Sky Annual Review 2006

British Sky Broadcasting Group plc

Whatever, wherever, whenever...

Viewing habits are changing and so are we. Consumers demand to be able to watch their favourite shows at home or on the move, on the device and at the time of their choosing. Our aim is to deliver the best content to people whether they're watching via satellite, a broadband connection or their mobile phone.

That's what the last year has been all about at Sky: charting a course for growth that lays the foundations for the next exciting step in the revolution in communications and entertainment.

Not everything's changing. We continue to provide the best content and the most innovative products and back it all up with an ongoing commitment to world-class standards in customer care and community responsibility.

That's something worth watching.

HIGHLIGHTS

DTH subscribers increased to 8.176 million, growth of 389,000 in the year

Sky+ households increased by 75% to 1.553 million, 19% penetration of total DTH subscribers

Multiroom households increased by 62% to 1.047 million, 13% penetration of total DTH subscribers

Revenue increased by 8% to £4.1 billion

Gross margin expanded by four percentage points to 61%

Operating profit increased by 7% to £877 million, an operating margin of 21%

Adjusted earnings per share increased by 9% to 30.7 pence

A proposed 34% increase in the final dividend to 6.7 pence per share, generating a full year dividend of 12.2 pence

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1 in 3 homes

WITH 8.2 MILLION DTH SUBSCRIBERS NEARLY ONE IN THREE HOMES IN THE UK AND IRELAND HAS CHOSEN SKY.

1 in 5 customers

IN ADDITION TO LAUNCHING MOBILE, BROADBAND AND HIGH DEFINITION SERVICES, SKY+ AND MULTIROOM ALSO GREW FASTER THAN EVER BEFORE. MORE THAN ONE IN FIVE CUSTOMERS TAKES AN ADDITIONAL SERVICE FROM US.

Chairman's statement

The story of Sky's continued success comes down to a single factor. Rather than simply ensuring that the company keeps pace with the tremendous changes that are occurring in broadcasting and communications, we act as a facilitator of these changes. It was what launched Sky on the path to growth in 1989 and our strategic moves over the past 12 months ensure we will continue to maintain a strong position in the marketplace and meet the needs of an increasingly demanding audience.

In the past year we took a series of important steps that will allow us to grow into new segments of the market and add value to the offering our subscribers receive: we launched Europe's first national high definition broadcast service, completed preparations for the roll-out of residential broadband services and the upgrade of our customer management systems.

The high definition television service, Sky HD, ranks as perhaps the most significant development in television since the launch of colour in the 1960s, delivering as it does pictures four times as vivid as conventional broadcasts. The HD offering, which involves the purchase of a Sky HD box, a high definition-compatible TV and HD channels, is being rapidly embraced by consumers.

This year we also moved beyond the broadcast stream. A package of live channels can now be watched by consumers on the move via their mobile phone. Sky by broadband enables premium customers to download sports and movies to their PCs at no extra cost. A quarter of a million customers have signed up for the service so far. At the same time we completed the acquisition of the broadband provider Easynet that will lead to the eventual integration of broadband into the core customer offering. By the end of 2007, we expect that Easynet's unbundled local loop service will have coverage of around 70% of UK homes.

We also successfully completed the implementation of new customer management systems to help us serve subscribers better and enable the Group to improve sales, increase customer satisfaction, reduce churn and bring to market new products and services with greater speed and effectiveness.

Customers continue to be attracted to packages offering the widest range of viewing choice available. The total number of subscribers in the UK and Ireland grew 5% to 8.2 million, representing approximately one in three homes in UK and Ireland. One in five of our customers also takes one of our additional services such as Sky Multiroom or Sky+. The growth in Sky+ has been a stand-out achievement of the year with 75% growth to a presence in more than one and a half million homes.

In summary, the robustness of our current offering and the addition of new and innovative services that give consumers greater control of the viewing experience pave the way for Sky's continued success.

Having served on the Board of Directors for over 14 years, Lord St John of Fawsley has decided not to seek re-election at this year's AGM and will retire from the Board. I would like to thank Lord St John for his contribution to the Board over many years. He will, however, still be connected with Sky in his new role of Chairman of the Artsworld channel, building on his extensive experience as a patron of the arts.

Finally, I want to thank all my colleagues at Sky – including those who have recently joined the Group from Easynet – for their hard work and dedication and for ensuring that Sky grasps the opportunities that social and technological trends present to ensure we remain leaders in the fields of entertainment, information and communication.

"OUR CONTINUED SUCCESS HAS BROUGHT ABOUT BOTH INCREASED REVENUES AND RECORD OPERATING PROFIT. THEY ARE ACHIEVEMENTS WHICH WOULD PERHAPS PROMPT ANY ORDINARY COMPANY TO WANT TO REST ON ITS LAURELS. BUT SKY, AS YOU MAY HAVE GATHERED, IS ANYTHING BUT ORDINARY."

Rupert Murdoch
Chairman

£4,148 million

SINCE THE LAUNCH OF DIGITAL IN OCTOBER 1998, REVENUE HAS GROWN AT AN AVERAGE OF 15% PER YEAR TO OVER £4.1 BILLION.

>£1 billion

IN 2006, CASH GENERATED FROM OPERATIONS WAS MORE THAN £1 BILLION.

Chief Executive Officer's statement

“THE COMBINATION OF TECHNOLOGY, ENTERTAINING CONTENT AND THE CONTINUED DEDICATION OF OUR WORKFORCE HAS IMPROVED SUBSCRIBER GROWTH AND REVENUES, AND DRIVEN SHAREHOLDER VALUE.”

James Murdoch
Chief Executive Officer

This has been a year of significant changes – not just for Sky, but for the entire industry. Throughout the year, our focus has been on setting the pace of change, and re-affirming our appetite to continue doing so.

The development and launch of new products and services that are more flexible and of higher quality and value has been at the centre of this.

Our new high definition television service is one example. It represents the biggest revolution in TV picture quality in decades, and once again Sky is leading the field by being the first company to be able to offer the service nationally, across the widest range of HD channels, ranging from Sky Sports to Artsworld. And despite an early hiccup with one of our suppliers, the vast majority of our very first HD customers were able to enjoy the World Cup in glorious HD and Dolby 5.1 sound – and they loved it.

The acquisition of Easynet, completed in February, is another example of our commitment to innovation for our customers. It has prepared the way for Sky's new generation of broadband services. This is in addition to the already industry-leading technology that includes the much-loved Sky+ and, more recently, Sky by mobile.

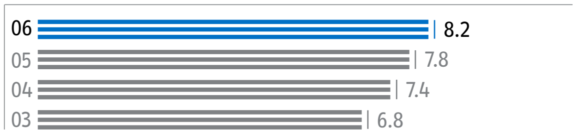
With Sky Broadband we've designed an incredible product which both rewards our loyal customers with a quality service offering simplicity, flexibility, quality, and great value, and opens up new and substantial growth opportunities for the Company and all our shareholders. With special features like free wireless access, security, parental controls and an optional professional home installation across all packages, we're confident that Sky Broadband will be a simple choice for millions of our customers – creating a new dimension to our business whose potential we are only beginning to see.

Each of Sky's offerings sits at the top of the industry in terms of choice, quality and delivery. In every case, signs indicate that consumers are eager to take advantage of new services, allowing us to capitalise on our capabilities and deliver an unparalleled entertainment and communications proposition.

This year we also completed the implementation of our new customer management system. Our levels of customer service have always led the industry, and it has proven to be a key differentiator. By raising this bar even higher, we increase our competitive advantage – and we can bring new technology to the market faster, improve sales, provide better service for our existing customers, and increase the efficiency of our marketing. These and other customer-facing initiatives are vital to Sky's health and competitiveness.

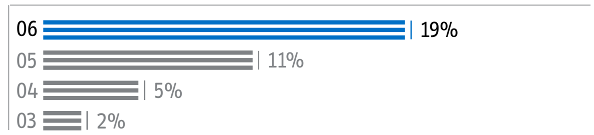
All of the backstage activity that goes on at Sky will only be effective if we continue to invest in the reason that people subscribe to Sky for – an extraordinary package of onscreen content. This year we forged new deals with partners ranging from Disney to the England and Wales Cricket Board. Our partnership with Disney means we can now offer more family

DTH subscribers (millions)



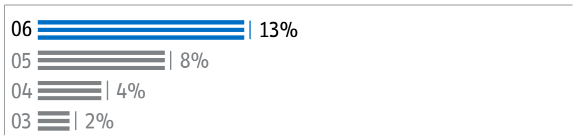
AT ONLY 45% PENETRATION, WE BELIEVE THE GROWTH OPPORTUNITY IN THE UK AND IRELAND PAY TELEVISION SECTOR IS SIGNIFICANT. OUR TARGET IS TO REACH 10 MILLION DTH SUBSCRIBERS IN 2010.

Sky+ penetration (%)



SKY+ GIVES CUSTOMERS THE ABILITY TO WATCH WHAT THEY WANT, WHEN THEY WANT. INCREASED CHOICE, FLEXIBILITY AND CONTROL ARE VALUED BY CUSTOMERS, THAT'S WHY A FURTHER 665,000 HOUSEHOLDS SUBSCRIBED TO SKY+ THIS YEAR. OUR TARGET IS FOR 25% OF OUR CUSTOMERS TO HAVE A SKY+ PRODUCT IN 2010.

Multiroom penetration (%)



MORE THAN ONE MILLION SKY HOUSEHOLDS ENJOY THE FLEXIBILITY OF BEING ABLE TO WATCH DIFFERENT SKY CHANNELS ON DIFFERENT TELEVISION SETS. OUR TARGET IS FOR 30% OF OUR CUSTOMERS TO TAKE TWO OR MORE SUBSCRIPTIONS IN 2010.

All figures relate to financial years

OUR SUCCESS FACTORS

LEADING-EDGE **INNOVATION** THAT MAKES NEW TECHNOLOGY EASY AND ENJOYABLE TO USE

AN UNRIVALLED CHOICE OF SUPERB **CONTENT,** DELIVERED IN A WAY THAT PUTS THE CUSTOMER IN CONTROL

MARKET-LEADING **CUSTOMER SERVICE** THAT'S BACKED BY REAL INVESTMENT IN BOTH PEOPLE AND SYSTEMS

A **BRAND** PEOPLE KNOW AND TRUST TO GIVE THEM THE BEST IN HOME ENTERTAINMENT

entertainment to Sky customers, while the advent of legal movie downloads mean our range and accessibility grows every day.

We also became reacquainted with some old friends – notably the FA Premier League and UEFA, with whom we have negotiated to continue two of the successful partnerships that have made Sky Sports the home of football.

These are just a few examples of the enormous activity and enterprise that Sky people invest every day into making what goes on screen for our customers the absolute best in its class.

We were busy on other fronts, too. This year we announced that, through the measurement, reduction, and offsetting of our carbon dioxide emissions, we have achieved carbon neutral status. It is the first commitment of this kind by a major media company anywhere. Caring about what our customers care about is at the centre of our community activity, and I am personally proud to be able to take such a firm stand on this issue, which is so important to all our people at Sky, and is a growing and important issue for our customers and their families.

The combination of technology, entertainment, and the continuing dedication of our workforce has improved customer growth, turnover, and earnings. We are healthy, strong and hungry and I look forward to the coming year and all of the opportunity it holds.

Thank you for your involvement.

Review of the year

Sky reached a number of significant operational milestones this year whilst preparing the business for the launch of broadband services and delivering a very strong financial performance. Revenue increased by 8% to over £4.1 billion generating record cash flow from operations of over £1 billion.

Operating review

Sky delivered a strong performance in the twelve months to 30 June 2006 ("the year"). Total DTH customers reached 8,176,000, an increase of 389,000 for the year, in line with the rate required to achieve Sky's target of over 10 million DTH customers in 2010. Product mix continued to improve with one in five customers now choosing to take an additional product. Sky remains on track to achieve over 30% Multiroom penetration and over 25% Sky+ penetration by 2010.

Total revenue increased by 8% to £4,148 million, with operating costs at £3,271 million. Operating profit increased by 7% to £877 million, including the first time consolidation of the Easynet Group plc ("Easynet") and the first phase of investment in the roll-out of residential broadband services.

Adjusted profit for the year increased by 4% to £561 million generating adjusted earnings per share of 30.7 pence, representing an increase of 9% on the year ended 30 June 2005 ("the comparable period").

