying amounts as disclosed in note 19.

#### Liquidity risk

The Group's financial liabilities are shown in note 22, other than current trade and other payables, shown in note 20, and provisions, shown in note 21.

To ensure continuity of funding, the Group's policy is to ensure that available funding matures over a period of years. At 30 June 2008, 50% (2007: 43%) of the Group's total available funding (including undrawn amounts on our RCF) was due to mature in more than five years.

The following table analyses the Group's non-derivative financial liabilities, net-settled derivative financial instruments and gross-settled financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

These amounts may not reconcile to the amounts disclosed on the balance sheet for borrowings, derivative financial instruments and trade and other payables.



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## Notes to the consolidated financial statements

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### 23. Derivatives and other financial instruments (continued)

|   | Less than<br>12<br>months<br>£m | Between<br>one and<br>two<br>years<br>£m | Between<br>two and<br>five<br>years<br>£m | More<br>than five<br>years<br>£m |
|---|---------------------------------|--|---|----------------------------------|
| <b>At 30 June 2008</b>                                |                                 |  |   |                                  |
| <b>Non derivative financial liabilities</b>           |                                 |  |   |                                  |
| Bonds USD   | 404                             | 395                                      | 167                                       | 1,352                            |
| Bonds GBP   | 49                              | 149                                      | 123                                       | 1,067                            |
| Loan Notes  | 2                               | 2  | 5   | 44                               |
| Obligations under finance leases and other borrowings | 9                               | 8  | 24  | 184                              |
| Trade and other payables                              | 979                             | 36                                       | 5   |                                  |
| Provisions  | 8                               | 3  | 9   | 7                                |
| <b>Net settled derivatives</b>                        |                                 |  |   |                                  |
| Financial assets                                      | (5)                             | (5)                                      | (15)                                      | (13)                             |
| Financial liabilities                                 |                                 | (1)                                      | (5)                                       | (8)                              |
| <b>Gross settled derivatives</b>                      |                                 |  |   |                                  |
| Outflow   | 915                             | 635                                      | 303                                       | 1,476                            |
| Inflow  | (807)                           | (520)                                    | (248)                                     | (1,332)                          |

|   | Less than<br>12<br>months<br>£m | Between<br>one and<br>two<br>years<br>£m | Between<br>two and<br>five<br>years<br>£m | More<br>than five<br>years<br>£m |
|---|---------------------------------|--|---|----------------------------------|
| <b>At 30 June 2007</b>                                |                                 |  |   |                                  |
| <b>Non derivative financial liabilities</b>           |                                 |  |   |                                  |
| Bonds USD   | 80                              | 379                                      | 434                                       | 888                              |
| Bonds GBP   | 49                              | 48                                       | 231                                       | 1,108                            |
| Loan Notes  | 1                               | 1  | 17  |                                  |
| Obligations under finance leases and other borrowings | 8                               | 8  | 24  | 193                              |
| Trade and other payables                              | 1,005                           | 56                                       | 14  |                                  |
| Provisions  | 5                               | 4  | 10  | 11                               |
| <b>Net settled derivatives</b>                        |                                 |  |   |                                  |
| Financial assets                                      |                                 |  |   | (1)                              |
| Financial liabilities                                 | (4)                             | (4)                                      | (14)                                      | (17)                             |
| <b>Gross settled derivatives</b>                      |                                 |  |   |                                  |
| Outflow   | 656                             | 620                                      | 278                                       | 954                              |
| Inflow  | (545)                           | (504)                                    | (231)                                     | (844)                            |

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At 30 June 2008, the Group's RCF was undrawn (30 June 2007: undrawn). The Group's undrawn committed bank facilities, subject to covenants, are as follows:

|                                       | 2008<br>£m | 2007<br>£m |
|---------------------------------------|------------|------------|
| Expiring between two and three years  | 1,000      |            |
| Expiring between three and four years |            | 1,000      |

The Group's RCF matures in July 2010.

On 3 April 2007, the Group established a Euro Medium Term Note Programme (the Programme). The Programme provides the Group with a standardised documentation platform to allow for senior debt issuance in the Eurobond markets. The maximum potential issuance under the Programme is £1 billion. On 14 May 2007, under the Programme, the Group issued £300 million aggregate principal amount of Eurobonds paying 6.000% interest and maturing on 14 May 2027.

[Back to Contents](#)**Financial instruments**

The accounting classification of each class of the Group's financial assets and financial liabilities, together with their fair values, is as follows:

|   | Held to<br>maturity<br>investments<br>£m | Available<br>for sale<br>£m | Derivatives<br>deemed<br>held<br>for trading<br>£m | Derivatives in<br>hedging<br>relationships<br>£m | Loans and<br>receivables<br>£m | Other<br>liabilities<br>£m | Total<br>carrying<br>value<br>£m | Total fair<br>values<br>£m |
|---|--|-----------------------------|--|--|--------------------------------|----------------------------|----------------------------------|----------------------------|
| <b>At 30 June 2007</b>                                |  |                             |  |  |                                |                            |                                  |                            |
| Quoted bond debt                                      |  |                             |  |  |                                | (1,948)                    | (1,948)                          | (1,938)                    |
| Derivative financial instruments                      |  |                             | (36)   | (253)  |                                |                            | (289)                            | (289)                      |
| Loan notes  |  |                             |  |  |                                | (16)                       | (16)                             | (16)                       |
| Trade and other payables                              |  |                             |  |  |                                | (1,101)                    | (1,101)                          | (1,101)                    |
| Obligations under finance leases and other borrowings |  |                             |  |  |                                | (66)                       | (66)                             | (66)                       |
| Available-for-sale investments                        |  | 797                         |  |  |                                |                            | 797                              | 797                        |
| Trade and other receivables                           |  |                             |  |  | 333                            |                            | 333                              | 333                        |
| Short-term deposits                                   | 15                                       |                             |  |  |                                |                            | 15                               | 15                         |
| Cash and cash equivalents                             | 124                                      |                             |  |  | 311                            |                            | 435                              | 435                        |
| <b>At 30 June 2008</b>                                |  |                             |  |  |                                |                            |                                  |                            |
| Quoted bond debt                                      |  |                             |  |  |                                | (2,342)                    | (2,342)                          | (2,233)                    |
| Derivative financial instruments                      |  |                             | (40)   | (185)  |                                |                            | (225)                            | (225)                      |
| Loan notes  |  |                             |  |  |                                | (37)                       | (37)                             | (37)                       |
| Trade and other payables                              |  |                             |  |  |                                | (1,046)                    | (1,046)                          | (1,046)                    |
| Obligations under finance leases and other borrowings |  |                             |  |  |                                | (67)                       | (67)                             | (67)                       |
| Available-for-sale investments                        |  | 338                         |  |  |                                |                            | 338                              | 338                        |
| Trade and other receivables                           |  |                             |  |  | 393                            |                            | 393                              | 393                        |
| Short-term deposits                                   | 185                                      |                             |  |  |                                |                            | 185                              | 185                        |

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|                           |     |     |     |     |
|---------------------------|-----|-----|-----|-----|
| Cash and cash equivalents | 412 | 220 | 632 | 632 |
|---------------------------|-----|-----|-----|-----|

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The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and which are traded on active liquid markets is determined with reference to quoted market prices;
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;
- The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives;
- Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts;
- Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates; and
- The fair value of obligations under finance leases and other borrowings is estimated by discounting the future cash flows to net present value. The fair value of short-term deposits and cash and cash equivalents is equivalent to book value due to the short-term nature of these instruments.

The differences between book values and fair values reflect unrealised gains or losses inherent in the financial instruments, based on valuations as at 30 June 2008 and 30 June 2007. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

In addition to the financial assets and liabilities in the above fair value table, the Group had holdings in the equity share capital of other listed and unlisted entities at 30 June 2008 and 30 June 2007 (see note 16).

The Group also had holdings in joint ventures and associates, which are accounted for using the equity method (see note 15). As these investments are unlisted, their fair value cannot be measured reliably.

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## Notes to the consolidated financial statements

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### 23. Derivatives and other financial instruments (continued)

#### Sensitivity analysis

The sensitivity of the Group's financial instruments to fluctuations in interest rates and exchange rates is as follows:

#### Foreign exchange sensitivity

The following table details the Group's sensitivity to a 10% increase and decrease in pounds sterling against all currencies in which it has significant transactions. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where pounds sterling moves by 10% against the relevant currency. In the case of the Group's US dollar exposures, the Group benefits from sterling strengthening against the dollar. In the case of the Group's net euro exposure, the Group benefits from sterling weakening against the euro.

|                | US Dollar  |            | Euro       |            |
|----------------|------------|------------|------------|------------|
|                | 2008<br>£m | 2007<br>£m | 2008<br>£m | 2007<br>£m |
| Profit or loss | 2          | 7          | (3)        | (16)       |
| Other equity   | 33         | 40         | (10)       |            |

#### Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative financial instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 1 percentage point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1 percentage point higher and all other variables were held constant, the Group's loss for the year ended 30 June 2008 would decrease by £1 million (2007: profit for the year would decrease by £1 million) and other equity reserves would decrease by £14 million (2007: decrease by £9 million).

The sensitivity analyses provided are hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the Group's actual exposure to market rates is constantly changing as the Group's portfolio of debt, foreign currency and equity contracts changes. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Group. The changes in valuations are estimates of the impact of changes in market variables and are not a prediction of future events or anticipated gains or losses.

#### Additional information

During the current year, the Group recognised amounts of less than £1 million in the income statement due to hedge ineffectiveness (2007: less than £1 million).

During the current year £11 million was removed from the hedging reserve and credited to finance costs in the income statement (2007: charge of £106 million; 2006: charge of £92 million).

During the current year £13 million was removed from the hedging reserve and recognised as programming costs in the income statement (2007: £3 million; 2006: £14 million).



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At 30 June 2008, the carrying value of financial assets that were, upon initial recognition, designated as financial assets at fair value through profit or loss, was nil (2007: nil).

Cash and cash equivalents include £412 million (2007: £124 million) of held to maturity investments, which have maturity dates of less than three months from

inception. Treasury policy requires that cash is distributed across a wide range of counterparties.

On 25 November 2005, the Group entered into a stock loan arrangement with a third party whereby the Group acquired a £100 million basket of listed shares (the Initial Purchase ) and, at the same time, the Group agreed to sell the basket of listed shares at the same price as the Initial Purchase on 25 November 2006. During the period of share ownership, Sky was entitled to all rights of ownership associated with the shares. At 30 June 2006, the Group recorded the stock loan arrangement as a short-term deposit at fair value with changes in fair value taken to the income statement. The arrangement was terminated in July 2006.

### 24. Share capital

|   | 2008<br>£m | 2007<br>£m |
|---|------------|------------|
| Authorised ordinary shares of 50p<br>3,000,000,000 (2007: 3,000,000,000)  | 1,500      | 1,500      |
| Allotted, called-up and fully paid<br>1,752,842,599 (2007: 1,752,842,599) | 876        | 876        |

|   | 2008<br>Number of<br>ordinary shares | 2007<br>Number of<br>ordinary shares |
|---|--------------------------------------|--------------------------------------|
| Allotted and fully paid during the year       |                                      |                                      |
| Beginning of year                             | 1,752,842,599                        | 1,791,077,599                        |
| Shares repurchased and subsequently cancelled |                                      | (38,235,000)                         |
| End of year                                   | 1,752,842,599                        | 1,752,842,599                        |

The Company has one class of ordinary shares which carries equal voting rights and no contractual right to receive payment.

#### Share option and contingent share award schemes

The Company operates various equity-settled share option schemes (the Schemes ) for certain employees.

The number of newly issued shares which may be allocated under the Schemes on any day shall not, when aggregated with the number of newly issued shares which have been allocated in the previous ten years under the Schemes and any other employee share scheme adopted by the Company, exceed such number as represents five percent of the ordinary share capital of the Company in issue immediately prior to that day. In determining this limit no account shall be taken of any newly issued shares where the right to acquire the newly issued shares was released, lapsed, cancelled or otherwise became incapable of exercise. Options and awards which will be satisfied by ESOP shares do not fall within these headroom limits.

The share awards outstanding can be summarised as follows:

|  | 2008<br>Number of<br>ordinary shares | 2007<br>Number of<br>ordinary shares |
|--|--------------------------------------|--------------------------------------|
|--|--------------------------------------|--------------------------------------|

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|  |                   |                   |
|--|-------------------|-------------------|
| Executive Share Option Scheme options <sup>(i)</sup> | 19,705,967        | 24,909,710        |
| Sharesave Scheme options <sup>(ii)</sup>             | 5,010,788         | 5,795,544         |
| Management LTIP awards <sup>(iii)</sup>              | 11,563,264        | 11,306,811        |
| LTIP awards <sup>(iv)</sup>                          | 6,048,983         | 7,965,417         |
| Key Contributors Plan ( KCP ) awards <sup>(v)</sup>  |                   | 14,237            |
|  | <b>42,329,002</b> | <b>49,991,719</b> |

**(i) Executive Share Option Scheme options**

Included within the total Executive Share Option Scheme outstanding at 30 June 2008 are 17,900,467 options (2007: 22,955,210) which may be exercised in the final year before their lapsing date, regardless of meeting performance criteria, provided that the employee remains in employment with the Group. Where performance criteria are achieved, the options may be exercised immediately following the end of the vesting period (being the term over which the performance criteria are required to be

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met). The remaining 1,805,500 options (2007: 1,954,500) have no performance criteria attached, other than the requirement that the employee remains in employment with the Group. The contractual life of all Executive Share Option Scheme options is ten years.

Grants under the Executive Share Option Scheme were made on an annual basis to selected employees, with the exercise price of options being equal to the Company's share price on the date of grant. For those options with performance conditions, growth in EPS has to exceed growth in the Retail Prices Index plus 3% per annum in order for awards to vest. Options vest on an accelerated basis over a period of up to four years from the date of grant.

#### (ii) Sharesave Scheme options

All Sharesave Scheme options outstanding at 30 June 2008 and 30 June 2007 have no performance criteria attached, other than the requirement that the employee remains in employment with the Group. Options granted under the Sharesave scheme must be exercised within six months of the relevant award vesting date.

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

#### (iii) Management LTIP awards

All Management LTIP awards outstanding at 30 June 2008 and 30 June 2007 vest only if performance conditions are met. Awards granted under the Management LTIP must be exercised within one year of the relevant award vesting date.

The Company grants awards to selected employees under the Management LTIP. Awards under this scheme mirror the LTIP, with the same performance conditions. Awards exercised under the Management LTIP can only be satisfied by the issue of market-purchased shares.

#### (iv) LTIP awards

All LTIP awards outstanding at 30 June 2008 and 30 June 2007 vest only if performance conditions are met. Awards granted under the LTIP must be exercised within one year of the relevant award vesting date.

The Company operates the LTIP for Executive Directors and Senior Executives. Awards under the scheme are granted in the form of a nil-priced option, and are satisfied using market-purchased shares. The awards vest in full or in part dependent on the satisfaction of specified performance targets. 30% of the award vests dependent on TSR performance over a three year performance period, relative to the constituents of the FTSE 100 at the time of grant, and the remaining 70% vests dependent on performance against operational targets.

#### (v) KCP awards

All KCP awards outstanding at 30 June 2007 vest only if performance conditions are met. The contractual life of all KCP awards is ten years.

Designated managers participated in the KCP, which was a replica scheme of the LTIP, with the same performance conditions. Awards exercised under the KCP can only be satisfied by the issue of shares purchased in the market.

For the purposes of the disclosure below, the Management LTIP awards, LTIP awards and KCP awards ( Senior Management Schemes ) have been aggregated.

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### 24. Share capital (continued)

The movement in share awards outstanding is summarised in the following table:

|                             | Executive Scheme |                                      | Sharesave Scheme |                                      | Senior Management Schemes |                                      | Total       |                                      |
|-----------------------------|------------------|--------------------------------------|------------------|--------------------------------------|---------------------------|--------------------------------------|-------------|--------------------------------------|
|                             | Number           | Weighted average exercise price<br>£ | Number           | Weighted average exercise price<br>£ | Number                    | Weighted average exercise price<br>£ | Number      | Weighted average exercise price<br>£ |
| Outstanding at 1 July 2006  | 36,289,000       | 6.62                                 | 5,149,576        | 4.20                                 | 11,329,157                | 0.00                                 | 52,767,733  | 4.96                                 |
| Granted during the year     |                  |                                      | 1,829,980        | 4.53                                 | 11,648,099                | 0.00                                 | 13,478,079  | 0.62                                 |
| Exercised during the year   | (6,914,179)      | 5.21                                 | (255,610)        | 4.89                                 | (1,173,645)               | 0.00                                 | (8,343,434) | 4.47                                 |
| Forfeited during the year   | (4,465,111)      | 7.29                                 | (786,457)        | 4.35                                 | (2,517,146)               | 0.00                                 | (7,768,714) | 4.63                                 |
| Expired during the year     |                  |                                      | (141,945)        | 4.93                                 |                           |                                      | (141,945)   | 4.93                                 |
| Outstanding at 30 June 2007 | 24,909,710       | 6.89                                 | 5,795,544        | 4.24                                 | 19,286,465                | 0.00                                 | 49,991,719  | 3.93                                 |
| Granted during the year     |                  |                                      | 2,018,443        | 5.38                                 | 7,780,625                 | 0.00                                 | 9,799,068   | 1.11                                 |
| Exercised during the year   | (2,848,742)      | 5.45                                 | (1,765,973)      | 3.77                                 | (5,261,399)               | 0.00                                 | (9,876,114) | 2.25                                 |
| Forfeited during the year   | (2,355,001)      | 7.36                                 | (803,709)        | 4.72                                 | (4,193,444)               | 0.00                                 | (7,352,154) | 2.87                                 |
| Expired during the year     |                  |                                      | (233,517)        | 5.42                                 |                           |                                      | (233,517)   | 5.42                                 |
| Outstanding at 30 June 2008 | 19,705,967       | 7.05                                 | 5,010,788        | 4.73                                 | 17,612,247                | 0.00                                 | 42,329,002  | 3.84                                 |

The weighted average market price of the Group's shares at the date of exercise for share options exercised during the year was £6.45 (2007: £5.94). For those exercised under the Executive Scheme it was £6.78 (2007: £6.01), for those exercised under the Sharesave Scheme it was £5.71 (2007: £5.71), and for those exercised under the Senior Management Schemes it was £6.52 (2007: £5.57).

The middle-market closing price of the Company's shares at 27 June 2008 was £4.65 (29 June 2007: £6.40).

