British Sky Broadcasting Group plc
Interim Report 2005

CONTENTS

Our highlights

+ Net DTH subscriber growth of 192,000 in the quarter to over 7.6 million
+ Sky+ households increase by 168,000 in the quarter to 642,000
+ Multiroom households increase by 116,000 in the quarter to 473,000
+ Total revenue increases by 10% to £1,945 million
+ Operating profit before goodwill increases by 25% to £354 million
+ Earnings before goodwill and exceptional items increase by 44% to £234 million
+ Profit after tax up 18% to £154 million
+ Earnings per share before goodwill and exceptional items increase by 44% to 12.1 pence
+ Interim dividend of 4 pence per share declared, an increase of 45%

Chief Executive Officer's Review

James Murdoch, Chief Executive of British Sky Broadcasting Group plc, said:

"The business delivered a strong set of financial results in the first half year with good sales and profit growth.

During the quarter, we launched a number of important initiatives consistent with the long-term growth strategy we outlined in August 2004. We have a full programme of work ahead of us in 2005, including the continued roll-out of our segmentation project and implementation of new customer management systems. We will continue to develop these and other initiatives in pursuit of our long-term strategic goals and targets."

OVERVIEW On 4 August 2004, Sky announced a range of initiatives to deliver on its long-term growth strategy. During the three months to 31 December 2004 ("the quarter"), Sky has made good progress on the work outlined in August 2004 and, with a full programme planned for 2005, is in a strong position to make continued progress on its long-term strategy.

The Group has delivered a strong financial performance during the six months to 31 December 2004 ("the period"), with a 44% increase in earnings per share (before goodwill and exceptional items). Total revenues increased by 10% over the six months to 31 December 2003 ("the comparable period") to £1,945 million and, for the first time, the Group generated over £1 billion of revenue during a single quarter. Operating profit before goodwill increased by 25% on the comparable period to £354 million, resulting in an operating profit margin before goodwill of 18.2%, up from 16.0% for the comparable period.

Profit after tax for the period grew to £154 million, with earnings per share before goodwill and exceptional items of 12.1p, an increase of 44% on the comparable period. During the quarter, the Group returned £128 million to shareholders through a share buy-back programme and an interim dividend payment of 4 pence per share has been declared.

Operating review

At 31 December 2004, the total number of direct-to-home ("DTH") digital satellite subscribers in the UK and Ireland was 7,609,000, representing a net increase of 192,000 subscribers in the quarter. Sky remains on track to achieve its target of eight million DTH subscribers by 31 December 2005.

The total number of Sky+ households increased by a record 168,000 in the quarter to 642,000, which represents 8.4% penetration of total DTH subscribers. Whilst continuing to penetrate the existing subscriber base, Sky+ also attracts consumers who previously had not chosen Sky. 28% of new Sky+ households in the quarter were first time subscribers.

The growth in Sky+ penetration has also led to further good growth in the number of households taking two or more subscriptions. The total number of Multiroom households increased by 116,000 in the quarter to 473,000, which represents 6.2% penetration of total DTH subscribers. The total number of Multiroom subscriptions reached 500,000 at 31 December 2004 as some households take more than two subscriptions.

DTH churn for the quarter (annualised) was 9.5%, a decrease of 0.3% points on the three months to 30 September 2004 ("the first quarter").

Annualised average revenue per DTH subscriber ("ARPU") in the period was £386, an increase of £17 over the comparable period and £9 over the first quarter.

8 million subscribers

"**SKY REMAINS ON TRACK,** TO ACHIEVE ITS TARGET OF 8 MILLION SUBSCRIBERS BY 31 DECEMBER 2005"

On 1 October 2004, Sky launched a long-term marketing drive to encourage consumers to re-appraise the Sky brand and the range of content available from pay television. The "What do you want to watch" advertising campaign was launched across numerous mediums including television, press and cinema and featured a wide array of content from channels retailed by Sky.

New pricing and packaging initiatives have been introduced since 1 October to broaden the range of entry points to pay-TV. These included the launch of the premium 'Sky+160' product, more focused marketing of the popular Family Pack, a new entry level Sky "starter pack" and a free satellite offering. Also, installation costs have been waived on all popular Sky packages, eliminating the higher upfront costs for subscribers not choosing the top tier "Sky World" package. The development of these marketing initiatives will continue to roll-out during 2005.

Sky has continued to invest in quality programming to increase customer loyalty and satisfaction, and to drive subscriber growth. On 12 October 2004, Sky announced that it had been awarded exclusive live rights by the Rugby Football Union to English international and domestic rugby union until the end of the 2009/10 season. The new agreement covers the five seasons from the start of the 2005/06 season and follows on from the current TV agreement. Under this new agreement, Sky Sports will broadcast live all of England's Autumn Internationals and over 30 Zurich Premiership matches each season. With exclusive Heineken European Cup Rugby and all Southern Hemisphere rugby, including the Lions Tour in June 2005, Sky Sports will show over 100 live rugby union games this year.