At the same time, Sky delivered on a number of key operational initiatives which position the Group well for the future:

- Preparations were made for the launch of Sky Broadband on 18 July 2006 following the acquisition of Easynet;
- Sky HD launched nationwide on 22 May 2006;
- New customer management systems were implemented and went "live" for all DTH customers from 31 March 2006;
- Key rights to the FA Premier League were secured for the 07/08 to 09/10 seasons;
- Major contracts were agreed with movie studio and third party channel partners;
- Sky announced the creation of over 1,500 new jobs for customer advisors and 600 new positions for home installation engineers; and
- Sky achieved carbon neutral status, a world first for a major media company

At 30 June 2006, the total number of Sky+ households was 1,553,000, 19% penetration of total subscribers. The significant growth in Sky+ households, which grew by a further 665,000 in the year, demonstrates the value that customers place on easy to use technology which enables them to better manage their time and control their viewing. The number of Multiroom households also continued to grow strongly, increasing by 402,000 in the year to 1,047,000, 13% penetration of total DTH subscribers.

Sky launched high definition TV services on 22 May 2006 and there were 38,000 Sky HD subscribers at 30 June 2006. The total number of bookings to date is around 90,000 and after some initial delays, the Group currently expects to install all of these orders by September 2006. Sky Sports HD has covered nearly 50 days of live cricket including three England Test matches, five England One-Day Internationals and 24 domestic matches. In addition to England's busy summer of cricket, Sky Sports HD will be showing coverage of the 2006 Ryder Cup, Guinness Premiership Rugby, and Coca Cola League, Carling Cup, UEFA Champions League and Barclays Premiership football, all live and in high definition.

Annualised average revenue per DTH subscriber ("ARPU") for the last quarter of the year was £388, a £4 decrease on the previous quarter. This reflects a slight seasonal deterioration in the mix of subscription packages during the quarter and an increase in the volume of new customers on short-term promotional subscription offers.

DTH churn for the year was 11.1%.

During the final quarter the Group announced that it had been awarded four packages of live FA Premier League rights (covering 92 games per season) for the 2007/08 to 2009/10 seasons in both the UK and Ireland. Sky has also been awarded 'near live long form' rights to 242 games per season in both the UK and Ireland (jointly with BT in the case of the UK) and mobile clip rights in both the UK and Ireland.

The Group also concluded a number of other content agreements as part of its commitment to invest on-screen. On 27 February 2006, Sky and Disney announced a wide ranging series of agreements covering children's entertainment, sports and movies. Under the agreements, Sky Movies customers will also be able to enjoy these movies via the Sky by broadband service and Sky HD. The Group also secured live coverage of UEFA Champions League football until the end of the 08/09 season on 13 September 2005 and both National Geographic and Discovery launched HD channels during the year which form part of the Sky HD offering. The launch of The Crime and Investigation Network channel, coverage of the America's Cup and A1 Grand Prix racing also demonstrate the Group's commitment to widen the range and depth of programming within its wholly owned channels and with channel partners.

On 31 March 2006, Sky completed the implementation of its new customer management systems. These new systems will support the projected growth in Sky's subscriber base and a greater number of products, as Sky continues to launch new entertainment and communications services. These systems also integrate key parts of the customer service chain, such as the contact centres and field engineers, which will enable the Group to offer a more tailored, flexible and immediate response when dealing with customer requests.

Financial review

Total revenue for the year increased by 8% on the comparable period to £4,148 million. Total operating costs increased by £251 million to £3,271 million generating a Group operating profit of £877 million. This result includes an operating loss from the first time consolidation of Easynet of £11 million and the first phase of the Group's investment in the roll-out of its residential broadband business of £12 million.

Revenue

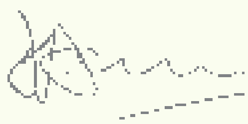
DTH revenues increased by 6% on the comparable period to £3,154 million, which was principally driven by 5% growth in the average number of DTH subscribers.

7% increase

OPERATING PROFIT INCREASED BY 7% TO £877 MILLION.

GROSS MARGIN ROSE BY FOUR PERCENTAGE POINTS TO 61% DUE TO THE OPERATING LEVERAGE OF STRONG REVENUE GROWTH AND ABSOLUTE REDUCTIONS IN PROGRAMMING COSTS.

Jeremy Darroch
Chief Financial Officer



Wholesale revenues continue to disappoint, growing by only 2% for the second consecutive year to £224 million. This largely reflects the decline in the absolute number of Pay-TV cable customers taking one or more premium channels, offset by changes to wholesale prices.

Advertising revenue for the full year continued to outperform, growing by 4% on the comparable period to £342 million against an estimated 0.2% decline in the UK television advertising sector. This principally reflects a further one percentage point increase in Sky's share of the UK television advertising sector during the year to 13.0%.

As announced on 25 April 2006, following recent changes in industry practice regarding the accounting for betting revenues and costs under International Financial Reporting Standards ("IFRS"), betting payouts have been netted against Sky Bet revenues. Accordingly, all financial results, including comparatives, have been prepared on this basis. There is no effect on operating profit.

Sky Bet revenue for the year was £37 million, an increase of 16% which reflects the strong growth in both Sky Vegas and sports betting. Gross Sky Bet revenue for the year was £341 million.

Sky Active revenues were £91 million for the year. Good rates of growth in both interactive advertising and enhanced TV service revenues were offset by the absence of SkyBuy revenue, following the closure of the business in the final quarter of the last financial year.

Other revenue grew strongly, increasing by 49% to £300 million. This reflects the first time consolidation of the Easynet corporate business (£76 million) and underlying growth of 11%, relating to the full year effect of Sky credit card revenues and the Sky News channel five contract.

Programming

Total programming costs continued to reduce in absolute terms, falling by £36 million on the comparable period to under £1.6 billion. This enabled the Group to make significant progress in expanding gross margin, which increased by a further four percentage points during the year to 61%.

Sports costs increased by £16 million to £766 million. The additional costs associated with the new ECB cricket contract, which started to be amortised in May 2006 and an additional cricket tour during the year were offset by the absence of the Ryder Cup, which is a biennial event. The Group expects sports costs for the 2007 financial year to increase by around £50 million behind an outstanding line-up of sporting events over the next twelve months, including live cricket from the new ECB contract and a number of non-annual events, such as the Ryder Cup in September 2006 and the 2007 Cricket World Cup and qualifying matches for UEFA Euro 2008.

Movie costs for the year were £310 million, a saving of £33 million on the comparable period and the lowest absolute cost for six years. This saving reflects contract renewals, the phasing of title delivery and a foreign exchange benefit of £8 million from a more favourable average exchange rate at which US dollars were purchased. The Group expects the recent contract renewals with three of the 'Major' Hollywood studios to deliver further cost savings on a per subscriber basis over the next two to three years.

News and Entertainment costs were £200 million, reflecting a combined increased investment of £20 million in Sky One commissioned programming and Sky News.

Third party channel costs fell by 11% on the comparable period to £323 million, a reduction of £39 million. A 5% increase in the average number of DTH subscribers was more than offset by a 15% reduction in the cost per subscriber to £3.37 per month.

Other operating costs

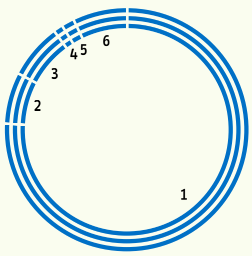
Total other operating costs increased by £287 million to £1,672 million, including £107 million of operating expenses from Easynet and initial broadband expenses. Excluding these items, other operating expenses increased by £180 million on the comparable period.

Marketing costs for the year were £622 million, an increase of £95 million on the comparable period. Marketing costs to new customers grew by £51 million to £359 million. This reflects an absolute increase in the number of new customers and a growing percentage of customers taking new products. During the year, 18% of new customers chose to take Sky+ from day one, as opposed to 13% last year. As a result of this activity, the total average subscriber acquisition cost increased by £24 on the comparable period to £261. During the year the rate at which existing customers upgraded to Sky+ and Multiroom also accelerated, which led to an increased investment of £23 million. Above the line marketing remained broadly flat at £75 million and retention and other marketing costs increased by £18 million on the comparable period to £110 million.

Subscriber management costs grew by £76 million to £468 million. This reflects the first time consolidation of Easynet and broadband expenses (£12 million), depreciation of the new customer management systems of £26 million and underlying growth of £38 million due to the expansion of the Group's customer management operation to further improve customer service levels and manage the increase in sales activity. During the year Sky expanded its existing customer service operations in Scotland, adding 1,500 new customer advisor positions and 600 new home installation engineers in preparation for the roll-out of broadband and providing the Group with one of the largest customer service and home installation workforces in the UK.

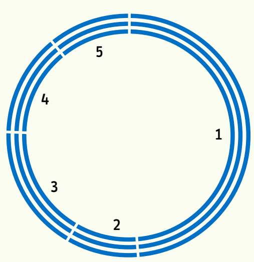
Transmission costs were £234 million, an increase of £63 million on the comparable period, which entirely related to the first time consolidation of Easynet and broadband costs of £63 million. Underlying transmission costs were flat on the comparable period.

Analysis of revenue 2006 (%)



1	DTH	76%
2	Cable	6%
3	Advertising	8%
4	Sky Bet	1%
5	Sky Active	2%
6	Other	7%

Analysis of operating expenditure 2006 (%)



1	Programming	49%
2	Transmission	7%
3	Marketing	19%
4	Subscriber Management	14%
5	Administration	11%

Administration costs grew by £53 million on the comparable period to £348 million. This mainly reflects the inclusion of Easynet and broadband administration expenditure of £29 million and increased depreciation of £16 million as a result of the Group's infrastructure programme which commenced in August 2004.

Total operating profit grew by 7% on the comparable period (which benefited from a one-time £13 million receipt of ITV digital programming receivables) to £877 million. Group operating profit margin for the year was 21%.

Joint Ventures
The Group's share of net profits from its joint ventures was £12 million, a reduction of £2 million on the comparable period. This reflects the disposal of the Group's holding in Granada Sky Broadcasting and Music Choice Europe and lower operating results from the History Channel which has been partially offset by improved results from National Geographic and Attheraces.

Interest
The total net interest charge for the year was £91 million, an increase of £33 million on the comparable period. The higher charge reflects an £18 million non-cash movement in the mark-to-market valuation of non-hedge accounted derivatives, interest payable on the guaranteed notes issued on 20 October 2005, which raised net proceeds of around £1,014 million and the net impact on interest following the acquisition of Easynet.

Taxation
The total tax charge for the period of £247 million includes a current tax charge of £141 million and a deferred tax charge of £106 million. The mainstream corporation tax liability for the period was £147 million and in accordance with the quarterly payment regime, £95 million was paid during the year in respect of this liability.

As a result of the acquisition of Easynet, the Group recognised a deferred tax asset of £83 million during the year, representing timing differences on fixed assets. The current tax charge has benefited from a partial unwind of this asset in the current year of £59 million, reducing the cash tax liability due in respect of the current year profits accordingly. The balance is expected to unwind in future periods.

Earnings
The Group's adjusted profit for the year was £561 million, generating adjusted earnings per share of 30.7 pence, an increase of 9% on the comparable period. Including a mark-to-market movement, net of tax, of £10 million, the Group's profit for the year was £551 million generating basic earnings per share of 30.2 pence.

Cash Flow
Sky's cash flow generation continued to be very strong with operating cash inflows exceeding £1 billion for the first time. Earnings before interest, tax, depreciation and amortisation ("EBITDA") increased by 11% to £1,017 million. After a small net working capital outflow of £13 million, following the payment in the quarter of the deposits for the recently secured FA Premier League rights, the Group generated a cash inflow from operations of £1,004 million. After taxation of £172 million, net interest payable of £62 million, net proceeds from joint ventures of £5 million and capital expenditure of £212 million, the Group generated £563 million of free cash flow. A total of £599 million was returned to shareholders through a combination of the ordinary dividend and share buyback programme and a net cash outflow for acquisitions, primarily for the acquisition of Easynet, was £209 million. After the inclusion of share option purchases and proceeds and the revaluation of long-term borrowings and borrowing-related financial derivatives, the Group's net debt increased by £373 million during the year to £761 million.