The following table summarises information about share awards outstanding at 30 June 2008:

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|                          |        | Executive Scheme                            |       | Sharesave Scheme                            |       | Senior Management Scheme                    |       | Total                                       |       |
|--------------------------|--------|---|-------|---|-------|---|-------|---|-------|
|                          |        | Weighted average remaining contractual life |       | Weighted average remaining contractual life |       | Weighted average remaining contractual life |       | Weighted average remaining contractual life |       |
| Range of exercise prices |        | Number                                      | Years | Number                                      | Years | Number                                      | Years | Number                                      | Years |
| £0.00                    | £1.00  |   |       |   |       | 17,612,247                                  | 2.1   | 17,612,247                                  | 2.1   |
| £2.00                    | £3.00  |   |       | 67,567                                      | 1.6   |   |       | 67,567                                      | 1.6   |
| £3.00                    | £4.00  |   |       | 817,632                                     | 1.7   |   |       | 817,632                                     | 1.7   |
| £4.00                    | £5.00  | 22,658                                      | 6.2   | 2,220,084                                   | 2.2   |   |       | 2,242,742                                   | 2.3   |
| £5.00                    | £6.00  | 6,201,075                                   | 5.3   | 1,886,502                                   | 3.5   |   |       | 8,087,577                                   | 4.9   |
| £6.00                    | £7.00  | 5,559,102                                   | 4.1   | 15,263                                      | 1.0   |   |       | 5,574,365                                   | 4.1   |
| £7.00                    | £8.00  | 3,969,943                                   | 3.3   |   |       |   |       | 3,969,943                                   | 3.3   |
| £9.00                    | £10.00 | 3,827,685                                   | 2.4   | 3,740                                       |       |   |       | 3,831,425                                   | 2.4   |
| £11.00                   | £12.00 | 12,247                                      | 2.0   |   |       |   |       | 12,247                                      | 2.0   |
| £12.00                   | £13.00 | 113,257                                     | 2.0   |   |       |   |       | 113,257                                     | 2.0   |
|                          |        | 19,705,967                                  | 4.0   | 5,010,788                                   | 2.6   | 17,612,247                                  | 2.1   | 42,329,002                                  | 3.0   |

The following table summarises information about share awards outstanding at 30 June 2007:

|                          |        | Executive Scheme                            |       | Sharesave Scheme                            |       | Senior Management Scheme                    |       | Total                                       |       |
|--------------------------|--------|---|-------|---|-------|---|-------|---|-------|
|                          |        | Weighted average remaining contractual life |       | Weighted average remaining contractual life |       | Weighted average remaining contractual life |       | Weighted average remaining contractual life |       |
| Range of exercise prices |        | Number                                      | Years | Number                                      | Years | Number                                      | Years | Number                                      | Years |
| £0.00                    | £1.00  |   |       |   |       | 19,286,465                                  | 2.2   | 19,286,465                                  | 2.2   |
| £2.00                    | £3.00  |   |       | 277,874                                     | 1.2   |   |       | 277,874                                     | 1.2   |
| £3.00                    | £4.00  |   |       | 2,305,099                                   | 1.7   |   |       | 2,305,099                                   | 1.7   |
| £4.00                    | £5.00  | 51,396                                      | 7.2   | 2,837,100                                   | 3.1   |   |       | 2,888,496                                   | 3.2   |
| £5.00                    | £6.00  | 8,675,016                                   | 6.4   | 300,985                                     | 0.9   |   |       | 8,976,001                                   | 6.2   |
| £6.00                    | £7.00  | 6,721,457                                   | 5.1   | 68,287                                      | 0.5   |   |       | 6,789,744                                   | 5.0   |
| £7.00                    | £8.00  | 5,154,316                                   | 4.4   |   |       |   |       | 5,154,316                                   | 4.4   |
| £9.00                    | £10.00 | 4,170,704                                   | 3.4   | 6,199                                       | 1.0   |   |       | 4,176,903                                   | 3.4   |
| £11.00                   | £12.00 | 12,247                                      | 3.0   |   |       |   |       | 12,247                                      | 3.0   |
| £12.00                   | £13.00 | 124,574                                     | 3.0   |   |       |   |       | 124,574                                     | 3.0   |
|                          |        | 24,909,710                                  | 5.1   | 5,795,544                                   | 2.3   | 19,286,465                                  | 2.2   | 49,991,719                                  | 3.7   |

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The range of exercise prices of the options outstanding at 30 June 2008 was between nil and £12.98 (2007: nil and £12.98) . For those options outstanding under the Executive Scheme it was between £4.93 and £12.98 (2007: £4.93 and £12.98) and for those outstanding under the Sharesave Scheme it was between £2.11 and £9.71 (2007: £2.11 and £9.71); for all options outstanding under the Senior Management Schemes the exercise price was nil.

The following table summarises additional information about the awards exercisable at 30 June 2008 and 30 June 2007:

|                                   | 2008                           |   |                                 | 2007                           |   |                                 |
|-----------------------------------|--------------------------------|---|---------------------------------|--------------------------------|---|---------------------------------|
|                                   | Options exercisable at 30 June | Average remaining contractual life of exercisable options | Weighted average exercise price | Options exercisable at 30 June | Average remaining contractual life of exercisable options | Weighted average exercise price |
| Executive Scheme options          | 18,270,869                     | 3.8   | £7.20                           | 19,240,781                     | 4.6   | £7.31                           |
| Sharesave Scheme options          | 174,043                        | 0.1   | £4.04                           | 246,846                        | 0.1   | £5.47                           |
| Senior Management Schemes options | 312,804                        | 0.1   | £0.00                           | 14,237                         | 7.1   | £0.00                           |
|                                   | <b>18,757,716</b>              | <b>3.7</b>  | <b>£7.05</b>                    | <b>19,501,864</b>              | <b>4.5</b>  | <b>£7.28</b>                    |

#### Information for awards granted during the year

The weighted average fair value of equity-settled share options granted during the year, as estimated at the date of grant, was £4.86 (2007: £4.02) . This was calculated using the Black-Scholes share option pricing model, except for awards which have market-based performance conditions, where a Monte-Carlo simulation model was used, and for grants of nil-priced options, which were treated as the award of a free share.

#### (i) Sharesave Scheme

The weighted average fair value of equity-settled share options granted during the year under the Sharesave Scheme, as estimated at the date of grant, was £2.23 (2007: £1.75) .. This was calculated using the Black-Scholes share option pricing model, using the following weighted average assumptions:

|                         | 2008      | 2007      |
|-------------------------|-----------|-----------|
| Share price             | £6.93     | £5.66     |
| Exercise price          | £5.38     | £4.53     |
| Expected volatility     | 23.0%     | 25.4%     |
| Expected life           | 4.1 years | 3.5 years |
| Expected dividends      | 2.2%      | 2.2%      |
| Risk-free interest rate | 5.0%      | 4.8%      |

#### (ii) Senior Management Scheme

The weighted average fair value of equity-settled share options granted during the year under the Senior Management Schemes, as estimated at the date of grant, was £5.54 (2007: £4.38) . For those awards with market-based performance conditions, this was calculated using a Monte-Carlo simulation model. Awards granted as nil-priced options were treated as the award of a free share.

The Monte-Carlo simulation model reflected the historical volatilities of the Company's share price and those of all other companies to which the Company's performance would be compared, over a period equal to the vesting period of the options. The

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fair value of nil-priced options granted during the year was measured on the basis of the market-price of the Company's shares on the date of grant, discounted for expected dividends which would not be received over the vesting period of the options.

The following weighted average assumptions were used in calculating these fair values:

|                         | 2008      | 2007      |
|-------------------------|-----------|-----------|
| Share price             | £6.53     | £5.49     |
| Exercise price          | £0.00     | £0.00     |
| Expected volatility     | 18.9%     | 23.6%     |
| Expected life           | 1.9 years | 3.0 years |
| Expected dividends      | 2.4%      | 2.2%      |
| Risk-free interest rate | 5.3%      | 4.8%      |

Expected volatility was determined by calculating the historical volatility of the Company's share price, over a period equal to the expected life of the options. Expected life was based on the contractual life of the options and adjusted, based on management's best estimate, for the effects of exercise restrictions and behavioural considerations.



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### 25. Reconciliation of shareholders' equity

|   | Share<br>capital<br>£m | Share<br>premium<br>£m | ESOP<br>reserve<br>£m | Hedging<br>reserve<br>£m | Available-<br>for-sale<br>reserve<br>£m | Other<br>reserves<br>£m | Retained<br>earnings<br>£m | Total<br>shareholders<br>(deficit) equity<br>£m |
|---|------------------------|------------------------|-----------------------|--------------------------|---|-------------------------|----------------------------|---|
| At 1 July 2006  | 896                    | 1,437                  | (25)                  | (52)                     |   | 311                     | (2,446)                    | 121   |
| Purchase of own equity<br>shares for cancellation               | (20)                   |                        |                       |                          |   | 20                      | (214)                      | (214)   |
| Recognition and transfer<br>of cash flow hedges                 |                        |                        |                       | 39                       |   |                         |                            | 39  |
| Tax on items taken<br>directly to equity                        |                        |                        |                       | (12)                     |   |                         | 5                          | (7)   |
| Revaluation of<br>available-for-sale<br>investment              |                        |                        |                       |                          | (151)                                   |                         |                            | (151)   |
| Share-based payment   |                        |                        | (29)                  |                          |   |                         | 22                         | (7)   |
| Profit for the year   |                        |                        |                       |                          |   |                         | 499                        | 499   |
| Dividends   |                        |                        |                       |                          |   |                         | (233)                      | (233)   |
| At 30 June 2007   | 876                    | 1,437                  | (54)                  | (25)                     | (151)                                   | 331                     | (2,367)                    | 47  |
| Recognition and transfer<br>of cash flow hedges                 |                        |                        |                       | 45                       |   |                         |                            | 45  |
| Tax on items taken<br>directly to equity                        |                        |                        |                       | (13)                     |   |                         | (3)                        | (16)  |
| Impairment of<br>available-for-sale<br>investment               |                        |                        |                       |                          | 151                                     |                         |                            | 151   |
| Exchange differences<br>on translation of foreign<br>operations |                        |                        |                       |                          |   | 4                       |                            | 4   |
| Share-based payment   |                        |                        | 17                    |                          |   |                         | (9)                        | 8   |
| Loss for the year   |                        |                        |                       |                          |   |                         | (127)                      | (127)   |
| Dividends   |                        |                        |                       |                          |   |                         | (280)                      | (280)   |
| At 30 June 2008   | 876                    | 1,437                  | (37)                  | 7                        |   | 335                     | (2,786)                    | (168)   |

To provide a more concise presentation of shareholders' equity, management has chosen to re-analyse the reserves reported, consolidating the capital redemption reserve, merger reserve, foreign currency translation reserve and special reserve into a single column described as 'other reserves'.

#### Share premium and special reserve

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. This amount was equal to the Company-only profit and loss account reserve deficit at 30 June 2003. As part of the application, the Company's balance sheet at 30 September

2003 was required to be presented. At that date, the deficit on the Company-only profit and loss account reserve had reduced by £14 million since 30 June 2003, to £1,106 million. As a condition of the reduction, the reduction in the share premium account of £1,120 million was permitted to be offset against the profit and loss account reserve by the amount of the deficit at 30 September 2003. The excess of £14 million was credited to a special reserve, and, under the terms of the reduction, will remain undistributable until all the creditors of the Company and its guarantors (as at 10 December 2003) are paid.

#### Purchase of own equity shares for cancellation and capital redemption reserve

On 4 November 2005, the Company's shareholders approved a resolution at the AGM for the Company to purchase up to 92 million ordinary shares (the 2005 resolution). This authority to buyback shares expired on 3 November 2006. During the year ended 30 June 2007, the Company purchased, and subsequently cancelled, 38 million ordinary shares at an average price of £5.55, with a nominal value of £20 million, for a consideration of £214 million including stamp duty and commission of £2 million. The nominal value of the shares cancelled has been credited to other reserves.

The following table provides information about purchases of equity shares by the company, including purchases by the Group's ESOP, during the fiscal year.

| Period                                       | Total number of shares purchased (i) | Average price paid per share |
|--|--------------------------------------|------------------------------|
| July   |                                      |                              |
| August                                       | 2,000,000                            | £6.73                        |
| September                                    |                                      |                              |
| October                                      |                                      |                              |
| November                                     | 1,500,000                            | £6.31                        |
| December                                     |                                      |                              |
| January                                      |                                      |                              |
| February                                     | 1,700,000                            | £5.69                        |
| March  |                                      |                              |
| April  |                                      |                              |
| May  | 2,300,000                            | £5.44                        |
| June   |                                      |                              |
| <b>Total for the year ended 30 June 2008</b> | <b>7,500,000</b>                     | <b>£6.02</b>                 |

(i) All share purchases were open market transactions and are included in the month of settlement.

[Back to Contents](#)**ESOP reserve**

The cost of the Company's ordinary shares held by the Group's ESOP is treated as a deduction in arriving at total shareholders equity. The movement in the ESOP reserve was as follows:

|  | Number of<br>ordinary<br>shares | Average<br>price paid<br>per share | £m   |
|--|---------------------------------|------------------------------------|------|
| At 1 July 2006                               | 4,448,876                       | £5.66                              | 25   |
| Share options exercised during the year      | (8,343,434)                     | £5.62                              | (47) |
| Shares purchased by the ESOP during the year | 12,500,000                      | £6.07                              | 76   |
| At 30 June 2007                              | 8,605,442                       | £6.29                              | 54   |
| Share options exercised during the year      | (9,876,114)                     | £6.34                              | (62) |
| Shares purchased by the ESOP during the year | 7,500,000                       | £6.02                              | 45   |
| At 30 June 2008                              | 6,229,328                       | £5.87                              | 37   |

**Hedging reserve**

Changes in the fair values of derivatives that are designated as cash flow hedges are initially recognised in the hedging reserve, and subsequently recognised in the income statement when the related hedged items are recognised in the income statement. In addition, deferred taxation relating to these derivatives is also initially recognised in the hedging reserve prior to transfer to the income statement.

**Available-for-sale reserve**

Available-for-sale investments are carried at fair value where this can be reliably measured, with movements in the fair value recognised directly in the available-for-sale reserve. At 30 June 2008, the Group's available-for-sale reserve was nil (2007: £151 million) following the impairment of the Group's investment in ITV, see note 6.

**Other reserves**

The Group's other reserves include a capital redemption reserve, a merger reserve, a foreign currency translation reserve, and a special reserve. The capital redemption reserve was £95 million as at 30 June 2008 (2007: £95 million). The merger reserve was £222 million as at 30 June 2008 (2007: £222 million). The special reserve was £14 million as at 30 June 2008 (2007: £14 million). The foreign currency translation reserve was £4 million as at 30 June 2008 (2007: less than £1 million).

**26. Notes to the Consolidated Cash Flow Statement****Reconciliation of profit before taxation to cash generated from operations**

|   | 2008<br>£m | 2007<br>£m | 2006<br>£m |
|---|------------|------------|------------|
| Profit before taxation                        | 60         | 724        | 798        |
| Depreciation of property, plant and equipment | 155        | 120        | 89         |
| Amortisation of intangible assets             | 91         | 72         | 51         |
| Profit on disposal of joint venture           | (67)       |            |            |

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|   |       |       |       |
|---|-------|-------|-------|
| Impairment of available-for-sale investment             | 616   |       |       |
| Share-based payment expense                             | 36    | 33    | 23    |
| Net finance costs                                       | 130   | 103   | 91    |
| Share of results of joint ventures and associates       | (15)  | (12)  | (12)  |
|   | 1,006 | 1,040 | 1,040 |
| <hr/>   |       |       |       |
| Increase in trade and other receivables                 | (59)  | (47)  | (102) |
| Decrease (increase) in inventories                      | 88    | (59)  | 31    |
| (Decrease) increase in trade and other payables         | (30)  | 68    | 32    |
| (Decrease) increase in provisions                       | (2)   | 1     | (13)  |
| (Decrease) increase in derivative financial instruments | (6)   | 4     | 16    |
| Cash generated from operations                          | 997   | 1,007 | 1,004 |
| <hr/>   |       |       |       |

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## Consolidated financial statements

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## Notes to the consolidated financial statements

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### 27. Contracted commitments, contingencies and guarantees

#### a) Future minimum expenditure contracted for but not recognised in the financial statements

|   | Year<br>ending<br>30<br>June<br>2009<br>£m | Year<br>ending<br>30<br>June<br>2010<br>£m | Year<br>ending<br>30<br>June<br>2011<br>£m | Year<br>ending<br>30<br>June<br>2012<br>£m | Year<br>ending<br>30<br>June<br>2013<br>£m | After<br>5 years<br>£m | Total at<br>30<br>June<br>2008<br>£m | Total at<br>30<br>June<br>2007<br>£m |
|---|--|--|--|--|--|------------------------|--------------------------------------|--------------------------------------|
| Television programme rights <sup>(i)</sup>    | 870  | 860  | 306  | 240  | 40   | 40                     | 2,356                                | 2,638                                |
| Set-top boxes and related equipment           | 194  | 7  |  |  |  |                        | 201                                  | 187                                  |
| Third party payments <sup>(ii)</sup>          | 50   | 49   | 10   | 5  | 1  |                        | 115                                  | 118                                  |
| Transponder capacity <sup>(iii)</sup>         | 67   | 42   | 36   | 34   | 34   | 81                     | 294                                  | 331                                  |
| Property, plant and equipment <sup>(iv)</sup> | 122  | 23   |  |  |  |                        | 145                                  | 16                                   |
| Intangible asset                              | 10   | 3  |  |  |  |                        | 13                                   | 4                                    |
| Other   | 43   | 17   | 6  | 3  | 1  |                        | 70                                   | 58                                   |
|   | <b>1,356</b>                               | <b>1,001</b>                               | <b>358</b>                                 | <b>282</b>                                 | <b>76</b>                                  | <b>121</b>             | <b>3,194</b>                         | <b>3,352</b>                         |

For the avoidance of doubt, any foreign currency commitments are translated to pounds sterling at the rate prevailing on 30 June 2008.

- (i) At 30 June 2008, the Group had minimum television programming rights commitments of £2,356 million (2007: £2,638 million), of which £367 million (2007: £527 million) related to commitments payable in US dollars for periods of up to eight years (2007: six years). Assuming that movie subscriber numbers remain unchanged from current levels, an additional £296 million (US\$590 million) of commitments (2007: £284 million, (US\$569 million)) would also be payable in US dollars, relating to price escalator clauses. The pound sterling television programme rights commitments include similar price escalation clauses that would result in additional commitments of £3 million (2007: £10 million) if subscriber numbers were to remain at current levels.
- (ii) The third party payment commitments are in respect of distribution agreements for the television channels owned and broadcast by third parties, retailed by the Group to retail and commercial subscribers ( Sky Distributed Channels ) and are for periods of up to six years (2007: seven years). The extent of the commitment is largely dependent upon the number of retail subscribers to the relevant Sky Distributed Channels, and in certain cases, upon inflationary increases. If both the retail subscriber levels to these channels and the rate payable for each Sky Distributed Channel were to remain at current levels subject to inflationary increases, the additional commitment would be £636 million (2007: £968 million).
- (iii) Transponder capacity commitments are in respect of the Astra and Eurobird satellites that the Group uses for digital transmissions to both retail subscribers and cable operators. The commitments are for periods of up to twelve years (2007: thirteen years). Three additional transponder agreements were entered into in the year ended 30 June 2006 to provide capacity to facilitate the launch of the Group's HD services. No additional agreements were entered into in the years ended 30 June 2007 and 30 June 2008.
- (iv) On 21 December 2007, the Group entered into a property development agreement to construct a new production and broadcast centre.

#### b) Contingent assets

The Group has served a claim for a material amount against EDS (an information and technology solutions provider) which provided services to the Group as part of the Group's investment in customer management systems software and infrastructure. The amount which may be recovered by the Group will not be finally determined until resolution of the claim.