On 14 December 2004, the England and Wales Cricket Board ("ECB") announced its intention to award exclusive live rights to all international and domestic cricket in England and Wales from 2006 to 2009 to Sky. Under the new agreement, it is proposed that Sky will broadcast live all of England's home Test and One-Day International matches, including the Ashes series in 2009, Twenty20 matches and a number of Natwest series games.

Sky One's new season launched on 14 September 2004 with a new on-air look and a strong line-up of both international and newly commissioned British shows including 'Deadwood', 'the 4400', 'Battlestar Galactica', 'Hex', a new series of 'Dream Team', 'The Long Way Round' and reality event 'The Match'.

The finale of 'The Match' on Sunday 10 October, delivered the second best ever peak audience for Sky One, recording a higher viewing share than BBC2, Channel 4 and 'five' in multichannel homes. The continued investment in Sky One and focus on peak time programming is delivering a strong Winter schedule with new series of '24' and 'Nip/Tuck' and new shows such as 'Rescue Me'.

Multichannel TV viewing in Sky digital households continues to grow year-on-year accounting for over 50% of viewing for the first time, according to the viewing figures from the Broadcasters' Audience Research Board ("BARB") at 31 December 2004. The combined multichannel TV viewing share in Sky digital households of 51% compares favourably to digital terrestrial television households where the large majority of viewing, around 80%, continues to be of the five analogue terrestrial channels, BBC1, BBC2, ITV1, Channel 4 and 'five'.

Sky's wholly-owned channels recorded the highest ever weekly combined share of TV viewing in the week ending 2 January 2005, achieving 9.6% of total TV viewing in all TV households. Live sports events such as Liverpool vs Chelsea, the movie premier of Bruce Almighty and Sky News enabled Sky to win a higher viewing share in all TV households than Channel 4 for a full week for the first time.

On 23 November 2004, Sky Movies announced a multi-year exclusive UK agreement to broadcast The Academy Awards from 2005. For the 77th Academy Awards on 27 February 2005, Sky has launched network-wide coverage which included full reporting of the nominations in January and culminates with live uninterrupted coverage of the event itself on Sky Movies. Extended highlights shows and additional themed programming will be shown on Sky One, Sky Travel and the Biography Channel, with up-to-the-minute news coverage on Sky News.

Financial Review

Revenue Total revenues increased by 10% on the comparable period to £1,945 million.

DTH revenues increased by 11% on the comparable period to £1,426 million. This was mainly driven by 6% growth in the average number of DTH subscribers and a 5% increase in the average revenue per DTH subscriber following the January and September 2004 price rises and increased Multiroom revenues.

Cable wholesale revenues increased by 6% to £109 million, an increase of £6 million on the comparable period. Adjusting for a one-off receipt of audit monies received from NTL in the first quarter of last year, this represents a £10 million increase on the comparable period. With the level of subscribers remaining broadly flat, the increase is attributable to the wholesale price changes in January and September 2004 and the carriage of Sky Sports Extra and PREMPLUS.

An 8% increase in advertising revenues on the comparable period to £159 million reflects growth of 5% in the overall UK television advertising sector and continued growth in the Group's share of the sector to 11.6%. The Group outperformed UK television advertising sector growth in 2004 and, with the majority of agency deals now in place, expects this to continue in 2005.

"28% of new Sky+ households in the quarter were first time subscribers."

SkyBet revenues increased by £27 million on the comparable period to £118 million and underlying gross margin in SkyBet increased to 10%, reflecting strong growth in betting and gaming through interactive TV.

Lower revenues from the SkyBuy retail service, and from the expiry of a number of contracts and services, led to an 18% reduction in Sky Active revenues on the comparable period to £46 million. Underlying revenues in Sky Active (excluding these items) rose by 11% to £42 million, reflecting growth in areas such as interactive advertising, games and third party betting and gaming.

Other revenues increased by 4% on the comparable period to £87 million, mainly due to the growth of set-top box revenues associated with the increase in Sky+ and Multiroom sales.

Programming costs Total programming costs increased by £25 million on the comparable period to £808 million.

Sports costs increased by £33 million to £373 million. As previously announced, all contracts, including the new FA Premier League ("FAPL") contract and the new Football Association ("FA") contract are now amortised on a straight-line basis across the season, resulting in a greater charge in the first half of the financial year. Adjusting for the effect of this change, sports costs would have reduced by £24 million on the comparable period. This underlying reduction is principally due to savings achieved in the renewal of the FAPL and FA contracts, slightly offset by the Ryder Cup, a bi-annual event, and cricket's ICC Champions Trophy, both of which occurred in September 2004.

Other programming costs, including Movies, News, Entertainment and Third Party Channels, reduced by £8 million on the comparable period to £435 million. This reduction has been mainly driven by savings in US-dollar denominated movies costs, partially offset by the increased investment in Sky One programming.

Gross margin (defined as total revenues less total programming costs, divided by total revenue) increased from 55.7% for the comparable period to 58.5%. On a like-for-like basis (adjusting for the effect of the change in sports rights amortisation phasing noted above) gross margin would have increased by 6 percentage points.

Other operating costs Other operating costs before goodwill increased by £83 million on the comparable period to £783 million.