During the year the Group made further progress on its capital expenditure and infrastructure programme. The Group spent £38 million completing the final stages of the project to upgrade and implement new customer management systems, which went live for all DTH customers on 31 March 2006. A total of £37 million was spent unbundling exchanges and readying the business for the launch of Sky Broadband and £16 million was invested to progress the Group's property, business continuity and infrastructure projects. The Group invested £10 million to upgrade its production and broadcast facilities ahead of the launch of high definition services and capitalised £14 million of smartcard development costs. The remaining £97 million was spent on a number of projects, such as IS infrastructure, broadcast equipment and the development of new products and services.

Distributions to shareholders
The Board of Directors is proposing a final dividend of 6.70 pence per ordinary share, resulting in a total dividend for the year of 12.20 pence and consistent with the Board's statement in February 2006 that it intended to reduce target dividend cover from approximately 3.0 times to approximately 2.5 times underlying earnings.

In light of the continued cash generative nature of the Group, it is the Board's aim to maintain a progressive dividend policy throughout the investment phase of the recently announced broadband strategy. It is therefore the Board's current intention to reflect the underlying growth in earnings when setting future dividends, resulting in continued real growth in dividend per share.

The ex-dividend date will be 25 October 2006 and, subject to shareholder approval at the Company's Annual General Meeting, the dividend will be paid on 17 November 2006 to shareholders on record on 27 October 2006.

During the year the Group repurchased for cancellation 76.4 million shares for a total consideration of £408 million, including stamp duty and commissions. This comprised 22.7 million shares which completed the authority granted on 12 November 2004 and 53.7 million under the current authority granted on 4 November 2005.

Corporate

On 18 July 2006, the Group launched Sky Broadband, a compelling and exclusive broadband product for Sky customers, which offers great value and a range of packages to suit different usage needs within the home. The packages range from a free service, "Base", offering download speeds of up to 2Mb to a fast 16Mb connection, "Max", for £10 per month. All packages come with a free wireless router, free 12 months McAfee Security and the option of a professional home installation. The launch of Sky Broadband and Sky Talk, a telephony product for Sky customers, enable the Group to enter the highly valuable and growing markets of broadband, telephony, and related services for the first time. Whilst these markets offer attractive opportunities on a standalone basis, the Group believe that these new products will have potentially significant benefits to the Group's core pay television business.

On 20 October 2005, the Group made a recommended cash offer for the entire share capital of Easynet Group plc. The offer became unconditional in all respects on 6 January 2006. Easynet was de-listed from the London Stock Exchange in February 2006 and the acquisition of Easynet was completed on 10 March 2006.

On 14 October 2005, the Group announced a private placement with institutional investors which raised net proceeds of approximately £1,014 million from the issuance of guaranteed notes by its wholly owned subsidiary, BSkyB Finance UK plc.

Balance sheet

Goodwill increased by £206 million, from £417 million at 30 June 2005 to £623 million at 30 June 2006, primarily due to the purchase of Easynet.

Property, plant and equipment and intangible assets increased by £200 million, from £537 million at 30 June 2005 to £737 million at 30 June 2006, due to £232 million of additions in the year, including refurbishment of leasehold properties, investment in the broadband network, IT infrastructure and further investment in customer management systems, assets acquired on the purchase of Easynet of £108 million, partly offset by depreciation and amortisation of £140 million.

Current assets increased by £920 million from £1,363 million at 30 June 2005 to £2,283 million at 30 June 2006, predominantly due to an increase in short-term deposits of £453 million and cash and cash equivalents of £313 million principally due to the receipt of proceeds from the issuance of Guaranteed Notes on 20 October 2005.

Current liabilities increased by £383 million from £1,150 million at 30 June 2005 to £1,533 million at 30 June 2006. This increase was due to the reclassification of £162 million of borrowings from non-current to current liabilities (relating to a Guaranteed Note that is repayable in October 2006) and the timing of payments.

Non-current borrowings increased by £843 million, from £982 million at 30 June 2005 to £1,825 million at 30 June 2006, primarily due to the issuance of new Guaranteed Notes. The new Guaranteed Notes, which were issued on 20 October 2005, consist of (i) US $750 million aggregate principal amount of notes paying 5.625% interest and maturing on 15 October 2015, (ii) US $350 million aggregate principal amount of notes paying 6.500% interest and maturing on 15 October 2035 and (iii) £400 million aggregate principal amount of notes paying 5.750% interest and maturing on 20 October 2017.

Adjusted earnings per share (pence)

ADJUSTED EARNINGS PER SHARE INCREASED BY 9% TO 30.7 PENCE

Full year dividend per share (pence)

THE GROUP PROPOSED A FINAL DIVIDEND OF 6.70 PENCE, RESULTING IN A TOTAL DIVIDEND FOR THE YEAR OF 12.20 PENCE, AN INCREASE OF 36%, REPRESENTING APPROXIMATELY 40% OF PROFIT FOR THE YEAR

10 million

THERE WERE NEARLY 10 MILLION BROADBAND CONNECTIONS IN THE UK BY THE END OF 2005, A NUMBER THAT'S PROJECTED TO DOUBLE BY 2010.

Leading

WE'VE CREATED AN ENTERTAINMENT AND COMMUNICATIONS SERVICE THAT COMBINES THE BEST OF BOTH SATELLITE AND BROADBAND.

“THERE'S SOMETHING FOR EVERYONE ON SKY – MUSIC, MOVIES, SPORT, COMEDY – AND IF I WANT TO GO OUT I CAN TAKE MY LAPTOP WITH ME AND WATCH PROGRAMMES ON THAT.”

Natalie Taylor
Sky customer

The best of all worlds

Three big trends are changing our industry – the explosion of broadband, the huge expansion in the choice of TV and video channels, and the growing appetite for more storage in the home, so that content can be saved, shared, and watched again.

Many of the major developments we're undertaking at Sky are designed to position the business to take advantage of these new trends. The pace of change is quickening, and we're accelerating our own product development to match it. Part of this is about scalability and durability for the future, but even more important is flexibility – the flexibility to exploit new developments in the way that's best for the business, and best for our customers.

The acquisition of Easynet was a significant strategic step for Sky, because it meant that Sky was no longer just about satellite broadcasting, but broadband communications and telephony as well. There were nearly 10 million broadband connections in the UK by the end of 2005, a number that's projected to double by 2010. Buying Easynet gave us the opportunity to move quickly into broadband through a network that we plan to reach around 70% of the UK population by the end of 2007. Easynet's fibre optic network backbone is one of the largest and most advanced in the country, and already covers most of the major urban areas. The quality of its infrastructure also means that it is already capable of supporting video and telephony, and this gives us the basis for a powerful new service that brings together the strengths of satellite with the best of broadband. That new service is Sky Broadband, launched this summer.

What Sky Broadband gives us is the ability to bring together everything we already offer on Sky Digital with future products that broadband can offer, like internet-based telephone calls and video on demand. With Easynet's expertise and network, Sky is well positioned to create a service that offers the best of all worlds – the huge broadcast capacity of digital satellite that we already have, the two-way interactivity that Sky Broadband can offer, and massive storage capacity in the home, which builds on what we already do with Sky+. The result? A whole new standard for home entertainment. The future's already here.

Coverage for the whole home

We're making it possible to access Sky across the home. By keeping abreast of lifestyle trends, we've realised that people want more choice about what they watch and more flexibility about when and how they watch it.

In effect, they want a service that combines the widest possible choice of programming with storage options that offer the ability to access content that can be shared or seen again.

1. Broadband

SKY CONTENT ON YOUR COMPUTER

- SKY BROADBAND
- SKY BY BROADBAND
- INTERNET
- SECURITY AND PARENTAL CONTROL

2. TV and Sky box

THE BEST AND WIDEST CHOICE OF SKY TV ALL OVER THE HOUSE

- SKY HD
- SKY+
- MULTIROOM
- SKY BOX

3. Mobile

ENJOY SKY ON YOUR MOBILE AND DOWNLOAD CLIPS ON THE MOVE

- SKY BY MOBILE
- SKY MOBILE TV

4. Portable wireless audio

LISTEN TO SKY MUSIC, RADIO AND TV ANYWHERE IN THE HOUSE OR GARDEN

- SKY GNOME

5. Telephony

PHONE CALLS OVER BROADBAND

- SKY TALK
- LINE RENTAL

1 in 5 homes

ALMOST ONE IN FIVE SKY CUSTOMERS TAKES SKY+ – THAT'S 1.6 MILLION HOMES.

Don't miss a thing

SKY+ CUSTOMERS CAN NOW SET UP REMOTE RECORDING USING THEIR MOBILE PHONE.

Innovation, innovation, innovation

" HAVING SKY+ MEANS WE ACTUALLY GET TO WATCH TV TOGETHER, OTHERWISE WE'D NEVER WATCH THE SAME PROGRAMMES AT THE SAME TIME. BOTH OUR LIVES ARE VERY BUSY AND WE HAVE TWO SMALL CHILDREN SO WE DON'T GET THAT MUCH TIME TO OURSELVES – BABYSITTERS CAN BE EXPENSIVE SO A LOT OF OUR RELAXATION TIME IS SPENT CURLED UP ON THE SOFA CATCHING UP ON OUR FAVOURITE TV SHOWS. "

Amanda Chesney
Sky customer

One of the things we offer all Sky customers is the chance to take advantage of the latest technology. First it was digital TV, then an integrated digital decoder and personal video recorder in the shape of Sky+, and now, high definition. But this isn't innovation for its own sake. It's first, last and always about our customers. It's about what new technology can do for them, and how we can use it to make Sky better, brighter, and even more enticing.

We invested time and money to make our services easier and safer to use. We've grouped channels into genre packages to make it simpler for people to decide what to buy, we've added new features, and we've upgraded the parental control systems that are so important to families. And we're working in partnership with other industry-leaders: Vodafone is helping to bring Sky mobile TV to the UK, while Intel worked with us on Sky by broadband. But this is just the start.

As technology gets more complex, our priorities remain simple: give our customers more choice about their entertainment, and more control about when, how and where they access it. And package it in a way that's easy to use and adapts to fit their lives.

Sky+ adds up

Almost one in five Sky customers takes Sky+, our state-of-the-art technology that gives you the power to take control of when you watch your favourite programmes. Sky+ means you can stop fitting your life around TV, and start fitting TV around your life.

In the last year we've made improvements to the Sky+ service, expanding its features, increasing the storage capacity of our standard product, and making it even easier and more intuitive to use – after all, who has the time to struggle over instruction manuals? We have also added a remote record feature, so that you can programme your Sky+ box from your mobile phone. And soon you'll be able to do that on the web too – another Sky first.

High definition dawns

In May 2006 we launched Sky HD, the high definition television service that offers the widest choice of HD channels in the UK. It's hard to explain how much better HD is until you see it, but Sky HD viewers are already enjoying everything from sport to movies in vibrant colour and brilliant clarity.

The Barclays Premiership football season will be available in HD for the first time, as will the Coca Cola Football League, Guinness Premiership rugby, Ryder Cup golf and England's home internationals and domestic county cricket. We have two dedicated movie screens, as well as up to ten movies showing in HD on Sky Box Office HD every week, along with special HD programmes on Sky One HD, Artsworld HD, Discovery HD, and National Geographic HD. And Sky HD doesn't just offer superb picture and Dolby Digital 5.1 sound quality on many packages, but all the extra flexibility and convenience of Sky+ too.

SKY SPORTS

Chelsea versus Everton during the Barclays Premiership 2006 (photo by Ben Radford/Getty Images)

Plenty of plus points

WITH SKY+ YOU CAN STOP FITTING YOUR LIFE AROUND TV, AND START FITTING TV AROUND YOUR LIFE.

Sky Broadband
EIGHT YEARS AGO SKY DIGITAL CHANGED THE FACE OF TELEVISION IN THE UK; NOW SKY BROADBAND IS SET TO DO THE SAME FOR INTERNET ACCESS.

“THE PICTURE QUALITY ON HIGH DEFINITION IS UNBELIEVABLE. THE FIRST TIME I SAW IT I SAT THERE FLICKING FROM THE HD CHANNEL TO THE NORMAL ONE, JUST LOOKING AT THE DIFFERENCE. IF YOU WATCH A FOOTBALL MATCH YOU CAN ACTUALLY SEE THE PLAYERS’ FACES – ALL THE DETAIL. IT’S WICKED!”