#### c) Contingent liabilities and guarantees

In April 2007, Virgin Media Communications Limited, Virgin Media Television Limited and Virgin Media Limited issued proceedings in the High Court in England and Wales against British Sky Broadcasting Group plc and British Sky Broadcasting Limited, alleging

that the Group has infringed Article 82 EC and the Chapter II prohibition by pursuing an anticompetitive strategy designed to weaken Virgin Media group, which allegedly entailed (i) a constructive refusal to supply the Group's basic pay television channels to Virgin Media group for supply via Virgin Media group's cable network in the UK; (ii) a refusal to pay fair prices for the right to carry Virgin Media group's television channels as part of the Group's retail channel offering; and (iii) the Group's purchase of a significant shareholding in ITV (which purchase was, it is alleged, designed principally to damage Virgin Media group's ability to compete in the supply of pay television services, by preventing Virgin Media group from obtaining access to attractive programming content). Virgin Media group seeks from the Court a declaration that the Group occupies a dominant market position in specified pay TV retail and purchasing markets in the UK and that the Group has, by its conduct as alleged, abused its dominant position(s) contrary to Article 82 EC and the Chapter II prohibition on these relevant markets. Virgin Media group also seeks mandatory injunctions requiring the Group to transact with Virgin Media group on fair and/or non-discriminatory terms for the supply of the Group's basic pay television channels to Virgin Media and for the licensing of Virgin Media group's television channels, for on-supply to the Group's subscribers. Virgin Media group also seeks damages to compensate it for its alleged losses arising from the Group's alleged conduct.

The Group intends to defend the proceedings vigorously and submitted its defence to the High Court on 2 July 2007 denying Virgin Media group's allegations that it had infringed Article 82 EC or Chapter II prohibition. It is, at this stage, too early to estimate the likely outcome of the proceedings.

On 7 May 2008 the Nomenclature Committee of the European Commission issued an Explanatory Note EN (0590/2007) to the Combined Nomenclature setting out their view that set-top boxes with a hard drive should be classified under Customs Tariff heading 8521 90 00 and so subject to a 13.9% ad valorem duty on importation to the European Union. As a consequence the Group is exposed to potential retrospective Customs Duty liability in respect of such set-top boxes imported by Amstrad Plc (acquired in September 2007) and for the reimbursement of certain suppliers in line with the terms of contractual supply agreements.

Management's opinion is that the retrospective application of the Explanatory Note would be wrong as a matter of law. In addition management considers that the adoption of the EN puts the EU in breach of the Information Technology Agreement of 1996, a view which is shared by the US and Japan who have instigated WTO proceedings against the EU on this matter. The Group therefore intends, in common with other affected importers, to appeal any retrospective assessment made and to defend its position on this matter.

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As a result of the potential remedies available under the Community Customs Code, the Group considers that in the event that an assessment is made for import duty relating to imports prior to 7 May 2008, it is probable that no outflow of economic benefit would be required to discharge this obligation, and that as such at 30 June 2008 any liability should be considered contingent.

Certain subsidiaries of the Company have agreed to provide additional funding to several of their investments in limited and unlimited companies and partnerships, in accordance with funding agreements. Payment of this additional funding would be required if requested by the investees in accordance with the funding agreements. The maximum potential amount of future payments which may be required to be made by the subsidiaries of the Company to their investments, in both limited and unlimited companies and partnerships under the undertakings and additional funding agreements, is £11 million (2007: £4 million).

The Group has guarantees in place relating to the Group's borrowings, see note 22 Borrowings and non-current other payables.

### 28. Operating lease commitments

The minimum lease rentals to be paid under non-cancellable operating leases at 30 June are as follows:

|                              | 2008<br>£m | 2007<br>£m |
|------------------------------|------------|------------|
| Within one year              | 45         | 32         |
| Between one and two years    | 43         | 27         |
| Between two and three years  | 34         | 27         |
| Between three and four years | 28         | 22         |
| Between four and five years  | 24         | 19         |
| After five years             | 59         | 79         |
|                              | <b>233</b> | <b>206</b> |

The majority of operating leases relate to property. The rents payable under these leases are subject to renegotiation at the various intervals specified in the leases.

The minimum sub-lease rentals to be received under non-cancellable operating sub-leases at 30 June are as follows:

|                              | 2008<br>£m | 2007<br>£m |
|------------------------------|------------|------------|
| Within one year              | 3          | 3          |
| Between one and two years    | 3          | 3          |
| Between two and three years  | 3          | 3          |
| Between three and four years | 3          | 2          |
| Between four and five years  | 2          | 2          |
| After five years             | 1          | 3          |
|                              | <b>15</b>  | <b>16</b>  |

Sub-lease rentals primarily relate to property leases.





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## Notes to the consolidated financial statements

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### 29. Purchase of subsidiaries

On 5 September 2007, the Group took control of Amstrad Plc ( Amstrad ). The Group purchased 100% of the issued share capital for consideration of £127 million, satisfied by £90 million of cash and £37 million of issued Loan Notes. Amstrad is the parent company of a group of companies involved primarily in the supply of digital television set-top box receiving equipment to the Group. The purchase of Amstrad provides the Group an opportunity to vertically integrate its supply chain, bringing technologies in house and allowing greater involvement in the design and application of products. This transaction has been accounted for under the purchase method.

|  | Net book<br>value<br>£m | Fair value<br>adjustments<br>£m | Recognised<br>values<br>£m |
|--|-------------------------|---------------------------------|----------------------------|
| <b>Net assets of Amstrad purchased</b>   |                         |                                 |                            |
| Goodwill   | 1                       | (1)                             |                            |
| Intangible assets  | 3                       | 5                               | 8                          |
| Property, plant and equipment  | 1                       |                                 | 1                          |
| Deferred tax liabilities   |                         | (3)                             | (3)                        |
| Inventories  | 16                      | 2                               | 18                         |
| Trade and other receivables  | 16                      |                                 | 16                         |
| Cash and cash equivalents  | 21                      |                                 | 21                         |
| Trade and other payables   | (16)                    | 8                               | (8)                        |
| Provisions for liabilities and charges <sup>(i)</sup>  | (4)                     | (26)                            | (30)                       |
|  | <b>38</b>               | <b>(15)</b>                     | <b>23</b>                  |
| Provisional goodwill   |                         |                                 | 104                        |
| <b>Total consideration</b>   |                         |                                 | <b>127</b>                 |
| <b>Satisfied by:</b>   |                         |                                 |                            |
| Ordinary shares purchased for cash (including the purchase of certain outstanding Amstrad share options) |                         |                                 | 88                         |
| Ordinary shares purchased by the issue of Loan Notes   |                         |                                 | 37                         |
| Directly attributable costs  |                         |                                 | 2                          |
| <b>Net cash outflow arising on the purchase of Amstrad</b>   |                         |                                 |                            |
| Cash paid  |                         |                                 | 90                         |
| Cash and cash equivalents purchased  |                         |                                 | (21)                       |
|  |                         |                                 | <b>69</b>                  |

(i) The fair value of provisions for liabilities and charges includes both the fair value of acquired provisions and contingent liabilities, see note 21. The Loan Notes were issued during the period as part consideration for the purchase of Amstrad and are repayable at the option of the note holders either on 31 March or on 30 September in any year until 30 September 2017 when the Loan Notes are fully redeemable. Under the terms of the Loan Notes the Group pays floating six month LIBOR minus 1.000% until 29 September 2012,

after this date the Group will pay floating six month LIBOR minus 0.500% . The coupon is payable semi-annually.

For the period between the date of purchase and 30 June 2008, Amstrad contributed £9 million to the Group's revenue, £17 million profit to the Group's loss before tax and a reduction of 1.0 pence in loss per share. Had the Group taken control of Amstrad on the first day of the period, Group revenue for the period would have been £4,954 million, Group loss for the year would have been £127 million and Group basic loss per share would have been 7.3 pence. Goodwill includes the value that the Group is expecting to generate from the cost synergies of integrating the design and supply chain operations of Amstrad and the work force in place. Goodwill has been determined provisionally because the Group cannot be certain that all assets, liabilities and contingent liabilities have been identified. Initial accounting for the goodwill will be completed within 12 months of the purchase date.

[Back to Contents](#)**30. Transactions with related parties and major shareholders****a) Entities with joint control or significant influence**

The Group conducts business transactions with companies that are part of the News Corporation group ( News Corporation ), a major shareholder:

|  | 2008<br>£m | 2007<br>£m | 2006<br>£m |
|--|------------|------------|------------|
| Supply of services by the Group              | 36         | 18         | 21         |
| Purchases of goods or services by the Group  | (202)      | (195)      | (175)      |
| Amounts owed by related parties to the Group | 6          | 1          | 1          |
| Amounts owed to related parties by the Group | (32)       | (36)       | (31)       |

**Services supplied to News Corporation**

During the year, the Group supplied programming, telephony, airtime, transmission, marketing, consultancy services and set top boxes to News Corporation.

**Purchases of goods and services from News Corporation**

During the year, the Group purchased programming, digital equipment, smartcards and encryption services, set-top box technologies, advertising, IT services and rental premises from News Corporation companies.

On 18 December 2006, the Group purchased the freehold interest in a commercial property from News International Limited for cash consideration of £5 million. The purchase will facilitate and support the Group's property development plans.

In March and April 2003, News Corporation Finance Trust II, in which News Corporation, directly or indirectly, owns all of the beneficial interests in the assets of the trust, issued and sold 0.75% Beneficial Unsecured Exchangeable Securities ( BUCS ), in a private placement to certain institutions. Each BUCS is exchangeable on or after 2 April 2004 for the value of reference shares, which initially consist of 77.09 ordinary shares of the Company for each US\$1,000 original liquidation preference of BUCS. The BUCS may also be tendered for redemption on 15 March 2010, 15 March 2013 or 15 March 2018 for payment of the adjusted liquidation preference, which may be paid, at the election of the trust, in cash, ordinary shares of the Company, preferred American Depositary Shares of News Corporation representing the preferred limited voting ordinary shares of News Corporation, or a combination thereof. News Corporation and News America have agreed to indemnify the Group and the Group's directors, officers, agents and employees against certain liabilities arising out of or in connection with the BUCS.

In November 1996, News Corporation, through subsidiaries, issued Exchangeable Trust Originated Preferred Securities ( Exchangeable TOPrS ), in a private placement to certain institutions. The Exchangeable TOPrS are exchangeable for certain other securities of subsidiaries of News Corporation, including warrants entitling the holders to purchase the Company's ordinary shares, or American Depositary Shares representing the Company's ordinary shares, from News America. The aggregate number of the Company's ordinary shares subject to such warrants is 7,052,127. Upon the exercise of a warrant, News America has the right to elect to pay the holder in cash, in ordinary shares or American Depositary Shares, or any combination thereof. The warrants are redeemable at the option of News America, on or after 12 November 2001, and expire on 12 November 2016. News Corporation and News America have agreed to indemnify the Group and the Group's directors, officers, agents and employees against certain liabilities arising out of or in connection with the Exchangeable TOPrS.

News Corporation has entered into an agreement with the Group pursuant to which it has been agreed that, for so long as News Corporation directly or indirectly holds an interest of 30% or more in the Group, News Corporation will not engage in the business of satellite broadcasting in the UK or Ireland.

**Purchase of subsidiary from News Corporation**

On 22 November 2006, the Group acquired the entire issued share capital of News Optimus for cash consideration of £4 million resulting in goodwill of £4 million. Prior to that date, News Optimus was a wholly-owned subsidiary of News International Limited, which is, in turn, a wholly-owned subsidiary of News International Holdings Limited. The ultimate parent company of News International Holdings Limited is News Corporation.

**Purchase of associate interest from News Corporation**

On 12 December 2007 the Group completed the sale of 100% of the entire issued share capital of BSKyB Nature Limited, the investment holding company for the Group's 50% interest in the NGC-UK Partnership for consideration of 21% interests in both NGC Network International LLC and NGC Network Latin America LLC. On consolidation the Group recognised a gain of £67 million which has been disclosed separately within the consolidated income statement.

**b) Joint ventures and associates**

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures and associates are disclosed below.

Transactions between the company and its subsidiaries, joint ventures and associates are disclosed in the Company's separate financial statements.

|  | 2008<br>£m | 2007<br>£m | 2006<br>£m |
|--|------------|------------|------------|
| Supply of services by the Group                            | 16         | 15         | 14         |
| Purchases of goods or services by the Group                | (53)       | (49)       | (46)       |
| Amounts owed by joint ventures and associates to the Group | 28         | 25         | 23         |
| Amounts owed to joint ventures and associates by the Group | (3)        | (3)        | (5)        |

Revenue is primarily generated from the provision of transponder capacity, marketing, airtime sales and support services. Purchases represent fees payable for channel carriage. Amounts owed by joint ventures and associates include £18 million (2007: £17 million) relating to loan funding. These loans bear interest at rates of between three month LIBOR plus 0.45% and six month LIBOR plus 1.5%. The maximum amount of loan funding outstanding in total from joint ventures and associates during the year was £18 million (2007: £17 million).

The Group took out a number of forward exchange contracts with counterparty banks during the period on behalf of two joint ventures: The History Channel (UK) and Chelsea Digital Media Limited. On the same dates as these forward contracts were entered into, the Group entered into equal and opposite contracts with the joint ventures in respect of these forward contracts.

The Group was not exposed to any of the net gains or losses on these forward contracts. The face value of forward exchange contracts that had not matured as at 30 June 2008 was £5 million (2007: £5 million).

During the year, US\$6 million (2007: US\$13 million; 2006: US\$13 million) was paid to the joint ventures upon maturity of forward exchange contracts and US\$2 million (2007: US\$1 million; 2006: nil) was received from joint ventures upon maturity of forward exchange contracts.

During the year, £3 million (2007: £7 million; 2006: £7 million) was received from the joint ventures upon maturity of forward exchange contracts, and £1 million (2007: nil) was paid to the joint ventures upon maturity of forward exchange contracts.

On 30 June 2006, the Group increased its shareholding in MyKindaPlace Limited ( MKP ) from 49% to 100%. Prior to that date, the directors of MKP had included a close family member of two Directors of the Company.

**c) Other transactions with related parties**

During the year Amstrad agreed to pay compensation to Sky Italia (a related party of the Group) in relation to a high level of subscriber product returns. The value of this compensation is estimated to be £7 million and a provision of £1.6 million (2007: nil) remains at 30 June 2008 in relation to this.

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A close family member of two Directors of the Company who served during the year has a controlling interest in Shine Limited ( Shine ), in which the Group has an 8% (2007: 3%) equity shareholding. During the year, the Group acquired a further 8% (24,366 shares) of the issued share capital of Shine from 3i Group plc for a cash consideration of £7 million. The Group also participated in a rights issue to maintain

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### Notes to the consolidated financial statements continued

#### **30. Transactions with related parties and major shareholders** (continued)

its equity stake, acquiring 3,676 shares for a cash consideration of £1 million. Subsequent to this, CPE Holdings Incorporated exercised their call option to purchase 7,730 shares from the Group for a consideration of £2.2 million, which resulted in a reduction in the Group's equity shareholding from 11% to 8%. During the year, the Group incurred programming and production costs for television of £5 million (2007: £3 million; 2006: £10 million) from Shine. At 30 June 2008 there is an outstanding amount of less than £1 million (2007: nil; 2006: nil) due to Shine.

A close family member of two Directors of the Company runs Freud Entertainment Limited, which has provided external support to the press and publicity activities of the Group during the year amounting to £1 million (2007: £1 million; 2006: £1 million). At 30 June 2008 and 30 June 2007, there were no outstanding amounts due to or from Freud Entertainment Limited.

In addition to the foregoing, the Group has engaged in a number of transactions with companies of which some of the Company's Directors are also directors.

#### d) Key management

The Group has a related party relationship with the Directors of the Group. At 30 June 2008, there were 15 (2007: 14; 2006: 15) members of key management all of whom were Directors of the Company. Key management compensation is disclosed in note 8b.

[Back to Contents](#)**31. Group investments**

The significant investments of the Company which principally affect the consolidated results and total assets of the Group are as follows:

| Name  | Country of incorporation/<br>operation | Description and proportion<br>of shares held (%)            | Principal activity   |
|---|--|---|--|
| <b>Subsidiaries:</b>                              |  |   |  |
| <b>Direct holdings of the Company</b>             |  |   |  |
| British Sky Broadcasting Limited                  | England and Wales                      | 10,002,002 ordinary shares of £1 each (100%) <sup>(i)</sup> | Operation of pay television broadcasting in the UK and Ireland   |
| Sky Television Limited                            | England and Wales                      | 13,376,982 ordinary shares of £1 each (100%)                | Holding company  |
| British Interactive Broadcasting Holdings Limited | England and Wales                      | 651,960 ordinary shares of £1 each (100%)                   | The transmission of interactive services   |
| BSkyB Investments Limited                         | England and Wales                      | 100 ordinary shares of £1 each (100%)                       | Holding company  |
| BSkyB Finance UK plc                              | England and Wales                      | 50,000 ordinary shares of £1 each (100%)                    | Finance company  |
| <b>Subsidiaries:</b>                              |  |   |  |
| <b>Indirect holdings of the Company</b>           |  |   |  |
| Sky Subscribers Services Limited                  | England and Wales                      | 3 ordinary shares of £1 each (100%)                         | The provision of ancillary functions supporting the pay television broadcasting, residential broadband and telephone operations of the Group |
| Sky Holdings Limited                              | England and Wales                      | 600 ordinary shares of £1 each (100%)                       | Holding company  |
| Sky In-Home Service Limited                       | England and Wales                      | 1,576,000 ordinary shares of £1 each (100%)                 | The supply, installation and maintenance of satellite television receiving equipment   |
| BSkyB Publications Limited                        | England and Wales                      | 2 ordinary shares of £1 each (100%)                         | The supply of magazines  |
| British Sky Broadcasting SA                       | Luxembourg                             | 12,500 ordinary shares of £12 each (100%)                   | Satellite transponder leasing  |
| Sky Broadband SA                                  | Luxembourg                             | 310 ordinary shares of £100 each (100%)                     | Provision of broadband and telephony services  |
| Sky Interactive Limited                           | England and Wales                      | 3 ordinary shares of £1 each (100%)                         | The provision of interactive television services   |
| Easynet Group Limited                             | England and Wales                      | 121,308,490 ordinary shares of £0.04 each (100%)            | Holding company  |
| Sky Ventures Limited                              | England and Wales                      | 912 ordinary shares of £1 each (100%)                       | Holding company  |
| 365 Media Group plc                               | England and Wales                      | 151,970,072 ordinary shares of £0.01 each (100%)            | Holding company  |
| Amstrad Satellite Products Limited                | England and Wales                      | 7 ordinary shares of £1 each (100%)                         | The design, development, marketing and distribution of satellite products  |

**Joint ventures and associates:**

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|  |                          |   |  |
|--|--------------------------|---|--|
| Nickelodeon UK Limited                       | England and Wales        | 104 B Shares of £0.01 each (40%)  | The transmission of children's television channels   |
| The History Channel (UK)                     | England and Wales        | 50,000 A Shares of £1 each (50%)  | The transmission of history, biography, crime and investigation television programming               |
| Paramount UK <sup>(ii),(iii)</sup>           | England and Wales        | Partnership interest (25%)  | The transmission of general entertainment comedy channels  |
| Australian News Channel Pty Limited          | Australia                | 1 ordinary share of AUS\$1 (33.33%)   | The transmission of news and business channels   |
| NGC Network International LLC                | United States of America | Partnership interest (21%)  | The transmission of natural history and adventure channels   |
| NGC Network Latin America LLC                | United States of America | Partnership interest (21%)  | The transmission of natural history and adventure channels   |
| MUTV Limited <sup>(iv)</sup>                 | England and Wales        | 800 B Shares of £1 each (33.33%)  | The transmission, production and marketing of the Manchester United football channel                 |
| Attheraces Holdings Limited <sup>(iii)</sup> | England and Wales        | 1,500 ordinary shares of £1 each (47.50%), 20 Recoupment Shares of £0.01 each             | The transmission of a horse racing channel and related on-line activities                            |
| Chelsea Digital Media Limited                | England and Wales        | 42,648 B Shares of £0.01 each (35%) and 7 million redeemable preference shares of £1 each | The transmission, production and marketing of the Chelsea Football Club football channel and website |
| <b>Investments:</b>                          |                          |   |  |
| ITV <sup>(iii)</sup>                         | England and Wales        | 696,046,825 ordinary shares of £0.10 each (17.9%)   | The transmission of free-to-air channels   |
| BSkyB Guernsey Limited <sup>(v)</sup>        | Guernsey                 | 1,346 ordinary shares of £1 each (1%)   | Finance company  |

Notes

- (i) 50.00001% directly held by British Sky Broadcasting Group plc and 49.99999% held indirectly by BSkyB Investments Limited.  
(ii) The registered address of Paramount UK is 180 Oxford Street, London, W1D 1DS.  
(iii) These entities accounting reference date is 31 December.  
(iv) The accounting reference date of MUTV has changed from 30 September to 30 June.  
(v) The accounting reference date of BSkyB Guernsey Limited is 28 February.