Marketing costs were £258 million, an increase of £43 million on the comparable period. This increase was driven by higher acquisition and retention costs, reflecting increased direct marketing and installation offers across all product categories, and increased above-the-line spend due to the launch of the 'What do you want to watch' advertising campaign and marketing of the new Sky One schedule. The Group continues to expect above-the-line marketing costs to increase by 40% to 50% in the 2005 financial year compared to the 2004 financial year.

Betting costs increased by £20 million to £106 million, in-line with the increase in SkyBet revenue.

The remaining other operating costs, including subscriber management costs, transmission and related function costs and administration costs, increased by £20 million on the comparable period to £419 million. This was primarily due to costs associated with an expanding broadcast and support infrastructure, including the Advanced Technology Centre, IT systems and an increased number of own-productions.

During the quarter the Group sold its 49.5% investment in Granada Sky Broadcasting ("GSB") to ITV for £14 million cash consideration. After deducting the carrying value of the investment in GSB and writing back the original goodwill relating to the increase of the Group's interest in GSB to 49.5% in March 1998, which had previously been eliminated against reserves, the disposal generated an accounting loss under UK GAAP of £23 million in the quarter.

After goodwill of £57 million, the Group's share of operating profits of joint ventures of £8 million, loss on disposal of the group's share in GSB of £23 million (as above) and net interest payable of £32 million, the Group made a profit before tax of £250 million.

Taxation The total net tax charge for the period was £96 million. This reflects a current tax charge of £66 million and a deferred tax charge of £30 million. Excluding the effect of goodwill, joint ventures and exceptional items, the Group's underlying effective tax rate on ordinary activities has moved from 29.9% for the comparable period to 30.6%, as a result of a decrease in the proportion of allowable tax deductions.

The mainstream corporation tax liability for the period was £71 million, and, in accordance with the quarterly instalment regime, £36 million was paid in January 2005.

Earnings Profit after tax for the period grew by 18% on the comparable period to £154 million, generating earnings per share of 12.1 pence, an increase of 3.7 pence per share on the comparable period.

Cashflow Earnings before interest, tax, depreciation and amortisation ("EBITDA"), excluding exceptional items, were 18% higher on the comparable period at £402 million. The Group continued to reduce net debt by a further £60 million to £369 million at 31 December 2004. In addition to strong growth in EBITDA, the Group also realised £14 million from the sale of the Group's 49.5% investment in GSB to ITV and £9 million from the receipt of dividends and net funding repayments from joint ventures. The Group utilised cash in a number of areas including the share buy-back programme (£128 million), capital expenditure (£123 million), dividend payments relating to the final dividend for the 2004 financial year (£63 million), net interest payments (£32 million) and taxation (£28 million).

"As part of the Group's financial strategy, the Directors are declaring an interim dividend of 4 pence per share."

During the period, the Group made progress on a number of capital expenditure and infrastructure projects in line with the plans outlined on 4 August 2004. This has led to an increase in capital expenditure of £58 million on the comparable period to £123 million. The Group spent £51 million on a combination of infrastructure projects including the acquisition of four freehold properties previously leased at its Osterley Campus and construction work on several other projects, including the new Sky News Centre, which commenced production of the 'five' news service on 29 December 2004. Investment in the customer relationship management ("CRM") programme during the period amounted to £25 million as the Group continues the programme of work started in 2002 to upgrade its customer service systems. A total of £19 million was incurred on the final stages of the construction and fit-out of the Advanced Technology Centre ("ATC") building. The remaining £28 million regarded as 'core' or 'maintenance' capital expenditure, was spent on IT infrastructure, broadcast equipment and new product development, including High Definition TV, which is expected to launch in 2006.

IFRS The Group is required to adopt International Financial Reporting Standards ("IFRS") in the preparation of its consolidated financial statements from 1 July 2005. The Group's first results reported under IFRS will therefore be the results for the quarter ended 30 September 2005. In order to provide comparative information under IFRS in advance, the Group intends to release its results for the year to 30 June 2005, restated under IFRS, in September 2005.

Dividend As part of the Group's financial strategy, the Directors are declaring an interim dividend of 4 pence per Ordinary Share. The ex-dividend date will be 30 March 2005 and the dividend will be paid on 22 April to shareholders of record on 1 April 2005.

Corporate

At the Company's AGM on 12 November 2004, Sky received approval from shareholders to repurchase up to 97 million shares, representing approximately five per cent of issued share capital. During the quarter, Sky repurchased for cancellation 22.8 million shares for a total consideration of £128 million, including stamp duty and commissions. The Company intends to continue to distribute surplus cash to shareholders through the buy-back programme, within the limits of available distributable reserves and subject to market conditions.