David Franks
Sky customer

Offering such a comprehensive HD service has been a huge technical challenge for us as a business, and has involved everyone from the transmission teams, to customer support, to marketing. We’ve also been working with Sony on co-marketing the huge advantages of HD, and there have been some great offers for people buying both a Sky HD box and Sony HD-Ready TV.

Everything we’ve seen suggests that there’ll be huge demand for HD TV – once you’ve seen what HD can do, ordinary TV just isn’t the same. As with digital, people are going to look for a supplier who can give them a reliable service that’s easy to use and offers unbeatable choice. No-one can do that better than Sky.

Sky Broadband is here

In July 2006 we launched our very own broadband service – Sky Broadband. On the back of Easynet’s state-of-the-art network, which covers 28% of UK households, customers have the chance to enjoy the best of the web including super-fast surfing and high-speed downloading of music, games, sports clips and movies. As with everything we do, our first priority with Sky Broadband was to create a product that’s reliable, easy to use, secure, and offers value for money. The basic service is a free subscription to Sky TV customers, and there are also ‘Mid’ and ‘Max’ packages for people who want extra speed and usage. All three come with an option of home installation, and a free wireless router so that the benefits of broadband can be enjoyed by the whole family, all over the house. And on top of that we’re also offering customers telephone calls on Sky Talk. This will save people money on their phone bills with unlimited calls to UK landlines, any time of day, for just £5 a month.

Sky Broadband opens up all the possibilities of the internet to Sky customers, but people with an existing broadband connection have been able to use it to access some of our premium content for some time. Sky by broadband already gives Sky World, Sky Sports Mix and Sky Movies Mix customers the extra freedom and convenience of accessing around 400 movies and over 1,000 different sports clips via their PC or laptop at no extra charge. So far over 250,000 customers have signed up to Sky by broadband and there have been over a million downloads, and we’ll be adding entertainment programming from Sky One later in 2006.

Making Sky mobile

Sky by mobile offers customers Sky News, Sky Sports and entertainment video clips and stories on their mobile phone allowing them to stay in touch with live events even when they’re out of reach of the TV. Customers can also access the Sky Guide – Sky’s 7-day TV listing service.

We launched Sky Mobile TV in November 2005 in partnership with Vodafone. We offer over 20 different channels by 3G phone – some are live, like Sky News, Sky Sports News, and CNN, while others are mobile TV versions of favourite channels (like Sky One, MTV or Cartoon Network) that are designed to be watched in short bursts, maybe when you’ve only ten minutes to spare. Customers seem to love Sky Mobile TV: by the end of June there were over 100,000 new subscriptions to Sky Mobile TV. In 2006 a whole summer of live sport was available on Sky Mobile TV, including exclusive live coverage of the Football League Play-Offs and England’s Test and One-Day internationals against Sri Lanka and Pakistan.

Sky Mobile TV
WE LAUNCHED SKY MOBILE TV IN NOVEMBER 2005

2.7 million

IT IS ESTIMATED THAT AROUND 2.7 MILLION HD-READY SCREENS WILL HAVE BEEN SOLD BY THE END OF 2006.

4 times better

WITH PICTURE QUALITY MORE THAN 4 TIMES THAT OF AN ORDINARY BROADCAST, HD IS SET TO BE THE BIGGEST THING IN TV SINCE THE LAUNCH OF COLOUR IN THE LATE 1960s.

Disney Cinemagic

OUR NEW DEAL WITH DISNEY BRINGS DISNEY CINEMAGIC TO SKY FOR THE FIRST TIME, WHICH MEANS EVERYTHING FROM FAMILY FAVOURITES LIKE THE LADY AND THE TRAMP AND CINDERELLA, TO PREMIERES OF NEW BLOCKBUSTER ANIMATIONS LIKE THE INCREDIBLES.

500 channels

THERE ARE NOW OVER 500 CHANNELS AVAILABLE ON SKY.

40,000 hours of sport

WE SHOWED OVER 40,000 HOURS OF SPORT LAST YEAR, INCLUDING OVER 1,000 LIVE OUTSIDE BROADCASTS.

SKY SPORTS
Live International Cricket, Sky Sports

'Saved For The Nation' on Artsworld
© National Galleries of Scotland

A richer mix

WE BEGAN EXCLUSIVE LIVE COVERAGE OF ENGLAND'S HOME TESTS THIS SUMMER, STARTING WITH THE SRI LANKAN TOUR. ARTSWORLD FORMALLY BECAME PART OF OUR FAMILY OF CHANNELS, WHICH WILL ENRICH THE QUALITY OF OUR ARTS PROGRAMMING.

Awards

IN 2006, SKY NEWS WAS NAMED BEST NEWS CHANNEL IN BROADCAST'S 'DIGITAL CHANNEL AWARDS'. IT WON THE ROYAL TELEVISION SOCIETY'S INNOVATION AWARD AND JEREMY THOMPSON WAS NAMED THEIR NEWS PRESENTER OF THE YEAR.

Must-see TV

I LIKE WATCHING DISNEY, TROUBLE AND MOVIES. SKY'S GOT A LOT OF GREAT COMEDY KINDS OF SHOWS, AND ONES ON DANCING.

Tyra Macintosh
Sky customer

As the competition intensifies from new platforms and new service providers, Sky has one aim: to maintain its leading position in home entertainment.

The number of channels available to our customers now stands at more than 500. That's not to say every viewer is going to watch every channel. But we know that our subscribers appreciate the breadth and depth of viewing choice across every genre, be it news, documentaries, entertainment, movies or sport. By offering the broadest collection of TV services and radio stations, subscription, pay-per-view and free-to-air channels, the digital satellite platform is without parallel and is watched by one in every three homes in UK and Ireland.

At a time when viewing of terrestrial general entertainment channels continues to decline, Sky One remains one of the UK's most-watched digital channels by investing in the best US first-run content, such as 24 and The Simpsons and in innovative domestic commissions including The Match, Brainiac and the forthcoming lavish reimaging of the classic sci-fi fantasy series, The Prisoner. At the other end of the scale, Artsworld sets the pace in comprehensive cultural coverage of opera, dance, classical music, jazz, design, the visual arts, architecture, cinema, literature and the theatre.

Sky now has five sports channels, two dedicated HD services, pay-per-view offerings and streamed programming for broadband internet and mobile devices. Everybody knows Sky Sports for its comprehensive football coverage, ranging from the Barclays Premiership to the UEFA Champions League, but there's a lot more to Sky Sports than football. It's now the home of English npower Test cricket, Guinness Premiership and Heineken Cup rugby and an array of equestrian events, golf, darts, tennis and the most prestigious date in the yachting calendar, the America's Cup. In all, Sky Sports carries some 40,000 hours of coverage a year backed up by the best analysts and commentators in the business.

The Sky Movies subscription channels and the pay-per-view service Sky Box Office screen more than 2,000 films every year including the UK television premieres of movies such as The Chronicles of Narnia: The Lion, the Witch and the Wardrobe and Pride and Prejudice. But that's just for starters. We also offer exclusive studio content, interviews, classic films from Hollywood's golden age and the best in arthouse cinema from around the world. Clips, updates and background information are accessible via mobile phones and premium customers can download their choice of around 400 full-length movies via Sky by broadband.

As viewing habits change so to do the way customers consume news. Sky News remains the pioneering 24-hour news channel it has always been, with its award-winning team of correspondents and expert commentators covering breaking news whenever and wherever it happens. Broadcasting from our new purpose-built news studios, Sky News is also now live 24 hours a day online and on video-compatible mobile phones.

“WHENEVER WE’VE HAD TO CONTACT SKY WE’VE NEVER HAD ANY PROBLEMS GETTING THROUGH, AND THE PERSON ON THE OTHER END OF THE PHONE HAS ALWAYS SEEMED PRETTY CLUED-UP, COURTEOUS AND HELPFUL. THAT’S ONE OF THE MAIN THINGS YOU LOOK FOR IN CUSTOMER SERVICE, BECAUSE IF YOU DO NEED TO RING THEM IT’S USUALLY BECAUSE THERE’S SOME SORT OF PROBLEM AND YOU WANT TO GET IT RESOLVED QUICKLY.”

Stephen Ellis
Sky customer

90%

90% OF OUR CUSTOMERS RATE OUR SERVICE AS GOOD OR VERY GOOD.

1.2m calls

WE DEAL WITH AROUND 1.2 MILLION CALLS A WEEK, AND THAT RISES TO OVER 1.6 MILLION IN THE LEAD-UP TO CHRISTMAS.

Service makes the difference

We've built our business on a deep desire to give our customers what they want, and a true dedication to serving them well. When it comes to customer service we want to get it right first time, every time, 365 days a year.

We see customer service as one of the mainstays of our success – now and in the future. That's why managers of all levels regularly set aside time to listen in at our contact centres, and join our field engineers when they're making home visits. There's no substitute for direct feedback like that, and we are constantly talking to our customers. We regularly undertake focus and research groups that canvas the views of people who are already Sky customers, as well as some who aren't.

What we're aiming for is a real relationship with our customers – a genuine two-way dialogue rather than the one-way communication most viewers have with traditional TV. We've upgraded our customer management systems, investing both in people and technology. This project was completed in March 2006, and we now have a fully-integrated system that links our telephone contact centres with our 3,500 field engineers, who are connected via hand-held computers. The result is that the customer gets a faster, more efficient and more synchronised service on everything from installations, to repairs, to moving house.

The upgrade also gives us a system with a lot more capacity, and the ability to cope both with developments in technology and the projected growth in our customer base. We were already dealing with over a million calls and 60,000 home visits a week, but we now have 2,000 more customer service advisors, 600 new engineers, and a computer database that can cope with over 10 million customers and more than two trillion separate pieces of data.

Our average customer satisfaction rating across all customer interactions was approximately 90% over the past year (the number of people saying our services are good or very good). The 10% that didn't hit this mark were usually as a result of some inflexibility in our processes, or a breakdown in communications between the contact centre and the engineers in the field: the new system is especially designed to address exactly these issues.

At the same time, having a fully-integrated system means that our contact centre staff can give customers better advice: the more we know about each individual customer, the more help we can give them on the sort of packages that will suit them best, and any new options available to them. We're backing this up by giving our customer service staff a lot more scope to use their initiative when dealing with customer requests – from giving a free movie to surprise and delight a loyal customer, to sending out a gift voucher to say sorry when we've got something wrong. It's all about going the extra mile so that every customer knows how important they are to us.

It's all part of the same basic philosophy: if choice, flexibility and innovation are the key to getting new customers, it's great service that will help us keep them.

“IT DOESN'T MATTER HOW MANY INSTALLATIONS YOU DO, YOU'LL ALWAYS COME ACROSS SOMETHING YOU HAVEN'T HAD TO DEAL WITH BEFORE – I ONCE HAD TO ATTACH A DISH TO THE MAST OF A HOUSEBOAT, AND EVEN ABSEILED DOWN THE OUTSIDE OF MIDDLESBROUGH FOOTBALL STADIUM. MOST AREN'T AS DRAMATIC AS THAT, BUT WE GO THE EXTRA MILE FOR ALL OUR CUSTOMERS, WHEREVER AND WHOEVER THEY ARE.”

Francis Ayrton
Sky engineer

93% awareness

WITH 93% OF PEOPLE RECOGNISING THE SKY NAME, WE ARE KNOWN BY VIRTUALLY THE ENTIRE POPULATION.

SKY BROADBAND WAS LAUNCHED IN JULY 2006 WITH A NATIONWIDE MARKETING CAMPAIGN.

Leading marketing

IN THE 2006 MANAGEMENT TODAY SURVEY, SKY WAS VOTED THE MOST ADMIRED COMPANY IN THE UK FOR THE QUALITY OF ITS MARKETING.

The strength of the brand

“SKY'S COMPETITORS ARE A BIT MORE LIMITED IN TERMS OF THE QUALITY AND CHOICE OF THEIR PROGRAMMING. SKY IS MODERN, GOOD VALUE AND IT MAKES LIFE EASY. I GOT EXACTLY THE PRODUCT THAT I EXPECTED WHEN I SIGNED UP FOR IT – IT'S NEVER DISAPPOINTED ME YET, AND FOR ME, IT'S THE BEST CHOICE I COULD HAVE MADE.”