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## Consolidated financial statements

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## Notes to the consolidated financial statements

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### 32. Guarantor statements

Supplemental condensed consolidating balance sheets as at 30 June 2008

|  | Company<br>only<br>£m | Guarantor<br>subsidiaries<br>£m | Non-guarantor<br>subsidiaries<br>£m | Consolidation<br>adjustments<br>£m | Group and<br>subsidiaries<br>£m |
|--|-----------------------|---------------------------------|-------------------------------------|------------------------------------|---------------------------------|
| <b>Non-current assets</b>                                      |                       |                                 |                                     |                                    |                                 |
| Goodwill   |                       |                                 | 852                                 |                                    | 852                             |
| Intangible assets  |                       | 226                             | 77                                  |                                    | 303                             |
| Property, plant and equipment                                  | 22                    | 428                             | 265                                 | 7                                  | 722                             |
| Investments in subsidiary undertakings under the equity method | 694                   | 1,385                           | 81                                  | (2,160)                            |                                 |
| Investments in joint ventures and associates                   |                       |                                 | 114                                 |                                    | 114                             |
| Available-for-sale investments                                 |                       |                                 | 338                                 |                                    | 338                             |
| Deferred tax assets  |                       | 20                              | 6                                   | (3)                                | 23                              |
| Trade and other receivables                                    |                       | 20                              |                                     | (1)                                | 19                              |
| Derivative financial assets                                    | 67                    | 13                              |                                     | (67)                               | 13                              |
|  | <b>783</b>            | <b>2,092</b>                    | <b>1,733</b>                        | <b>(2,224)</b>                     | <b>2,384</b>                    |
| <b>Current assets</b>  |                       |                                 |                                     |                                    |                                 |
| Inventories  |                       | 221                             | 93                                  | (4)                                | 310                             |
| Trade and other receivables                                    | 2,790                 | 3,289                           | 4,064                               | (9,577)                            | 566                             |
| Short-term deposits  |                       | 185                             |                                     |                                    | 185                             |
| Cash and cash equivalents                                      |                       | 604                             | 28                                  |                                    | 632                             |
| Derivative financial assets                                    |                       | 5                               |                                     |                                    | 5                               |
|  | <b>2,790</b>          | <b>4,304</b>                    | <b>4,185</b>                        | <b>(9,581)</b>                     | <b>1,698</b>                    |
| <b>Total assets</b>  | <b>3,573</b>          | <b>6,396</b>                    | <b>5,918</b>                        | <b>(11,805)</b>                    | <b>4,082</b>                    |
| <b>Current liabilities</b>                                     |                       |                                 |                                     |                                    |                                 |
| Borrowings   | 301                   |                                 | 37                                  |                                    | 338                             |
| Trade and other payables                                       | 2,086                 | 5,359                           | 3,515                               | (9,666)                            | 1,294                           |
| Current tax liabilities  | 27                    | 124                             |                                     |                                    | 151                             |
| Provisions   |                       | 10                              | 17                                  |                                    | 27                              |
| Deferred tax liabilities                                       | 3                     |                                 |                                     | (3)                                |                                 |
| Derivative financial liabilities                               | 69                    | 14                              |                                     |                                    | 83                              |
|  | <b>2,486</b>          | <b>5,507</b>                    | <b>3,569</b>                        | <b>(9,669)</b>                     | <b>1,893</b>                    |
| <b>Non-current liabilities</b>                                 |                       |                                 |                                     |                                    |                                 |

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|  |              |              |              |                 |              |
|--|--------------|--------------|--------------|-----------------|--------------|
| Borrowings   | 1,093        | 1,782        | 61           | (828)           | 2,108        |
| Trade and other payables                                   |              | 20           | 93           | (46)            | 67           |
| Provisions   |              | 4            | 18           |                 | 22           |
| Derivative financial liabilities                           | 162          | 65           |              | (67)            | 160          |
|  | 1,255        | 1,871        | 172          | (941)           | 2,357        |
| <b>Total liabilities</b>                                   | <b>3,741</b> | <b>7,378</b> | <b>3,741</b> | <b>(10,610)</b> | <b>4,250</b> |
| <b>Shareholders (deficit) equity</b>                       | <b>(168)</b> | <b>(982)</b> | <b>2,177</b> | <b>(1,195)</b>  | <b>(168)</b> |
| <b>Total liabilities and shareholders (deficit) equity</b> | <b>3,573</b> | <b>6,396</b> | <b>5,918</b> | <b>(11,805)</b> | <b>4,082</b> |

See notes to supplemental guarantor statements

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## Supplemental condensed consolidating balance sheets as at 30 June 2007

|  | Company<br>only<br>£m | Guarantor<br>subsidiaries<br>£m | Non-guarantor<br>subsidiaries<br>£m | Consolidation<br>adjustments<br>£m | Group and<br>subsidiaries<br>£m |
|--|-----------------------|---------------------------------|-------------------------------------|------------------------------------|---------------------------------|
| <b>Non-current assets</b>                                      |                       |                                 |                                     |                                    |                                 |
| Goodwill   |                       |                                 | 741                                 |                                    | 741                             |
| Intangible assets  |                       | 191                             | 70                                  |                                    | 261                             |
| Property, plant and equipment                                  | 23                    | 395                             | 243                                 | 9                                  | 670                             |
| Investments in subsidiary undertakings under the equity method | 1,336                 | 754                             | 108                                 | (2,198)                            |                                 |
| Investments in joint ventures and associates                   |                       |                                 | 34                                  |                                    | 34                              |
| Available-for-sale investments                                 |                       | 2                               | 795                                 |                                    | 797                             |
| Deferred tax assets  |                       | 11                              | 43                                  |                                    | 54                              |
| Derivative financial assets                                    | 89                    |                                 |                                     | (89)                               |                                 |
|  | <b>1,448</b>          | <b>1,353</b>                    | <b>2,034</b>                        | <b>(2,278)</b>                     | <b>2,557</b>                    |
| <b>Current assets</b>  |                       |                                 |                                     |                                    |                                 |
| Inventories  |                       | 291                             | 93                                  |                                    | 384                             |
| Trade and other receivables                                    | 299                   | 4,058                           | 4,130                               | (7,963)                            | 524                             |
| Short-term deposits  |                       |                                 | 15                                  |                                    | 15                              |
| Cash and cash equivalents                                      |                       | 211                             | 224                                 |                                    | 435                             |
| Derivative financial assets                                    |                       | 5                               |                                     |                                    | 5                               |
|  | <b>299</b>            | <b>4,565</b>                    | <b>4,462</b>                        | <b>(7,963)</b>                     | <b>1,363</b>                    |
| <b>Total assets</b>  | <b>1,747</b>          | <b>5,918</b>                    | <b>6,496</b>                        | <b>(10,241)</b>                    | <b>3,920</b>                    |
| <b>Current liabilities</b>                                     |                       |                                 |                                     |                                    |                                 |
| Borrowings   |                       |                                 | 16                                  |                                    | 16                              |
| Trade and other payables                                       | 424                   | 4,669                           | 4,268                               | (8,066)                            | 1,295                           |
| Current tax liabilities  |                       | 144                             |                                     |                                    | 144                             |
| Provisions   |                       | 4                               | 4                                   |                                    | 8                               |
| Derivative financial liabilities                               |                       | 36                              |                                     |                                    | 36                              |
|  | <b>424</b>            | <b>4,853</b>                    | <b>4,288</b>                        | <b>(8,066)</b>                     | <b>1,499</b>                    |
| <b>Non-current liabilities</b>                                 |                       |                                 |                                     |                                    |                                 |
| Borrowings   | 1,018                 | 1,223                           | 60                                  | (287)                              | 2,014                           |
| Trade and other payables                                       |                       | 28                              | 87                                  | (31)                               | 84                              |
| Provisions   |                       | 6                               | 12                                  |                                    | 18                              |
| Derivative financial liabilities                               | 258                   | 89                              |                                     | (89)                               | 258                             |
|  | <b>1,276</b>          | <b>1,346</b>                    | <b>159</b>                          | <b>(407)</b>                       | <b>2,374</b>                    |
| <b>Total liabilities</b>                                       | <b>1,700</b>          | <b>6,199</b>                    | <b>4,447</b>                        | <b>(8,473)</b>                     | <b>3,873</b>                    |
| Shareholders' equity (deficit)                                 | 47                    | (281)                           | 2,049                               | (1,768)                            | 47                              |

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|  |       |       |       |          |       |
|--|-------|-------|-------|----------|-------|
| Total liabilities and shareholders' equity (deficit) | 1,747 | 5,918 | 6,496 | (10,241) | 3,920 |
|--|-------|-------|-------|----------|-------|

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## Consolidated financial statements

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## Notes to the consolidated financial statements

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### 32. Guarantor statements (continued)

Supplemental condensed consolidating statements of operations for the year ended 30 June 2008

|  | Company<br>only<br>£m | Guarantor<br>subsidiaries<br>£m | Non-guarantor<br>subsidiaries<br>£m | Consolidation<br>adjustments<br>£m | Group and<br>subsidiaries<br>£m |
|--|-----------------------|---------------------------------|-------------------------------------|------------------------------------|---------------------------------|
| Revenue  | 136                   | 4,270                           | 1,409                               | (863)                              | 4,952                           |
| Operating expense                                    | (7)                   | (3,785)                         | (1,326)                             | 890                                | (4,228)                         |
| Operating profit                                     | 129                   | 485                             | 83                                  | 27                                 | 724                             |
| Share of results of joint ventures and associates    |                       |                                 | 15                                  |                                    | 15                              |
| Share of (losses) profits of subsidiary undertakings | (1,334)               | (537)                           | 75                                  | 1,796                              |                                 |
| Investment income                                    | 1,208                 | 129                             | 268                                 | (1,558)                            | 47                              |
| Finance costs  | (104)                 | (217)                           | (122)                               | 266                                | (177)                           |
| (Loss) profit on disposal of investment              |                       | (500)                           | 82                                  | 485                                | 67                              |
| Impairment of available-for-sale investment          |                       |                                 | (616)                               |                                    | (616)                           |
| (Loss) profit before tax                             | (101)                 | (640)                           | (215)                               | 1,016                              | 60                              |
| Taxation   | (26)                  | (126)                           | (35)                                |                                    | (187)                           |
| Loss for the year                                    | (127)                 | (766)                           | (250)                               | 1,016                              | (127)                           |

See notes to supplemental guarantor statements

Supplemental condensed consolidating statements of operations for the year ended 30 June 2007

|  | Company<br>only<br>£m | Guarantor<br>subsidiaries<br>£m | Non-guarantor<br>subsidiaries<br>£m | Consolidation<br>adjustments<br>£m | Group and<br>subsidiaries<br>£m |
|--|-----------------------|---------------------------------|-------------------------------------|------------------------------------|---------------------------------|
| Revenue  | 132                   | 4,183                           | 1,068                               | (832)                              | 4,551                           |
| Operating expenses                                   | (1)                   | (3,516)                         | (1,048)                             | 829                                | (3,736)                         |
| Operating profit                                     | 131                   | 667                             | 20                                  | (3)                                | 815                             |
| Share of results of joint ventures and associates    |                       |                                 | 12                                  |                                    | 12                              |
| Share of (losses) profits of subsidiary undertakings | (122)                 | (13)                            | 43                                  | 92                                 |                                 |
| Investment income                                    | 614                   | 101                             | 90                                  | (759)                              | 46                              |

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|                     |      |       |      |       |       |
|---------------------|------|-------|------|-------|-------|
| Finance costs       | (91) | (143) | (86) | 171   | (149) |
| Profit before tax   | 532  | 612   | 79   | (499) | 724   |
| Taxation            | (33) | (203) | 11   |       | (225) |
| Profit for the year | 499  | 409   | 90   | (499) | 499   |

See notes to supplemental guarantor statements

Supplemental condensed consolidating statements of operations for the year ended 30 June 2006

|  | Company<br>only<br>£m | Guarantor<br>subsidiaries<br>£m | Non-guarantor<br>subsidiaries<br>£m | Consolidation<br>adjustments<br>£m | Group and<br>subsidiaries<br>£m |
|--|-----------------------|---------------------------------|-------------------------------------|------------------------------------|---------------------------------|
| Revenue  | 118                   | 3,841                           | 785                                 | (596)                              | 4,148                           |
| Operating expenses                                   | (1)                   | (3,129)                         | (735)                               | 594                                | (3,271)                         |
| Operating profit                                     | 117                   | 712                             | 50                                  | (2)                                | 877                             |
| Share of results of joint ventures and associates    |                       |                                 | 12                                  |                                    | 12                              |
| Share of (losses) profits of subsidiary undertakings | (464)                 | 24                              | 17                                  | 423                                |                                 |
| Investment income                                    | 1,021                 | 56                              | 35                                  | (1,060)                            | 52                              |
| Finance costs  | (88)                  | (116)                           | (36)                                | 97                                 | (143)                           |
| Profit on disposal of joint venture                  |                       | 2                               |                                     | (2)                                |                                 |
| Profit before tax                                    | 586                   | 678                             | 78                                  | (544)                              | 798                             |
| Taxation   | (35)                  | (152)                           | (60)                                |                                    | (247)                           |
| Profit for the year                                  | 551                   | 526                             | 18                                  | (544)                              | 551                             |

See notes to supplemental guarantor statements

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Supplemental condensed consolidating statements of cash flow for the year ended 30 June 2008

|   | Company<br>only<br>£m | Guarantor<br>subsidiaries<br>£m | Non-guarantor<br>subsidiaries<br>£m | Consolidation<br>adjustments<br>£m | Group and<br>subsidiaries<br>£m |
|---|-----------------------|---------------------------------|-------------------------------------|------------------------------------|---------------------------------|
| <b>Cash flows from operating activities</b>                         |                       |                                 |                                     |                                    |                                 |
| Cash generated from (utilised in) operations                        |                       | 1,502                           | (534)                               | 29                                 | 997                             |
| Interest received   |                       | 34                              | 9                                   |                                    | 43                              |
| Taxation paid   |                       | (163)                           |                                     |                                    | (163)                           |
| <b>Net cash from (used in) operating activities</b>                 |                       | <b>1,373</b>                    | <b>(525)</b>                        | <b>29</b>                          | <b>877</b>                      |
| <b>Cash flows from investing activities</b>                         |                       |                                 |                                     |                                    |                                 |
| Dividends received from joint ventures and associates               |                       | 11                              |                                     |                                    | 11                              |
| Net funding to joint ventures and associates                        |                       | (6)                             |                                     |                                    | (6)                             |
| Purchase of property, plant and equipment                           |                       | (132)                           | (83)                                |                                    | (215)                           |
| Purchase of intangible assets                                       |                       | (111)                           | (13)                                |                                    | (124)                           |
| Purchase of available-for-sale investments                          |                       | (6)                             |                                     |                                    | (6)                             |
| Purchase of subsidiary (net of cash and cash equivalents purchased) |                       | (72)                            |                                     |                                    | (72)                            |
| Proceeds from the sale of subsidiaries                              |                       |                                 | 3                                   |                                    | 3                               |
| (Increase) decrease in short-term deposits                          |                       | (185)                           | 15                                  |                                    | (170)                           |
| <b>Net cash used in investing activities</b>                        |                       | <b>(501)</b>                    | <b>(78)</b>                         |                                    | <b>(579)</b>                    |
| <b>Cash flows from financing activities</b>                         |                       |                                 |                                     |                                    |                                 |
| Proceeds from borrowings  |                       | 383                             |                                     |                                    | 383                             |
| Repayment of borrowings   |                       | (16)                            |                                     |                                    | (16)                            |
| Repayment of obligations under finance leases                       |                       | (1)                             |                                     |                                    | (1)                             |
| Proceeds from disposal of shares in ESOP                            | 22                    |                                 |                                     |                                    | 22                              |
| Purchase of own shares for ESOP                                     |                       | (45)                            |                                     |                                    | (45)                            |
| Interest paid   |                       | (165)                           |                                     |                                    | (165)                           |
| Dividends paid to shareholders                                      |                       | (280)                           |                                     |                                    | (280)                           |
| Loans (to) from Group companies                                     | (22)                  | (355)                           | 406                                 | (29)                               |                                 |
| <b>Net cash (used in) from financing activities</b>                 |                       | <b>(479)</b>                    | <b>406</b>                          | <b>(29)</b>                        | <b>(102)</b>                    |
| Effect of foreign exchange rate movements                           |                       |                                 | 1                                   |                                    | 1                               |
| <b>Net increase (decrease) in cash and cash equivalents</b>         |                       | <b>393</b>                      | <b>(196)</b>                        |                                    | <b>197</b>                      |
| <b>Cash and cash equivalents at the beginning of the year</b>       |                       | <b>211</b>                      | <b>224</b>                          |                                    | <b>435</b>                      |
| <b>Cash and cash equivalents at the end of the year</b>             |                       | <b>604</b>                      | <b>28</b>                           |                                    | <b>632</b>                      |

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## Consolidated financial statements

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## Notes to the consolidated financial statements

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### 32. Guarantor statements (continued)