James Murdoch
Chief Executive
1 February 2005

Subscribers to Sky Channels

	Prior Year Q2 as at 31/12/03	Q1 2004/05 as at 30/09/04	Q2 2004/05 as at 31/12/04
DTH homes (i) (ii)	**7,208,000**	**7,417,000**	**7,609,000**
Total TV homes in the UK and Ireland (iii)	25,955,000	26,176,000	26,249,000
DTH homes as a percentage of total UK and Ireland TV homes	28%	28%	29%
Cable – UK	3,282,000	3,305,000	3,292,000
Cable – Ireland	580,000	575,000	584,000
Total Sky pay homes	**11,070,000**	**11,297,000**	**11,485,000**
DTT – UK (iv)	2,075,000	3,451,000	4,216,000
Total Sky homes	**13,145,000**	**14,748,000**	**15,701,000**
Total Sky homes as a percentage of total UK and Ireland TV homes	51%	56%	60%
Sky+ homes	250,000	474,000	642,000
Multiroom homes (v)	237,000	357,000	473,000

(i) Includes DTH subscribers in Republic of Ireland (347,000 as at 31 December 2004).
(ii) DTH subscribers includes only primary subscriptions to Sky (no additional units are counted for Sky+ or Multiroom subscriptions). This does not include customers taking Sky's freesat offering or churned customers viewing free-to-air channels.
(iii) Total UK homes estimated by BARB and taken from the beginning of the month following the period end (latest figures as at January 2005). Total Ireland homes estimated by Nielsen Media Research, conducted on an annual basis in July with results available in September (latest figures as at July 2004).
(iv) DTT homes estimated by BARB and taken from the beginning of the following month (latest figures as at 1 January 2005). These figures may include Sky or Cable homes that already take multichannel TV.
(v) Multiroom includes households subscribing to more than one set-top box. (No additional units are counted for the second or any subsequent Multiroom subscriptions.)

Consolidated Profit and Loss Account

for the half year ended 31 December 2004

	NOTES	Before goodwill and exceptional items £m (unaudited)	Goodwill and exceptional items £m (unaudited)	2004/05 Half year Total £m (unaudited)	Before goodwill and exceptional items £m (unaudited)	Goodwill and exceptional items £m (unaudited)	2003/04 Half year Total £m (unaudited)	2003/04 Full year Total £m (audited)
Turnover: Group and share of joint ventures' turnover		**1,983**	**–**	**1,983**	1,809	–	1,809	3,738
Less: share of joint ventures' turnover		**(38)**	**–**	**(38)**	(43)	–	(43)	(82)
Group turnover	2	**1,945**	**–**	**1,945**	1,766	–	1,766	3,656
Operating expenses, net	3	**(1,591)**	**(57)**	**(1,648)**	(1,483)	(58)	(1,541)	(3,175)
EBITDA		**402**	**–**	**402**	341	–	341	702
Depreciation		**(48)**	**–**	**(48)**	(58)	–	(58)	(102)
Amortisation	8	**–**	**(57)**	**(57)**	–	(58)	(58)	(119)
Operating profit		**354**	**(57)**	**297**	283	(58)	225	481
Share of joint ventures' and associates' operating results		**8**	**–**	**8**	(5)	–	(5)	5
Loss on disposal of investments in joint ventures	4,9	**–**	**(23)**	**(23)**	–	–	–	–
Profit on disposal of fixed asset investments	4,9	**–**	**–**	**–**	–	2	2	51
Amounts written back to fixed asset investments, net	4,9	**–**	**–**	**–**	–	24	24	24
Profit on ordinary activities before interest and taxation		**362**	**(80)**	**282**	278	(32)	246	561
Interest receivable and similar income		**15**	**–**	**15**	3	–	3	10
Interest payable and similar charges		**(47)**	**–**	**(47)**	(45)	–	(45)	(91)
Profit on ordinary activities before taxation		**330**	**(80)**	**250**	236	(32)	204	480
Tax on profit on ordinary activities	5	**(96)**	**–**	**(96)**	(74)	–	(74)	(158)
Profit on ordinary activities after taxation		**234**	**(80)**	**154**	162	(32)	130	322
Equity dividends	6			**(77)**			(53)	(116)
Retained profit for the period	10			**77**			77	206
Earnings per share – basic	7	**12.1p**	**(4.1p)**	**8.0p**	8.4p	(1.7p)	6.7p	16.6p
Earnings per share – diluted	7	**12.0p**	**(4.1p)**	**7.9p**	8.3p	(1.6p)	6.7p	16.6p

All results relate to continuing operations.
There were no recognised gains or losses in either period other than those included within the profit and loss account.
The accompanying notes are an integral part of this consolidated profit and loss account.

Consolidated Balance Sheet

at 31 December 2004

	NOTES	31 December 2004 £m (unaudited)	31 December 2003 £m (unaudited)	30 June 2004 £m (audited)
Fixed assets				
Intangible assets	8	**360**	478	417
Tangible assets		**451**	346	376
Investments	9	**27**	37	35
		838	861	828
Current assets				
Stocks		**627**	662	375
Debtors: Amounts falling due within one year				
– deferred tax assets		**45**	50	49
– other		**339**	393	321
		384	443	370
Debtors: Amounts falling due after more than one year				
– deferred tax assets		**76**	128	102
– other		**36**	61	42
		112	189	144
Cash and liquid resources				
– current asset investments		**–**	–	173
– cash at bank and in hand		**707**	318	474
		707	318	647
		1,830	1,612	1,536
Creditors: Amounts falling due within one year		**(1,481)**	(1,399)	(1,170)
Net current assets		**349**	213	366
Total assets less current liabilities		**1,187**	1,074	1,194
Creditors: Amounts falling due after more than one year				
– long-term borrowings		**(1,076)**	(1,077)	(1,076)
– other creditors		**(27)**	(24)	(28)
		(1,103)	(1,101)	(1,104)
Provisions for liabilities and charges		**(1)**	–	–
		83	(27)	90
Capital and reserves – equity				
Called-up share capital	10	**960**	970	971
Share premium	10	**1,437**	1,428	1,437
ESOP reserve	10	**(23)**	(9)	(30)
Merger reserve	10	**186**	262	222
Special reserve	10	**14**	14	14
Capital redemption reserve	10	**11**	–	–
Profit and loss account	10	**(2,502)**	(2,692)	(2,524)
Shareholders' funds (deficit)	10	**83**	(27)	90