Martina Grubeck
Sky customer

The strength of the Sky brand continues to be a major factor in the success of the Company, helping to drive both acquisition and customer loyalty.

We have far greater brand awareness than any of our rivals, and with 93% of people recognising the Sky name, we are known by virtually the entire population.

Over the last couple of years our marketing has established Sky as the leader in entertainment. Led by the successful ‘what do you want to watch?’ campaign, 76% of our customers now rank us first on this measure and four times as many potential customers rate us as the leader in entertainment versus other pay-TV providers.

A further measure of brand strength can be found in the levels of trust shown by our customers, and their willingness to recommend us. At 74% we have a higher level of trust than other pay-TV companies, and an incredible 96% of Sky+ customers would recommend us to their friends.

As the world of home entertainment and communications evolves and converges, the strength of the Sky brand will be instrumental in our success. Research into the broadband sector prior to the launch of Sky Broadband revealed that a strong determining factor is the strength of a company’s brand. In a sector with hundreds of different companies, consumers want the reassurance of a well known brand, and they immediately place Sky alongside the other major broadband providers. Thanks to our consistent track record, consumers are confident that Sky Broadband is going to be a market-leading product delivered in the unique Sky style.

Two years ago we embarked on a journey to establish Sky as the nation’s number one entertainment choice, in a bid to attract both new customers and establish a deeper and stronger relationship with current ones. We’ve come a long way now, and we’re seeing how the strength of our brand is helping to convince increasing numbers of households across the UK and Ireland that Sky will give them the best entertainment and the right technology for the home of the future, and all from a company they know they can trust.

Sources: SPA, Hall & Partners, Outlook Research


sky
what do you want to watch?
sky.com
Wild Africa
SHREK 2
SKY movies
what do you want to watch?
sky.com

Carbon neutral

IN MAY 2006 WE BECAME THE WORLD'S FIRST MAJOR MEDIA COMPANY, AND ONE OF THE FIRST FTSE 100 BUSINESSES, TO BECOME FULLY CARBON NEUTRAL.

41,414 tonnes CO_2 equiv offset

IN ORDER TO BECOME CARBON NEUTRAL, SKY CALCULATED ITS CARBON FOOTPRINT FOR BSKYB AND EASYNET IN CONJUNCTION WITH THE EDINBURGH CENTRE FOR CARBON MANAGEMENT (ECCM).

THE BIGGER PICTURE

Energy initiatives

TO ACHIEVE CARBON NEUTRAL STATUS WE REDUCED OUR OVERALL ENERGY, INCREASED EFFICIENCY AND PURCHASED CARBON OFFSETS IN TWO RENEWABLE ENERGY PROJECTS. WE ALSO LAUNCHED THE 'BIGGER PICTURE' INITIATIVE THAT HELPS COLLEAGUES, BUSINESS PARTNERS AND CUSTOMERS UNDERSTAND AND REDUCE THEIR OWN ENERGY IMPACTS.

Taking responsibility

Few other brands hold such a unique and privileged place at the heart of people's homes as Sky. We recognise that with that position comes responsibility – to our customers, to society at large, and to the physical environment.

We care about the issues our customers care about, and we view it as our corporate responsibility to help address these concerns. This is not about pretending to do something for the sake of giving subscribers and investors a warm and fuzzy feeling – Sky is making a real and committed effort to make a positive difference.

Our efforts are broad and multifaceted.

Long-running programmes focus on using our unique profile as a broadcaster to inspire young people. They range from Living for Sport, a project run in one in every seven schools in the UK, which uses the power of sport to engage and inspire young people who are at risk of dropping out of education, to our involvement with Reach for the Sky, which offers young journalists a taste of what it is like to work in the media.

But corporations have a wider responsibility. We know our customers care about the environment and that global warming is becoming an increasingly important area of concern. One of our proudest achievements this year is to have become the first major media company and one of the first FTSE 100 to achieve carbon neutral status.

To become carbon neutral, we have assessed our emissions and worked to reduce them wherever possible. These initiatives include installing automatic lighting sensors in our buildings and purchasing power from renewable sources.

Going carbon neutral means that as well as reducing the amount of energy we use in the first place, we off set our remaining, unavoidable emissions. We have purchased carbon offsets in two renewable energy offset projects through The CarbonNeutral Company.

Our efforts are making an impact closer to home than you may at first think. We have reduced the power consumption of our Sky boxes by half since they were first introduced. The fact that we have a presence in more than 8 million homes means this has contributed a great deal to our efforts. We want to assist our customers to make a difference, providing practical and inspiring ways to become better informed and more progressive about energy use.

Our corporate profile is evolving to reflect our growing commitments. We are ranked in both FTSE4Good and the Dow Jones Sustainability Indexes. We are also proud to be the only broadcasting company in the world to appear in the Global 100 Most Sustainable Corporations index.

In addition to the environment, we are tackling areas that relate directly to our operations as the leading provider of multichannel entertainment in the UK.

We know how important Sky's parental control features are for families, and we've listened to the feedback we have received on this and improved the service further on our satellite and Sky services. In addition, Sky+ was the first personal video recorder to be protected with a PIN number, and parents can now restrict access to programmes based on ratings, remove channels from the electronic programme guide, and control pre-watershed playback of programmes already recorded on Sky+.

We also work hard to make Sky as accessible as possible for everyone. Our subtitling, signing and audio description features are highly-regarded, and they're supported by our customer service. And during the last year we've worked with Scope and Age Concern to develop two new remote controls for older customers and those with disabilities.

COMPANIES THAT COUNT

MOST SUSTAINABLE CORPORATIONS GLOBAL 100

FTSE4Good

Recognition

WE'RE IN THE FTSE4GOOD AND THE DOW JONES SUSTAINABILITY INDEXES, AND WE'RE PROUD TO BE THE ONLY BROADCASTING COMPANY IN THE GLOBAL 100 MOST SUSTAINABLE CORPORATIONS IN THE WORLD.

The power of sport
LIVING FOR SPORT IS ONE OF OUR FLAGSHIP COMMUNITY PROGRAMMES, WHICH USES SPORT TO INSPIRE YOUNG PEOPLE AT RISK OF DROPPING OUT OF SCHOOL. WE'VE ALSO HELPED TO FUND DAME KELLY HOLMES AS THE FIRST NATIONAL SCHOOLS SPORT CHAMPION, AND SHE'LL BE WORKING WITH LIVING FOR SPORT, AND VISITING SOME OF THE 300 SCHOOLS INVOLVED.

Inspiring young people
THIS YEAR WE LAUNCHED A 'VIRTUAL NEWSROOM' – AN INTERACTIVE VERSION OF THE SKY NEWS STUDIOS THAT GIVES YOUNG PEOPLE EVERY-WHERE A CHANCE TO GET REAL EXPERIENCE OF WORKING IN BROADCASTING. THIS COMPLEMENTS OUR REACH FOR THE SKY PROGRAMME WHICH OFFERS YOUNG JOURNALISTS A TASTE OF WHAT IT'S LIKE TO WORK IN THE MEDIA.

13,344 employees

WE NOW HAVE OVER 13,000 PEOPLE WORKING FOR US, MAINLY IN WEST LONDON AND SCOTLAND.

12th in UK

SKY ROSE TO BECOME THE 12TH MOST PREFERRED EMPLOYER IN AN INDEPENDENT SURVEY OF 7,000 FINAL YEAR HUMANITIES STUDENTS IN UK UNIVERSITIES.

Being a responsible employer

The Learning Zone
SINCE WE LAUNCHED OUR ONLINE LEARNING ZONE IN OCTOBER 2004 OVER 4,000 EMPLOYEES HAVE SIGNED UP, AND MORE THAN 11,000 SETS OF MATERIALS HAVE BEEN DOWNLOADED OR BORROWED.

Sky's success has relied on the quality of its people, and we have one of the most talented and diverse teams in the industry. Our people have won awards for their contribution to the business and outstanding performances within their fields.

As Sky continues to diversify and grow as a Company, its change and evolution make it an increasingly challenging and rewarding place to work.

We need a team of people who can think quickly and come up with new ideas; people who can continuously improve our products and services and yet, at the same time, maintain an uncompromising commitment to the needs of our customers, now and in the future. We're continuing to invest in our people to ensure they stay motivated, flexible and resilient.

To do this, we've stepped up our employee development activities across the whole Company. We recognise how important it is for all our people to be at the top of their game, and hence our extensive investment in employee health and well-being programmes. We've also developed clear goals and priorities and shared these throughout our organisation - to make maximum use of our energy and resources.

Building buy-in like this is one reason why we've been able to evolve so successfully from a straightforward pay-TV operation to a far more complex integrated media business. It's also helped us to roll out new products like HD, Sky Broadband and Sky Mobile TV, and integrate Easynet and its people into the existing Sky organisation quickly and efficiently.

At the same time, we reviewed 20 key Sky departments to make sure they have the right structure, technology and expertise to deliver our new strategy. Despite all these changes, our level of recruitment remained steady at just over 3,000 new people last year, but this will rise as we staff up our customer services operation even further.

The 2006 employee survey shows that our people remain both committed and motivated about working at Sky, with year on year increases in the scores for employee engagement and advocacy for Sky as a place to work. In the Financial Times Great Place to Work survey 73% of our people rated Sky as a 'great place to work', compared to 66% last year. Another important measure of employee engagement is their willingness to be active advocates for the company and its services. In the latest Sky employee survey, 84% of our people said they would recommend Sky's products to their friends.

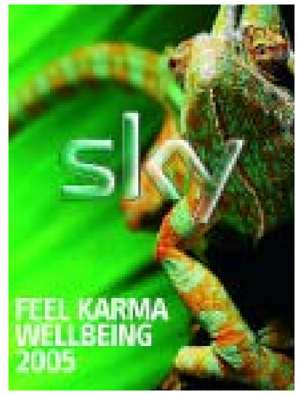
We organised almost 70,000 training days last year, ranging from HD training to performance management. We also expanded the online learning zone, which allowed 4,000 employees to download or borrow more than 11,000 resources on subjects ranging from customer service, to strategy and leadership. The latter was backed up by management development workshops attended by more than 900 managers.

With customer focus so important for the future, we launched a customer closeness programme for executives and key managers, and a new sales development centre, which develops and trials new approaches to selling and interacting with customers, especially for around 8,000 people who speak with customers on the phone or meet them in their homes. We ran over 22,000 training days for our sales advisors last year, and over 17,000 for our field engineers. Alongside this, the 'Kaizen' approach we're now using in customer service means that our people are encouraged to use what they

What's Next?
WE HOSTED A SECOND 'WHAT'S NEXT?' EVENT FOR 500 OF OUR PEOPLE IN MARCH 2006, TO SHARE OUR VISION OF SKY'S FUTURE. THE EVENT WAS RECORDED AND PRESENTED TO ALL DEPARTMENTS AT SKY, GIVING EVERYONE THE CHANCE TO ASK QUESTIONS, AND UNDERSTAND WHAT OUR PLANS MEAN FOR THEIR TEAMS.

Meet the Team
WE'VE CREATED A 'TEAM SKY' PROGRAMME TO RECOGNISE PEOPLE WHO ARE PARTICULARLY GOOD ROLE MODELS FOR OUR VALUES OF TUNED-IN, INVITING, IRREPRESSIBLE AND FUN.

Sky Sharesave
OUR SHARESAVE SCHEME GIVES ALL OUR PERMANENT EMPLOYEES THE OPPORTUNITY TO HAVE A STAKE IN SKY AND SHARE IN OUR SUCCESS BY BUYING SHARES THROUGH A 3 OR 5 YEAR SAVINGS SCHEME.



Health and well-being
OVER 3,000 PEOPLE ATTENDED OUR LAST 'FEEL KARMA' EVENT ON HEALTH AND WELL-BEING, WHICH INCLUDED SESSIONS ON ISSUES LIKE SLEEP, NUTRITION, STRESS, EXERCISE, AND WORK-LIFE BALANCE.

learn from customers and from their own experience to spot glitches in technology, products or services and work out fast, practical improvements.

Another key factor for us is our ability to keep innovating, and this has been recognised in the Financial Times Best European Business Award for Innovation. Inside the business the technology and products group works across the whole senior management team, to ensure that Sky continues to roll out more new products faster and better. And we draw talent from across the whole company to brainstorm new ideas.