Supplemental condensed consolidating statements of cash flow for the year ended 30 June 2007

|  | Company<br>only<br>£m | Guarantor<br>subsidiaries<br>£m | Non-guarantor<br>subsidiaries<br>£m | Consolidation<br>adjustments<br>£m | Group and<br>subsidiaries<br>£m |
|--|-----------------------|---------------------------------|-------------------------------------|------------------------------------|---------------------------------|
| <b>Cash flows from operating activities</b>                        |                       |                                 |                                     |                                    |                                 |
| Cash generated from (utilised in) operations                       |                       | 1,127                           | (36)                                | (84)                               | 1,007                           |
| Interest received  |                       | 27                              | 19                                  |                                    | 46                              |
| Taxation paid  |                       | (128)                           |                                     |                                    | (128)                           |
| <b>Net cash from (used in) operating activities</b>                |                       | <b>1,026</b>                    | <b>(17)</b>                         | <b>(84)</b>                        | <b>925</b>                      |
| <b>Cash flows from investing activities</b>                        |                       |                                 |                                     |                                    |                                 |
| Dividends received from joint ventures and associates              |                       | 9                               |                                     |                                    | 9                               |
| Net funding to joint ventures and associates                       |                       | (3)                             |                                     |                                    | (3)                             |
| Purchase of property, plant and equipment                          |                       | (136)                           | (156)                               |                                    | (292)                           |
| Purchase of intangible assets                                      |                       | (42)                            | (22)                                |                                    | (64)                            |
| Purchase of available-for-sale investments                         |                       | (947)                           |                                     |                                    | (947)                           |
| Purchase of subsidiary, net of cash and cash equivalents purchased |                       | (104)                           |                                     |                                    | (104)                           |
| Decrease in short-term deposits                                    |                       | 298                             | 334                                 |                                    | 632                             |
| <b>Net cash (used in) from investing activities</b>                |                       | <b>(925)</b>                    | <b>156</b>                          |                                    | <b>(769)</b>                    |
| <b>Cash flows from financing activities</b>                        |                       |                                 |                                     |                                    |                                 |
| Proceeds from borrowings   |                       | 295                             |                                     |                                    | 295                             |
| Repayment of borrowings  |                       | (189)                           | (3)                                 |                                    | (192)                           |
| Proceeds from disposal of shares in ESOP                           | 37                    |                                 |                                     |                                    | 37                              |
| Purchase of own shares for ESOP                                    |                       | (76)                            |                                     |                                    | (76)                            |
| Purchase of own shares for cancellation                            | (16)                  | (198)                           |                                     |                                    | (214)                           |
| Interest paid  |                       | (146)                           | (8)                                 |                                    | (154)                           |
| Dividends paid to shareholders                                     |                       | (233)                           |                                     |                                    | (233)                           |
| Loans (to) from Group companies                                    | (21)                  | (128)                           | 65                                  | 84                                 |                                 |
| <b>Net cash (used in) from financing activities</b>                |                       | <b>(675)</b>                    | <b>54</b>                           | <b>84</b>                          | <b>(537)</b>                    |
| Effect of foreign exchange rate movements                          |                       |                                 |                                     |                                    |                                 |
| <b>Net (decrease) increase in cash and cash equivalents</b>        |                       | <b>(574)</b>                    | <b>193</b>                          |                                    | <b>(381)</b>                    |
| Cash and cash equivalents at the beginning of the year             |                       | 785                             | 31                                  |                                    | 816                             |
|  |                       | 211                             | 224                                 |                                    | 435                             |

Cash and cash equivalents at the end of the  
year

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## Supplemental condensed consolidating statements of cash flow for the year ended 30 June 2006

|  | Company<br>only<br>£m | Guarantor<br>subsidiaries<br>£m | Non-guarantor<br>subsidiaries<br>£m | Consolidation<br>adjustments<br>£m | Group and<br>subsidiaries<br>£m |
|--|-----------------------|---------------------------------|-------------------------------------|------------------------------------|---------------------------------|
| <b>Cash flows from operating activities</b>                        |                       |                                 |                                     |                                    |                                 |
| Cash generated from operations                                     | 32                    | 746                             | 133                                 | 93                                 | 1,004                           |
| Interest received  |                       | 31                              | 12                                  |                                    | 43                              |
| Taxation paid  |                       | (172)                           |                                     |                                    | (172)                           |
| <b>Net cash from operating activities</b>                          | <b>32</b>             | <b>605</b>                      | <b>145</b>                          | <b>93</b>                          | <b>875</b>                      |
| <b>Cash flows from investing activities</b>                        |                       |                                 |                                     |                                    |                                 |
| Dividends received from joint ventures and associates              |                       |                                 | 7                                   |                                    | 7                               |
| Net funding to joint ventures and associates                       |                       |                                 | (2)                                 |                                    | (2)                             |
| Purchase of property, plant and equipment                          |                       | (135)                           | (34)                                |                                    | (169)                           |
| Purchase of intangible assets                                      |                       | (38)                            | (5)                                 |                                    | (43)                            |
| Purchase of subsidiary, net of cash and cash equivalents purchased |                       | (350)                           | 141                                 |                                    | (209)                           |
| Increase in short-term deposits                                    |                       | (297)                           | (156)                               |                                    | (453)                           |
| <b>Net cash used in investing activities</b>                       |                       | <b>(820)</b>                    | <b>(49)</b>                         |                                    | <b>(869)</b>                    |
| <b>Cash flows from financing activities</b>                        |                       |                                 |                                     |                                    |                                 |
| Proceeds from issue of Guaranteed Notes                            |                       | 397                             | 617                                 |                                    | 1,014                           |
| Proceeds from disposal of shares in ESOP                           | 13                    |                                 |                                     |                                    | 13                              |
| Purchase of own shares for ESOP                                    |                       | (17)                            |                                     |                                    | (17)                            |
| Purchase of own shares for cancellation                            | (406)                 | (2)                             |                                     |                                    | (408)                           |
| Interest paid  |                       | (100)                           | (5)                                 |                                    | (105)                           |
| Dividends paid to shareholders                                     |                       | (191)                           |                                     |                                    | (191)                           |
| Loans from (to) Group companies                                    | 335                   | 558                             | (800)                               | (93)                               |                                 |
| <b>Net cash (used in) from financing activities</b>                | <b>(58)</b>           | <b>645</b>                      | <b>(188)</b>                        | <b>(93)</b>                        | <b>306</b>                      |
| Effect of foreign exchange rate changes                            |                       | 1                               |                                     |                                    | 1                               |
| <b>Net (decrease) increase in cash and cash equivalents</b>        | <b>(26)</b>           | <b>431</b>                      | <b>(92)</b>                         |                                    | <b>313</b>                      |
| Cash and cash equivalents at the beginning of the period           | 26                    | 354                             | 123                                 |                                    | 503                             |
| Cash and cash equivalents at the end of the period                 |                       | 785                             | 31                                  |                                    | 816                             |

See notes to supplemental guarantor statements

**Notes to supplemental guarantor statements**

From time to time, the Company may issue debt securities that are registered with the Securities and Exchange Commission

( SEC ), and which are guaranteed, on a full and unconditional basis, by certain of the Company's 100% owned subsidiaries. At 30 June 2008, five of the Company's subsidiaries, British Sky Broadcasting Limited ( BSKyB Limited ), Sky Subscribers Services Limited ( SSSL ), BSKyB Investments Limited ( BSKyB Investments ), BSKyB Publications Limited ( BSKyB Publications ) and BSKyB Finance UK plc ( BSKyB Finance UK ), were joint and several guarantors of the Company's registered debt securities. In February 1999, the Company issued US\$600 million of 6.875% Guaranteed Notes repayable in February 2009. In July 1999, the Company issued US\$650 million and £100 million of bonds repayable in July 2009 at rates of 8.200% and 7.750%, respectively. On 31 January 2007, under the terms of the debt securities indentures, BSKyB Investments became an acceding guarantor to the Company's registered debt securities. On 3 May 2007, BSKyB Publications and BSKyB Finance UK became acceding guarantors to the Company's registered debt securities. As a result, in the supplemental income statement and supplemental cash flow statement for the year ended 30 June 2006, BSKyB Investments, BSKyB Publications and BSKyB Finance UK were transferred from non-guarantor subsidiaries to guarantor subsidiaries.

Supplemental condensed consolidating financial information for the guarantors is prepared in accordance with the Group's IFRS accounting policies applied in the year ended 30 June 2008, as described in note 1, except to the extent that, for the purposes of the supplemental combining presentation of the guarantor statements, investments in subsidiaries are accounted for by their parent company under the equity method of accounting. Under the equity method, earnings of subsidiary undertakings are reflected in the parent company as share of profits of subsidiary undertakings in the income statement and as investments in subsidiary undertakings under the equity method in the balance sheet, as required by the SEC.

This supplemental financial information should be read in conjunction with the consolidated financial statements.

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## Group financial record unaudited

### Consolidated results

Below is selected financial information for the Group under IFRS as at and for each of the four years ended 30 June 2008, derived either from the audited consolidated financial statements included in this Annual Report or from the Group's historical Annual Reports.

|  | Year ended<br>30 June<br>2008<br>£m | Year ended<br>30 June<br>2007<br>£m | Year ended<br>30 June<br>2006<br>£m | Year ended<br>30 June<br>2005<br>£m |
|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| <b>Consolidated Income Statement</b>                                 |                                     |                                     |                                     |                                     |
| Retail subscription  | 3,769                               | 3,406                               | 3,157                               | 2,974                               |
| Wholesale subscription   | 181                                 | 208                                 | 224                                 | 219                                 |
| Advertising  | 328                                 | 352                                 | 342                                 | 329                                 |
| Sky Bet  | 44                                  | 47                                  | 37                                  | 32                                  |
| Installation, hardware and service                                   | 276                                 | 212                                 | 131                                 | 128                                 |
| Other  | 354                                 | 326                                 | 257                                 | 160                                 |
| <b>Revenue</b>   | <b>4,952</b>                        | <b>4,551</b>                        | <b>4,148</b>                        | <b>3,842</b>                        |
| Operating expense <sup>(i)</sup>                                     | (4,228)                             | (3,736)                             | (3,271)                             | (3,020)                             |
| <b>Operating profit</b>  | <b>724</b>                          | <b>815</b>                          | <b>877</b>                          | <b>822</b>                          |
| Share of results of joint ventures and associates                    | 15                                  | 12                                  | 12                                  | 14                                  |
| Investment income  | 47                                  | 46                                  | 52                                  | 29                                  |
| Finance costs  | (177)                               | (149)                               | (143)                               | (87)                                |
| Profit on disposal of joint venture                                  | 67                                  |                                     |                                     | 9                                   |
| Impairment of available-for-sale investment                          | (616)                               |                                     |                                     |                                     |
| <b>Profit before tax</b>   | <b>60</b>                           | <b>724</b>                          | <b>798</b>                          | <b>787</b>                          |
| Taxation   | (187)                               | (225)                               | (247)                               | (209)                               |
| <b>(Loss) profit for the year</b>                                    | <b>(127)</b>                        | <b>499</b>                          | <b>551</b>                          | <b>578</b>                          |
| Net profit (loss) recognised directly in equity                      | 187                                 | (124)                               | (38)                                | (13)                                |
| <b>Total recognised income and expense for the year</b>              | <b>60</b>                           | <b>375</b>                          | <b>513</b>                          | <b>565</b>                          |
| (Loss) earnings per share from (loss) profit for the year (in pence) |                                     |                                     |                                     |                                     |
| Basic  | (7.3)p                              | 28.4p                               | 30.2p                               | 30.2p                               |
| Diluted  | (7.3)p                              | 28.2p                               | 30.1p                               | 30.2p                               |
| (Loss) earnings per ADS from (loss) profit for the year (in pence)   |                                     |                                     |                                     |                                     |
| Basic  | (29.2)p                             | 113.6p                              | 120.8p                              | 120.8p                              |
| Diluted  | (29.2)p                             | 112.8p                              | 120.4p                              | 120.8p                              |
| Dividends per share  |                                     |                                     |                                     |                                     |
| Dividends declared per share (in pence)                              | 16.8p                               | 15.5p                               | 12.2p                               | 9.0p                                |

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|   |        |        |       |       |
|---|--------|--------|-------|-------|
| Dividends declared per share (in cents) | 33.6¢  | 30.2¢  | 21.8¢ | 16.7¢ |
| Dividends declared per ADS (in pence)   | 67.0p  | 62.0p  | 48.8p | 36.0p |
| Dividends declared per ADS (in cents)   | 134.5¢ | 121.0¢ | 87.0¢ | 67.0¢ |

|  | Year ended<br>30 June<br>2008 | Year ended<br>30 June<br>2007 | Year ended<br>30 June<br>2006 | Year ended<br>30 June<br>2005 |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Consolidated Cash Flow Statement                             | £m                            | £m                            | £m                            | £m                            |
| Cash and cash equivalents                                    | 632                           | 435                           | 816                           | 503                           |
| Purchase of plant, property, equipment and intangible assets | 339                           | 356                           | 212                           | 241                           |

|   | 30 June<br>2008 | 30 June<br>2007 | 30 June<br>2006 | 30 June<br>2005 |
|---|-----------------|-----------------|-----------------|-----------------|
| Consolidated Balance Sheet              | £m              | £m              | £m              | £m              |
| Non-current assets                      | 2,384           | 2,557           | 1,504           | 1,093           |
| Current assets                          | 1,698           | 1,363           | 2,283           | 1,363           |
| Total assets                            | 4,082           | 3,920           | 3,787           | 2,456           |
| Current liabilities                     | (1,893)         | (1,499)         | (1,547)         | (1,150)         |
| Non-current liabilities                 | (2,357)         | (2,374)         | (2,119)         | (1,119)         |
| Net assets                              | (168)           | 47              | 121             | 187             |
| Capital stock <sup>(ii)</sup>           | 2,313           | 2,313           | 2,333           | 2,371           |
| Number of shares in issue (in millions) | 1,753           | 1,753           | 1,791           | 1,868           |

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## Consolidated financial statements

### continued

| Statistics                                       | Year ended<br>30 June<br>2008 | Year ended<br>30 June<br>2007 | Year ended<br>30 June<br>2006 | Year ended<br>30 June<br>2005 |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|  | (In thousands)                |                               |                               |                               |
| Distribution of Sky Channels                     |                               |                               |                               |                               |
| DTH homes  | 8,980                         | 8,582                         | 8,176                         | 7,787                         |
| Cable homes <sup>(iii)</sup>                     | 1,248                         | 1,259                         | 3,898                         | 3,872                         |
| <b>Total Sky pay homes</b>                       | <b>10,228</b>                 | <b>9,841</b>                  | <b>12,074</b>                 | <b>11,659</b>                 |
| DTT homes <sup>(iv)</sup>                        | 9,200                         | 9,139                         | 6,402                         | 5,178                         |
| Broadband homes                                  | 1,628                         | 716                           |                               |                               |
| Sky Talk homes                                   | 1,241                         | 526                           |                               |                               |
| Average number of full-time equivalent employees | 14,145                        | 13,087                        | 11,216                        | 9,958                         |

#### Notes

- (i) Included within operating expense for the year ended 30 June 2007 is a £65 million credit due to the Group, arising from certain contractual rights under one of the Group's channel distribution agreements. This item was previously disclosed as a contingent asset in the consolidated financial statements as at 30 June 2006. Included within operating expense for the year ended 30 June 2008 is £21 million (2007: £16 million) of expense relating to the legal costs of the Group's claim against EDS (an information and technology solutions provider), which provided services to the Group as part of the Group's investment in customer management systems software and infrastructure. Included within operating expense for the year ended 30 June 2008 is £7 million of expense relating to a restructuring exercise undertaken following a review of operating costs.
- (ii) Capital stock includes called-up share capital and share premium.
- (iii) The number of cable homes is as reported to us by the cable operators. The reported number of cable homes reflects the impact of Virgin Media ceasing to carry Sky's basic channels on its platform, following the expiry (and non-renewal) of an agreement at the end of February 2007.
- (iv) The DTT homes number consists of Ofcom's estimate of the number of homes where DTT is the only platform. The number of DTT homes for all years disclosed above is based on Ofcom's Digital Television Update published quarterly in arrears (previously sourced from BARB). Latest data available for the year ended 30 June 2008 is at 31 March 2008.

#### Factors which materially affect the comparability of the selected financial data

##### Available-for-sale investment

At 30 June 2008, we recorded an impairment loss of £616 million in the carrying value of our equity investment in ITV. For further details see note 6 to the Consolidated financial statements Impairment of available-for-sale investment.

##### Business combinations

During fiscal 2008, we completed the acquisition of Amstrad plc (Amstrad). The results of this acquisition were consolidated from the date on which control passed to the Group (5 September 2007). For further details see note 29 to the Consolidated financial statements Purchase of subsidiaries.

During fiscal 2007, we completed the acquisition of 365 Media Group plc (365 Media). The results of this acquisition were consolidated from the date on which control passed to the Group (23 January 2007).

During fiscal 2006, we completed the acquisition of Easynet Group plc (Easynet). The results of this acquisition were consolidated from the date on which control passed to the Group (6 January 2006).

**Disposal of joint venture**

On 12 December 2007, the Group sold its 100% stake in B SkyB Nature Limited, the investment holding company for the Group's 50% interest in the NGC-UK Partnership. As consideration for the disposal, the Group received 21% interests in both NGC Network International LLC and NGC Network Latin America LLC (in effect, 21% of National Geographic Channel's television operations outside the US). The Group recognised a profit on disposal of £67 million.

**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 note 23 to the Consolidated financial statements Derivatives and other financial instruments.

Since any dividends are declared in pounds sterling, exchange rate fluctuations will affect the US dollar equivalent of cash dividends receivable by holders of ADSs.



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## Shareholder information

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### Share information

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

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 Mellon is the depository of the American Depositary Receipts, which evidence the ADSs.

#### Registrars

Equiniti Limited  
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Lancing  
West Sussex BN99 6DA  
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Overseas +44 121 415 7567

#### ADR depository

The Bank of New York Mellon  
Investor Services  
P.O. Box 11258  
Church Street Station  
New York, NY 10286-1258  
Telephone (US) 1-888-BNY-ADRS  
Telephone (International) +1 (212) 815-3700  
[www.adrbny.com](http://www.adrbny.com)

#### Shareholder enquiries

All administrative enquiries relating to unregistered shareholders, such as notification of change of address or the loss of a share certificate, should be made to Equiniti Limited, whose address is given above. ADS holders should contact The Bank of New York Mellon if they have a query relating to their holding.

#### Shares online

The Company provides a range of shareholder information online at [www.sky.com/corporate](http://www.sky.com/corporate). Shareholders can access and view their shareholding and update their details at [www.shareview.co.uk](http://www.shareview.co.uk).

#### Electronic shareholder communication

At the Company's AGM in November 2007 the Company gained shareholder approval to adopt changes in the law governing electronic communication. This allows the Company to use its corporate website as the main way to communicate with shareholders, sending out Annual Reports only to those who have opted to receive a paper copy.

The Board regards this as a positive step for both the Company and shareholders. It will reduce our impact on the environment, minimise waste and reduce costs. It will also enable stakeholders to keep updated with developments at Sky as they happen by accessing our website.

Shareholders who have opted to receive shareholder communications in paper form are encouraged to receive these electronically in future by registering at [www.shareview.co.uk](http://www.shareview.co.uk). Shareholders can also change their instructions at any time by contacting Equiniti Limited.

#### Dividends

Shareholders can have their dividends paid directly into a UK bank or building society account with the tax voucher sent direct to

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their registered address. Please contact Equiniti Limited for a dividend mandate form.