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

Consolidated Cash Flow Statement

for the half year ended 31 December 2004

	NOTES	2004/05 Half year £m (unaudited)	2003/04 Half year £m (unaudited)	2003/04 Full year £m (audited)
Net cash inflow from operating activities	11a	**407**	401	882
Dividends received from joint ventures		**7**	3	4
Returns on investments and servicing of finance				
Interest received and similar income		**17**	3	7
Interest paid and similar charges		**(49)**	(51)	(89)
Net cash outflow from returns on investments and servicing of finance		**(32)**	(48)	(82)
Taxation				
UK corporation tax paid		**(25)**	(21)	(55)
Consortium relief paid		**(3)**	(3)	(3)
Net cash outflow from taxation		**(28)**	(24)	(58)
Capital expenditure and financial investment				
Payments to acquire tangible fixed assets		**(123)**	(65)	(132)
Receipts from sales of fixed asset investments		**–**	68	116
Net cash (outflow) inflow from capital expenditure and financial investment		**(123)**	3	(16)
Acquisitions and disposals				
Funding to joint ventures and associates		**(4)**	(2)	(5)
Repayments of funding from joint ventures and associates		**6**	3	6
Receipts from sale of investments in joint ventures		**14**	–	–
Net cash inflow from acquisitions and disposals		**16**	1	1
Equity dividends paid		**(63)**	–	(53)
Net cash inflow before management of liquid resources and financing		**184**	336	678
Management of liquid resources		**79**	(175)	(511)
Financing				
Proceeds from issue of Ordinary Shares		**2**	10	20
Purchase of own shares for Employee Share Ownership Plan		**–**	–	(22)
Share buy-back		**(128)**	–	–
Capital element of finance lease payments		**–**	–	(1)
Net decrease in debt due after more than one year	11b	**–**	(75)	(75)
Net cash outflow from financing		**(126)**	(65)	(78)
Increase in cash	11b	**137**	96	89

The accompanying notes are an integral part of this consolidated cash flow statement.

Notes to Financial Statements

01 Basis of preparation

The interim accounts for the half year ended 31 December 2004 have been prepared in accordance with accounting policies consistent with those applied in the accounts for the year ended 30 June 2004, which were approved by the Directors on 3 August 2004. The interim accounts for the six months ended 31 December 2004 do not constitute statutory accounts and are unaudited, but have been formally reviewed by Deloitte & Touche LLP, and their report is set out on page 15.

The financial information for the 2003/04 full year is extracted from the financial statements for that year which have been filed with the Registrar of Companies. The auditors' report on those financial statements was unqualified and did not contain any statement under section 237(2) or (3) of the Companies Act 1985.

02 Turnover

The Group's turnover, whilst deriving from one class of business, has been analysed as follows:

	2004/05 Half year £m (unaudited)	2003/04 Half year £m (unaudited)	2003/04 Full year £m (audited)
DTH subscribers	**1,426**	1,285	2,660
Cable subscribers	**109**	103	215
Advertising	**159**	147	312
Sky Bet (i)	**118**	91	191
Sky Active (i)	**46**	56	116
Other	**87**	84	162
	1,945	1,766	3,656

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

03 Operating expenses, net

	2004/05 Before goodwill £m (unaudited)	2004/05 Goodwill £m (unaudited)	2004/05 Half year Total £m (unaudited)	2003/04 Before goodwill £m (unaudited)	2003/04 Goodwill £m (unaudited)	2003/04 Half year Total £m (unaudited)	2003/04 Full year Total £m (audited)
Programming (i)	**808**	**–**	**808**	783	–	783	1,711
Transmission and related functions (i)	**87**	**–**	**87**	77	–	77	146
Marketing	**258**	**–**	**258**	215	–	215	396
Subscriber management	**193**	**–**	**193**	191	–	191	371
Administration (ii)	**139**	**57**	**196**	131	58	189	376
Betting	**106**	**–**	**106**	86	–	86	175
	1,591	**57**	**1,648**	1,483	58	1,541	3,175

(i) The amounts shown are net of £5 million (2003/04: half year £8 million; full year £11 million) receivable from the disposal of programming rights not acquired for use by the Group, and £14 million (2003/04: half year £13 million; full year £28 million) receivable in respect of the provision to third party broadcasters of spare transponder capacity.