We've used a number of different media to communicate Sky's strategy to employees over the last year: there have been workshops, iPod and text messages, special pieces on the intranet, and face-to-face presentations. And at the same time we've shared great stories with our people to celebrate our success, and look to the future.

It's always been exciting to work at Sky – we want to build on that and make Sky a place that attracts the best people, and gives them the chance to develop both as people and professionals.

External people survey (%)

IN THE FT 'GREAT PLACE TO WORK' SURVEY EMPLOYEES' RECOMMENDATION OF SKY AS A PLACE TO WORK CLIMBED FROM 66% TO 73%.

"I'VE WORKED FOR SKY FOR 11 YEARS AND I ABSOLUTELY LOVE IT. THERE'S A REAL SENSE OF LOYALTY FROM THE COMPANY TO THE PEOPLE WHO WORK FOR SKY. THE PERKS ARE GREAT, AND THE INCENTIVES FOR REALLY GOOD PERFORMANCE CAN BE FANTASTIC: ME AND MY TEAM HAVE HAD SOME UNFORGETTABLE DAYS OUT TOGETHER – THINGS WE'D NEVER OTHERWISE GET A CHANCE TO DO. AND AT THE END OF THE DAY I LOVE DOING WHAT I DO – HELPING PEOPLE, AND SOLVING THEIR PROBLEMS."

Shirley Turnbull
Sky employee

Board of Directors

Chase Carey (age 52)
NON-EXECUTIVE DIRECTOR

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

Jeremy Darroch (age 44)
EXECUTIVE DIRECTOR

Jeremy Darroch was appointed as Chief Financial Officer ("CFO") and a Director of the Company on 16 August 2004. Mr Darroch joined Dixons Group plc ("Dixons") in January 2000 as Retail Finance Director, rising to the position of Group Finance Director in February 2002. Prior to Dixons, Mr Darroch spent 12 years at Procter & Gamble in a variety of roles in the UK and Europe, latterly as European Finance Director for its Health Care businesses. In February 2006 Mr Darroch was appointed a Non-Executive director of Marks & Spencer Group plc. Mr Darroch is a member of the 100 Group of Finance Directors.

David DeVoe (age 59)
NON-EXECUTIVE DIRECTOR

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

David Evans (age 66)
INDEPENDENT NON-EXECUTIVE DIRECTOR

David Evans was appointed as a Director of the Company on 21 September 2001. In July 2006, Mr Evans joined the executive team of RHI Entertainment ("RHI"). Mr Evans was previously President and CEO of Crown Media Holdings, Inc. ("Crown") 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 Chief Operating Officer, overseeing the day-to-day operations of the company. Prior to joining TINTA, from July 1996, Mr Evans was Executive Vice President of News Corporation and President and CEO of Sky Entertainment Services Latin America, LLC.

Nicholas Ferguson (age 57)
INDEPENDENT NON-EXECUTIVE DIRECTOR

Nicholas Ferguson was appointed as a Director of the Company on 15 June 2004 and was appointed Chairman of the Remuneration Committee on 31 January 2006. Mr Ferguson is Chairman of SVG Capital, a publicly-quoted private equity group, and was formerly Chairman of Schroder Ventures. He is also Chairman of the Courtauld Institute of Art and the Institute of Philanthropy.

Andrew Higginson (age 49)
INDEPENDENT NON-EXECUTIVE DIRECTOR

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

Allan Leighton (age 53)
INDEPENDENT NON-EXECUTIVE DIRECTOR

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

James Murdoch (age 33)
EXECUTIVE DIRECTOR

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

Rupert Murdoch (age 75)
NON-EXECUTIVE DIRECTOR AND CHAIRMAN

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

Jacques Nasser (age 58)
INDEPENDENT NON-EXECUTIVE DIRECTOR

Jacques Nasser was appointed as a Director of the Company on 8 November 2002. Mr Nasser is a Senior Partner of One Equity Partners. In addition, Mr Nasser serves on the Board of Quintiles Transnational Corporation, Brambles Industries, BHP Billiton and the International Advisory Board of Allianz A.G.. Mr Nasser served as a Member of the Board of Directors, and as President and CEO of Ford Motor Company from 1998 to 2001. Mr Nasser has received an honorary Doctorate of Technology and graduated in Business from the 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 Rebuck CBE (age 54)
INDEPENDENT NON-EXECUTIVE DIRECTOR

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

Lord Rothschild (age 70)
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR AND DEPUTY CHAIRMAN

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

Arthur Siskind (age 67)
NON-EXECUTIVE DIRECTOR

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

Lord St John of Fawsley (age 77)
NON-EXECUTIVE DIRECTOR

Lord St John of Fawsley was appointed as a Director of the Company on 20 November 1991. Lord St John was a Director of the N.M. Rothschild Trust from 1990 to 1998. Lord St John is Chairman of the Royal Fine Art Commission Trust and was Chairman of the Royal Fine Art Commission from 1985 to 2000. He is Grand Bailiff and Head of Order of St Lazarus of England and Wales. Lord St John is a member of the Privy Council and holds the Order of Merit of the Italian Republic. Lord St John has held the offices of Minister of State for Education, Minister of State for the Arts, Leader of the House of Commons and Chancellor of the Duchy of Lancaster. Lord St John has also been Master of Emmanuel College, Cambridge. Lord St John is a regular commentator on television and radio. Lord St John has decided not to seek re-election at this year's AGM and will retire from the Board.

Lord Wilson of Dinton GCB (age 63)
INDEPENDENT NON-EXECUTIVE DIRECTOR

Lord Wilson of Dinton was appointed as a Director of the Company on 13 February 2003. He has been a Non-Executive Director of Xansa plc since April 2003 and will become Non-Executive Chairman of C.Hoare and Co, Bankers, in October 2006. Lord Wilson entered the Civil Service as an assistant principal in the Board of Trade in 1966. Lord Wilson subsequently served in a number of departments, including 12 years in the Department of Energy, where his responsibilities included nuclear power policy, the privatisation of Britoil, personnel and finance. Lord Wilson headed the Economic Secretariat in the Cabinet Office under Mrs Thatcher from 1987 to 1990 and, after two years in the Treasury, was appointed Permanent Secretary of the Department of the Environment in 1992. Lord Wilson became Permanent Under Secretary of the Home Office in 1994 and Secretary of the Cabinet and Head of the Home Civil Service in January 1998. Since his retirement in September 2002, Lord Wilson has been Master of Emmanuel College, Cambridge. Lord Wilson was made a peer in November 2002.

Alternate Directors

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

Leslie Hinton (age 62)
ALTERNATE DIRECTOR

Leslie Hinton served as a Director of the Company from 15 October 1999 until 13 February 2003. Following his resignation as a Director, Mr Hinton was immediately appointed as an Alternate Director of the Company. Mr Hinton was appointed President of Murdoch Magazines in the US in 1990, two years later becoming CEO of Fox Television Stations and in 1995 he became Executive Chairman of News International Limited. Mr Hinton is a member of News Corporation's Executive Committee. In 1996 he joined the board of the Press Association in Britain. He has been Chairman of the newspaper and magazine publishing industry's code of Practice Committee since 1998. Mr Hinton was appointed as an independent Non-Executive Director of Johnston Press plc in March 2005.

Summary Directors' Report

Activities
The Chairman's statement, Chief Executive Officer's statement, operating review and the financial review at the front of this document, report on the principal activities of the Group, its financial and operating performance during the year and the future development of the business.

Results and dividends
The profit for the year ended 30 June 2006 was £551 million (2005: £578 million). The Directors recommend a final dividend for the year ended 30 June 2006 of 6.70 pence per ordinary share which, together with the interim dividend of 5.50 pence paid to shareholders on 25 April 2006, will make a total dividend for the year of 12.20 pence (2005: 9.00 pence). Subject to approval at the Annual General Meeting ("AGM"), the final dividend will be paid on 17 November 2006 to shareholders appearing on the register at the close of business on 27 October 2006.

Share capital
On 27 July 2006, the following companies, or their subsidiary undertakings, held more than 3% of the Company's share capital:

News UK Nominees Limited (a subsidiary of News Corporation)	38.36%
Franklin Resources, Inc. and its affiliates	10.00%
Janus Capital Management LLC	3.86%
Barclays PLC	3.85%
Brandes Investment Partners L.P.	3.12%
The Capital Group Companies, Inc.	3.10%
FMR Corp. and Fidelity International Limited	3.06%
Harris Associates L.P.	3.03%

Corporate governance
The Company is committed to maintaining high standards of corporate governance in its management of the affairs of the Group and when accounting to shareholders. Throughout the year ended 30 June 2006, the Company has been in compliance with the Combined Code on Corporate Governance, apart from the requirement for Directors who have served more than nine years being subject to annual re-election. The Company can confirm that following the 2006 AGM the Company will in future comply with this aspect of the Code. The Company values its dialogue with both institutional and private investors. For the benefit of private investors, the Company produces this short-form Annual Review which contains the information believed to be of most interest to them. A Summary Report on Directors' Remuneration is on pages 27 to 32.

Charitable contributions and community and environmental activities
The Group's fourth Corporate Responsibility Review will be published later this year, and will provide further information on the Group's commitment to corporate responsibility, including community and environmental activities (see www.sky.com/responsibilities).

Directors
The names and biographical details of the Directors of the Company are given on pages 24 and 25.

Chase Carey, Nicholas Ferguson, James Murdoch and Jacques Nasser retire from the Board by rotation, and being eligible, offer themselves for re-election at the 2006 AGM. Lord St John of Fawsley will also retire from the Board by rotation at the 2006 AGM but will not be seeking re-election by the shareholders. Arthur Siskind, David DeVoe and Rupert Murdoch 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 9 years.

Annual General Meeting
The notice convening the AGM to be held at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London, SW1P 3EE on 3 November 2006 at 11.30am can be found in a separate notice accompanying the Annual Review.

By order of the Board,
Dave Gormley
Company Secretary

Summary 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 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 the subject of recommendation to the Committee by the CEO;
- the design and implementation of incentive compensation arrangements including share-based schemes; and
- remuneration packages for Executive Directors of the Company, including basic salary, performance-based short and long-term incentives, pensions and other benefits.

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, reflective of 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 full Terms of Reference of the Committee are available on the Company's corporate website at www.sky.com/corporate. The Committee met five times during the year and is scheduled to meet not less than twice during a year.

1.2 Membership of the Committee

The Committee comprised the following independent Non-Executive Directors during the year ended 30 June 2006:

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

Jacques Nasser resigned as Chairman and Nicholas Ferguson assumed the role in January 2006. There have been no other changes to the membership of the Committee during the year.

During the year, the Committee sought the advice of James Murdoch, the CEO, on matters relating to the Executive Directors and Senior Executives who report to him and advice from the Director of People and Organisational Development. The Committee was supported by the Company Secretary, and the finance function. The CEO was not present when matters affecting his remuneration were considered. The Chairman, Rupert Murdoch, did not attend any Remuneration Committee meetings during the year.

2. Remuneration policy

The Committee's reward policy reflects its aim to align Executive Directors' remuneration with shareholders' interests and to engage 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
- 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 major benchmark.

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.

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 has led the market 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 include earnings per share ("EPS"), free cash flow per share ("FCF") and Direct to Home ("DTH") subscriber growth.

As detailed in last year's Annual Report, in 2005 the Company implemented an alignment programme to convert outstanding historical share awards to the new set of measures being used going forward. All of the Company's long-term incentives are now aligned in three important ways: time horizon; denomination; and performance measurement. All LTIP programmes are now measured over three years, they are all based on performance shares, and use 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. Therefore, rather than Senior Executives being incentivised primarily through measures relevant to their own business area, the remuneration of Senior Executives now emphasises a smaller number 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.

3. Elements of Executive Director remuneration

3.1 Remuneration Mix

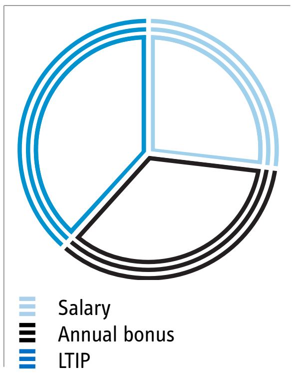
The Executive Directors' and Senior Executives' total direct compensation consists of salary, annual bonus, long-term incentives, pensions and other benefits. This reward structure is regularly reviewed by the Committee to ensure that it continues to support the Group's objectives.