During the financial year the Company introduced a new consolidated tax voucher service for those shareholders who have chosen to receive dividends directly into their bank account. A single consolidated tax voucher will be mailed by the end of November each year, to coincide with the final dividend payment. Full details are available at [www.sky.com/corporate](http://www.sky.com/corporate).

### Overseas dividend payments

A service has been established to provide shareholders in over 30 countries worldwide with the opportunity to receive their dividends in their local currency. For a small flat-rate fee, shareholders can have their dividends automatically converted from Sterling and paid into their nominated bank account, normally within five working days of the dividend payment date. For further details, please contact Equiniti Limited on +44 121 415 7567.

### Dividend Reinvestment Plan

The Company operates a Dividend Reinvestment Plan ( DRIP ) which enables shareholders to buy the Company's shares on the London stock market with their cash dividend. Further information about the DRIP is available from Equiniti Limited. The helpline number is 0871 384 2268 from inside the UK and +44 121 415 7173 from overseas.

### ShareGift

Shareholders who only have a small number of shares whose value makes it uneconomic to sell them may wish to consider donating them to charity through ShareGift, the independent charity share donation scheme (registered charity no. 1052686). Further information about ShareGift may be obtained from Equiniti Limited or from ShareGift on 020 7337 0501 or at [www.sharegift.org](http://www.sharegift.org). There are no implications for capital gains tax purposes (no gain or loss) on gifts of shares to charity and it is also possible to claim income tax relief.

### Shareholder fraud

Fraud is on the increase and many shareholders are targeted every year. If you have any reason to believe that you may have been the target of a fraud, or attempted fraud in relation to your shareholding, please contact Equiniti Limited immediately. To reduce the risk of fraud happening to you please see our list of preventing shareholder fraud tips on our website at [www.sky.com/corporate](http://www.sky.com/corporate).

### Share price information

The Company's share price can be found on the Company's corporate website at [www.sky.com/corporate](http://www.sky.com/corporate) and it also appears in the financial columns of the national press under the prefix BSKyB.

ADS holders can access the latest ADS price at [www.nyse.com](http://www.nyse.com) or by visiting the Bank of New York Mellon's website, [www.adrbny.com](http://www.adrbny.com).

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<br>(pence)               |                                 | ADSs <sup>(i)</sup><br>(\$)       |                                  |
|---------------------------|---------------------------------|---------------------------------|-----------------------------------|----------------------------------|
|                           | High                            | Low                             | High                              | Low                              |
| Fiscal year ended 30 June |                                 |                                 |                                   |                                  |
| 2004                      | 776                             | 584 <sup>1</sup> / <sub>2</sub> | 59 <sup>6</sup> / <sub>25</sub>   | 40 <sup>13</sup> / <sub>50</sub> |
| 2005                      | 625                             | 465 <sup>1</sup> / <sub>2</sub> | 46 <sup>33</sup> / <sub>100</sub> | 33 <sup>39</sup> / <sub>50</sub> |
| 2006                      | 579                             | 478 <sup>1</sup> / <sub>2</sub> | 42 <sup>49</sup> / <sub>100</sub> | 33 <sup>4</sup> / <sub>5</sub>   |
| 2007                      | 663 <sup>1</sup> / <sub>2</sub> | 517 <sup>1</sup> / <sub>2</sub> | 52 <sup>99</sup> / <sub>100</sub> | 37 <sup>47</sup> / <sub>50</sub> |
| 2008                      | 713 <sup>1</sup> / <sub>2</sub> | 465                             | 58 <sup>7</sup> / <sub>10</sub>   | 36 <sup>33</sup> / <sub>50</sub> |



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## Shareholder information

continued

## Share information

continued

|                                  | Shares<br>(pence)  |                    | ADSs <sup>(i)</sup><br>(\$) |                      |
|----------------------------------|--------------------|--------------------|-----------------------------|----------------------|
|                                  | High               | Low                | High                        | Low                  |
| <b>Fiscal year ended 30 June</b> |                    |                    |                             |                      |
| <i>2007</i>                      |                    |                    |                             |                      |
| First Quarter                    | 569                | 5171 $\frac{1}{2}$ | 4361 $\frac{1}{100}$        | 3747 $\frac{1}{50}$  |
| Second Quarter                   | 5601 $\frac{1}{2}$ | 519                | 4267 $\frac{1}{100}$        | 4071 $\frac{1}{100}$ |
| Third Quarter                    | 570                | 523                | 453 $\frac{1}{5}$           | 411 $\frac{1}{100}$  |
| Fourth Quarter                   | 6631 $\frac{1}{2}$ | 5611 $\frac{1}{2}$ | 5299 $\frac{1}{100}$        | 4443 $\frac{1}{100}$ |
| <i>2008</i>                      |                    |                    |                             |                      |
| First Quarter                    | 7131 $\frac{1}{2}$ | 6351 $\frac{1}{2}$ | 587 $\frac{1}{10}$          | 5129 $\frac{1}{50}$  |
| Second Quarter                   | 696                | 588                | 5719 $\frac{1}{100}$        | 4711 $\frac{1}{20}$  |
| Third Quarter                    | 610                | 506                | 481 $\frac{1}{20}$          | 4081 $\frac{1}{100}$ |
| Fourth Quarter                   | 5801 $\frac{1}{2}$ | 465                | 4549 $\frac{1}{50}$         | 3633 $\frac{1}{50}$  |

|                    | Shares<br>(pence)  |                    | ADSs <sup>(i)</sup><br>(\$) |                       |
|--------------------|--------------------|--------------------|-----------------------------|-----------------------|
|                    | High               | Low                | High                        | Low                   |
| <b>Month ended</b> |                    |                    |                             |                       |
| 31 January 2008    | 610                | 506                | 481 $\frac{1}{20}$          | 40 81 $\frac{1}{100}$ |
| 29 February 2008   | 5961 $\frac{1}{2}$ | 539                | 477 $\frac{1}{25}$          | 4179 $\frac{1}{100}$  |
| 31 March 2008      | 566                | 5241 $\frac{1}{2}$ | 453 $\frac{1}{100}$         | 4223 $\frac{1}{100}$  |
| 30 April 2008      | 5801 $\frac{1}{2}$ | 5361 $\frac{1}{2}$ | 4549 $\frac{1}{50}$         | 4237 $\frac{1}{100}$  |
| 31 May 2008        | 548                | 516                | 4329 $\frac{1}{50}$         | 401 $\frac{1}{5}$     |
| 30 June 2008       | 5461 $\frac{1}{2}$ | 465                | 4279 $\frac{1}{100}$        | 3633 $\frac{1}{50}$   |

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

### Major shareholders

The following table sets forth, as of 30 July 2008, 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

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|   | Amount<br>owned | Percent of<br>class |
|---|-----------------|---------------------|
| News UK Nominees Limited <sup>(i)</sup>           | 686,021,700     | 39.14               |
| Brandes Investment Partners L.P. <sup>(ii)</sup>  | 56,867,820      | 3.12                |
| The Capital Group Companies, Inc. <sup>(ii)</sup> | 55,977,854      | 3.10                |
| Legal & General Group plc <sup>(iii)</sup>        | 53,183,483      | 3.03                |

(i) Direct holding which is subject to restrictions on its voting rights (please see Memorandum and Articles of Association Alteration of share capital on page 108 to 109.

(ii) Indirect holding.

At 30 July 2008, 39.14% 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 News Corporation's Quarterly Report on Form 10-Q for the period ended 31 March 2008 filed with the SEC on 8 May 2008, as a result of Rupert Murdoch's ability to appoint certain members of the Board of Directors of the corporate trustee of the Murdoch Family Trust, which beneficially owns 0.9% of News Corporation's Class A Common Stock and 37.2% of its Class B Common Stock, Rupert Murdoch may be deemed to be a beneficial owner of the shares beneficially owned by the Murdoch Family Trust. Rupert Murdoch, however, disclaims any beneficial ownership of those shares. Also, Rupert Murdoch beneficially owns an additional 1.3% of News Corporation's Class A Common Stock and 1.3% of its Class B Common Stock. Thus, Rupert Murdoch may be deemed to beneficially own in the aggregate 2.2% of News Corporation's Class A Common Stock and 38.6% of its Class B Common Stock.

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 13 September 2005, News Corporation notified us that its interest in our shares had increased to 37.00%. On 12 May 2007 News Corporation further notified us that its interest in our shares had increased to 38.02%. On 26 September 2006 News Corporation further notified us that its interest in our shares had increased to 39.03%. These increases were as a result of the Company's share buy-back programme. As at 27 September 2006, the date of the last share repurchase by the Company under the share buy-back programme, News Corporation had a 39.14% interest in our shares. The number of shares held by News Corporation remains unchanged.

On 2 February 2006 Brandes Investment Partners L.P. notified us that it had a 3.12% interest in our shares.

On 6 April 2006 The Capital Group Companies, Inc. notified us that it had a 3.10% interest in our shares.

On 4 October 2007, Legal & General Group plc notified us that it had a 3.03% interest in our shares.

On 19 April 2006, Janus Capital Management LLC ( Janus ) notified us that it had a 3.86% interest in our shares. On 5 March 2007, Janus notified us that it no longer had a notifiable interest in our shares as its holding had decreased below 3%. On 7 March 2007, Janus further notified us that its interest in our shares had increased to 3.07%. On 1 July 2008, Janus notified us that it no longer had a notifiable interest in our shares as its holding had decreased below 3%.

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

| Date notified   | Percentage<br>ownership |
|-----------------|-------------------------|
| 11 July 2005    | 9.01%                   |
| 2 February 2006 | 10.09%                  |
| 23 May 2006     | 9.98%                   |
| 21 June 2006    | 10.00%                  |

On 2 March 2007 Franklin Resources, Inc. notified us that under the Financial Services Authority's Disclosure and Transparency Rules ( DTR ) it was no longer subject to a notification obligation as it had been able to claim an exemption from the requirement to aggregate its holdings with those of its subsidiaries and it holds less than 3% of the Company's issued share capital. Franklin

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Resources, Inc. further informed us that Templeton Global Advisors Limited ( Templeton ), a wholly owned subsidiary of Franklin Resources Inc., had a 6.04% interest in our shares and that it is subject to a notification obligation under the DTR on the basis that as a discretionary manager it is an indirect shareholder. On 14 May 2007, Franklin Resources Inc. further notified us that Templeton s interest in our shares had decreased to 5.89% . On 5 September 2007, Franklin Resources Inc. notified us that it no longer had a notifiable interest in our shares as its holding had decreased below 5%. Templeton qualifies as an investment firm under the Markets in Financial Instruments Directive and therefore, in accordance with the Disclosure and Transparency Rules, it does not have a disclosure obligation when the voting rights attached to its shareholding in the Company do not exceed 5%.

On 4 May 2006 Harris Associates L.P. notified us that it had a 3.03% interest in our shares. On 30 May 2007, Harris Associates L.P notified us that it no longer had a notifiable interest in our shares as its holding had decreased below 3%.

On 2 August 2005, Barclays PLC notified us that its interest in our shares had increased to 4.15% . On 29 June 2006, Barclays PLC further notified us that its interest in our shares had decreased to 3.85% . On 22 November 2006, Barclays PLC notified us that it no longer had a notifiable interest in our shares as its holding had decreased below 3%. On 23 November 2006, Barclays notified us that its interest in our shares had increased to 3.05% . On 4 December 2006 Barclays PLC notified us that it no longer had a notifiable interest in our shares as its holding had decreased below 3%.

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On 26 June 2006, Fidelity notified us that it had a 3.06% interest in our shares. On 17 August 2006, Fidelity notified us that it no longer had a notifiable interest in our shares as its holding had decreased below 3%.

Major shareholders have the same voting rights as all other shareholders. A voting agreement dated 21 September 2005 was entered into between the Company, BSKYB Holdco Inc, News Corporation and News UK Nominees Limited which became unconditional on 4 November 2005 and caps News UK Nominees Limited voting rights at any general meeting at 37.19% . The provisions of the voting agreement cease to apply on the first to occur of a number of circumstances which include the date on which a general offer is made by an independent person (as defined in the voting agreement) for the ordinary share capital of the Company.

The Employee Share Ownership Plan ( ESOP ) was established to satisfy awards made to participants of the Company s employee share plans. The trustees of the ESOP have waived the right to dividends payable in respect of the shares held by it, except to the extent of 0.0001% of the dividend payable on each share. At 30 June 2008, the ESOP had an interest in 6,201,575 of the Company s ordinary shares.

On 28 July 2008, 10,515,229 ADSs were held of record by 19 holders in the US and 23,371 ordinary shares were held of record by 69 US persons.

#### **Financial calendar**

Results for the financial year ending 30 June 2009 will be published:

Q1 October 2008

Q2 January 2009

Q3 April 2009

Q4 August 2009

#### **The Sky website**

The Sky website at [www.sky.com](http://www.sky.com) details the Company s product offering and provides a link to the Company s corporate website where investor and media information can be accessed.

#### **Company s registered office:**

Grant Way

Isleworth

Middlesex TW7 5QD

Telephone 0870 240 3000

Overseas +44 20 7705 3000

#### **Company registration number**

2247735

#### **Chartered Accountants and Independent Registered Public Accounting Firm**

Deloitte & Touche LLP

Stonecutter Court

1 Stonecutter Street

London EC4A 4TR

#### **Principal bankers**

Royal Bank of Scotland

St. Andrew s Square

Edinburgh EH2 2YB

**Solicitors**

Herbert Smith LLP  
Exchange House  
Primrose Street  
London EC2A 2HS

**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 note 23 of the consolidated financial statements [Derivatives and other financial instruments](#) .

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    |
|---------------|--------|--------|
| December 2007 | 2.0658 | 1.9774 |
| January 2008  | 1.9895 | 1.9515 |
| February 2008 | 1.9923 | 1.9405 |
| March 2008    | 2.0311 | 1.9823 |
| April 2008    | 1.9994 | 1.9627 |
| May 2008      | 1.9818 | 1.9451 |
| June 2008     | 1.9938 | 1.9467 |

| Year ended 30 June | Period end | Average <sup>(i)</sup> | High   | Low    |
|--------------------|------------|------------------------|--------|--------|
| 2004               | 1.8126     | 1.7491                 | 1.9045 | 1.5728 |
| 2005               | 1.7930     | 1.8596                 | 1.9482 | 1.7733 |
| 2006               | 1.8491     | 1.7808                 | 1.8911 | 1.7138 |
| 2007               | 2.0063     | 1.9463                 | 2.0063 | 1.8203 |
| 2008               | 1.9906     | 2.0105                 | 2.1104 | 1.9405 |

(i) 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 28 July 2008, the noon buying rate was US\$1.9943 per £1.00.

**Memorandum and Articles of Association**

The following summarises certain provisions of the Company's Memorandum and Articles of Association and applicable English Law. The summary is qualified in its entirety by reference to the Company's Articles of Association, the Companies Act 1985 of Great Britain (the "1985 Act") and the Companies Act 2006 of Great Britain (the "2006 Act") together the "Acts". The 2006 Act is being brought into force and the 1985 Act is being repealed in stages between January 2007 and October 2009.

Information on where shareholders can inspect copies of the Memorandum and Articles of Association is provided under [Documents on display](#) below.

**Objects and purposes**

Sky is incorporated under the name British Sky Broadcasting Group plc and is registered in England and Wales with registered



number 2247735. The Memorandum of Association of the Company provides that the Company's principal object is to carry on the business of direct broadcasting by satellite and to carry out the other objects more particularly set out in Clause 4 of the Memorandum of Association of the Company.

### Directors

The Company's Articles of Association provide for a Board of Directors, consisting of not fewer than three Directors, who shall manage the business and affairs of the Company. The quorum for meetings of the Directors is currently three Directors. The Directors may delegate any of their powers to a committee which must consist of one or more Directors, and a majority of the members of a committee shall be Directors. The quorum at a meeting of any committee shall be two Directors.

The Articles of Association place a general prohibition on a Director voting in respect of any contract or arrangement in which he has a material interest other than by virtue of his interest in shares in the Company. However, in the absence of some other material interest not indicated below, a Director is entitled to vote and to be counted

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## Shareholder information

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## Memorandum and Articles of Association

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in a quorum for the purpose of any vote relating to a resolution concerning the following matters:

- (i) the giving of any guarantee, security or indemnity to him in respect of money lent to, or obligations incurred by him at the request of, or for the benefit of, the Company or any of its subsidiaries;
- (ii) the giving of any guarantee, security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of any shares or debentures or other securities of or by the Company for subscription, purchase or exchange in which offer he is, or is to be, interested as a participant in the underwriting or sub-underwriting thereof;
- (iv) any proposal concerning a superannuation fund or retirement benefits scheme which has been approved by, or is subject to, and conditional upon approval by the Board of the HMRC for taxation purposes;
- (v) any arrangement for the benefit of employees of the Company or any of its subsidiaries including but not limited to, an employees share scheme which has been approved by, or is subject to and conditional upon approval by, the Board of the HMRC for taxation purposes and which does not accord to any Directors any privilege not accorded to the employees to whom the arrangement relates; and
- (vi) any proposal concerning the purchase or maintenance of insurance for the benefit of Directors or persons who include Directors.

The 1985 Act requires a Director of a company who is in any way interested in a contract or proposed contract with the company to declare the nature of his interest at a meeting of the Directors of the company. The definition of interest now includes the interests of spouses, children, companies and trusts. The Articles also specifically provide that a Director is to be treated as interested in a matter the subject of a resolution if it relates to a transaction or arrangement with a person or body corporate of or in which he is an officer, employee, shareholder, consultant, advisor, representative or otherwise interested. Any question as to the right of a Director to vote, including whether he has a material interest in a material matter the subject of a resolution, may be decided by a resolution of the majority of those Directors who do not have a like interest to the Director or Directors in question.

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

Remuneration of Non-Executive Directors shall be determined in the aggregate by resolution of the shareholders. Remuneration of executive Directors is determined by the remuneration committee. This committee is made up of independent Non-Executive Directors.

There is no requirement of share ownership for a Director's qualification.

### **Directors appointment and removal**

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

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

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

- (ii) such additional number of Directors as shall, when aggregated with the number of Directors retiring under paragraph (i) above, equal either one third of the number of Directors, in circumstances where the number of Directors is three or a multiple of three, or in all other circumstances, the whole number which is nearest to but does not exceed one-third of the number of Directors (the Relevant Proportion ) provided that:
  - (a) the provisions of this paragraph (ii) shall only apply if the number of Directors retiring under paragraph (i) above is less than the Relevant Proportion; and
  - (b) subject to the provisions of the Acts and to the relevant provisions of these Articles, the Directors to retire under this paragraph (ii) shall be those who have been longest in office since their last appointment or reappointment, but as between persons who became or were last reappointed Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

#### **Borrowing powers**

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

#### **Dividend rights**

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

No dividend shall be paid otherwise than out of profits available for distribution as specified under the provisions of the Acts.

Any dividend unclaimed after a period of twelve years from the date of declaration of such dividend shall be forfeited and shall revert to the Company.

#### **Voting rights**

The Articles of Association provide that subject to any rights or restrictions attached to any shares, on a show of hands every member present in person or by proxy shall have one vote, and on a poll every member shall have one vote for every share of which he is a holder. On a poll votes may be given either personally or by proxy or (in the case of a corporate member) by a duly authorised representative.