(ii) Administration costs for the 2003/04 full year include goodwill amortisation of £119 million.

Notes to Financial Statements
continued

04 Exceptional items

	2004/05 Half year charge £m (unaudited)	2003/04 Half year credit £m (unaudited)	2003/04 Full year credit £m (audited)
Loss on disposal of investments in joint ventures (i)	**(23)**	–	–
Profit on disposal of fixed asset investments (ii)	**–**	2	51
Amounts written back to fixed asset investments, net (iii)	**–**	24	24
Total non-operating exceptional items	**(23)**	26	75

2004/05

(i) Loss on disposal of investments in joint ventures
On 1 November 2004, the Group sold its 49.5% investment in Granada Sky Broadcasting ("GSB") for £14 million in cash, realising a loss on disposal of £23 million. This included the write back of £32 million of goodwill which had previously been written off to reserves, as permitted prior to the implementation of Financial Reporting Standard ("FRS") 10, "Goodwill and Intangible Assets".

2003/04

(ii) Profit on sale of fixed asset investments
On 7 October 2003, the Group disposed of its listed investment in Manchester United plc, realising a profit on disposal of £2 million.

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

(iii) Amounts written back to fixed asset investments, net
The Group reduced its provision against its minority equity investments in football clubs by £33 million, following the disposal of its investment in Manchester United plc in October 2003 for £62 million in cash. The Group also increased its provision against its remaining minority equity investments in football clubs by a further £9 million.

05 Tax on profit on ordinary activities

Analysis of charge in period:

	2004/05 Half year charge £m (unaudited)	2003/04 Half year charge £m (unaudited)	2003/04 Full year charge £m (audited)
Current tax			
UK corporation tax	**74**	69	127
Adjustment in respect of prior years	**(8)**	(8)	(8)
Total current tax charge	**66**	61	119
Deferred tax:			
Origination and reversal of timing differences	**29**	8	34
Decrease in estimate of recoverable deferred tax asset in respect of prior years	**1**	5	5
Total deferred tax charge	**30**	13	39
	96	74	158

Notes to Financial Statements
continued

05 Tax on profit on ordinary activities (continued)

At 31 December 2004, a deferred tax asset of £12 million (2003/04: half year £18 million; full year £13 million) principally arising from UK losses in the Group has not been recognised. These losses can be offset only against taxable profits generated in the entities concerned. Although the Directors ultimately expect sufficient profits to arise, there is currently insufficient evidence to support recognition of a deferred tax asset relating to these losses. The losses are available to be carried forward indefinitely under current law.

A deferred tax asset of £64 million (2003/04: half year £64 million; full year £64 million) has not been recognised in respect of trading losses in the Group's German holding companies of KirchPayTV and a deferred tax asset of £6 million (2003/04: half year £6 million; full year £6 million) arising principally on other timing differences has not been recognised, on the basis that these timing differences are not more likely than not to reverse.

A deferred tax asset of £450 million (2003/04: half year £450 million; full year £450 million) has not been recognised in respect of potential capital losses related to the Group's holding of KirchPayTV on the basis that these timing differences are not more likely than not to reverse. The Group has realised and unrealised capital losses in respect of football club and other investments estimated to be in excess of £25 million (2003/04: half year £21 million; full year £21 million) which have not been recognised as a deferred tax asset, on the basis that they are not more likely than not to be utilised and thus reverse.

06 Equity dividends

	2004/05 Half year £m (unaudited)	2003/04 Half year £m (unaudited)	2003/04 Full year £m (audited)
Interim proposed dividend of 4.0p (2003/04 half year: 2.75p; 2003/04 full year 2.75p) per Ordinary Share	**77**	53	53
Final proposed dividend of nil (2003/04 half year: nil; 2003/04 full year: 3.25p) per Ordinary Share	**–**	–	63
	77	53	116

The Employee Share Ownership Plan ("ESOP") has waived its rights to dividends.

07 Earnings per share

Basic earnings per share represents the profit on ordinary activities after taxation attributable to the equity shareholders, divided by the weighted average number of Ordinary Shares in issue during the period, less the weighted average number of shares held in the Group's ESOP trust during the period.

Diluted earnings per share represents the profit on ordinary activities after taxation attributable to the equity shareholders, divided by the weighted average number of Ordinary Shares in issue during the period, less the weighted average number of shares held in the Group's ESOP trust during the period plus the weighted average number of dilutive shares resulting from share options and other potential shares outstanding during the period (see below).

The weighted average number of shares in the period was:

	2004/05 Half year Millions of shares (unaudited)	2003/04 Half year Millions of shares (unaudited)	2003/04 Full year Millions of shares (audited)
Ordinary Shares	**1,939**	1,938	1,940
ESOP trust shares	**(4)**	(2)	(2)
Basic shares	**1,935**	1,936	1,938
Dilutive Ordinary Shares from share options and other potential Ordinary Shares outstanding	**2**	6	8
Diluted shares	**1,937**	1,942	1,946

08 Intangible assets

The movement in the period was as follows:

	Goodwill £m (unaudited)
Net book value at 1 July 2004	417
Amortisation	(57)
Net book value at 31 December 2004	**360**

Goodwill of £272 million, £542 million and £5 million, arising on the acquisitions of Sports Internet Group ("SIG"), British Interactive Broadcasting ("BiB") and WAPTV Limited respectively, is being amortised over periods of seven years on a straight-line basis.