Overview of current remuneration elements for executives, including Executive Directors

Element	Objective	Performance Period	Performance Conditions
Base salary	Reflects the market value of the position, as well as the skills and experience of the incumbent	Not applicable	Reviewed annually on the basis of external market benchmarking and/or reference to internal positioning
Annual bonus	Rewards achievement of short-term objectives set during the year	One 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)
LTIP	Rewards the achievements of long-term objectives set during the year of award	Three years	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

In the year ended 30 June 2006, approximately three quarters of Executive Directors' remuneration was performance-related, as shown by the chart below:

On-target values of remuneration



Notes to chart:

- 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.

3.2 Basic salary
The basic salary for each Executive Director and Senior Executive is determined by the Committee taking 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. Salaries for the CEO and CFO are periodically benchmarked against a subset of the FTSE 100 companies.

3.3 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, FCF and DTH subscriber growth. For Senior Executives these operational performance measures contribute 75% of their bonus with the additional 25% attributable to the performance of that individual's performance area. For the CEO, the maximum bonus that may be awarded is 200% of salary, and for on-target performance, he would receive 130% of salary, while for the CFO, these percentages are 160% and 110% respectively.

3.4 LTIP
The Company operates an LTIP for Executive Directors and Senior Executives, under which awards may be made to any employee or full-time 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.

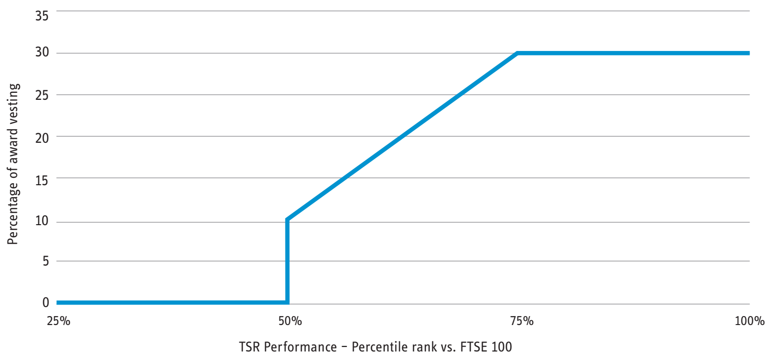
Design of LTIP plan
The LTIP has a structure tailored to the needs of the Company in which grants are made every year, but vesting occurs biennially, which is designed to reduce Executives' reliance on annual vesting of LTIP awards. In the first year, an Executive is granted an award of shares that vests at the end of the three year performance cycle, subject to performance conditions. In the second year, a further discretionary award of up to 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 is determined by the Committee on the basis of a range of factors including internal, and external market benchmarks. A number of shares are awarded 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 the satisfaction of specified performance targets. Measurements of the extent to which performance targets have been met are reviewed by the Committee at the date of vesting of each award. As explained in section 2 (Remuneration Policy), vesting is based partly on relative TSR and partly on operational measures.

TSR Performance

30% of the award vests dependent on TSR performance over the three year performance period, relative to the constituents of the FTSE 100 at the time of grant. If the Company's TSR performance is below median, the award lapses with no vesting. For median performance, one third of the TSR element of the award vests. For performance in the upper quartile, the whole 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 New Bridge Street Consultants LLP, 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.

Operational Performance

70% of the award is based on operational measures:

- EPS
- FCF
- Growth in DTH subscribers.

4. Other Share Plans

4.1 Management Long Term Incentive Plan ("Management LTIP")

The Company now operates a Management LTIP, which has replaced options granted under the Executive Share Option Schemes (see below). It is intended that selected employees will participate in the Management LTIP, but this will not include any Executive Directors or Senior Executives who participate in the LTIP. In the past this plan was open to only a small number of managers within the Group but there will be more participants going forward. Awards under this plan are made at the discretion of the CEO. The Management LTIP mirrors 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.

4.2 Executive Share Option Schemes ("Executive Schemes")

The Company operates 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. It is the Committee's intention that no further options will be granted to any employee of the Group during the year.

4.3 Sharesave Scheme

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

5. 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 into the Pension Plan each year and the Group matches this with a contribution of 8% of pensionable salary.

Until 5 April 2006 for those Executives whose pensionable salary was restricted by the cap on pensionable earnings introduced in 1989, employee and employer pension contributions may have been restricted. In such cases, a cash supplement was paid to the Executive equal to the shortfall in the 8% employer contribution rate.

The Company has reviewed its policy following changes to the tax regime for pensions. Since 6 April 2006, contributions on full salary are being paid into the Pension Plan by the Company and by Executives. This replaces the use of cash supplements, allows for a consistent approach between Executives and provides a cost saving to the Company since it involves a reduction in National Insurance contributions.

Where an Executive's pension benefits might exceed his or her Lifetime Allowance, the Company will, however, offer an alternative to continued membership of the Pension Plan of a cash allowance equal to the employer pension contribution.

6. Other benefits

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

7. Service agreements

Policy

The Committee introduced a policy that Executive Directors' service agreements will contain a maximum notice period of one year. The Committee will 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.

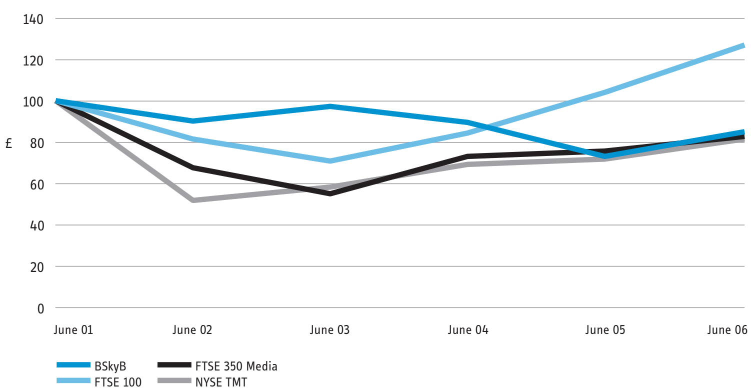
8. Non-Executive Directors

The basic fees payable to the Non-Executive Directors and the Chairman, set by the Board of Directors, were £42,600 each for the financial year. It is intended that in future these will be increased on an annual basis by 5% or RPI, whichever is the greater, unless the Board determines otherwise. The basic fees payable to the Non-Executive Directors for the year ending 30 June 2007 will increase to £44,700. The Non-Executive Directors are paid an additional £5,000 per annum each, for membership of each of the Audit Committee, the Remuneration Committee and the Corporate Governance & Nominations Committee. The Chairmen of the Board, the Audit Committee, the Remuneration Committee, and the Corporate Governance & Nominations Committee and the Senior Independent Non-Executive Director each receive an additional £10,000 per annum. Each Non-Executive Director is engaged by the Company for an initial term of three years. Re-appointment for a further term is not automatic, but may be mutually agreed. Non-Executive Directors' service agreements do not contain a notice period.

9. Performance graph

The following graph shows the Company's performance measured by TSR to 30 June 2006. 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 2001 to 30 June 2006



Source: Thomson Financial

10. Share interests

The interests of the Directors in the ordinary share capital of the Company during the year were:

Name of Director	At 27 July 2006	At 30 June 2006	At 30 June 2005
David Evans	16,000*	16,000*	16,000*
Nicholas Ferguson	10,000	10,000	10,000
Andrew Higginson	2,000	2,000	2,000
Lord Rothschild	100,000	100,000	100,000
Lord St John of Fawsley	2,000	2,000	2,000
Lord Wilson of Dinton	486	486	486

* *Held in the form of 4,000 ADSs ("American Depository Share"), 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 15,250 ordinary shares as a result of being a trustee of a Charitable Foundation where Lord Rothschild is not a beneficiary and in 3,500 ordinary shares of another Charitable Trust where again Lord Rothschild is not a beneficiary but is a Trustee.

Except as disclosed in this 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 2006 and 27 July 2006. At 30 June 2006, the ESOP was interested in 4,448,876 ordinary shares in which the Directors who are employees are deemed to be interested by virtue of Section 324 of the Companies Act 1985. At 27 July 2006, the ESOP was interested in 4,381,463 ordinary shares.

At 27 July 2006, 38.36% 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 2006 filed with the SEC on 11 May 2006, as a result of Rupert Murdoch's ability to appoint certain members of the Board of Directors of the corporate trustee of the A.E. Harris Trust, which beneficially owns 2.8% of News Corporation's Class A Common Stock and 30.0% of its Class B Common Stock, Rupert Murdoch may be deemed to be a beneficial owner of the shares beneficially owned by the A.E. Harris Trust. Rupert Murdoch, however, disclaims any beneficial ownership of those shares. Also, Rupert Murdoch beneficially owns an additional 0.8% of News Corporation's Class A Common Stock and 1.1% of its Class B Common Stock. Thus, Rupert Murdoch may be deemed to beneficially own in the aggregate 3.5% of News Corporation's Class A Common Stock and 31.1% of its Class B Common Stock.

During the year ended 30 June 2006, the share price traded within the range of £4.785 to £5.79 per share. The middle-market closing price on the last working day of the financial year was £5.735.

11. Directors' remuneration

The emoluments of the Directors for the year are shown below:

	Salary and fees £	Bonus scheme (ii) £	Benefits £	Total emoluments before pension 2006 £	Pensions (iii) £	Total emoluments including pension 2006 £	Total emoluments including pension 2005 £
Executive							
James Murdoch	825,000	1,650,000	208,606	2,683,606	65,679	2,749,285	2,226,377
Jeremy Darroch	500,000	760,000	25,043	1,285,043	39,915	1,324,958	1,127,217
Non-Executive							
Rupert Murdoch	52,600	–	–	52,600	–	52,600	45,400
Chase Carey	42,600	–	–	42,600	–	42,600	40,600
David Devoe	42,600	–	–	42,600	–	42,600	40,150
David Evans	47,600	–	–	47,600	–	47,600	45,600
Nicholas Ferguson	51,805	–	–	51,805	–	51,805	45,600
Andrew Higginson	47,600	–	–	47,600	–	47,600	38,000
Allan Leighton	57,600	–	–	57,600	–	57,600	50,600
Jacques Nasser	53,395	–	–	53,395	–	53,395	50,700
Gail Rebuck	47,600	–	–	47,600	–	47,600	45,600
Lord Rothschild	57,600	–	–	57,600	–	57,600	50,600
Arthur Siskind	47,600	–	–	47,600	–	47,600	45,400
Lord St John of Fawsley	42,600	–	–	42,600	–	42,600	50,400
Lord Wilson of Dinton	57,600	–	–	57,600	–	57,600	50,600
Former Directors							
Martin Stewart (i)	–	–	–	–	–	–	2,317,127
Total emoluments	1,973,800	2,410,000	233,649	4,617,449	105,594	4,723,043	**6,269,971**

Notes:

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

(ii) The amounts shown above are those which have been approved by the Committee for the year ended 30 June 2006.

(iii) James Murdoch received a payment of £21,844 (2005: £23,125) in relation to the shortfall in his pension arrangements. Employer contributions of £43,835 (2005: £36,555) were paid into the BSkyB Pension Plan.

Jeremy Darroch received a payment of £5,625 (2005: £6,219) in relation to the shortfall in his pension arrangements. Employer contributions of £34,290 (2005: £26,949) were paid into the BSkyB Pension Plan.

12. LTIP

Details of outstanding awards to Executive Directors under the LTIP are shown below:

	Number of shares under award								
Name of Director	At 30 June 2005	Granted during the year	Exercised during the year	Lapsed during the year	At 30 June 2006	Exercise price	Date of award	Date from which exercisable	Expiry date
James Murdoch	450,000	–	–	–	450,000	n/a	11.08.04	11.08.07	11.08.08
	–	382,500	–	–	382,500	n/a	08.11.05	11.08.07	11.08.08
Jeremy Darroch	250,000	–	–	–	250,000	n/a	16.08.04	16.08.07	16.08.08
	–	212,500	–	–	212,500	n/a	08.11.05	16.08.07	16.08.08

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

Notes: The performance conditions attaching to these awards are set out in section 3.4 (LTIP).