A shareholder entitled to attend and vote at a general meeting may appoint one or more proxies to attend and vote instead of him. If a member appoints more than one proxy he must specify the number of shares which each proxy is entitled to exercise rights over. A proxy need not be a shareholder of the Company. Holders of the Company's ordinary shares do not have cumulative voting rights.

Details of a voting agreement that the Company entered into with News UK Nominees Limited, dated 21 September 2005, is detailed in *Alteration of share capital* on page 108 to 109.

#### **Winding-up**

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



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- (i) divide among the members in kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and, for that purpose, set such values as he deems fair upon any property to be divided and determine how the division shall be carried out between the members; and
- (ii) vest the whole or any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit, but no member shall be compelled to accept any share or other assets upon which there is any liability.

### **Redemption**

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

### **Further capital calls**

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

### **Variation of rights**

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

### **General meetings**

The Directors may call an annual general meeting or a general meeting and give at least such minimum period of notice as is prescribed under the Acts. The notice shall specify the place, the date and the time of the meeting and the general nature of the business to be transacted, and in the case of an annual general meeting shall specify the meeting as such. Two persons entitled to vote upon the business to be transacted shall be a quorum.

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

If a member or any person appearing to be interested in shares has been duly served with a notice under Section 793 of the 2006 Act and is in default for the prescribed period in supplying to the Company information thereby required, unless the Directors otherwise determine, the member shall not be entitled to vote at any general or class meeting of the Company in respect of the shares in relation to which the default occurred.

### **Limitations on non-resident or foreign shareholders**

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

### **Transfer of shares**

Any member may transfer all or any of his shares by instrument of transfer in the usual common form or in any other form which the Directors may approve. The

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instrument of transfer of a share shall be signed by or on behalf of the transferor and, except in the case of fully-paid shares, by or on behalf of the transferee.

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

- (i) is lodged at the transfer office accompanied by the relevant share certificate(s);
- (ii) is in respect of only one class of share; and
- (iii) is in favour of not more than four persons jointly.

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

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

- (i) and following consultation with Ofcom that, inter alia, by reason of the interest of a person in any shares of the Company transferred, Ofcom may vary, revoke, determine or refuse to award, grant, renew or extend a licence granted under the Broadcasting Acts; or
- (ii) that any person has an interest in the shares of the Company which, inter alia, makes the Company a disqualified person under the Broadcasting Acts or which contravenes, or would cause a contravention of, any of the restrictions set out in Parts III, IV or V of Schedule 2 to the Broadcasting Act 1990, as amended by the Communications Act, or any order, direction or notice made pursuant to the Broadcasting Acts or Communications Act or such other restrictions as may be applied by Ofcom from time to time to disqualify certain persons or bodies from having interests in such a licence or to restrict the accumulation of interests in relevant services as defined in Schedule 2 to the Broadcasting Act 1990, as amended by the Communications Act;

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

### Alteration of share capital

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

The Company may from time to time by ordinary resolution:

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

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## Shareholder information

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### Memorandum and Articles of Association

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- (ii) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
- (iii) cancel any shares which, at the date of the passing of the resolution, have not been taken, or agreed to be taken, by any person and diminish the amount of its capital by the amount of the shares so cancelled; or
- (iv) sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the Memorandum of Association (subject, nevertheless, to the provisions of the Statutes).

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

At the AGM of the Company held on 4 November 2005, shareholders approved a special resolution allowing the Company to buy-back up to 92,000,000 ordinary shares in the market, which was approximately 5% of the issued share capital of the Company at 27 September 2005. At the same AGM, shareholders approved an ordinary resolution in relation to Rule 9 of the City Code of Takeovers and Mergers (the City Code) which waived the compulsory bid obligation that arises for News UK Nominees Limited when the Company repurchases shares under the authority granted by the special resolution detailed above. Under Rule 9 of the City Code, any person who acquires shares which, taken together with the shares already held by him or acquired by persons acting in concert with him, carry 30% or more of the voting rights in a company which is subject to the City Code is normally required to make a general offer to all of the remaining shareholders to acquire their shares. Similarly, when any person or persons acting in concert already hold 30% or more but less than 50% of the voting rights in such a company, a general offer will normally be required to be made if any further shares are acquired. An offer under Rule 9 must be in cash at the highest price paid within the preceding 12 months for any shares acquired in the Company by the person required to make the offer or any person acting in concert with him. The holding of News UK Nominees Limited as at the date of the AGM was 686,021,700 ordinary shares, representing 37.19% of the voting rights in the Company. If the compulsory bid obligation under Rule 9 had not been waived and the Company had repurchased shares under the authority granted by the special resolution detailed above and, at the time, the voting rights attributable to the aggregate holding of News UK Nominees Limited had continued to exceed 30% of the voting rights of the Company or, if, in the meantime, its holding had fallen below this level and, as a result had increased to 30% or more of such voting rights, News UK Nominees Limited would have been required to make a cash offer for the issued shares of the Company which it did not already own. The Panel agreed to waive the compulsory bid obligation arising in respect of a repurchase by the Company of its shares subject to approval of the ordinary resolution on a poll, subsequently received at the AGM, from shareholders independent of News UK Nominees Limited. The waiver in this ordinary resolution, which is valid only for so long as the authority granted pursuant to the special resolution detailed above remains in force, applies only in respect of increases in the percentage interest of News UK Nominees Limited resulting from market purchases by the Company of its own shares and not in respect of other increases in its holding.

In addition, in pursuing a buy-back authority, the Board considered 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 37.19%. The voting agreement was conditional on the buy-back proposals being approved by shareholders and therefore became unconditional on 4 November 2005.

As at 27 September 2006, the Company had purchased, and subsequently cancelled, 92,000,000 ordinary shares of 50p each under this authority for a consideration of £493 million. The holding of News UK Nominees Limited, following the exercise of the authority, increased from 37.19% to 39.14% of the Company's issued share capital. The authority expired on 3 November 2006 and the Directors did not seek its renewal.

### Issue of shares

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

### Disclosure of interests in the Company's shares

There are no provisions in the Articles whereby persons acquiring, holding or disposing of a certain percentage of the Company's shares are required to make disclosure of their ownership percentage, although there are such requirements under the Disclosure and Transparency Rules (specifically DTR 5) which form part of the Listing Rules which are enforced by the United Kingdom's Financial Services Authority.

Under Section 793 of the 2006 Act, the Company may by notice in writing require a person that the Company knows or has reasonable cause to believe is or was during the preceding three years interested in the Company's shares to indicate whether or not that is correct and, if that person does or did hold an interest in the Company's shares, to provide certain information as set out in the 2006 Act.

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

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

### Exchange controls

There are no UK government laws, decrees, regulations or other legislation which restrict or which may affect the import or export of capital, including the availability of cash and cash equivalents for use by us or the remittance of dividends, interest and other payments to non-resident holders of our securities, except as otherwise described in the Memorandum and Articles of Association Dividend rights section above, and the Taxation section below.

Under English law (and the Company's Memorandum and Articles of Association), persons who are neither residents nor nationals of the UK may freely hold, vote and transfer ordinary shares in the same manner as UK residents or nationals.

### Taxation

This section summarises basic UK and US tax consequences of the acquisition, ownership and disposition of shares and ADSs by a US Holder. For purposes of this summary, a US Holder is a beneficial owner of shares or ADSs who is (i) an individual who is a citizen or resident of the US for US income tax purposes, (ii) a corporation organised under the laws of the US or any state thereof or the District of Columbia, (iii) a domestic partnership, (iv) an estate the income of which is subject to US federal income taxation regardless of its source, or (v) a trust if a court within the US is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust. However, in the case of a partnership, estate or trust, this discussion applies only to the extent such entity's income is taxed to the entity or its partners or beneficiaries on a net income basis under US tax law. This summary is based (i) upon current UK law and UK HMRC practice, (ii) upon the US Internal Revenue Code, Treasury Regulations, cases and Internal Revenue Service rulings, all of which are subject to change, possibly with retroactive effect, (iii) upon the UK-US Income Tax Convention currently in effect (the Treaty), and (iv) in part upon representations of The Bank of New York (the Depositary) and assumes that each obligation provided for in or otherwise contemplated by the Deposit Agreement dated as of December 2002, among the Company, the Depositary, and the holders from time to time of the ADSs of the Company (the Deposit Agreement), and any related agreement will be performed in accordance with their respective terms.



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The summary of UK tax consequences relates to the material aspects of the UK taxation position of US Holders and does not address the tax consequences to a US Holder (i) that is resident (or, in the case of an individual, ordinarily resident) in the UK for UK tax purposes, (ii) whose holding of shares or ADSs is effectively connected with a permanent establishment in the UK through which such US Holder carries on business activities or, in the case of an individual who performs independent personal services, with a fixed base situated therein, or (iii) that is a corporation which alone or together with one or more associated companies, controls directly or indirectly, 10% or more of the voting stock of the Company. The discussion set forth below is only a general summary and does not purport to be a technical analysis nor a description of all possible tax consequences.

The summary of US tax consequences may not completely or accurately describe tax consequences to all US Holders. For example, special rules may apply to US Holders of stock representing 10% or more of the total combined voting power of the Company, US expatriates, insurance companies, tax-exempt organisations, banks and other financial institutions, persons subject to the alternative minimum tax, securities broker-dealers, traders in securities that elect to mark-to-market, and persons holding their shares or ADSs as part of a straddle, hedging or conversion transaction, among others.

Tax consequences to each US Holder will depend upon the particular facts and circumstances of each such holder. Accordingly, each person should consult with his own professional advisor with respect to the tax consequences of his ownership and disposition of shares or ADSs. This summary does not discuss any tax rules other than UK tax and US federal income tax rules. The UK and US tax authorities and courts are not bound by this summary and may disagree with its conclusions.

US Holders of ADSs will be treated as owners of the shares underlying the ADSs. Accordingly, except as noted, the UK and US tax consequences discussed below apply equally to US Holders of ADSs and shares.

### **Taxation of distributions**

Under current UK taxation legislation, no tax is withheld from dividend payments by the Company and generally no UK tax is payable by US Holders who are not resident or ordinarily resident for tax purposes in the UK on dividends declared on the shares.

US Holders who are not resident or ordinarily resident for tax purposes in the UK with no other source of UK income and no liability to UK tax are not required to file a UK income tax return.

For US federal income tax purposes, the gross amount of any distribution made by the Company to a US Holder with respect to any shares or ADSs held by the US Holder generally will be includable in the income of the US Holder as dividend income to the extent that such distribution is paid out of the Company's current or accumulated earnings and profits as determined under US federal income tax principles (subject to the discussion below under US passive foreign investment company rules). Dividends will generally constitute foreign source passive income for foreign tax credit purposes. The dividend income generally will not be eligible for the dividends received deduction allowed to corporations. If the amount of any distribution exceeds the Company's current and accumulated earnings and profits as so computed, such excess first will be treated as a tax-free return of capital to the extent of the US Holder's tax basis in its shares or ADSs, and thereafter as gain from the sale or exchange of property.

Dividends received by a non-corporate US Holder before 1 January 2011, with respect to such US Holder's shares or ADSs that constitute qualified dividend income, will be subject to a reduced rate of US federal taxation provided that such US Holder's shares or ADSs are held by such US holder for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and the US holder meets other holding period requirements. Dividends paid by the Company with respect to Ordinary Shares or ADSs generally will be qualified dividend income.

Any non-US withholding tax with respect to a dividend may be used as a credit against a US Holder's US federal income tax liability, subject to certain conditions and limitations.

The amount of any dividend paid in non-US currency will be equal to the US dollar value of such currency on the date the dividend is included in income, regardless of whether the payment is in fact converted into US dollars. A US Holder will generally be required to recognise US source ordinary income or loss when such US Holder sells or disposes of non-US currency. The US Holder will have a tax basis in this non-US currency equal to the US dollar value of the currency on the date the dividend is included in the US Holder's income. This foreign currency gain or loss will generally be US source ordinary income or loss.

### Taxation of capital gains

US Holders who are not resident or ordinarily resident for tax purposes in the UK will not be liable for UK tax on capital gains realised on the disposal of their ADSs or shares unless they carry on a trade in the UK through a branch, agency or permanent establishment, or a profession or vocation in the UK through a branch or agency and such ADSs or shares are used, held or acquired for the purposes of the trade, profession, vocation, branch, agency or permanent establishment. An individual US Holder who has ceased to be resident and ordinarily resident in the UK for tax purposes for a period of less than five years, and who disposes of his or her shares or ADSs during that period, may be liable on his or her return to the UK to UK capital gains tax on any chargeable gain realised. The surrender of ADSs in exchange for shares should not usually give rise to UK corporation tax, or US or UK capital gains tax.

In general, for US federal income tax purposes, a US Holder will recognise capital gain or loss if such US Holder sells or exchanges shares or ADSs, provided that such shares or ADSs are capital assets in the hands of such US Holder (subject to the discussion below under US passive foreign investment company rules ). Any gain or loss will generally be US source gain or loss. For an individual, any capital gain will generally be subject to US federal income tax at preferential rates if the individual has held the shares or ADSs for more than one year.

### US passive foreign investment company rules

The Company believes that it will not be treated as a passive foreign investment company ( PFIC ) for US federal income tax purposes for the current taxable year or for future taxable years. However, an actual determination of PFIC status is factual and cannot be made until the close of the applicable taxable year. The Company will be a PFIC for any taxable year in which either:

- (i) 75% or more of its gross income is passive income; or
- (ii) its assets that produce passive income or that are held for the production of passive income amount to at least 50% of the value of its total assets on average.

For purposes of this test, the Company will be treated as directly owning its proportionate share of the assets, and directly receiving its proportionate share of the gross income, of each corporation in which the Company owns, directly or indirectly, at least 25% of the value of the shares of such corporation.

If the Company were to become a PFIC, the tax applicable to distributions on shares or ADSs and any gains a US Holder recognises on disposition of shares or ADSs may be less favourable to such US Holder. Accordingly, each person should consult with his own professional advisor regarding the PFIC rules.

### Inheritance and gift taxes

An individual who is domiciled in the US for the purposes of the United Kingdom-United States Estate and Gift Tax Convention (the Estate Tax Treaty ) and who is not a national of the UK for the purposes of the Estate Tax Treaty will generally not be subject to UK inheritance tax in respect of the shares or ADSs on the individual's death or on a gift of the shares or ADSs during the individual's lifetime provided that any applicable US federal gift or estate tax liability is paid, unless the shares or ADSs are part of the business property of a permanent establishment in the UK of an enterprise or pertain to a fixed base in the UK of an individual used for the performance of independent personal services. Where the ADSs or shares have been placed in trust by a settlor who, at time of settlement, was a US Holder, the ADSs or shares will generally not be subject to UK inheritance tax if at the time when the settlement was made the settlor was domiciled in the United States and was not a national of the United Kingdom for the purposes of the Estate Tax Treaty. In the exceptional case

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## Shareholder information

continued

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### Memorandum and Articles of Association

continued

where the shares are subject both to UK inheritance tax and to US federal gift or estate tax, the Estate Tax Treaty generally provides for the tax paid in the UK to be credited against tax paid in the US or for tax paid in the US to be credited against tax payable in the UK based on priority rules set out in that Treaty.

#### UK stamp duty and stamp duty reserve tax

A transfer for value of the shares will generally be subject to UK ad valorem stamp duty, normally at the rate of 0.5% of the amount or value of the consideration given for the transfer, rounded up (if necessary) to the nearest multiple of £5. Stamp duty is normally a liability of the purchaser.

An agreement to transfer shares or any interest therein for money or money's worth will normally give rise to a charge to stamp duty reserve tax (SDRT) at the rate of 0.5% of the amount or value of the consideration for the shares or interest therein (with no rounding up or down). However, if a duly stamped instrument of transfer of the shares is executed in pursuance of the agreement and duly produced within six years of the date on which the agreement for sale is made (or, if the agreement is conditional, the date on which the condition is satisfied) any SDRT paid is generally repayable with interest, and otherwise the SDRT charge is cancelled. SDRT is in general payable by the purchaser. The UK Finance Act 1996 (amending the UK Finance Act 1986) makes it clear that (contrary to previous UK HMRC practice) SDRT will be levied in respect of agreements to transfer chargeable securities (which include shares) even where a person not resident in the UK buys chargeable securities from another non-resident and the transaction is carried out outside the UK.

Stamp duty or SDRT charges at the rate of 1.5% (in the case of both stamp duty and SDRT) of the amount or value of the consideration, or in some circumstances, the value of the shares, may arise on a transfer of shares to the Depositary or the Custodian of the Depositary or to certain persons providing a clearance system (or their nominees or agents) and will usually be payable by the Depositary or such other persons. It is possible for persons operating clearance services to make an election to HMRC subject to certain conditions, pursuant to which, instead of the 1.5% stamp duty or SDRT charge applying on entry as described above, a 0.5% SDRT charge would apply to transfers of securities made within the system.

In accordance with the terms of the Deposit Agreement, any tax or duty payable by the Depositary or the Custodian of the Depositary on any subsequent deposit of shares will be charged by the Depositary to the holder of the ADS or any deposited security represented by the ADS.

No UK stamp duty will be payable on the acquisition or transfer of an ADS or beneficial ownership of an ADS, provided that the ADS and any separate instrument of transfer or written agreement to transfer remains at all times outside the UK, and provided further that any instrument of transfer or written agreement to transfer is not executed in the UK. An agreement to transfer ADSs will not give rise to a liability for SDRT.

Any transfer for value of the underlying shares represented by ADSs (which will exclude a transfer from the Custodian of the Depositary or the Depositary to an ADS holder on a cancellation of the ADSs), may give rise to a liability to UK stamp duty. The amount of UK stamp duty payable is generally calculated at the rate of 0.5% of the amount or value of the consideration on a transfer from the Custodian of the Depositary to a US Holder or registered holder of an ADS, rounded up (if necessary) to the nearest multiple of £5. Proposed changes in Finance Bill 2008 provide that no UK stamp duty will be payable upon cancellation of the ADS where the instrument of transfer was executed after 12 March 2008 and not stamped before 19 March 2008.

#### US information reporting and backup withholding

Dividend payments on the shares or ADSs and proceeds from the sale, exchange or other disposition of the shares or ADSs may be subject to information reporting to the Internal Revenue Service and possible US backup withholding at a rate of 28%. US federal backup withholding generally is imposed on specified payments to persons that fail to furnish required information. Backup withholding will not apply to a holder who furnishes a correct taxpayer identification number or certificate of foreign status and

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makes any other required certification, or who is otherwise exempt from backup withholding. Any US persons required to establish their exempt status generally must file Internal Revenue Service Form W-9, Request for Taxpayer Identification Number and Certification.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a US Holder's US federal income tax liability. A US Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

### **Documents on display**

Certain documents referred to in this Annual Report can be inspected at our registered office at Grant Way, Isleworth, Middlesex, TW7 5QD, England, during normal business hours on Monday to Friday (public holidays excepted). Shareholders attending the Company's AGM will also have the opportunity to inspect certain documents as detailed in the Notice of AGM from 15 minutes prior to the meeting until its conclusion. A copy of the Notice of AGM can be downloaded from the Company's corporate website at [www.sky.com/corporate](http://www.sky.com/corporate).