In accordance with FRS 11, impairment reviews were performed on the carrying values of BiB and SIG goodwill balances at the end of the first full financial year after acquisition, at 30 June 2002, which did not indicate impairment. Consistent with the Group strategy, the business plans on which these reviews were based reflected significant projected increases in betting and other interactive revenues over the subsequent five years. The Group continues to monitor the performance of these businesses and is satisfied that no impairment of goodwill has occurred.

09 Fixed asset investments

	31 December 2004 £m (unaudited)	31 December 2003 £m (unaudited)	30 June 2004 £m (audited)
Investments in joint ventures and associates	**25**	34	33
Other investments	**2**	3	2
Total investments	**27**	37	35

Investments in joint ventures
On 1 November 2004, the Group sold its 49.5% investment in GSB for £14 million in cash, realising a loss on disposal of £23 million. This included the write back of £32 million of goodwill which had previously been written off to reserves. The carrying value of this investment prior to disposal was £4 million.

Other investments
On 1 March 2004, the Group sold its 20% shareholding in QVC (UK), operator of QVC – The Shopping Channel, for £49 million in cash, realising a profit on disposal of £49 million. The carrying value of this investment prior to disposal was nil.

In the six months to 31 December 2003, the Group increased its provision against its remaining minority equity investments in football clubs by £9 million.

On 7 October 2003, the Group announced that it had sold its entire holding in Manchester United plc for £62 million, recognising a profit on disposal of £2 million following the release of £33 million provision previously held against the investment, effective as at 30 September 2003.

In August 2003, the Group sold its 9.9% equity investment in Chelsea Village plc, reducing the cost by £25 million and the provision by £19 million.

Notes to Financial Statements
continued

10 Reconciliation of movement in shareholders' funds

	Share capital £m (unaudited)	Share premium £m (unaudited)	ESOP reserve £m (unaudited)	Merger reserve £m (unaudited)	Special reserve £m (unaudited)	Capital redemption reserve £m (unaudited)	Profit and loss account £m (unaudited)	Total equity shareholders' funds £m (unaudited)
At 1 July 2004	971	1,437	(30)	222	14	–	(2,524)	90
ESOP shares utilised	–	–	7	–	–	–	5	12
Profit for the financial period	–	–	–	–	–	–	154	154
Dividends	–	–	–	–	–	–	(77)	(77)
Transfer from merger reserve	–	–	–	(36)	–	–	36	–
Write back of goodwill	–	–	–	–	–	–	32	32
Share buy-back	(11)	–	–	–	–	11	(128)	(128)
At 31 December 2004	**960**	**1,437**	**(23)**	**186**	**14**	**11**	**(2,502)**	**83**

Goodwill
In accordance with FRS 10, "Goodwill and Intangible assets", the Company has included the write off of £32 million of unamortised goodwill in the calculation of the loss on disposal of GSB, the effect of which has been included in the Profit for the Financial Period (see note 4). The goodwill arose on the original purchase of GSB and had previously been written off to the profit and loss reserve as permitted prior to FRS 10. Accordingly, an adjustment has been made to write back the £32 million charge to the profit and loss reserve.

Share option schemes
At 31 December 2004, the Group's ESOP held 3,784,392 Ordinary Shares in the Company at an average value of £6.18 per share. The 963,123 shares utilised during the period relate to the exercise of Long Term Incentive Plan, Equity Bonus Plan, Key Contributor Plan and Executive Share Option Scheme awards.

Purchase of own shares
On 12 November 2004, the Company's shareholders approved a resolution at the Annual General Meeting for the Company to purchase up to 97,000,000 Ordinary Shares. During the financial period, the Company purchased, and subsequently cancelled, 23 million Ordinary Shares at an average price of 557 pence per share, with a nominal value of £11 million, for a consideration of £128 million. This represents 1% of called-up share capital at the beginning of the financial period under review.

11 Notes to consolidated cash flow statement

a) Reconciliation of operating profit to operating cash flows

	2004/05 Half year £m (unaudited)	2003/04 Half year £m (unaudited)	2003/04 Full year £m (audited)
Operating profit	**297**	225	481
Depreciation	**48**	58	102
Amortisation of goodwill and other intangible fixed assets	**57**	58	119
Loss on disposal of tangible fixed assets	**–**	1	1
Decrease in working capital	**7**	62	182
Decrease in provisions	**–**	(3)	(3)
Foreign exchange movement	**(2)**	–	–
Net cash inflow from operating activities	**407**	401	882

Notes to Financial Statements
continued

11 Notes to consolidated cash flow statement (continued)

b) Analysis of changes in net debt

	As at 1 July 2004 £m (audited)	Cash flow £m (unaudited)	Exchange £m (unaudited)	**As at 31 December 2004 £m (unaudited)**
Overnight deposits	73	144	–	**217**
Other cash	63	(7)	–	**56**
	136	137	–	**273**
Short-term deposits	338	94	2	**434**
Commercial paper	173	(173)	–	**–**
Cash and liquid resources	647	58	2	**707**
Debt due after more than one year	(1,069)	–	–	**(1,069)**
Capital element of finance leases	(7)	–	–	**(7)**
Total debt	(1,076)	–	–	**(1,076)**
Total net debt	(429)	58	2	**(369)**