13. Sharesave Scheme options

Details of all outstanding options held under the Sharesave Scheme are shown below:

	Number of shares under options						
Name of Director	At 30 June 2005	Granted during the year	Exercised during the year	At 30 June 2006	Exercise price	Date from which exercisable	Expiry date
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
27 July 2006

Summary Financial Statements

Summary Consolidated Income Statement
for the year ended 30 June 2006

	Notes	2006 £m	2005 £m
Revenue	1	**4,148**	3,842
Operating expense	2	**(3,271)**	(3,020)
Operating profit		**877**	822
Share of results of joint ventures and associates		**12**	14
Investment income		**52**	29
Finance costs		**(143)**	(87)
Profit on disposal of joint venture		**–**	9
Profit before tax		**798**	787
Taxation		**(247)**	(209)
Profit for the year		**551**	578
Earnings per share (in pence) from profit for the year			
Basic	3	**30.2p**	30.2p
Diluted	3	**30.1p**	30.2p
Adjusted earnings per share (in pence) from profit for the year			
Basic	3	**30.7p**	28.2p
Diluted	3	**30.6p**	28.2p
Dividends per share (in pence)			
Final – paid in respect of prior year	4	**5.00p**	3.25p
Interim paid	4	**5.50p**	4.00p
Final – proposed for approval at the AGM	4	**6.70p**	5.00p

Summary Consolidated Statement of Recognised Income and Expense
for the year ended 30 June 2006

	2006 £m	2005 £m
Profit for the year	**551**	578
Net gains (losses) recognised directly in equity		
Cash flow hedges	**(160)**	(22)
Tax on cash flow hedges	**48**	6
	(112)	(16)
Amounts reclassified and reported in the Income Statement		
Cash flow hedges	**106**	4
Tax on cash flow hedges	**(32)**	(1)
	74	3
Net losses not recognised in profit for the year	**(38)**	(13)
Total recognised income and expense for the year	**513**	565

Summary Consolidated Balance Sheet

as at 30 June 2006

	2006 £m	2005 £m
Non-current assets		
Goodwill	**623**	417
Intangible assets	**218**	202
Property, plant and equipment	**519**	335
Investments in joint ventures and associates	**28**	23
Available for sale investments	**2**	2
Deferred tax assets	**100**	105
Derivative financial assets	**–**	9
	1,490	1,093
Current assets		
Inventories	**324**	321
Trade and other receivables	**489**	331
Short-term deposits	**647**	194
Cash and cash equivalents	**816**	503
Derivative financial assets	**7**	14
	2,283	1,363
Total assets	**3,773**	2,456
Current liabilities		
Borrowings	**163**	–
Trade and other payables	**1,247**	1,031
Current tax liabilities	**68**	100
Provisions	**6**	13
Derivative financial liabilities	**49**	6
	1,533	1,150
Non-current liabilities		
Borrowings	**1,825**	982
Other payables	**66**	25
Provisions	**19**	–
Derivative financial liabilities	**209**	112
	2,119	1,119
Total liabilities	**3,652**	2,269
Shareholders' equity	**121**	187
Total liabilities and shareholders' equity	**3,773**	2,456

These summary financial statements have been approved by the Board of Directors on 27 July 2006 and were signed on its behalf by:

James Murdoch
Chief Executive Officer

Jeremy Darroch
Chief Financial Officer

Summary Consolidated Cash Flow Statement
for the year ended 30 June 2006

	2006 £m	2005 £m
Cash flows from operating activities		
Cash generated from operations	1,004	989
Interest received	43	28
Taxation paid	(172)	(103)
Net cash from operating activities	875	914
Cash flows from investing activities		
Dividends received from joint ventures and associates	7	12
Funding to joint ventures and associates	(3)	(4)
Repayments of funding from joint ventures and associates	1	8
Proceeds from the sale of a joint venture	–	14
Purchase of property, plant and equipment	(169)	(149)
Purchase of intangible assets	(43)	(92)
Proceeds from the sale of equity investments	–	1
Increase in short-term deposits	(453)	(60)
Purchase of subsidiaries (net of cash and cash equivalents purchased)	(209)	–
Net cash used in investing activities	(869)	(270)
Cash flows from financing activities		
Proceeds from issue of Guaranteed Notes	1,014	–
Proceeds from disposal of shares in Employee Share Ownership Plan ("ESOP")	13	4
Purchase of own shares for ESOP	(17)	(14)
Purchase of own shares for cancellation	(408)	(416)
Interest paid	(105)	(91)
Dividends paid to shareholders	(191)	(138)
Net cash from (used in) financing activities	306	(655)
Effect of foreign exchange rate movements	1	1
Net increase (decrease) in cash and cash equivalents	313	(10)
Cash and cash equivalents at the beginning of the year	503	513
Cash and cash equivalents at the end of the year	816	503

Notes to the Summary Financial Statements

1. Revenue

	2006 £m	2005 £m
Direct-to-home subscribers	**3,154**	2,968
Cable subscribers	**224**	219
Advertising	**342**	329
Sky Bet	**37**	32
Sky Active	**91**	92
Other	**300**	202
	4,148	3,842

2. Operating expense

	2006 £m	2005 £m
Programming	**1,599**	1,635
Transmission and related functions	**234**	171
Marketing	**622**	527
Subscriber management	**468**	392
Administration	**348**	295
	3,271	3,020

3. Earnings per share

The weighted average number of shares for the year was:

	2006 Millions of shares	2005 Millions of shares
Ordinary shares	**1,830**	1,917
ESOP trust ordinary shares	**(3)**	(4)
Basic shares	**1,827**	1,913
Dilutive ordinary shares from share options	**5**	4
Diluted shares	**1,832**	1,917

Basic and diluted earnings per share is calculated by dividing profit for the year into the weighted average number of shares for the year. In order to provide a measure of underlying performance, management has 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.

	2006 £m	2005 £m
Reconciliation from profit for the year to adjusted profit for the year		
Profit for the year	**551**	578
Payment from ITV Digital liquidators	**–**	(13)
Profit on disposal of joint venture	**–**	(9)
Remeasurement of all derivative financial instruments (not qualifying for hedge accounting)	**14**	(4)
Tax effect of above items	**(4)**	5
Increase in estimate of recoverable tax assets in respect of prior years	**–**	(17)
Adjusted profit for the year	**561**	540

	2006 pence	2005 pence
Earnings per share from profit for the year		
Basic	**30.2p**	30.2p
Diluted	**30.1p**	30.2p
Adjusted earnings per share from profit for the year		
Basic	**30.7p**	28.2p
Diluted	**30.6p**	28.2p

4. Dividends

	2006 £m	2005 £m
Dividends declared and paid during the year		
2004 Final dividend paid: 3.25p per ordinary share	**–**	63
2005 Interim dividend paid: 4.00p per ordinary share	**–**	77
2005 Final dividend paid: 5.00p per ordinary share	**92**	–
2006 Interim dividend paid: 5.50p per ordinary share	**99**	–
	191	140
Dividends proposed after the balance sheet date and not recognised as a liability		
2006 Final dividend proposed: 6.70p per ordinary share	**120**	–

Summary Financial Statements

The summary financial statements, summary Directors' report and summary remuneration report contained within this document are only a summary of the information provided in the consolidated financial statements, Directors' report and report on Directors' remuneration contained within the Annual Report. The information has been prepared in accordance with the accounting policies as set out in the Annual Report. These summary reports do not contain sufficient information to allow as full an understanding of the results and state of affairs of the Group as would be provided by the Annual Report, which contains more detail. A copy of the Annual Report can be obtained, free of charge, by writing to the Company Secretary at Grant Way, Isleworth, Middlesex, TW7 5QD or it can be downloaded from the Company's website at www.sky.com/corporate. To elect to receive the Annual Report for future years, write to Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6DA.

The summary financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") (including International Accounting Standards and interpretations issued by the International Accounting Standards Board and its committees) as adopted for use in the European Union, the Companies Act 1985 and Article 4 of the IAS Regulations. These are the Group's first summary financial statements since adopting IFRS, and the Group has elected 1 July 2004 as the date of transition to IFRS.

Foward-looking Statements

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

These statements (and all other forward-looking statements contained in this Annual Review) 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 some of the risks and uncertainties associated with our business are described in the "Risk Factors" section of our Annual Report for the year ended 30 June 2006. Copies of the Annual Report are available from British Sky Broadcasting Group plc, Grant Way, Isleworth, Middlesex, TW7 5QD or from our web site at www.sky.com/corporate. All forward-looking statements in this Annual Review 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.

Use of measures not defined under IFRS

This Annual Review contains certain information on the Group's financial position, operating results and cash flows that have been derived from measures calculated in accordance with IFRS. This information should not be read in isolation of the related IFRS measures.

A summary of certain non-GAAP measures included in this Annual Review is shown below:

Non-GAAP measure	Description
Adjusted earnings per share	Adjusted profit divided by the weighted average number of ordinary shares in issue during the year
Adjusted profit for the year	Profit for the year adjusted to remove mark-to-market movements in derivative financial instruments that do not qualify for hedge accounting, exceptional items and any changes in the estimate of recoverable tax assets in respect of prior years
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 the quarter, annualised
EBITDA	Earnings before interest, taxation, depreciation and amortisation is calculated as operating profit before depreciation and amortisation or impariment of goodwill and intangible assets
Free cash flow	Cash generated from operations less net interest paid, taxation paid, purchase of property, plant and equipment and intangible assets plus net proceeds from joint ventures and associates
Gross margin	Revenue less programming expenses as a proportion of revenue
Gross Sky Bet revenue	Gross stakes placed by customers on events taking place in the period and net customer losses in respect of casino, online roulette and similar interactive casino style games
Net debt	Cash, cash equivalents, short-term deposits, borrowings and borrowings-related derivative financial instruments

Independent Auditors' Statement to the members of British Sky Broadcasting Group plc

We have examined the summary financial statements which comprise the summary consolidated income statement, summary consolidated statement of recognised income and expense, summary consolidated balance sheet, summary consolidated cash flow statement and the related notes 1 to 4 together with the summary Directors' report and summary Directors' remuneration report.

This report is made solely to the company's members, as a body, in accordance with section 251 of the Companies Act 1985. Our work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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 and the company's members as a body, for our audit work, for this report, for our audit report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Review in accordance with applicable United Kingdom law. Our responsibility is to report to you our opinion on the consistency of the summary financial statements with the full annual accounts, the Directors' report and the Directors' remuneration report, and its compliance with the relevant requirements of section 251 of the Companies Act 1985 and the regulations made thereunder. We report whether the auditor's opinion on the full annual accounts was unqualified or qualified. We also read the other information contained in the Annual Review as described in the contents section, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statements.

Basis of opinion

We conducted our work in accordance with bulletin 1999/6 The Auditors' Statement on the Summary Financial Statement issued by the Auditing Practices Board for use in the United Kingdom.

Opinion

In our opinion, the summary financial statements are consistent with the full annual accounts, the Directors' report and the Directors' remuneration report of British Sky Broadcasting Group plc for the year ended 30 June 2006 and complies with the applicable requirements of section 251 of the Companies Act 1985, and the regulations made thereunder. The auditors' report on the company's annual accounts was unqualified.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London
27 July 2006

Notes: An auditors' examination does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statement since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Shareholder Information

Share price information
The Company's share price can be found on the Company's corporate website at www.sky.com/corporate and is broadcast on SkyText on the Sky News channel on page 145, BBC Ceefax page 221 and on Channel 4 Teletext page 520, all under the prefix BSkyB. It also appears in the financial columns of the national press.

Shares on-line
Lloyds TSB Registrars provide a range of shareholder information on-line. Shareholders can access their shareholdings and find advice on transferring shares and updating their details at www.shareview.co.uk.

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 Lloyds TSB Registrars or from ShareGift on 020 7337 0501 or at 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 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 registrars, Lloyds TSB Registrars, whose address is given below.

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 +44 121 415 7173 from overseas.

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

Company Secretary
Dave Gormley

Financial calendar
Results for the financial year ending 30 June 2007 will be published:
Q1 November 2006
Q2 February 2007
Q3 May 2007
Q4 August 2007

Company's registered office:
Grant Way
Isleworth
Middlesex TW7 5QD
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 195 6600
Overseas +44 121 415 7567

American Depositary Receipts
The Company has an American Depositary Receipt ("ADR") programme. The ADRs trade under the symbol BSY and each one is equivalent to four ordinary BSkyB shares. The ADRs trade on the New York Stock Exchange.

For enquiries, please contact:

The Bank of New York
Investor Services
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Company registration number
2247735

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