We are subject to the periodic reporting and other informational requirements of the US Securities Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C., 20549. The public may obtain information regarding the SEC's Public Reference Room by calling the SEC at 1-202-551-8090. Our public filings with the SEC are also available on the website maintained by the SEC at [www.sec.gov](http://www.sec.gov).

### **Material modifications to the rights of security holders and use of proceeds**

The constituent instruments defining the rights of holders of ordinary shares have not been materially modified.

Pursuant to the terms of the Deposit Agreement, The Bank of New York, as Depositary, has agreed to notify holders of ADSs of all actions of the Company in which shareholders of ordinary shares are entitled to exercise voting rights, thus facilitating the exercise of voting rights by holders of ADSs. The address of The Bank of New York is 101 Barclay Street, New York, New York, 10286.

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## Glossary of terms

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| <b>Useful Definitions</b>    | <b>Description</b>  |
|------------------------------|---|
| <b>365 Media</b>             | 365 Media Group plc   |
| <b>ADS</b>                   | American Depositary Share (each ADS currently represents four ordinary shares of BSkyB)   |
| <b>Bonus channel</b>         | A channel provided to a subscriber in addition to one or more subscription channels, but at no incremental cost to the subscriber   |
| <b>BSkyB or the Company</b>  | British Sky Broadcasting Group plc  |
| <b>Churn</b>                 | 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), expressed as a percentage of total subscribers |
| <b>DSL</b>                   | Digital Subscriber Line   |
| <b>DTH</b>                   | Direct-to-Home: the transmission of satellite services with reception through a minidish. The Group also retails certain Sky Channels to a limited number of DSL subscribers (references throughout to DTH subscribers include DSL subscribers)   |
| <b>DTT</b>                   | Digital Terrestrial Television: digital signals delivered to homes through a conventional aerial, converted through a set-top box or integrated digital television set  |
| <b>EPG</b>                   | Electronic Programme Guide  |
| <b>ESOP</b>                  | Employee Share Ownership Plan   |
| <b>Fiscal year or fiscal</b> | Refers to the twelve months ended on the Sunday nearest to 30 June of the given year  |
| <b>Freeview</b>              | The free DTT offering available in the UK   |
| <b>The Group</b>             | BSkyB and its subsidiary undertakings   |
| <b>HD</b>                    | High Definition Television  |
| <b>IFRS</b>                  | International Financial Reporting Standards   |
| <b>IP</b>                    | Internet Protocol: the mechanism by which data packets may be routed between computers on a network   |
| <b>LLU</b>                   | Local Loop Unbundling: a process by which BT's exchange lines are physically disconnected from BT's network and connected to other operators' networks. This enables operators other than BT to use the BT local loop to provide services to customers  |
| <b>Minidish</b>              | Satellite dish required to receive digital satellite television   |
| <b>Multiroom</b>             | Installation of an additional set-top box in the household of an existing subscriber  |
| <b>Ofcom</b>                 | UK Office of Communications   |

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|   |  |
|---|--|
| <b>Premium Channels</b>                 | The Sky Premium Channels and the Premium Sky Distributed Channels  |
| <b>Premium Sky Distributed Channels</b> | Disney Cinemagic, MUTV, Chelsea TV and Music Choice Extra. Until 23 July 2006, FilmFour (including the FilmFour multiplex channels, FilmFour +1 and FilmFour Weekly ) was a Premium Sky Distributed Channel. From 23 July 2006, FilmFour has been broadcast as a free-to-air channel |
| <b>PVR</b>                              | Personal Video Recorder: satellite decoder which utilises a built-in hard disk drive to enable viewers to record without videotapes, pause live television and record one programme while watching another   |
| <b>RCF</b>                              | Revolving Credit Facility  |
| <b>Set-top box</b>                      | Digital satellite reception equipment  |
| <b>Sky</b>                              | British Sky Broadcasting Group plc and its subsidiary undertakings   |
| <b>Sky+</b>                             | Sky s fully-integrated Personal Video Recorder (PVR) and satellite decoder   |
| <b>Sky+ HD</b>                          | High Definition box with PVR functionality, formerly known as Sky HD   |
| <b>Sky Active</b>                       | The brand name for Sky s transactional interactive television services, including e-mail/messaging, games, betting, shopping, banking, travel services and ticket sales  |

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## Glossary of terms

continued

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|                                    |  |
|------------------------------------|--|
| <b>Sky Basic Channels</b>          | Sky One, (and its simulcast version, Sky One HD), Sky Two, Sky Three, Sky News, Sky Travel, Sky Real Lives (and its multiplex versions, Sky Real Lives +1 and Sky Real Lives 2), Sky Sports News, Sky Arts (including its simulcast version, Sky Arts HD) (all references to Sky Channels relating to periods prior to 4 March 2005 exclude Sky Arts), Sky Vegas, Sky Poker.com, Flaunt, Bliss (which was named The Amp until 2 March 2006) and Scuzz. Flaunt, Bliss and Scuzz were disposed of by the Group on 31 December 2006 |
| <b>Sky Bet</b>                     | Sky's betting services, provided through set-top boxes, the internet and via phone   |
| <b>Sky box office</b>              | Our pay-per-view service offering movies, sporting events and concerts   |
| <b>Sky Channels</b>                | Television channels wholly owned by the Group, being the Sky Basic Channels and Sky Premium Channels   |
| <b>Sky Distributed Channels</b>    | Television channels owned and broadcast by third parties, retailed by the Group to DTH viewers   |
| <b>Sky Premium Channel Package</b> | DTH subscription package which includes one or more of the Sky Premium Channels  |
| <b>Sky Premium Channels</b>        | Sky Movies Pack 1 (Sky Movies Comedy, Sky Movies Classic, Sky Movies Modern Greats, Sky Movies Family and Sky Movies Screen 1 (and its HD simulcast)), Pack 2 (Sky Movies Action/Thriller, Sky Movies Indie, Sky Movies SciFi/Horror, Sky Movies Drama and Sky Movies Screen 2 (and its HD simulcast)) and Bonus Channels (Sky Movies Premiere (and its HD simulcast) and Sky Movies Premiere +1), Sky Sports 1, Sky Sports 2, Sky Sports 3 and Sky Sports Xtra (and the HD simulcasts of Sky Sports 1-3)                        |
| <b>Sky Talk</b>                    | Home telephony service provided exclusively for Sky digital subscribers  |
| <b>SMATV</b>                       | Satellite Master Antenna Television  |
| <b>SMPF</b>                        | Shared Metallic Path Facility  |
| <b>Transponder</b>                 | Communication devices on satellites which send programming signals to minidishes   |
| <b>Viewing share</b>               | Number of people viewing a channel as a percentage of total viewing audience   |
| <b>WAN</b>                         | Wide Area Network: Companies link networks at different sites over the internet to form a secure WAN   |

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## Form 20-F cross reference guide

The information in this document that is referred to below shall be deemed to be part of the Annual Report on Form 20-F for 2008 that has been filed with the Securities and Exchange Commission. This information is the only information that is intended to be filed or incorporated by reference into any filing made by the Company under applicable US securities laws.

| Item      | Form 20-F caption  | Location in this document  | Page |
|-----------|--|--|------|
| <b>1</b>  | <b>Identity of directors, senior management and advisers</b> | Not applicable   | n/a  |
| <b>2</b>  | <b>Offer statistics and expected timetable</b>               | Not applicable   | n/a  |
| <b>3</b>  | <b>Key information</b>                                       |  |      |
| A         | Selected financial data                                      | Group financial record   | 102  |
|           |  | Shareholder Information Exchange rates                                       | 106  |
| B         | Capitalization and indebtedness                              | Not applicable   | n/a  |
| C         | Reason for the offer and use of proceeds                     | Not applicable   | n/a  |
| D         | Risk factors   | Risk factors   | 19   |
| <b>4</b>  | <b>Information on the Company</b>                            |  |      |
| A         | History and development of the Company                       | The business, its objectives and its strategy                                | 5    |
| B         | Business overview  | The business, its objectives and its strategy                                | 5    |
|           |  | Government regulation  | 21   |
|           |  | Consolidated financial statements Note 31 Group investments                  | 95   |
| C         | Organizational structure                                     | investments  | 95   |
| D         | Property, plants and equipment                               | Property   | 38   |
| <b>4A</b> | <b>Unresolved staff comments</b>                             | No unresolved staff comments   | n/a  |
| <b>5</b>  | <b>Operating and financial review and prospects</b>          |  |      |
| A         | Operating results  | Financial review   | 29   |
|           |  | Financial and operating review   | 30   |
|           |  | Government regulation  | 21   |
|           |  | Financial and operating review Liquidity and capital resources               | 33   |
| B         | Liquidity and capital resources                              | resources  | 33   |
| C         | Research and development, patents and licenses, etc          | Financial and operating review Research and development                      | 36   |
|           |  | Financial and operating review Trends and other                              | 35   |
| D         | Trend information  | information  | 35   |
| E         | Off-balance sheet arrangements                               | Financial and operating review Off-balance sheet arrangements                | 36   |
| F         | Tabular disclosure of contractual obligations                | Financial and operating review Tabular disclosure of contractual obligations | 35   |
| G         | Safe harbor  | Forward looking statements   | 1    |
| <b>6</b>  | <b>Directors, senior management and employees</b>            |  |      |
| A         | Directors and senior management                              | Board of Directors and senior management                                     | 39   |



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|          |  |  |                |
|----------|--|--|----------------|
| B        | Compensation   | Report on Directors remuneration   | 46             |
| C        | Board practices  | Report on Directors remuneration 8. Service agreements,<br>9. Non-Executive<br>Directors   | 46             |
| D        | Employees  | Corporate governance report Board Committees<br>Board of Directors and senior management Employees   | 43<br>41       |
| E        | Share ownership  | Consolidated financial statements Note 8 Employee<br>benefits and key<br>management compensation<br>Report on Directors remuneration 11. Share interests<br>Report on Directors remuneration 13. LTIP, 14.<br>Sharesave Scheme options | 68<br>50<br>52 |
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| <b>7</b> | <b>Major shareholders and related party transactions</b> |  |                |
| A        | Major shareholders                                       | Shareholder information Major shareholders   | 105            |
| B        | Related party transactions                               | Financial and operating review Related party transactions<br>Consolidated financial statements Note 30 Transactions<br>with related<br>parties and major shareholders  | 36<br>93       |
| C        | Interests of experts and counsel                         | Not applicable   | n/a            |
| <hr/>    |  |  |                |
| <b>8</b> | <b>Financial information</b>                             |  |                |
| A        | Consolidated statements and other financial information  | Auditors reports<br>Consolidated financial statements<br>Financial and operating review Trends and other<br>information  | 56<br>57<br>35 |
| B        | Significant changes                                      | None   | n/a            |
| <hr/>    |  |  |                |

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| Item       | Form 20-F caption   | Location in this document   | Page |
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| <b>9</b>   | <b>The offer and listing</b>  |   |      |
| A          | Offer and listing details   | Shareholder information    Share price information  | 104  |
| B          | Plan of distribution  | Not applicable  | n/a  |
| C          | Markets   | Shareholder information    Share information  | 104  |
| D          | Selling shareholders  | Not applicable  | n/a  |
| E          | Dilution  | Not applicable  | n/a  |
| F          | Expenses of the issue   | Not applicable  | n/a  |
| <b>10</b>  | <b>Additional information</b>   |   |      |
| A          | Share capital   | Not applicable  | n/a  |
| B          | Memorandum and Articles of Association  | Shareholder information    Memorandum and Articles of Association                                       | 106  |
| C          | Material contracts  | The business, its objectives and its strategy    Significant agreements                                 | 17   |
|            |   | Report on Directors    remuneration   | 46   |
| D          | Exchange controls   | Shareholder information    Exchange controls  | 109  |
| E          | Taxation  | Shareholder information    Taxation   | 109  |
| F          | Dividends and paying agents   | Not applicable  | n/a  |
| G          | Statement by experts  | Not applicable  | n/a  |
| H          | Documents on display  | Shareholder information    Documents on Display   | 111  |
| I          | Subsidiary information  | Not applicable  | n/a  |
| <b>11</b>  | <b>Quantitative and qualitative disclosures about market risk</b>                   | Consolidated financial statements    Note 23    Derivatives and other financial instruments             | 79   |
|            |   | Forward looking statements    safe harbour  | 1    |
| <b>12</b>  | <b>Description of securities other than equity securities</b>                       | Not applicable  | n/a  |
| <b>13</b>  | <b>Defaults, dividend arrearages and delinquencies</b>                              | Not applicable  | n/a  |
| <b>14</b>  | <b>Material modifications to the rights of security holders and use of proceeds</b> | Shareholder information    Material modifications to the rights of security holders and use of proceeds | 111  |
| <b>15</b>  | <b>Controls and procedures</b>  | Corporate governance report   | 41   |
|            |   | Auditors    reports   | 56   |
| <b>15T</b> | <b>Controls and procedures</b>  | Not applicable  | n/a  |

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| <b>16A</b> | <b>Audit committee financial expert</b>                                       | Corporate governance report       | Audit Committee  | 44  |
| <b>16B</b> | <b>Code of ethics</b>   | Corporate governance report       | Corporate policies   | 41  |
| <b>16C</b> | <b>Principal accountant fees and services</b>                                 | Consolidated financial statements | Note 7 Profit before taxation  | 67  |
|            |   | Corporate governance report       | Use of external auditors   | 45  |
| <b>16D</b> | <b>Exemptions from the listing standards for audit committees</b>             | None                              |  | n/a |
| <b>16E</b> | <b>Purchases of equity securities by the issuer and affiliated purchasers</b> | Consolidated financial statements | Note 25 Reconciliation of shareholders equity Purchase of own shares for cancellation and capital redemption reserve | 88  |
| <b>17</b>  | <b>Financial statements</b>   | Not applicable                    |  | n/a |
| <b>18</b>  | <b>Financial statements</b>   | Auditors reports                  |  | 56  |
|            |   | Consolidated financial statements |  | 57  |
| <b>19</b>  | <b>Exhibits</b>   | Filed with the SEC                |  |     |

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorised the undersigned to sign this annual report on its behalf.

BRITISH SKY BROADCASTING GROUP PLC

BY: ANDREW GRIFFITH  
ANDREW GRIFFITH  
*Chief Financial Officer*

Date: 1 August 2008

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The following exhibits are filed as part of this Annual Report on Form 20-F

| Number      | Description   | Exhibit No.<br>In<br>Document<br>Incorporated<br>By<br>Reference |
|-------------|---|--|
| <u>1</u>    | <u>Memorandum and Articles of Association</u>   | *  |
| 2.1         | Specimen share certificate  | 2 (i)  |
| 2.2         | Form of Indenture, dated as of 15 September 1996, among the Company, as the Issuer, and British Sky Broadcasting Limited and Sky Subscribers Services Limited, as Initial Guarantors, and The Bank of New York, as Trustee, relating to Guaranteed Debt Securities  | 4.1 (ii)   |
| 2.3         | Form of Indenture, dated as of 2 July 1999, among the Company, as the Issuer, and British Sky Broadcasting Limited and Sky Subscribers Services Limited, as Initial Guarantors, and The Bank of New York, as Trustee, relating to 7.75% Notes due 2009 and 8.20% Notes due 2009   | 10.2 (iii)   |
| 2.4         | Form of Indenture, dated as of 21 October 2005, among the Company, British Sky Broadcasting Limited, and Sky Subscribers Services Limited, as Initial Guarantors, BSKyB Finance UK plc, as the Issuer, and The Bank of New York, as Trustee, relating to 5.625% Senior Unsecured Notes due 2015 6.500% Senior Unsecured Notes due 2035 and 5.750% Senior Unsecured Notes due 2017 | 2.4 (iv)   |
| 2.5         | First Supplemental Indenture dated as of January 31, 2007 and Second Supplemental Indenture dated as of May 3, 2007 to the Indenture dated as of 21 October 2005  | 2.5 (v)  |
| 2.6         | First Supplemental Indenture dated as of January 31, 2007 and Second Supplemental Indenture dated as of May 3, 2007 to the Indentures dated as of 2 July 1999 and 21 October 2005   | 2.6 (v)  |
| 2.7         | First Supplemental Indenture dated as of January 31, 2007 and Second Supplemental Indenture dated as of May 3, 2007 to the Indenture dated as of 15 September 1996  | 2.7 (v)  |
| 2.8         | Trust Deed relating to the BSKyB Finance UK plc and British Sky Broadcasting Group plc £1,000,000,000 Euro Medium Term Note Programme   | 2.8 (v)  |
| <u>2.9</u>  | <u>Indenture dated as of 15 February 2008 among the Company, as the Issuer, and British Sky Broadcasting Limited, BSKyB Finance UK plc, BSKyB Investments Limited, BSKyB Publications Limited and Sky Subscribers Services Limited, as Initial Guarantors, and The Bank of New York, as Trustee, relating to 6.10% Senior Unsecured Notes due 2018</u>                            | *  |
| 4.1         | Agreement dated 3 November 2004 with respect to a £1,000,000,000 Revolving Credit Facility among British Sky Broadcasting Group plc, as borrower, Barclays Bank plc, as agent, and others   | 4.1 (vi)   |
| <u>4.2</u>  | <u>Service agreement dated 25 June 2008 with the Chief Executive Officer</u>  | *  |
| <u>4.3</u>  | <u>Service agreement dated 25 June 2008 with the Chief Financial Officer</u>  | *  |
| <u>4.4</u>  | <u>Rules of the British Sky Broadcasting Group Long-Term Incentive Plan</u>   | *  |
| <u>4.5</u>  | <u>Rules of the British Sky Broadcasting Group Management Long-Term Incentive Plan</u>  | *  |
| <u>8</u>    | <u>List of Subsidiaries</u>   | *  |
| 11          | Code of Ethics  | 11 (vii)   |
| <u>12.1</u> | <u>Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>   | *  |
| <u>12.2</u> | <u>Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>   | *  |
| <u>13</u>   | <u>Certification pursuant to 18 U.S.C. Section 1350, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>  | *  |

\* Filed electronically herewith.

- (i) Incorporated by reference to the Annual Report on Form 20-F of British Sky Broadcasting Group plc for the fiscal year ended 30 June 2001 filed with the SEC on 1 October 2001.
  - (ii) Incorporated by reference to the Registration Statement on Form F-3, SEC File No. 333-5538, as filed with the SEC on 2 October 1996.
  - (iii) Incorporated by reference to the Annual Report on Form 20-F of British Sky Broadcasting Group plc for the fiscal year ended 30 June 1999 filed with the SEC on 27 October 1999.
  - (iv) Incorporated by reference to the Annual Report on Form 20-F of British Sky Broadcasting Group plc for the fiscal year ended 30 June 2006 filed with the SEC on 31 July 2006.
  - (v) Incorporated by reference to the Annual Report on Form 20-F of British Sky Broadcasting Group plc for the fiscal year ended 30 June 2007 filed with the SEC on 27 July 2007.
  - (vi) Incorporated by reference to the Annual Report on Form 20-F of British Sky Broadcasting Group plc for the fiscal year ended 30 June 2005 filed with the SEC on 7 October 2005.
  - (vii) Incorporated by reference to the Annual Report on Form 20-F of British Sky Broadcasting Group plc for the fiscal year ended 30 June 2003 filed with the SEC on 5 December 2003.
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