12 Regulatory update

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

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

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

European Commission Sector Inquiry – "New Media" Sports Rights
The European Commission has opened a sector inquiry regarding the conditions of provision of audio-visual content from sports events to internet and other "new media" companies such as 3G mobile operators. The European Commission has stated that the purpose of its investigation is to gain as clear and wide a view as possible of the availability of audio-visual sports rights in the European Union, so as to ascertain whether access by "new media" operators to such content is not unduly restricted. The Group is co-operating with this investigation. At this stage, the Group is unable to determine whether the investigation will have a material effect on the Group.

Independent Review Report
to British Sky Broadcasting Group plc

Introduction
We have been instructed by the Company to review the financial information for the six months ended 31 December 2004 which comprises the profit and loss account, the balance sheets, the cash flow statement and related notes 1 to 12. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities
The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed
We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom auditing standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion
On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 December 2004.

Deloitte & Touche LLP
Chartered Accountants
London
1 February 2005

Glossary

In presenting and discussing the Group's reported financial position, operating results and cash flows, certain information is derived from amounts calculated in accordance with UK GAAP, but this information is not itself an expressly permitted GAAP measure. Such non-GAAP measures should not be viewed in isolation as alternatives to the equivalent GAAP measures.

A summary of certain non-GAAP measures included in this results announcement, together with the most comparable GAAP measure and descriptions of certain non-GAAP measures, is shown below.

Non-GAAP measure	Most comparable GAAP measure
Operating profit before goodwill	Operating profit
Earnings before goodwill and exceptional items	Profit after taxation
Earnings per share before goodwill and exceptional items	Earnings per share
EBITDA	Operating profit

Useful definitions	Description
ARPU	Average Revenue Per User: the amount spent by the Group's residential subscribers in the quarter, divided by the average number of residential subscribers in that quarter, annualised
Churn	The rate at which subscribers relinquish their subscription, expressed as a percentage of total subscribers
CRM	Customer Relationship Management
Digibox	Digital satellite reception equipment
Earnings before goodwill and exceptional items	Profit on ordinary activites after taxation before goodwill and exceptional items
EBITDA	Earnings before interest, taxation, depreciation and amortisation is calculated as operating profit before depreciation and amortisation or impairment of goodwill and intangible assets
Effective tax rate	Corporation tax charge expressed as a percentage of profit before tax, goodwill, interest, exceptional items and share of results of joint ventures
Mainstream Corporation Tax liability	Current corporation tax charge for the year
Multichannel viewing share	Share of viewers of non-analogue television
Multiroom	Installation of one or more additional digiboxes in the household of an existing subscriber
PVR	Personal Video Recorder: Digital TV receiver which utilises a built in hard disk drive to enable viewers to record without videotapes, pause live TV and record one programme while watching another
SBO	Sky Box Office: Sky's pay-per-view service offering films, sporting events and concerts
Set-top box	Digital satellite reception equipment
Sky+	Sky's fully-integrated Personal Video Recorder (PVR) and satellite decoder
Transponder	Wireless communication devices on satellites which send programming signals to minidishes
Viewing share	Number of people viewing a channel as a percentage of total viewing audience

Shareholder Information

Board of Directors
Rupert Murdoch (Chairman)
Chase Carey
Jeremy Darroch (Chief Financial Officer)
David DeVoe
David Evans
Nicholas Ferguson
Andy Higginson
Allan Leighton (Audit Committee Chairman)
James Murdoch (Chief Executive Officer)
Jacques Nasser (Remuneration Committee Chairman)
Gail Rebuck
Lord Rothschild (Deputy Chairman & Senior Independent Non-Executive Director)
Arthur Siskind
Lord St John of Fawsley
Lord Wilson of Dinton (Corporate Governance & Nominations Committee Chairman)

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

Company Secretary
David Gormley

Financial Calendar

2004/2005 Third quarter results	May 2005
2004/2005 Preliminary results	Aug 2005
Annual General Meeting	Nov 2005

Company Information
Registered office:
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Telephone: 0870 240 3000

The Sky Website
The Sky website at www.sky.com details the Company's product offering and provides a link to BSkyB's Corporate website where investor and media information can be accessed.

Registrars
Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA
Telephone: 0870 600 3970
www.shareview.co.uk

Shareholder Enquiries
All administrative enquiries relating to shareholders, such as notification of change of address or the loss of a share certificate, should be made to the Company's Registrar, Lloyds TSB Registrars, whose address is given above.

Dividends
Shareholders can have their dividends paid directly into a UK bank or building society account with the tax voucher sent direct to their registered address. Please contact Lloyds TSB Registrars for a dividend mandate form.

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 Lloyds TSB Registrars. The helpline number is 0870 241 3018 from inside the UK and +44 1903 845 295 from overseas.

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